Perspectives

A Canadian Journal of Political Economy and Social Democracy

No. 2 — Autumn 2024

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Guided by the Broadbent Principles for Canadian Social Democracy, *Perspectives Journal* refines analysis and progressive inquiry of political economy, public policy, history, and social movements, to bring them into public debates and political fora.

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Editorial — Autumn 2024

Clement Nocos

Through this long, melancholic fall, the weight of the world's events these past few months have cast long shadows over all of humanity. By the time this issue of *Perspectives Journal* goes to print, the escalated massacres of civilians throughout the Middle East, the massive climate disasters that have wreaked havoc across the United States, and the gaining momentum of far-right factions in elections across the West, including Canada, have become heavy on everyone, understandably burdening many of us with a pessimism for the future.

Fall is the season when many Canadians typically think about ghosts; seemingly invisible, weightless visions or apparitions that can indeed feel heavy. Ghosts can continue to haunt us, long after the things they represent have died and gone away. In this second edition of *Perspectives: A Canadian Journal of Political Economy and Social Democracy*, it may be the most appropriate time of the year to explicate some of the meaning behind our journal project.

To think of "perspective" is to imagine what someone else may think and to illustrate that different point of view in a way that could be understood by others who may also have different points of view – the way a ghost can be imagined. The word is also evocative of "spectres" – another word for ghostly spiritual entities that also bring about a haunting uneasiness. Karl Marx and Friedrich Engels famously allude to a "spectre" in the very first sentence of *The Communist Manifesto* and another, relatively new journal publication entitled *Spectre* takes from this vision to publish fantastic left-wing analysis.

The ghosts that *Perspectives Journal* tries to exorcize, however, are the spirits of neoliberal capitalism that continue to haunt Canadian social democrats. This particular stage of capitalism, long after its heyday of the late 1980s and early 90s, still pervades our political economy and applies a heavy weight to today's progressive movements that fight for justice and equality. Despite being disproven over countless experiments and real world outcomes across decades around the world, neoliberal economics and the "common sense revolution" are still powerful counter-narratives to the more broadly desired "good society" and "better world" that the progressive left strives for. As the catastrophes, costs, and lives mount towards the death of neoliberalism, a different vision emerges that this publication attempts to illuminate.

This haunting is also a part of the thematic design of *Perspectives Journal*. The ghostly shapes of forced perspective that stretch on in the logo evoke a retro 1980s aesthetic: the same prominent design features in mass consumer culture at the height of neoliberalism. The "vaporwave" genre of music that recycles mass-produced pop music from the apogee of the neoliberal era, slowed down to a speed that almost elicits discomfort, informs the theme music for our accompanying *Perspectives Journal Podcast*, as well as the new limited podcast series *Activists Make History with Peggy Nash*. The title of Nash's collection of interviews with political outsiders is also taken from a line of socialist Chilean President Salvador Allende's final speech in 1973, as the CIA-backed coup d'etat overthrew his government to install the "Chicago Boy" experiments of neoliberalism in his country: "History is ours, and people make history."

Online, you will find many articles, videos, podcasts and book reviews that analyze capitalism and bring forward a left-wing, social democratic vision that shines light from out of neoliberalism's shadow. The *Progressive Political Economy* video series brings forward Canada's left-wing thought leaders such as Jim Stanford and Armine Yalnizyan to show what a different economics for an affordable, good life can look like. The *Perspectives Journal Podcast* also brings forward policy conversations with experts to dig into the details and nuance of implementing practical political choices, based on social democratic principles.

In this issue, *Perspectives Journal No. 2* features Dylana Thompson's analysis on the need for policy change in counting deaths among Trans community members across Canada, to appropriately assess the public health outcomes that arise due to right-wing reactionary policy changes. Garrett Evans also demonstrates why proposals to increase the minimum wage not only help workers across the income distribution, but how this policy can be used for electoral popularity. Bruce McKenna, following up on his previous contribution to *Perspectives Journal* online, looks back at the spectre of the Bob Rae-era of government in Ontario and what lessons are on offer from the failure of that regime. Professor Marc-André Gagnon calls into question the current formulary of *Bill C-64, An Act Respecting Pharmacare* and its ambiguous parameters that could leave the back door open for private sector profiteering.

This issue also further exorcizes the ghosts of neoliberalism with the printing of the 2024 Ellen Meiksins Wood Lecture by Prize recipient Professor Isabella Weber. Her lecture, entitled *Profits, Inflation and Survival in an Age of Emergencies*, that was delivered at Toronto Metropolitan University last May, goes against the grain of orthodox economics to demonstrate how today's affordability crisis has been induced by the social relations developed from prices as multiple crises give cover to inflationary profiteering.

Lastly, Broadbent Institute Digital Communications Assistant Jack McClelland reviews *The Consulting Trap: How Professional Service Firms Hook Governments and Undermine Democracy* released earlier this year from Fernwood Publishing. “Transnational Public Service Firms,” being largely a product of the neoliberal era have continued to parasitically attach themselves to public administrations in Canada and around the world, cutting services while taking billions in contracts. From the failed ArriveCan app to the Phoenix pay system fiasco, TPSF’s have been at the root of these problems. It has been up to citizens and public sector unions to push back against infection and retake democratic control from these corporations that continue to damage social democratic projects such as public health care.

You can also listen to our interview with the authors of *The Consulting Trap* on the *Perspectives Journal Podcast*, available on all major podcast platforms. Recent episodes of the podcast include interviews with experts and labour leaders for progressive points of view on immigration, Canada’s carbon pricing system, and housing financialization.

Into the 2024 holiday season, we hope that these alternative visions for society presented here, that ward off the phantoms of the previous era, can instead renew our optimism for the possibilities of our collective future. Thank you once again for your support of *Perspectives: A Canadian Journal of Political Economy and Social Democracy*, published biannually by the Broadbent Institute.

Counting the Dead: The Urgent Need for Coroners' Data on Trans Deaths in Canada

Dylana Thompson

Data is essential for shaping government policy. Without it, an issue may as well not exist in the eyes of policymakers. Activists have long drawn attention to the issue of trans deaths, and more recently, politicians have begun to recognize the problem. However, despite other advancements Canada has made in trans rights in recent years, such as the inclusion of gender identity and expression in human rights legislation, there is a lack of systemic data collection on trans deaths. Neglect of this issue has deadly consequences as it impedes efforts to address inequities in mortality rates between trans people and the general population.

This article will highlight the issue of trans deaths and the need for better data collection and analysis. Beginning with a brief history of Trans Day of Remembrance, a day set aside to honour those lost to transphobic violence, this article will then examine what is known about trans mortality rates, drawing on research and lessons from other jurisdictions to be applied to the Canadian context. Particular attention will also be given to the impact of anti-trans policy agendas embraced by provincial conservative governments and the federal Conservative Party of Canada. To conclude, it is recommended that incorporating trans identities into coroners' reports, and mandating the recording of this data, will be crucial in filling the data gap and laying the groundwork for innovative policy to move trans rights forward.

A Brief History of Trans Day of Remembrance

The first Trans Day of Remembrance (TDoR) was observed in November 1999 with sister vigils held in the US cities of Boston and San Francisco. (Riedel, 31 March 2022) The day was inspired by the separate killings of Rita Hester and Chanelle Pickett, that happened years prior in the same Boston area. There were striking similarities between the killing of these two women, whose murders occurred three years apart. For activist Gwendolyn Anne Smith, these similarities reflected a broader systemic issue. Smith worked to organize the 1999 vigils to raise awareness of those who lost their lives to transphobic violence and push for social change. She also began collecting data, archiving all known homicides dating back to the 1970s. Since the initial vigils, TDoR has become an international day with official recognition from communities, many levels of government, and political leaders around the world.

Trans Mortality Rates and Data Reliability

Since the 1990s, there has been a steady increase in recorded homicides of trans people. This fact cannot be solely attributed to improvements in reporting – since the rise of trans visibility in the mid-2010s, and the anti-trans backlash that followed, homicide rates have doubled in some regions of the United States. (Moeder, 12 October 2022) According to Transgender Europe's Trans Murder Monitoring Project, 2023 data shows that 321 trans people have been murdered across the globe, and the characteristics of many of the victims share similarities with the murders of Hester and Pickett. In total, 94 percent were trans women or transfeminine; 48 percent whose professions were known were sex workers; 80 percent were racialized; and 77 percent were between the ages of 19-44, with most being under 25. In Canada, between 2008 and 2023, there have been 11 recorded homicides according to the available international data; however, the true number is likely much higher. (Transgender Europe, November 2023)

Data as it stands today provides an imperfect snapshot of the issue of trans homicides, since most jurisdictions lack systemic recording of trans deaths. The Trans Murder Monitoring Project must rely primarily on media reports of incidents to collect its international database. Deadnaming and misgendering (i.e. referring to trans people by their name and pronouns assigned at birth rather than the ones that correspond to their gender) are common practices by police and media, (Rummler, 11 January 2023) as well as death investigators following trans murders. (Walters, Mew & Repp, 2023) The onus often lies on frontline service-providing organizations and communities to monitor media reports and correct the record. However, communities and organizations serving trans populations are not evenly distributed, with urban centres having more community and trans-serving organizations. Notably, in the Boston area where the two murders that inspired TDoR occurred, a high density of trans-serving organizations exist that are able to spotlight deaths and maintain records. (Riedel, 31 March 2022)

There is a clear urban and rural divide, however, in the existence of frontline organizations. In Canada, 2021 Census data indicates that trans people live in non-insignificant numbers in rural areas across the country. (Statistics Canada, 27 April 2022) While Canada is the first country to include trans people in census data, as similar survey data collection is unavailable in other countries, this population distribution highlighted in the Canadian context between rural and urban trans people likely exists in other countries. Therefore, it is reasonable to assume that there is an urban bias in reported murders in Canada and around the world. (Stotzer, 2017)

Additionally, some deaths are broadly ignored by the public and fail to garner media attention, such as deaths from violence in prisons. Trans people, especially trans women incarcerated in men's prisons, face disturbing levels of violence. Therefore, it is not unreasonable to assume that trans deaths in prisons are a systemic issue that is not fully captured by official data. Of the 26 names listed so far in the Human Rights Campaign's (HRC) 2024 list of recorded trans murders in the United States as of September 2024, only six occurred outside a large urban centre. In total, 38 percent of the individuals identified by the HRC were initially misgendered by the police and media, only to later have the record corrected by HRC or another organization. Notably, one of the non-urban deaths initially misreported was Yella Clark, a trans inmate who was killed by another prisoner in a men's institution located in rural Louisiana. (Goldberg, 11 June 2024)

Correcting the Record

As more issues facing trans people come to public light, some TDoR events are broadening beyond murders of trans people to include all who died preventable deaths resulting from transphobia such as suicide, drug overdose, death from untreated chronic disease resulting from medical discrimination, and lack of access to gender-affirming healthcare. (Rummler, 20 November 2023) While it is essential not to decentre the primarily Black, Indigenous, and racialized trans women who are murdered each year, there is value in recognizing additional systemic issues that tragically shorten the lives of trans people in Canada and globally. Unfortunately, data on these other forms of death are even more limited than homicide data, and organizations that have broadened their focus on TDoR often only report a few incidents of suicide and other deaths in their messaging for the day.

Given the fact that low levels of social support are a risk factor for suicide, it can be assumed that many trans people who die by suicide have no one to correct the record when media and authorities deadname and misgender. For these deaths in particular, systemic data collection is needed to ensure the scope of the problem of health and well being of trans populations is understood, and aggravating factors are appropriately addressed by government policy.

It is a common approach for activists to raise awareness of trans deaths by focusing on individual victims while neglecting to mention the perpetrators of violence or the complexities of the circumstances of death. (Westbrook, 2020) These individuals are often framed primarily as victims of transphobic hate without an analysis of intersecting systems of oppression that contributed to death. While the rhetorical tactic focusing on hate and violence has allowed trans people to gain recognition as an oppressed group, it oversimplifies the lives of the intersectionally marginalized trans individuals, who often experience extreme violence.

Committing to systemic data collection, such as mandated reporting in coroners' reports to record trans murders and other preventable deaths accurately, would enable policymakers and activists to develop a more nuanced understanding of both individual cases and broader trends. Better data practices like this would allow for a reframing of trans deaths away from a "transphobia is the cause" narrative, and instead towards a multifaceted, intersectional approach. This deeper understanding would strengthen solidarity across anti-violence movements and could increase the visibility of trans issues to be considered in legislative debates, even when trans people are not explicitly mentioned. For instance, improved reporting of trans deaths in prisons could encourage greater collaboration between trans rights organizations and prisoner advocacy groups, making it more likely that policymakers address trans concerns in discussions around prison reform.

Other Data Points in Trans Wellbeing

While data is limited in Canada, and only now becoming a part of regular survey practices, the information that is available paints a disturbing picture of the precarity of trans life. A 2015 study of trans Ontarians found that 35.1 percent considered suicide and 11 percent attempted suicide in the past year. (Bauer, et. al., 2015) To put this statistic into context, 2.6 percent of Canadians had thoughts of suicide and 0.3 percent attempted suicide in 2019. (Public Health Agency of Canada, 2023) Researchers have found that social inclusion, protection from transphobia, and access to gender-affirming healthcare have significant effects on reducing high rates of suicidal ideation and attempts in trans communities, and therefore, governmental policy has a direct influence on suicidal behaviour among trans people. (Bauer, et. al., 2015) Despite Canada's commitment to universal healthcare, only Prince Edward Island (*CBC News*, 21 July 2023) and Yukon (d'Entremont, 18 March 2021) have aligned their gender-affirming healthcare coverage with expert recommendations. (Coleman, et. al., 2022)

Across Canada, only 26 percent of trans people have all their gender-affirming healthcare needs met. (Trans PULSE Canada, March 2020) This statistic is due to the exclusion of coverage of medically necessary gender-affirming procedures, and long wait lists to access the few procedures that are covered. In some cases, the wait times for surgeries can be as long as nine years. (Frohard-Dourlent, Coronel Villalobos & Saewye, 2017) Additionally, there are many barriers to changing identity documents, such as requirements for a letter from a physician and a signed affidavit witness by a lawyer. (JusticeTrans, 2024) If provinces and territories began collecting data on trans suicides, it would be possible to understand how deaths are linked to certain policy decisions, making neglect in areas like healthcare and legal recognition harder to ignore.

Data Saves Lives

Trans youth, who are at exceptionally high risk of suicide, are increasingly becoming targets in the culture war. (Yarr, 14 June 2022) Right-wing governments in New Brunswick and Saskatchewan have introduced policies that will make schools less safe for at-risk trans students. (Farley, 7 June 2024) Alberta has announced they will do the same in addition to banning the use of puberty blockers for trans youth under the age of 16. (Frew, 30 April 2024) The Alberta announcement has been widely condemned by many organizations, including the Canadian Medical Association, which said in a statement that, "[T]ransgender youth have higher rates of mental health issues, including suicidal tendencies, due to stigma that they face. By providing comprehensive health care options, we affirm the dignity and humanity of transgender individuals, reinforcing the notion that everyone deserves access to the medical support necessary for authentic self-expression. We strongly urge governments to consult with healthcare professionals — experts in their field — when considering policy changes related to health care." (Ross, 20 February 2024)

Still, political decisions to exacerbate the issues with trans health and wellbeing continue across Canada. Conservative Party leader Pierre Poilievre has voiced support for a nationwide ban on puberty blockers for trans youth after the party membership party passed a policy calling for a ban. Advocates in the United Kingdom are pointing to an epidemic in suicides by trans youth following restrictions to access to gender-affirming healthcare, which could be the result in Canada as well if these policies were to be implemented. (Villarreal, 15 April 2024) Additionally, recent research from the United States shows that trans youth suicide attempts have risen as much as 72 percent since the onslaught of anti-trans legislation targeting healthcare for trans youth and other fundamental rights. (Lee et al., 21 June 2024) Systemic data collection is needed to counter the political scapegoating of trans youth and to make clear the adverse effects of these poor policy choices. If coroners were required to report trans suicides, the data would likely show an increase in suicides following the implementation of anti-trans policies. Without data, conservative politicians across Canada can continue using trans youth as scapegoats, while numerous, uncounted deaths remain invisible. These policies are already being pushed forward in provinces where conservatives have long been in power, distracting from the poor economic performance and social outcomes in their provinces on issues such as affordability and jobs. Saskatchewan has invoked the notwithstanding clause to protect its anti-trans policies from court challenges, and Alberta and New Brunswick have also expressed a willingness to do the same. Public backlash has aided the defence against the frivolous use of the notwithstanding clause by the provinces, but data is desperately needed to help inform public opinion about the deadly consequences of these policies.

As mentioned, prisons are another area where trans people face extreme violence. A study commissioned by the Department of Justice found that violence, threats, and harassment from guards and other prisoners are everyday experiences for incarcerated trans people in Canada. (Hébert, et. al., 2022) Some participants even reported experiencing death threats. A majority of incarcerated trans people in Canada are held in prisons that are discordant with their gender. (Dalwood, 9 January 2024) Reliable data on the issue of sexual violence against trans women in men's prisons is lacking in a Canadian context because Canada has not historically collected data on the issue of prison sexual violence. However, data from other jurisdictions paint a stark picture. Sexual violence in prisons is a widespread problem. However, trans women are not higher-risk offenders than other inmates. Ministry of Justice data from the United Kingdom shows that of the 122 reported sexual assaults in women's prisons in the 2010s, only five were perpetrated by trans women (on average, a sexual assault by a trans woman once every two years). (Parsons, 21 May 2020) Meanwhile, trans women are sexually assaulted in UK men's prisons nearly every month. In Canada, trans inmates are often placed in solitary confinement to prevent violence from other inmates, a practice that is considered torture by human rights experts. (UNHCR, 28 February 2020) Some legislation in Canada such as the BC Coroner's Act require an automatic investigation after deaths in prisons, but appropriate record keeping of trans deaths in prisons are not required. Rudimentary changes in practice are needed to know the number of lives cut short by transphobic prison policy, which to guide substantive reform.

A Path Forward for Policy Change

Murder, suicide, and death in prisons are just some of the many causes of death that coroners' reports would capture if reporting of trans identity were mandated by policy. One American study found that the all-cause mortality rate of trans people is twice that of the general population. (Hughes, et. al, 2022) This discrepancy is due to a variety of factors, including poverty, chronic illness, substance use, self-harm, and violence. Canadian census data supports these findings as the average age of trans Canadians is about a decade younger than the average age of the general population, potentially indicating a shorter average lifespan. (Statistics Canada, 27 April 2022) Systematic collection of trans-death data in coroners' reports will allow for the identification of trends in deaths that are potentially not on the agenda of activists and policymakers, normally focusing on violent incidents rather than other socioeconomic determinants of health, allowing for innovative solutions to address this inequity in death rates.

The call for better data on trans deaths is not new. In 2013, the Ontario's Coroner's Office called for research into suicides of LGBT youth; (Pinfold, 3 June 2013) that same year, there were calls for the British Columbia Coroner's Office to start recording data on LGBT youth who died by suicide. (Hainsworth, 1 October 2013) Despite this, academics noted in a 2015 study that it is impossible to get an accurate measurement of trans deaths by suicide and other forms of deaths in Canada because death investigators do not systemically record information on trans identities in death reports. (Bauer, et. al., 2015) Recently, during roundtable discussions in British Columbia on health equity for BIPOC 2SLGBTQI+ people, an Indigenous trans woman called for better reporting of murders and other deaths in coroners' reports. (Health Equity Collaborative, 2021). If Canadian jurisdictions were to begin collecting this data, they would not be the first as it has already been done elsewhere. In 2021, California launched a three-year pilot project to track trans deaths in coroners' reports. (Anguiano, 23 September 2021) The results of this pilot project should soon be made available, making it easier for policymakers in Canada to implement similar policies. Research shows that training death investigators to identify trans people post-mortem is feasible, making this a simple policy change that could be a critical step toward fulfilling the promise of equality for trans people in Canada and shaping policy that allows trans people to live long and fulfilling lives. (Haas, et. al. 2019)

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Spillover Effects: Making Minimum Wage Increases a Popular Policy Choice

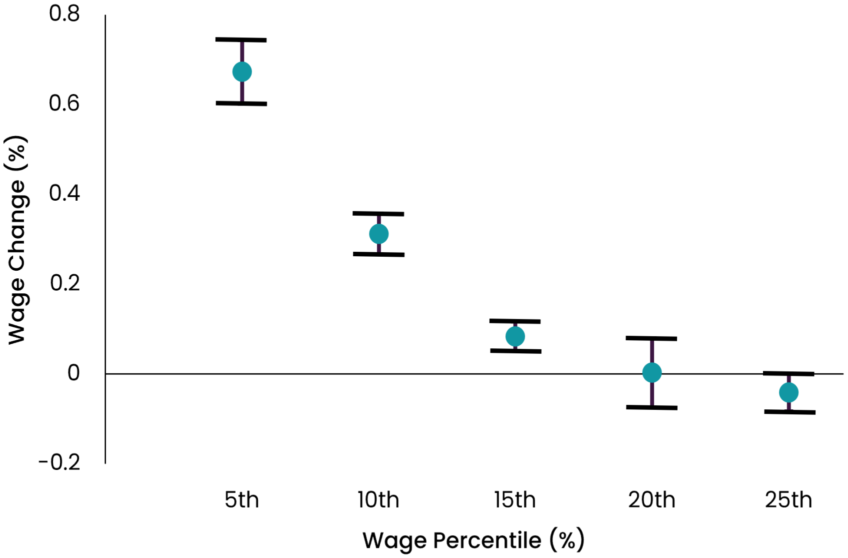
Garrett Evans

In recent decades, labour economists have established that increases in the minimum wage exert *spillover effects* on above-minimum wages. (Fortin, et al., 2021) This means that increasing the minimum wage not only increases wages that were below the new minimum, but also increases higher wages, found further along the distribution. To illustrate this effect, considering Canadian data from 1997 to 2013, Fortin and Lemieux (2015) determined that changes in the minimum wage affected the wages of the bottom 15 percent of Canadian workers, despite only 5 percent of workers earning the minimum wage during that period. Accordingly, minimum wage policy appears to impact three times as many workers as typically assumed, rendering it much more powerful than considerations of minimum-wage earners alone would suggest. If these broader effects of minimum wage increases were widely communicated, they could help to popularize increases among the electorate. Indeed, an investigation of how spillover effects arise, and how they bolster the effectiveness of minimum wage policy, would be useful for campaigns seeking to empower workers as they rally support for bolder minimum wage hikes.

Evidence suggests that minimum wage spillovers originate from fairness and incentive considerations within firms (Brochu, et al., 2023) To understand this, we should start by examining why employers pay some workers more than the minimum wage in the first place. On the one hand, they may do so to compensate workers when jobs require more effort or involve worse conditions than others available. (Maestas, et al., 2023) Alternatively, employers may also do so when demand for skilled and experienced labour provides workers with outside options and bargaining power. (Krueger & Hall, 2008) In either case, employers use varying levels of compensation to attract and retain suitable employees across their positions, with the minimum wage acting as the floor of this incentive structure. Accordingly, when the minimum wage increases, employers must increase above-minimum wages to maintain these compensation hierarchies, generating spillovers. (Brochu, et al., 2023) These effects are not felt evenly across the income distribution, however, with empirical evidence suggesting that these increases become smaller as one moves up the hierarchy, as employers attempt to minimize the overall increase in their labour costs. (Hirsch, et al., 2015) This means that minimum wage spillovers generate a compressive effect on the wage distribution, bolstering the ability of the minimum wage to reduce inequality.

In one of the earliest investigations of the effect of minimum wage spillovers on wage inequality, Lee (1999) considered U.S. data from the 1979 to 1991. Taking spillover effects into account, he determined that the fall of real minimum wages could explain half of the 1980s' increase in wage inequality, and almost all of the increase in wage inequality in the bottom half of the distribution. Decades later, these findings were again affirmed by Fortin, et al. (2021) in a similar study. As such, while the rise of earnings inequality under the Reagan-Bush administration is often blamed on welfare cuts, union disempowerment, and regressive tax policies, (e.g., Plotnick, 1993; Western & Rosenfeld, 2011) the decline of the real federal minimum wage may have actually been more decisive. Importantly, the administration did not need to explicitly lower the minimum wage to produce this decline; in fact, the nominal minimum wage was actually increased in both 1981 and 1990. Nonetheless, the real minimum wage experienced a passive 30 percent drop over the decade because of inflation alone. (Fort -

Chart 1 — Estimated Effect of Minimum Wages on Selected Wage Percentiles



Percentage wage changes from a 1 percent increase in the minimum wage, with standard errors, based on Canadian data from 1997 to 2012. (Fortin and Lemieux, 2015) Wage changes are expressed relative to the median wage.

Estimates are significant up to the 15th wage percentile.

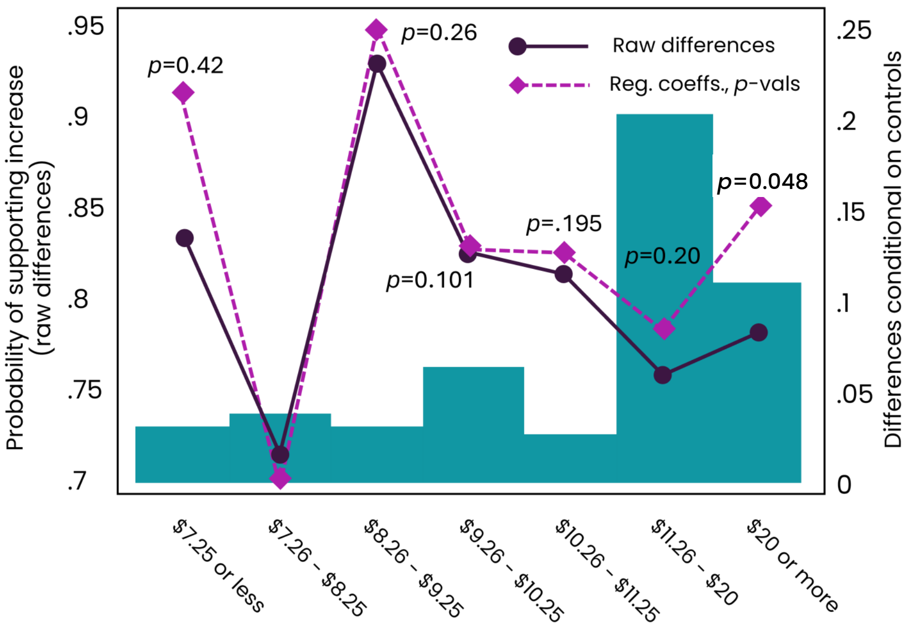
in, et al., 2021)

Shifting to the Canadian context, Fortin and Lemieux (2015) present one of the most rigorous considerations of minimum wage spillovers and wage inequality, and their results are just as striking as those from the U.S. Considering the period from 2005 to 2010, they determined that wage inequality decreased in Canada and that all of this decrease was due to increases in real provincial minimum wages. In contrast, from 2000 to 2005, real minimum wages were largely stagnant, and wage inequality increased across Canada. Clearly, in both Canada and the U.S., there are strong indications that spillover effects turn minimum wage policy into a powerful tool to counter inequality. Furthermore, these effects demonstrate how progressive minimum wage policies could rally popular support from more than just minimum-wage earners.

According to a recent study from Quebec, the strongest predictor of support for increasing the minimum wage is whether the increase will directly benefit an individual or a member of their family. (Mishagina & Montmarquette, 2021). This sense of economic self-interest is an even stronger predictor than one's political affiliation, level of empathy, or attitude toward redistribution. As such, while we often focus on the moral virtue of a liveable minimum wage, the deservingness of minimum-wage earners, or the threat of rising income inequality, a more influential approach to boost popular support for minimum wage increases would be to demonstrate to individuals that they stand to personally benefit. Critically, as spillover effects triple the number of workers who receive a pay raise from these increases (Fortin and Lemieux, 2015) educating voters about spillovers may be the most effective method of doing so. In fact, Mishagina and Montmarquette (2021) found evidence that individuals' opinions about minimum wages are responsive to this type of informational campaign. However, increasing the number of expectant beneficiaries is not the only way that spillovers might boost support for minimum wage hikes.

In another opinion survey, Kuziemko, et al., (2014) examined opposition to minimum wage increases across income groups. The results suggest that the strongest opposition to minimum wage increases is found among low-wage workers, specifically those who earn just above the minimum wage. This strong opposition is explained in terms of downward social comparison. Essentially, although workers who earn just above the minimum wage are close to the bottom of the income hierarchy, they can at least feel better relative to minimum-wage earners. As such, if the minimum wage were increased, their slight income advantage would disappear, and with it, their sense of superiority. However, if these workers were made aware of spillover effects and the fact that their income advantage would be preserved after minimum wage increases, one of the strongest sources of popular opposition would be neutralized. Clearly, it would seem that educating workers about spillover effects could improve support for progressive minimum wage policy.

Chart 2 — Support for Increasing the Minimum Wage from $7.25, by Wage Rate



Kuziemko, et al., (2014) online survey of employed individuals ages 23 to 64. The first series (raw differences) displays the share of each wage group that supports increasing the minimum wage. The second series (reg. coeffs., *p*-vals) shows the wage-category fixed effects (omitting the $7.26-$8.25 wage category) from a probit regression that also controls for gender, race, ethnicity, educational level, party affiliation, marital and parental status, approval rating of President Barack Obama, and union status.

While this article has focused on the positive consequences of minimum wage spillovers for both workers and progressive policymakers, the newly-understood importance of minimum wages cuts both ways. While spillovers make bold minimum wage hikes more powerful, they also means that decreases in real minimum wages can have stark consequences for inequality. Lee's (1999) finding that effective decreases in the minimum wage caused half of the U.S.'s increase in wage inequality in the 1980s, and the that these decreases were due entirely to inflation, is indicative of the strong potential for improving livelihoods by increasing minimum wages. Indeed, because of inflation, if nominal minimum wages are not regularly increased, real minimum wages are decreased. For instance, consider Alberta, where the minimum wage has not been adjusted since 2018, and as a result, the real minimum wage has effectively decreased by 17 percent over the past six years. Not only have minimum wage earners lost about one-fifth of their earnings, but a much larger group of workers have also likely experienced real pay cuts because of the spillover effect. Given the current era of high inflation, this issue has likely only worsened. The takeaway is clear: If workers are not informed about the importance of strong minimum wages and cannot enact bold minimum wage increases, inflation will have stark consequences, not only for minimum-wage earners but for the rest of the working-class across their end of the income distribution.

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Possibilities of Power: A Retrospective of the Ontario New Democratic Government, 1990 to 1995

Bruce McKenna [1]

Since its surge in the polls in the lead-up to the 2018 provincial election, the New Democratic Party of Ontario has been a serious contender for power. As New Democrats strategize and plan for events to come, collective memory of the party's one term in power can offer an important reference point for debates. With that end in mind, this article's goal is to collect and distill the existing scholarly and popular literature on the ONDP government led by Bob Rae from 1990 to 1995.

After laying out an overall chronology of events from the lead-up to the 1990 election to the NDP's defeat in 1995, further analysis in the ensuing sections will go into specific topics of economic strategy, state administration, and political strategy, and engage in some critical reflection in dialogue with the limited existing scholarly writing. The conclusion will put the Rae period explicitly into dialogue with the present day to offer some important comparisons and contrasts. Ultimately, the success of today's ONDP depends on its ability to hold its coalition together by delivering on substantive reforms that materially benefit Ontario's diverse working-class.

[1] My thanks go out to Dennis Pilon, Paul Kellogg, Keith Brownsey and Peter Graefe for their valuable feedback on a conference paper that laid the groundwork for this article. Outside the academy, I am grateful to many people who have prompted and influenced my thinking on this topic through conversations over many years. All errors are my own.

“Storming the Pink Palace”: A Chronology

The most consistent theme in existing writing on Ontario’s first NDP government is that they were not prepared to take power and had not been expecting to win. Prior to governing, ONDP leader Bob Rae and his caucus at Queen’s Park achieved important policy victories in 1985 through a deal with David Peterson’s Ontario Liberals, made in exchange for the necessary votes to win the confidence of the legislature and abruptly ending more than 40 years of uninterrupted rule by the Progressive Conservative Party. After two short years of Peterson’s minority government, the Liberal Premier called an election and won a crushing majority in 1987. Rae then led an Official Opposition of 19 Members of Provincial Parliament that was smaller than the 1985 caucus, and privately planned to retire as leader after the next election. (Ehring & Roberts, 1993, p. 136-262)

Peterson called an election in the summer of 1990. This strategic decision was related to poor economic forecasts, and that the Liberals anticipated growing public resentment related to scandals like the Patti Starr affair. (Crow, 1999, p. 93; Gagnon & Rath, 1991) Demoralized from their 1987 loss, the ONDP caucus generally faced, “a choice between working the issues and working the scandals,” and chose the scandals. (Walkom, 1994, p. 48; Ehring and Roberts, 1993, p. 216) At the time of the election call, the ONDP sat around 26 percent in opinion polls, and had never polled higher than 30 percent. A hastily assembled platform reiterated historic commitments to introduce public auto insurance and a minimum corporate tax. (Crow, 1999, p. 94)

With PC leader Mike Harris new and largely unknown to Ontario voters, Rae broke through in the polls by channeling the public’s discontent with the Peterson Liberals. Following the leaders’ debate on August 20, polls began to show that the ONDP “universe” had “exploded” in size. The leadership team only began to seriously consider the possibility of victory during the last ten days of the campaign. On election day, Rae appointed former ONDP leader Stephen Lewis to lead the transition team. (Rae, 2006, p. 147) Rae's ONDP took office at the beginning of a severe recession. Their first response was to "fight the recession" rather than the deficit, tabling a budget in Spring 1991 that avoided significant cuts to public spending at a time when it felt like, "the bottom had fallen out of the Ontario economy." (Rae, 2006, p. 163) By the fall of 1991, the pressure of media criticism and business resistance was beginning to show. Following a caucus retreat, the government announced it would indefinitely suspend its commitment to bring in public auto insurance. In the lead-up to the 1992 budget, the impact of the recession on public finances led senior figures in the government to believe that they had no choice but to implement significant austerity measures. After an awkward silence at a dinner in New York City, Goldman Sachs executives advised Ontario Deputy Minister of Health Michael Decter that a deficit in the $40 billion range would be, "uncharted territory for a non-sovereign borrower." (Decter, 2010, p. 185)

The New Democrats attempted to use revenue tools to address the fiscal situation, notably through the *Fair Tax Commission* which tabled its report in 1993. Nevertheless, to meet their deficit reduction target, they felt that reducing spending on public sector salaries was unavoidable. Cuts to this sector led to the most acrimonious episode of the ONDP's tenure: the *Social Contract Act* and its fallout. To avoid public sector layoffs, the government used legislation to open existing collective agreements and imposed a combination of wage cuts and unpaid holidays—known in popular memory as "Rae Days"—on civil servants, teachers, police officers, and others whose salaries ultimately came from the province. Although praised by some commentators, (Monahan, 1995) this move proved toxic because of the split it caused between the party and much of the labour movement. The Canadian Union of Public Employees (CUPE) and the Ontario Federation of Labour (OFL) adopted resolutions withdrawing organizational support for the ONDP, and many grassroots members quit the party. Minister Karen Haslam resigned from cabinet, and MPPs Peter Kormos and Mike Morrow refused to vote with their caucus in the legislature. (Crow, 1999, p. 183; McBride, 1996, p. 187)

The ONDP's ensuing defeat was so widely anticipated that books commemorating the government's brief and novel life began to appear before they were even out of office. (Walkom, 1994; Monahan, 1995) Many of their accomplishments were then dramatically undone by the "Common Sense Revolution" of Mike Harris' Progressive Conservatives who were swept into power by the summer of 1995, and further transformed the province over the following eight years in office. Nevertheless, Rae's government did plant seeds that could have germinated into a more progressive path for Ontario, including strong labour laws, environmental protections, groundbreaking employment equity measures, and a minimum wage increase.

Economic Strategy and State Administration

> *...you can't take on international capitalism in Ontario. It's not possible to do that.*
>
> — Evelyn Gigantes, quoted in Thomas Walkom, *Rae Days*, pp. 170.

To a significant extent, the legacy of the New Democrats' time in power is marred by popular memory of the specific economic conjuncture that they faced. In this respect, the period of 1990-95 offers a unique and important case study for Canadian left-wing history, and for progressives today. In particular, this episode illustrates an attempt at implementation of a social democratic project within a complex provincial capitalist economy, under the constrains of Canadian federalism. In contrast to the experiences of NDP administrations in other provinces throughout the latter twentieth century, Ontario's large population and highly industrialized and financialized economy presented both unique opportunities and unique challenges.

In 1990, Rae and Finance Minister Floyd Laughren faced a recession whose roots lay in macroeconomic policy decisions that were largely outside of their control, made by earlier federal Trudeau and Mulroney governments. Carroll and Little (2001) characterize the economic environment of the time as a "hegemonic project" of neoliberalism, whose core features included a monetarist approach at the Bank of Canada and liberalization of trade with the United States. Under these conditions, capital was more mobile, and the national economy was more volatile. With the Canada-US Free Trade Agreement in effect alongside the global recession of the early 1990s, corporations began to close and downsize their operations in Ontario. Job losses resulted in higher social assistance costs, while tax revenue declined. (Watkins, 1994)

What could a provincial government do in the circumstances? Social democrats internationally generally moved toward a strategy of "progressive competitiveness." (Albo, 1994) In this model, the solution to liberalized markets and the impasse of Keynesian stimulus was for the state to support a high value-added, export-driven industrial strategy, notably by supporting training programs for an adjusting workforce. Economic policy debates in the ONDP and the labour movement in this period were rooted in different approaches to this paradigm.

On the approximate 'right' of this debate were arguments aligned with the Peterson-era Premier's Council, which had already come up with the broad strokes of a 'knowledge economy' strategy under the Liberal aegis. (Wolfe, 1992; Mackenzie, 1992) On the 'left,' Canadian Auto Workers' staff researcher Sam Gindin argued for a version of progressive competitiveness that would have attempted to realize local economic democracy in various ways. The government ultimately leaned closer to the thinking of the Premier's Council, notably in an annex to the 1991 Budget, which emphasized structural change through training and innovation. (Evans, 2011, p. 68; McBride, 1996; Walkom, 1994, p. 102) A less ambitious industrial policy document appeared in 1992, which shied away from major initiatives out of concern for deficit reduction. (Walkom, 1994, p. 107)

During the early 1990s, progressive undercurrents in Ontario opposed these apparent concessions to encroaching neoliberalism. Toronto was then home to a vibrant Marxist political science community, and many of its members attempted to steer the ONDP towards a boldly progressive economic strategy at this conjuncture. Political scientist Daniel Drache edited *Getting on Track: Social Democratic Strategies for Ontario* (1992) with his colleagues to demonstrate potential alternatives that the government could have explored, such as solidaristic wage decrees, (Mackenzie, 1992, p. 16) and industrial democracy initiatives. (Gindin & Robertson, 1992) Many ONDP elected officials and activists attended a conference at Toronto's York University in 1991, whose deliberations were later published as the edited volume, *A Different Kind of State?* (Panitch, Albo & Langille, 1993) The creation and contents of this latter volume illustrated the real transformative ambition that existed within the party and its associated milieus, early on in the Bob Rae government's life. The ONDP did not seem to suffer from the "bovine admiration for bureaucracy" that is sometimes thought by Althusserian Marxists to be the defining characteristic of social democracy. (Perry Anderson, quoted in Thompson, 1978, p. 66)

On the contrary, they had the opposite problem. Walkom (1994) reports that former, "Trotskyists and Maoists were scattered throughout the government," often in "senior positions" like the Treasurer's office. (p. 266) Coming from a place of ideological suspicion, they had so little knowledge of the actual operation of the Ontario government that they struggled to translate their ideals into a program for steering the aircraft carrier. (Cameron & White, 2000, p. 33; Schwartz, 1994) Nevertheless, their attempt to develop actionable ideas from a *de facto* critical, transformative theory of the state, represented an interesting departure from the openly Fabian doctrines of the Saskatchewan NDP tradition. (McGrane, et al., 2019; Blakeney & Borins, 1998) This conversation in the 1990s ONDP would certainly be relevant again today.

Ultimately, the ONDP faced the immediate task of running a provincial state that was not of its own making. Important decisions took place in the form of typical Canadian-style executive politics among Rae and his immediate entourage, mostly composed of senior partisan staff such as David Agnew, Chuck Rachlis, Ross McClellan, and others. Career civil servants like Michael Mendelson and Michael Decter were also influential at the centre of government, sometimes trusted because of service to past NDP governments in the prairie provinces. (Walkom, 1994, p. 53 -57; Wolfe 1997) The New Democrats tried to strengthen the centre of government out of a desire to impose political direction on the bureaucracy, but stopped short of the large, politicized cabinet offices that were part of the CCF-NDP tradition in Saskatchewan and Manitoba. (Cameron & White, 2000, p. 37)

Implementing a social democratic agenda was particularly difficult in the context of Ontario's neoliberal moment, which began years earlier with the Committee on Government Productivity (COGP). This committee outlined thoroughgoing reforms to Ontario's public administration over the course of its reports in the early 1970s. From approximately 1975 onward, Ontario's budgets abandoned the language of full employment and shifted to an overriding emphasis on expenditure control, following the lead of Conservative federal governments through the 1980s on containing public sector wage growth. The New Democrats inherited this Treasury department in 1990. (Evans and Shields, 2017,

p. 137)

Moreover, Rae seems to have believed in the zeitgeist of the 1990s. He saw a way forward for social democracy that involved greater acceptance of the centrality of markets, and a kind of corporatist ethic through which the state would try to co-operate with business. (Rae, 2006; Walkom 1994) Key NDP notables elsewhere in Canada saw things similarly during this period. Although real budgetary impasses may have existed at different conjunctures, the core of the prevailing line of thought was an eminently conventional kind of economics: balanced budgets are desirable because they indicate to business that future tax increases are less likely, and this will incite businesses to invest (Mackinnon, 2003, p. 76). These were hardly consensus views in the ONDP, and internal pushback against Rae began more or less immediately at provincial council meetings and other fora. (Crow, 1999)

When the cabinet and the caucus ultimately came around to supporting austerity measures as the approach to global recessionary trends, it was above all due to the prevailing sincere view that the government simply had no alternative—it would otherwise face default or unmanageable debt-servicing costs. The idea of a “debt wall” created anxiety within the cabinet, and has since been debunked. (Crow 1999; McQuaig 1995; Walkom 1994) The broader issue of debt servicing costs was a legitimate concern, but existing literature leaves substantial room to imagine that a different NDP Premier’s Office might have charted a different course. Certainly, informed voices outside government argued at the time that an alternative economic strategy, without public sector wage cuts, was possible. This was the position of a report by the Ontario Public Service Employees’ Union (OPSEU) and of the ad-hoc “Public Services Coalition,” which developed with the support of key left-wing intellectuals. (Panitch & Swartz, 2009, p. 172; McBride, 1996, p. 82). At the time, prolific Keynesian economist Harold Chorney argued that concerns over the deficit were widely overblown at all levels. (Chorney 1992, 1999)

Nevertheless, there was a strong mainstream view in favour of deficit reduction across Canada during this period. Its proponents included the federal Conservative government, business-funded think tanks like the C.D. Howe institute, and much of the 'common sense' of mainstream media. (Crow, 1999) Rae and his closest advisors were on-side with Treasury bureaucrats, and even prominent social democrats who were convinced that there was no alternative given the conditions outside of the province's economic control. (Rachlis & Wolfe 1997)

As the years went on, the government found itself subtly drawn into the market-driven zeitgeist across many areas of public policy. The genesis of Highway 407 as a public-private partnership was in the ONDP's Ministry of Transportation during this period. With the Premier's blessing, high-profile capitalist Maurice Strong began taking steps as chair of Ontario Hydro to lay the groundwork for future privatization. (Walkom, 1994, p. 253-255) Regarding environmental policy, the government slid over the years into "market environmentalist" approaches. (Stewart, 2000) In social policy, the government scrapped its plans for comprehensive welfare reforms due to concerns over costs. (Sheldrick, 1998, p. 58) In the absence of a strong alternative strategy, the politics of deficit reduction pervaded virtually all areas of the ONDP's public policy. Walkom (1994) opines that the cabinet and caucus were operating on "the most pessimistic and determinist elements of Marxism"—the belief that their hands were tied in a world overdetermined by international capitalism. (p. 170)

Economic Strategy and State Administration

CLASS, BROKERAGE AND ELECTORAL VOLATILITY

The centrality of debates over economic policy and public finances in the literature on this government suggests one clear generalization: by today's standards, in 1990, the ONDP was all about class politics. Rae recounts that, in conversations among downtown Toronto businessmen, instead of discussing who in the new government they had gone to school with or golfed with, a common joke in fall 1990 was : "my cleaning lady's in the cabinet!" (Rae, 2006, p. 261) Civil servants sometimes compared NDP political staff to the unsophisticated Clampett family from the 1950s TV show *The Beverly Hillbillies.* (Cameron & White, 2000, p. 34) The cabinet contained new and substantial representation from Ontario's working-class, including blue collar union activists like steelworker Bob Mackenzie and prison guard Frances Lankin. (Panitch & Swartz, 2009, p. 164) The solid core of the ONDP's support was working-class Toronto ridings like York South, along with industrial centres across the province like Hamilton, Oshawa, Sault Ste-Marie, and Sudbury. Party President Julie Davis was also Secretary-Treasurer of the OFL. (Walkom, 1994, p. 6)

Some authors have tried to minimize the NDP's working class anchorage. (Evans, 2012, p. 55) They have a point insofar as the nineteenth century European-style mass party model—featuring millions of members organized into an elaborate complex of counter-hegemonic institutions—was never realized in Canada. Things might have been easier for the ONDP had this been the case. Unfortunately, Toronto was a small colonial outpost at the time that Karl Marx was writing. The Ontario CCF and the industrial labour movement grew later and concurrently in the 1930s and 1940s, while the declining Communist Party attacked and undermined organizations that it did not control. (Horowitz, 1968; Caplan, 1973)

In Ontario, the CCF-NDP and the labour movement built and maintained enough organic strength to be a major force in provincial party politics from the 1940s onward, periodically forming official opposition and appearing as a contender for government. (Morley, 1984) In contrast to the 2000s-era federal NDP activists who viewed the party's 'relative autonomy' from labour as a fruitful strategic step, many scholars of this period point to labour movement support as a key variable in the party's success: the party was stronger when the unions were prepared to invest in it to a greater degree. (Archer, 1990; Brodie & Jenson, 1988) It is possible to imagine a scenario in which the NDP-labour institutional complex might have become strong enough to affect a true realignment of Ontario politics, of the kind that occurred in Britain in the early twentieth century, and to some extent in the party systems of Saskatchewan, Manitoba, and British Columbia. Such a scenario could have involved the NDP working to build up class consciousness among white collar and service workers, possibly through the types of grassroots organizing approaches advocated by people like Rae's leadership rival Richard Johnston. (Jenson & Brodie, 1992; Ehring & Roberts, 1993, p. 82)

This conscious, slow-burning organizing scenario did not unfold. The ONDP was unexpectedly propelled into power due to changes in the dynamics of electoral politics that were only beginning to be understood at the time. Increasing "volatility" in voter behaviour across Western Europe and North America was coming to replace the old party loyalty that tended to be firmly engrained with other sociological characteristics. (Dalton & Wattenberg , 2002) In Canada, scholars have described these voter trends as the "decline of deference." (Nevitte, 1996) The electorate had grown more inclined to judge incumbent governments over scandals, economic performance, and other factors. Under these conditions, the embrace of "catch-all" or "brokerage" politics that had begun with the Ontario CCF in the 1950s finally bore fruit: the New Democrats surged in the polls when voters began to consider them as a credible alternative to the scandal-tainted Liberals. (Tanguay, 1997)

The New Democrats had edged into power with 30 percent of the popular vote and governed with great sensitivity to this fact—perhaps too much sensitivity. When they backed down on social democratic initiatives, they alienated the popular movements whose organizational muscle powered their electoral machine in the first place. They won some praise in mainstream media for implementing austerity measures, but this did not win the loyalty of Ontario voters. Conversely, the price they paid was great: the labour movement would spend the next twenty years waffling around a strategic voting strategy that benefited the Liberal Party at all levels, because of the disappointment and losses in Ontario. (Pilon, Ross & Savage, 2011)

What ultimately broke down during the ONDP's time in power was a core bargain with the working-class, theorized by political scientist Adam Przeworski. (1986) For the party to succeed, social democrats in power must deliver material gains to their working-class constituency. In too many cases, the New Democrats appeared unable to hold up their end of the bargain.

RACE, GENDER, DECOLONIZATION AND QUEER LIBERATION

Although the economic core of the social democratic bargain broke down under the strains of governing, a narrow focus on wages and public expenditures would exclude other elements of the ONDP's experience, which still bear relevance for collective memory. An interesting feature of class politics in Ontario in the early 1990s was the way in which the institution of the NDP acted as a kind of incubator for a class-political base to germinate into an intersectional movement with strong demands in areas of 'identity politics' that were much more contentious three decades ago. The integration of these causes, as well as the environmental movement, into the NDP sometimes drew veiled criticism at the time, with commentators seeing an incoherent amalgam of 'special interests.' It may be true that thinly resourced NDP caucuses often drifted into a strategy of "contentless populism," (Bradford & Jenson, 1992, p. 192) rather than articulate exactly how they would be able to harmonize all these interests in power.

At the same time, it is important to recognize that identity politics was a major force powering the labour movement in structuring the very articulation of class politics. British historian E.P. Thompson provides a helpful analysis in viewing class as a process; something that "happens" when members of an exploited group come together to act in class ways. (Thompson, 1968, p. 9-13) Though rooted in capitalist social relations that have an objective character, class formation is a cultural process that looks different in different cases according to the complexities of the real human beings involved. In Ontario, this process often had gendered and racialized elements at its core. McKay (2006) comments on the "centrality" of "socialist feminism" as an ideological and organizational force in the NDP between the 1970s and the 1990s. (p. 198) McKay continues:

> *...in some respects feminism was far more "organic" to the massive socio-economic change ushered in by the post-war socio-economic formation than were traditional labour-based ideologies of the left... Socialist feminists... strongly rooted in the labour movement... could now present themselves as being more connected with what was actually happening within a rapidly feminizing working class itself than were conventional Marxists.*
> (p. 204-205)

This was certainly true of the ONDP in the 1980s. (Praud, 1999) Rooted in the labour movement, the NDP provided an institutional base for the expression of different demands emanating from a diverse working class. Jamaican-Canadian British Columbia MLA Rosemary Brown expressed her intersectional politics as the result of having had to, “learn well about racists and about sexists and about capitalists.” (Brown, 1989, p. 87) The ONDP cabinet in 1990 had the highest proportion of women in Canadian history and included a black high school principle—Zanana Akande—in the important portfolio of Community and Social Affairs. (Walkom, 1994, p. 52)

In office, the ONDP took many steps that were progressive for the time, such as the creation of an Anti-Racism Secretariat which funded a variety of projects led by minority communities. It also introduced an employment equity regime that included regulations for government agencies and large firms. The ONDP declared its intention to have a “political relationship” rather than a clientelist relationship with First Nations and made major investments on reserve while devolving responsibilities and attempting to improve consultation. (Walkom, 1994, p. 225; Rae, 2006)

Holding together different elements of the ONDP coalition was not always smooth sailing in government. White male auto workers cited employment equity as one factor in their decision to disaffiliate from the NDP in Oshawa. While previously touted in cabinet, Akande resigned from her role when controversy arose over her conduct as a landlord. She and black community groups publicly expressed their dissatisfaction with Rae and white feminists in the party over the handling of the Carleton Masters affair, in which a black corporate executive was the subject of sexual harassment complaints. (Walkom, 1994, p. 229) Rae permitted a free vote in the legislature on a comprehensive gay spousal rights bill, which resulted in its defeat due to splits within caucus. (p. 213)

When it came to many program proposals driven by feminist and anti-racist movements, there was a recurring theme: "the equity agenda could be derailed if it interfered with the overriding goal of deficit control." (p. 213) In this very tangible sense, the ONDP's experience illustrates Canadian political philosopher James Tully's point that "struggles over recognition" are indissociable in practice from "struggles over distribution." (Tully 2000)

Conclusion: Now and Then

In many respects, today's ONDP faces a very different society and economy from that of 1990-95. While notions of fiscal responsibility still underpin the game of party politics in the media, the "deficit hysteria" that pervaded Canadian politics at the time feels like a distant memory. (McQuaig, 1995) The impact of the COVID-19 pandemic in destabilizing widely accepted understandings of state fiscal capacity remains to be seen, but more broadly, the discourse around public finances has also shifted since the 2008 Financial Crisis. The public is increasingly facing the realities of growing inequality, offshoring of wealth, and the diminished role of the state in the economy that began in the 1980s. The really tough questions of provincial fiscal capacity can be avoided in the absence of another severe recession.

Communities of left-wing economists that were less visible in the 1990s have become much more institutionalized through organizations like the Canadian Centre for Policy Alternatives, the Progressive Economics Forum, and an emergent left-wing think tank sphere that has grown to respond to right-wing attacks on independent credibility. To reinforce itself against the "ideological and policy failure" that plagued the party during the Bob Rae-era, (McBride, 2005) the ONDP must focus on developing intellectual self-confidence regarding how exactly to realize a social democratic economic strategy, given the opportunities presented by stronger policy and intellectual communities that have developed since the 1990s To push back against business-funded ‘stakeholders’ whose agenda openly influences the current Doug Ford Progressive Conservative government, the party will need to be clear on its own analysis.

The agenda will also be different in an economy that is much more knowledge-sector and service-sector driven than it was in 1990. Instead of worrying about maintaining old Fordist industrial jobs, the NDP could reflect on how it might use the provincial state as a tool to bring about an industrial strategy in Ontario with the emerging green economy in mind, while reigning in the financialization which has influenced today’s affordability crises in housing, foods, and fuel. As decades of austerity take their toll on public services, and homelessness and poverty reach crisis proportions, there is great appetite in 2024 for the kind of expansionary fiscal policies necessary to house, feed, clothe, and care for the population.

Selling a forward-looking social equity agenda in the middle of a recession was a difficult task in the early 1990s. Ontario has changed a great deal since then. The population is much more diverse, and once-controversial subjects like queer people’s rights have become objects of mainstream consensus. The ONDP itself has arguably come a long way in becoming a more diverse party—it struggled to even hire racialized people in political staff positions in Rae’s day. (Walkom, 1994, p. 211) In recent years, successful organizing in ridings like Brampton East and Scarborough Southwest has demonstrated the party’s ability to appeal to a very broad electorate. To consolidate its gains, the ONDP must remain in touch with the class politics on which it has always been built, and put forward distributive demands and an economic strategy that can offer tangible, material gains for working people of all backgrounds.

Furthermore, electoral volatility has only become more pronounced since the 1990s. Some NDP strategists and partisan scholars take the view that these conditions should be exploited as an opportunity to double down on brokerage politics and 'market-oriented' campaign strategies. In 1990, as in 2011, these did appear to deliver the goods. However, the Rae experience reminds us that forming a government is only a first step. Although the New Democrats enacted many progressive policies, they also made many sacrifices that they believed would be rewarded by mainstream public opinion—and that they imagined lining the road to consolidating their status as a governing party. Instead, they were 'hung for a penny' by a hostile media and opposition parties. Faced with a choice between two 'liberal' parties, Ontario voters tend to opt for the real thing. Longtime NDP activists George Ehring and Wayne Roberts criticized their generation of NDP strategists for failing to realize this, and the observation remains relevant. (Ehring & Roberts, 1993, p. 38).

An alternative path would be to win the allegiance of a new electoral coalition by making structural changes to Ontario's society and economy that break with the prevailing neoliberal model. At a time when centrism is discredited in the public eye, and voters are drifting into abstention or right-wing populism, the conditions may be more favourable for attempting such a task now than in 1990. Provincial social democratic governments have achieved lasting gains and impacted the policy paradigm of federal politics in the past. In the days of Tommy Douglas's Saskatchewan CCF and Dave Barrett's BC NDP, the party did not hide its anchorage in socialist principles, and it drew on a large and motivated membership base. If today's New Democrats aspire not only to form a government but to change Ontario and Canda, then it will be necessary to draw inspiration from these elements of the party's tradition—as well as from the brief moment in fall 1990 when everything seemed possible.

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Pharmacare and Access to Medicines in Canada: Is Bill C-64 a Step in the Right Direction?

Marc-André Gagnon

Introduction

The provision of prescription drugs is typically a fundamental component of national health care systems, often viewed as an essential health service. Notably, every OECD country with universal health care covers prescription drugs, except Canada. (ACINP 2019) The concept of "Pharmacare" — public drug coverage distinct from universal health coverage (Medicare) — is a Canadian specificity. Although all provinces and territories offer some level of public drug coverage for non-working populations, such as seniors and those on social assistance, the majority of Canadians receive drug coverage through private benefits provided by employers. Consequently, access to medicines is still conceived of as privileges offered by employers to employees.

Public drug coverage in Canada is characterized by a fragmented system comprised of numerous drug plans designed to aid individuals without access to private insurance. This fragmentation results in many Canadians falling through the gaps and struggling to access necessary medications. Since 2015, the debate around reforming public drug coverage has intensified, and significant reforms are gradually being implemented. (Adams & Smith, 2017; Boothe, 2018; Flood, Thomas, & Moten, 2018; Gagnon, 2021) This paper outlines the current structure of drug coverage in Canada, evaluates its outcomes regarding access and costs, explores the ongoing debates and recent federal legislation aimed at introducing universal pharmacare, and, more specifically, explains why progressive amendments were called for before the passing of *Bill C-64; An Act Respecting Pharmacare*.

1. The Structure of Drug Coverage in Canada

Universal healthcare in Canada was first introduced in Saskatchewan by Premier Tommy Douglas in 1947 and, following the recommendations of the *Royal Commission on Health Services* (commonly referred to as the "Hall Commission") in 1964, it was extended to the rest of Canada in the early 1970s based on a financial arrangement between the federal government and the provinces: the federal government provides financial transfers to the provinces if they offer universal healthcare coverage that respects specified standards defined in federal legislation. In 1984, the *Canada Health Act* (CHA) established the current set of standards, requiring that health insurance be universal, publicly administered, portable across provinces, comprehensive and accessible without direct charges to patients. (Marchildon, 2021) However, the CHA does not cover all medically necessary health care services; it is limited to coverage of medically necessary hospital and physician services only. (Fierlbeck, 2011, pp. 89). While medicines used in hospitals are totally publicly financed in accordance with the CHA, there are no standards for the coverage of prescription drugs outside of clinical health care institutions.

As a consequence, access to prescription drugs in Canada relies on a confusing patchwork of over 100 public drug plans and over 100,000 private plans (ACINP 2019). Each plan, public or private, has a variety of premiums, co-pays, deductibles or annual limits, creating critical discrepancies in the way a Canadian citizen may be covered, depending on where they live or where they work. The objectives of drug plans also vary: while public drug plans aim at maximizing health outcomes by funding cost-effective treatments, many private plans are designed for employers to find a middle-ground with employees during collective bargaining, without a clear understanding of the health needs of the employees, and with the principle value that a good drug plan covers anything at any price. (O'Brady, Gagnon, & Cassels, 2015)

1.1 TYPES OF DRUG COVERAGE

Drug coverage in Canada falls into four main categories:

PROVINCIAL AND TERRITORIAL PUBLIC DRUG PLANS

Provincial and territorial (PT) public drug plans account for 39 percent of prescription drug expenditures, (Canadian Institute for Health Information, 2023) but vary widely across jurisdictions. (Canadian Institute for Health Information, 2024) All PTs cover seniors and social assistance recipients. Coverage for social assistance recipients is generally consistent, while coverage for seniors can vary, and is often income-tested. (Daw & Morgan, 2012) Some provinces offer catastrophic coverage for high drug costs that households have hard time paying, with deductibles ranging from 3 percent to 20 percent of annual income, and co-pays between $2 and $30 per prescription. (Brandt, Shearer, & Morgan, 2018) Some PTs offer coverage for specific diseases, or for substance use, and others also provide coverage for children or for low-income people. (Canadian Institute for Health Information, 2024)

FEDERAL PUBLIC DRUG PLANS

The federal government covers prescription drugs for First Nations people and Inuit, through the Non-Insured Health Benefits (NIHB) program that covers the costs of prescription drugs not covered by a private drug plan. The federal government also provides coverage for refugees, military personnel, RCMP members, and federal prisoners. (Fierlbeck & Marchildon, 2023). This coverage represents only 3 percent of total drug expenditures in Canada. (Canadian Institute for Health Information, 2023) Public expenditures for drugs in Canada (by provinces, territories and the federal government) are notably low compared to other OECD countries considering that only Poland, Bulgaria and Chile have a lower percentage of public expenditure. (OECD, 2023, pp. 199)

PRIVATE DRUG PLANS

Private drug plans, mainly provided by employers, cover 37 percent of total drug expenditures. (Canadian Institute for Health Information, 2023) Most private drug plans are provided by employers as extended health care benefits. This type of drug insurance pools the risks of all those in the same given workplace. Private premiums for drug coverage can thus be different from one workplace to the next. When private employer-provided plans that offer similar drug coverage are compared, it has been found that in workplaces where employees tend to be older, poorer, or less healthy, premiums are significantly higher than in workplaces with younger, richer, or healthier staff. (Gagnon, 2014)

Large employers often use “administration services only” (ASO) plans, where the insurance company administers the plan, but does not assume risk. Under this scheme, the insurance company earns a percentage of spending administered through the drug plan. This creates a situation where private insurance companies have no incentive to reduce the structural costs of prescription drugs. Smaller employers usually opt for “fully insured” plans where, for a higher fee, the private insurance company covers the risks. It is possible, therefore, that the given insurance company may spend more to cover risks than what it receives in premiums. However, for fully insured plans, premiums received by the insurance company are normally adjusted yearly to cover the amount in reimbursement spent the year before, to which an additional mark-up is added.

As higher spending means higher premiums with a constant mark-up rate, private insurance companies providing fully insured plans also have no incentive to reduce structural costs for prescription drugs. (Gagnon, 2014) Administration costs, included in the determination of the level of premiums, are not accounted for in the cost of prescription drugs, but they can become quite significant: administration costs for private drug plans are normally between 13 percent and 23 percent in Canada, (Law, Kratzer, & Dhalla, 2014; Himmelstein, Campbell, & Woolhandler, 2020) while they vary between 1 percent and 2 percent for public drug plans. (Gagnon, 2014; Régie de l'Assurance-Maladie du Québec, 2023)

Smaller employers are getting very concerned about the sustainability of their drug benefits, especially considering that many new drugs arriving on the market have very expensive price tags. (Charbonneau & Gagnon 2018) Their concerns are valid; for example, if a firm employs 50 employees, and an employee's family member starts requiring a drug treatment that costs $200,000 annually, then private premiums for each employee of that workplace could see increases of up to $4,000 annually once premiums are adjusted.

Private drug plans are incentivised by both federal and provincial governments (except Quebec) through significant tax subsidies, since the premiums paid for private drug benefits are excluded from taxable annual income. This creates significant equity issues as high income individuals (with a higher marginal income tax rate) then come to receive higher public subsidies for private drug coverage than low-income individuals. Private drug plans have become reliant on governments, considering that 30 percent of the expenditures by private drug plans are used for the private coverage of public employees, and tax subsidies offered by federal and provincial governments represent around 25 percent of the total cost of private drug plans. (Gagnon, 2012)

OUT-OF-POCKET EXPENDITURERS

Canadians spend 20 percent of drug expenditures out-of-pocket, either due to co-pays or deductibles when the person has public or private coverage, or because the person has no coverage at all. (Canadian Institute for Health Information, 2023) The government provides a non-refundable tax credit of 15 percent for out-of-pocket medical expenses, including prescription drugs, exceeding a means-tested threshold. (Gagnon, 2012) Financial barriers can lead to non-adherence to prescriptions, impacting health outcomes and increasing overall costs. (Hennessy, et al. 2016; Gagnon, 2017)

1.2 VARIATION IN PROVINCIAL COVERAGE

While provincial health systems do provide some coverage to those without private drug coverage, there is a lot of variation between the provinces in terms of who they cover, how those eligible are covered, which drugs are covered, and the extent to which patients must pay out-of-pocket. (Demers, et al., 2008; Campbell, et al., 2017) To illustrate this variation between provinces, we can compare three provincial plans: Ontario, Quebec and Prince Edward Island (PEI). The first two are the most populous provinces while PEI, the smallest provinces, has the most complex patchwork of public drug plans. In these three provinces, private drug plans cover the majority of the population, and provincial public drug plans are designed to support those without private coverage.[1]

ONTARIO

Around 40 percent of the Canadian population lives in Ontario. (Statistics Canada, 2024) In Ontario, public drug plans cover the non-working population, specific diseases and treatments, as well as universal catastrophic coverage for people who spend over a certain threshold of their annual income on prescription drugs. In total, there are eleven different provincial public drug plans in Ontario:

The Ontario Drug Benefit Program (ODB) is made of three different programs for which a means-tested deductible and co-pay (up to $8.11 per prescription) can be required. These programs cover three vulnerable groups, including: seniors (65 years old and older); low-income people receiving social assistance; and residents of long-term care homes. ODB also provides first-dollar coverage to people 24 years old and younger, not covered by a private drug plan.

The Trillium Program is another scheme that provides drug coverage to Ontario residents whose drug costs are elevated in comparison to their annual household income. Once the deductible of 4 percent of the annual income is reached, those insured by the Trillium Program pay $2 per prescription. Other programs cover specific diseases or treatments such as inherited metabolic diseases, respiratory syncytial virus, intravenous cancer drugs, Visudyne, and some select high cost drugs.

[1] The descriptions are based on information provided by CIHI (Canadian Institute for Health Information 2024) and the Patented Medicines Price Review Board (Patented Medicine Prices Review Board 2024), which are sources that can be consulted to obtain more details about public drug coverage in other provinces as well.

Because of catastrophic drug coverage offered by the Trillium Program, it is possible to say that all Ontarians have access to some form of drug coverage. However, because of the high deductibles entailed, financial barriers to access drugs in Ontario still exist for a significant share of the working population.

QUEBEC

Quebec is the second most populous province with around 22% of the Canadian population based in the province (Statistics Canada 2024). In 1997, Quebec implemented a private-public system of drug coverage designed to ensure that all residents have drug coverage (Morgan et al. 2017). The system upholds the primacy of private drug coverage, which is mandatory for employees and their dependents when a private drug plan is available. Employers who want to offer health benefits to their employees must include prescription drugs, and employees cannot refuse unless they already have a private drug plan through their spouse or a different employer. Certain conditions apply both to public and private drug plans: all drugs covered by the public plan must be covered by private drug plans; monthly deductibles are limited to $22; the co-insurance rate is limited to 32%; and total annual out-of-pocket payments for insurees must not exceed $1,196.00 (Régie de l'Assurance-Maladie du Québec 2024).

Because private drug plans are mandatory, Quebec is the only province that does not provide tax subsidies as incentives for employers to provide drug benefits. For Quebec residents who cannot access private coverage, they are automatically covered by a public drug plan. Quebec's Public Prescription Drug Insurance Plan covers 4 different groups:

1. Those who are 65 or over automatically have access to the public prescription drug insurance plan. Every senior without a private plan is covered by the public plan, and even if a private drug plan is available, it is not mandatory

anymore for this age group, who can simply access the public plan instead. The conditions mentioned above apply (with lower annual maximal amounts to be paid out-of-pocket), and an income-based premium is also required, up to $744/year (Régie de l'Assurance-Maladie du Québec 2024).

2. Social assistance beneficiaries are also automatically covered, without any premium or out-of-pocket expenditures.

3. Anyone under 65 without access to a private drug plan is automatically covered. The conditions mentioned above apply, and an income-based premium is also required, up to $744/year (Régie de l'Assurance-Maladie du Québec 2024).

4. Children under 18 (or under 25 if they attend an educational institution at full-time) without access to a private plan are covered, without any premium or out-of-pocket expenditures.

The Quebec public prescription drug insurance is often considered an ideal model since every Quebec citizen has private or public coverage. However, it is not actually a universal program, because how coverage is applied, access to different drugs, and deductibles and co-pays vary between individuals. In fact, in many ways, the system is designed to artificially increase the costs of private plans, for example by imposing higher dispensing fees and prices for private plans, while using measures to contain costs for the public drug plan (Gagnon et al. 2017).

PRINCE EDWARD ISLAND

Making up less than 0.5 percent of the Canadian population, Prince Edward Island (PEI) is the smallest Canadian province by population. (Statistics Canada, 2024) PEI Pharmacare is the payer of last resort for eleven public drug programs delivered through retail pharmacies, and for fourteen public drug plans delivered through a centralized provincial dispensary called Provincial Pharmacy. The latter public drug plans are built around specific diseases or products, including drugs or vaccines for HIV/AIDS, hepatitis, cystic fibrosis, immunization, rabies, tuberculosis, and more.

The eleven public drug plans delivered through retail pharmacies serve diverse needs and include programs for seniors and children. There are also specific pharmacare programs for catastrophic drug needs, high-cost drugs, diabetes and insulin pumps, generic drugs, as well as nursing homes, home oxygen, smoking cessation drugs and sexually transmitted diseases.

PEI's variety of public drug plans, all with different types of copays for such a small population, is indicative of the complexity of the current system of drug coverage. All of PEI's programs depend on specific diseases, conditions or age. The catastrophic drug program appears to be an exception as it is accessible to all who find themselves in financial hardship. In all cases, however, PEI's drug plans maintain an annual deductible of up to 6.5 percent of annual income, based on total household income.

1.3 PROBLEMATIC ACCESS

In addition to the technical complexity of public and private drug plans, requisite deductibles, co-insurance rates, and copays can introduce significant financial barriers to access to prescription drugs by imposing out-of-pocket expenditures. 21 percent of Canadians report having no drug coverage, and around 10 percent of the population reports not filling their prescription (s) or skipping doses because of financial barriers. (Cortes, Smith & Leah, 2022). The majority of those without coverage or incapable of accessing their drugs are low-income workers, (Bolatova & Law 2019; Barnes 2015) as well as racialized Canadians and migrants. (Cortes, Smith & Leah, 2022)

The financial hardships suffered by Canadians due to lack of coverage or insufficient coverage must not be downplayed: many Canadians end up having to decide between buying medications or food, (Patel, et al., 2016; Men, et al., 2019) or have to shrink their spending on housing, transit, or cell phone plans. (Goldsmith, et al., 2017) Removing financial barriers to access prescription drugs could prevent hundreds of deaths every year, as well as thousands of hospitalizations. (Lopert, Docteur, & Morgan, 2018) For many types of disease, non-adherence to treatments due to financial barriers ends up costing more to the public through expensive emergency room visits and hospitalizations, when first-dollar public coverage for the drugs would have been a more efficient use of public health expenditures. (Persaud, et al. 2023; ACINP, 2019, pp. 47) When compared to countries surveyed by the Commonwealth Fund's International Health Policy Survey, Canada remains a laggard when it comes to access to prescription drugs (see Table 1).

Table 1 — Percentage of population not filling prescriptions or skipping doses because of cost

Country	Percentage (%)	Country	Percentage (%)
Netherlands	4.5	New Zealand	7.4
France	5.0	Switzerland	8.5
Sweden	6.4	Canada	10.4
United Kingdom	7.2	Australia	13.0
Germany	7.3	United States	20.9

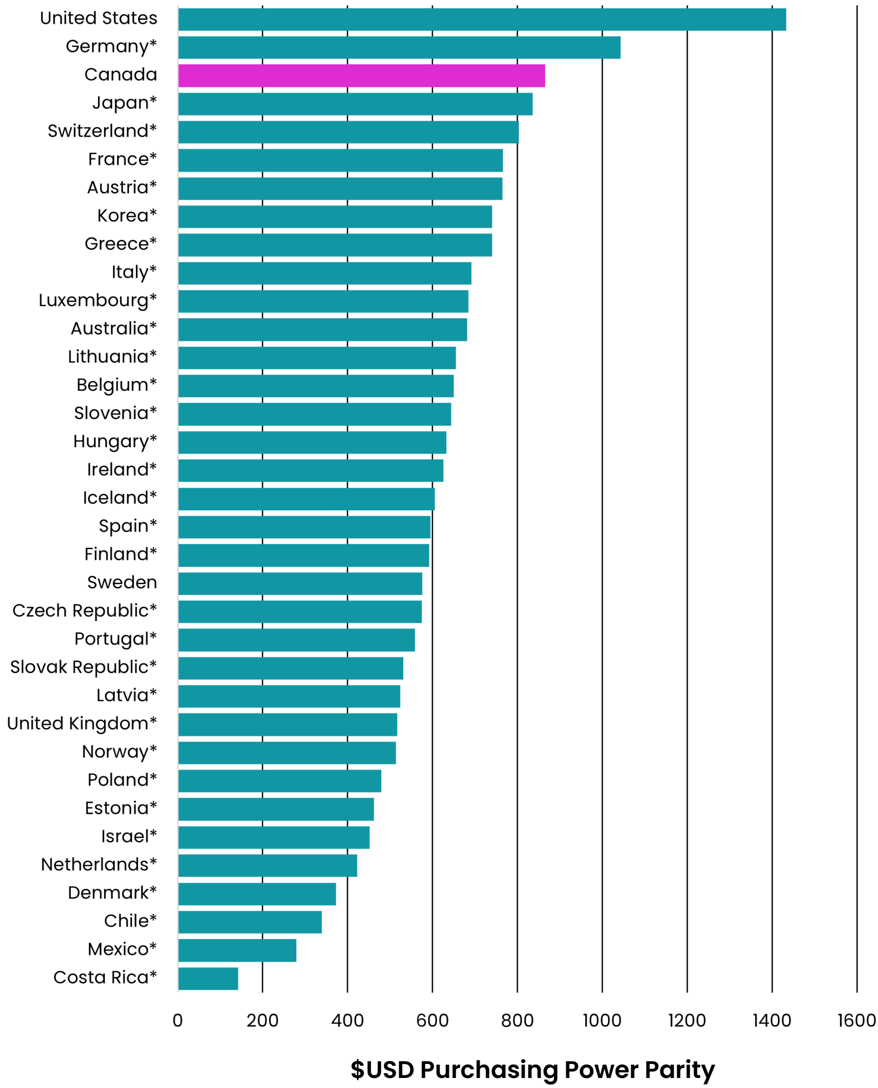
1.4 THE HIGH COSTS OF PRESCRIPTION DRUGS IN CANADA

Canada's prescription drug costs are among the highest globally. In 2023, Canadians spent approximately $41.1 billion on prescription drugs. (Canadian Institute for Health Information, 2023) This amount excludes another $6.7 billion spent on drugs and health supplies sold over-the-counter (almost fully paid out-of-pocket). Prescription drugs represented only 6.4 percent of health expenditures in 1985, and now represents 12 percent of health expenditures, which is more than the total amount spent for physician visits. (Canadian Institute for Health Information, 2023). Pharmaceutical sales in Canada represents 1.5 percent of Canadian GDP and 2.2 percent of the global pharmaceutical market, making Canada the 8th largest world market. (Innovation, Science and Economic Development Canada, 2024)

The cost per capita for prescription drugs in Canada is also among the highest worldwide. Canadians spend more than twice as much per capita as compared to their counterparts in the Netherlands or Denmark. When compared to other OECD countries, Canada is third in terms of cost per capita after the United States and Germany. In Germany, this per capita expenditure is notable as it includes a value added tax of 19 percent (See Chart 1).

Canada is characterized by both high costs per capita for prescription drugs and a significant proportion of the population who cannot access the drugs they need. This situation is due to high prices and a lack of cost efficiency.

Chart 1 — Total Expenditure on Pharmaceutical Goods per Capita, OECD, 2021 (or last year reported)



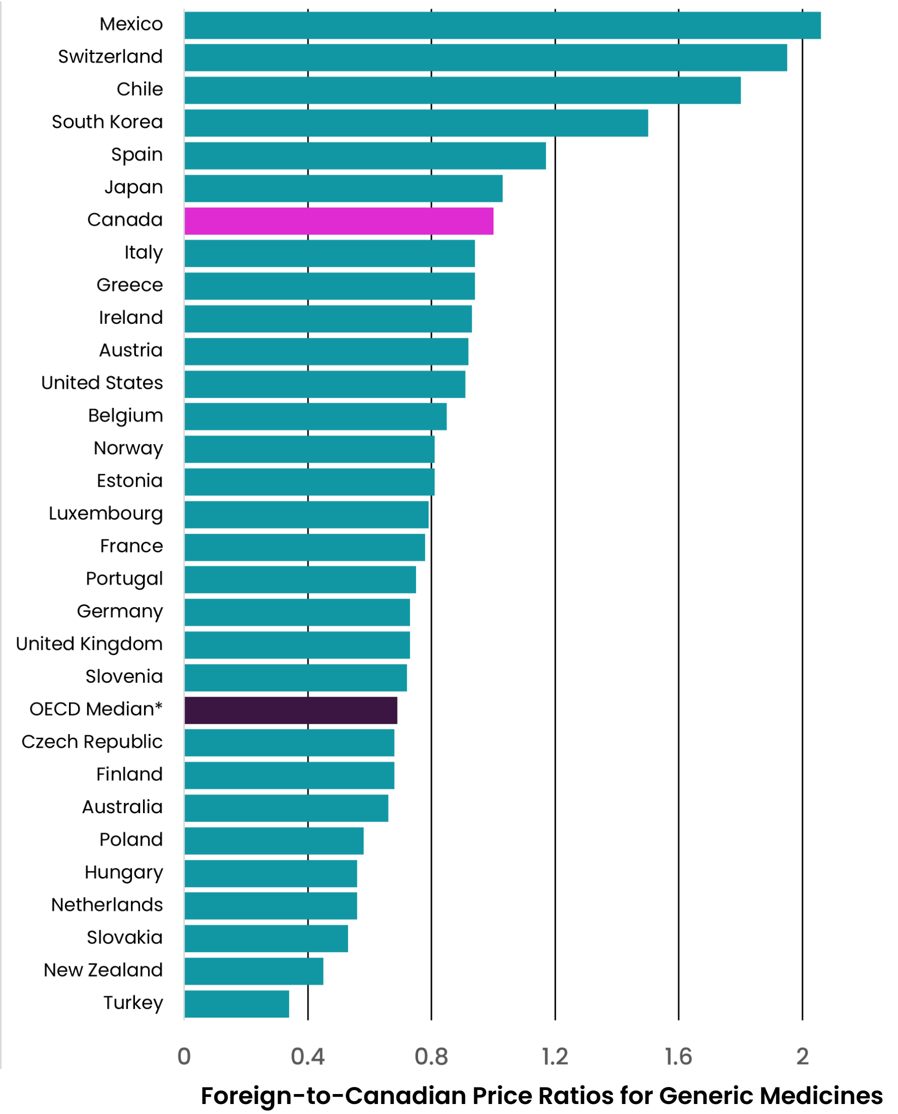
Source: OECD Health Data; (*) - expenditure data includes value added tax

HIGH OFFICIAL PRICES

The first reason for high costs of prescription drugs in Canada is the high prices of patented drugs. When a new drug comes to the market, it is branded and patented. Once the patent expires, 20 years after the discovery of the molecule, generic competitors can enter the market and compete against the brand-name (but now unpatented) drug. While brand-name drugs normally maintain the high price of the drug as when it was patented, generics are normally sold between 8 percent and 25 percent of the price of the brand-name drug. Patented drugs represent around half the Canadian market in terms of sales, while unpatented brand-name drugs and generics each represents around a quarter of the market in terms of sales. (Patented Medicines Price Review Board, 2024, pp. 27).

When it comes to the retail market, generics represent 78.6 percent of the market in volume, which is among the highest rates when compared with other OECD countries, but it represented only 22.8 percent of retail market in terms of value. (OECD, 2023, pp. 205) The price of generics in Canada is considered high when compared to other OECD countries, with the Canadian average price being 45 percent more expensive than the OECD median. (Patented Medicines Price Review Board, 2024, pp. 53) As for the price of patented drugs, Canada is the world's second most expensive countries with prices 28 percent more expensive than the OECD median (see Chart 2 & Chart 3). (Patented Medicines Price Review Board, 2024, pp. 51)

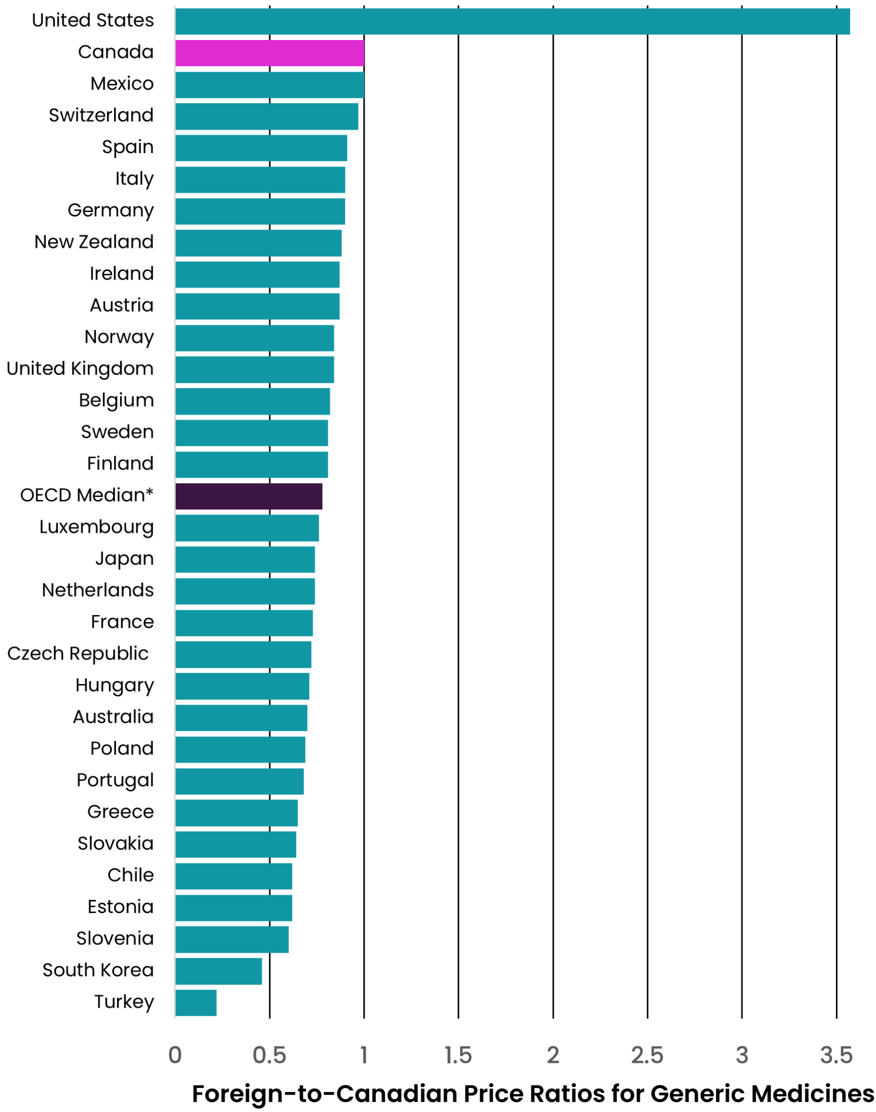
Chart 2 — Foreign-to-Canadian Price Ratios for Generic Medicines, OECD, Q4-2022



The OECD median does not necessarily represent the median result for the individual countries reported in this graph, as it calculated at the medicine level for generics with prices available in at least three foreign markets.

Source: MIDAS ® database, October — December 2022, IQVIA (all rights reserved) [NPDUIS Report: *Generics360, 2018 — graphs updated to 2022]*

Chart 3 — Foreign-to-Canadian Price Ratios for Patented Medicines, OECD, Q4-2022



* Calculated at the medicine level for medicines with prices available in at least three foreign markets.

Source: Patented Medicines Price Review Board; MIDAS ® database, 2022, IQVIA (all rights reserved)

When analyzing the cost of patented drugs, it is crucial to recognize that the comparison of prices between countries can be misleading because the global pricing model for patented drugs includes additional layers of complexity. The official prices of patented drugs (which are the prices compared in Chart 3) are normally not the prices paid by drug plans, because most payers negotiate confidential rebates, which are not publicly disclosed. It is estimated that the confidential rebates obtained by public drug plans is normally between 20 percent and 29 percent of the official price. (Morgan, Vogler, & Wagner, 2017) In Canada, public drug plans collectively negotiate these rebates through the Pan-Canadian Pharmaceutical Alliance (PCPA), which includes all provincial, territorial, and federal public drug plans. The PCPA successfully secures approximately $3.9 billion in confidential rebates annually. This level of rebate is comparable to that achieved in other OECD countries. However, almost all OECD countries have a universal pharmacare system and negotiate confidential rebates for their whole population. In Canada, the PCPA negotiates confidential rebates for public drugs plans only, which represent only 42 percent of expenditures. Note that people insured through public drug plans still pay their co-insurance rates and deductibles, based on the official price of drugs.

Private drug plans, on the other hand, have a more fragmented approach to negotiating confidential rebates. The prevailing culture within private insurance tends to prioritize broad coverage of approved drugs without substantial negotiation for rebates. (O'Brady, Gagnon & Cassels, 2015) Sun Life, as a private insurance company, is considered to be the most active insurer in negotiating rebates. (20Sense, 2022) Sun Life reported securing $500 million in rebates from 2014 to 2023, or an average of $56 million secured annually. (SunLife 2023) The negotiation of rebates, however, is not uniformly practiced across the industry. (Barkova & Malanik-Busby, 2023, pp. 38) Even if the rebate levels achieved by Sun Life were extended throughout the entire private sector, they would still represent only a fraction of what is obtained by public drug plans. Furthermore, there is no assurance that these rebates benefit the insured individuals, rather than the insurers' shareholders. The lack of transparency in private rebate negotiations raises concerns that insurers might prioritize more expensive drugs with higher rebates, rather than cost-effective drugs that offer the best therapeutic value, as is observed in the United States. (Robbins & Abelson, 2024; Federal Trade Commission, 2024)

Not only do Canadians pays higher official prices than other OECD countries as the poor performance of private drug plans in negotiating confidential rebates contributes to higher costs, Canadians also pay even higher real post-rebate prices for the same prescription drugs when compared to other OECD countries (this is even before including the additional 10% mark-up in administrative fees paid in premiums for private plans, as compared to universal public systems). The fragmentation of drug coverage creates significant inefficiency when it comes to negotiating drug prices in Canada.

A more effective approach could involve organizing bulk purchasing and negotiating rebates for all Canadians through institutions that ensure that rebates are transferred to insurees. While it does not necessarily require a single-payer model, it does require that all payers accept to reimburse only drugs listed on a national formulary after agreeing on a cost-efficient price. Systematically negotiating drug prices based on their therapeutic value to ensure value-for-money could save billions in drug costs to Canadians. The Parliamentary Budget Officer has estimated that a universal pharmacare program with minimal copays could increase prescription drug utilization by 13.5 percent and reduce overall drug costs by $2.2 billion annually. (Barkova & Malanik-Busby, 2023) This would ensure more cost-effective and equitable access to medications for Canadians.

Canada's drug coverage system is complex and fragmented, leading to significant disparities in access and affordability. The whole system seems currently designed to artificially increase costs for patients and employers without improving the health care Canadians are getting. Addressing these challenges requires comprehensive reform to ensure equitable access to medications for all Canadians, reducing financial barriers, and achieving cost-efficiency in drug pricing. Important debates have existed for decades about the necessity to reform the current drug coverage system. It is important to understand these debates to better grasp what is at stake with the passing of *Bill C-64 An Act Respecting Pharmacare* during the fall 2024 session of Parliament.

2. The Battle for Universal Pharmacare: A Historical and Political Overview

Canada's journey towards universal pharmacare has been shaped by various federal commissions and political changes over the decades. The Hall Commission of 1964, formally known as the Canada Royal Commission on Health Services, recommended the inclusion of prescription drugs to a Canadian universal healthcare coverage. (Canada Royal Commission on Health Services, 1964) Two other significant federal commissions highlighted the need to include prescription drugs in a universal health care program. The National Forum on Health, in 1997, recommended first-dollar coverage for all prescription drugs, emphasizing a comprehensive approach to medication access. (National Forum on Health, 1997) Similarly, the 2002 Commission on the Future of Health Care in Canada, commonly referred to as the Romanow Commission, advocated for a universal catastrophic drug plan as an initial step towards universal pharmacare. (Commission on the Future of Health Care in Canada, 2002) The Romanow Commission also recommended establishing a national formulary, a national health technology assessment system to systematically obtain value for money, and a national drug purchasing and price setting system. (Commission on the Future of Health Care in Canada, 2002) All these policies developed over the past several decades would have been building blocks for a universal pharmacare system. (Gagnon, 2014)

In 2004, the Liberal Party of Canada-led federal government initiated a ten-year National Pharmaceutical Strategy (NPS) in agreement with the provinces and territories, aiming to implement the Romanow Commission's recommendations. However, the Conservative Party's victory in the 2006 federal election led to the abandonment of many of these initiatives, apart from extending the health technology assessment capacity of the Canadian Agency for Drugs and Technology in Health (CADTH). Notably, the proposed national catastrophic drug coverage system was discarded under Prime Minister Stephen Harper's government. (Morgan, et al., 2016)

Since the 1990s, most provinces and territories made only minor adjustments to their public drug coverage systems. Quebec was a notable exception, implementing its own version of pharmacare in 1997, which required mandatory private drug plans. (Gagnon, et al., 2017) Ontario also took a significant step in January 2018 by introducing a universal pharmacare program for individuals under 25. However, this initiative was reversed later that year with the election of Doug Ford's Progressive Conservative Party of Ontario to government, which limited coverage to those without private insurance. (Miregwa, et al., 2022)

2.1 RE-OPENING THE DEBATE (2015)

The election of the Liberal Party of Canada to the federal government in 2015 revived discussions about reforming drug coverage. The rising costs, accessibility issues, and sustainability concerns surrounding both public and private drug plans intensified calls for reform.

On one side of the debate, stakeholders such as private insurers, pharmaceutical companies, and pharmacy chains supported maintaining the existing patchwork of public and private plans, advocating for merely "filling the gaps" to assist those unable to access necessary medications. (Gagnon, 2021) Conversely, unions, consumer organizations, community groups, and over 1,000 Canadian health professionals and experts in health care and public policy pushed for a comprehensive overhaul of the patchwork, and for the implementation of a universal pharmacare system for all Canadians instead. (Pharmacare 2020, 2022) These proponents see a universal pharmacare system as not only a way to reimburse bills and provide access to those who cannot otherwise afford treatments, but also as a building block for putting in place the institutional capacity necessary for a more rational system that could reduce costs, provide value-for-money, and reduce overtreatments by ensuring that the prescribing habits of health care professionals are based on best available evidence, and not by manufacturers' promotional campaigns. (Morgan, et al., 2016)

A report commissioned by the Standing Committee on Health of the House of Commons in 2016, and published in 2018, endorsed the implementation of universal pharmacare in Canada. (Casey, 2018) Studies suggested that such a system could not only improve access to prescription drugs in Canada, but could also save between 10 percent and 40 percent of current costs (Gagnon & Hébert, 2010; Morgan, et al., 2015) This was further corroborated by a 2017 report from the Parliamentary Budget Officer. (Malanik-Busby, et al., 2017) The central issue of cost-saving is contentious, as savings for Canadians translate into lost income for drug manufacturers, private insurers, and pharmacy chains, leading these stakeholders to, unsurprisingly, resist changes and advocate for a gap-filling approach. (Gagnon, 2021)

2.2 HOSKINS REPORT (2019)

In February 2018, the Government of Canada established the Advisory Council on the Implementation of National Pharmacare (ACINP), chaired by former Ontario Health Minister Eric Hoskins. The Council was tasked with developing an implementation plan for a National Pharmacare program. However, there was significant pressure from the Liberal Party to recommend a "fill the gaps" model rather than a complete overhaul (Blatchford 2018; Forrest 2018).

In 2019, the ACINP released its final report, commonly known as the "Hoskins Report," which argued that a fill-the-gap approach was unsustainable. Instead, it proposed a model for implementing universal pharmacare and offered a clear roadmap to achieve it with minimal resistance. (ACINP, 2019) The main recommendations of the report centred around pieces that would allow for the prudent implementation of universal pharmacare by organizing prescription drug coverage in the same way universal health coverage is set up in Canada, and by capping out-of -pocket expenditures at $100 per household per year for drugs listed on a national formulary. (ACINP, 2019) As with Medicare, it would be up to individual provinces and territories to opt in to the universal pharmacare program by agreeing to national standards and funding parameters. The federal government would pay for the incremental costs to provinces and territories for expanding coverage and implementing pharmacare in their jurisdictions. Part of the national standards would be to reimburse all drugs listed on a national formulary, but provinces and territories could decide to reimburse additional drugs if they want. More importantly, employers could also provide additional coverage if desired, which would make sure that the federal government would not be taking away current private coverage from any employee. This provision would hopefully placate an important talking point of groups opposed to universal pharmacare. (Gangcuangco, 2024; Gagnon, 2021) The phased implementation would proceed as follows:

1. **Creation of a Canadian Drug Agency:** This agency would manage a national formulary of reimbursed drugs, negotiate confidential rebates, collect data on drug utilization, and provide prescribing guidelines.

2. **Phased Implementation:** Starting in January 2022, the program would initially cover a basket of essential medicines,[2] with a gradual extension of coverage through negotiations with manufacturers to ensure value-for-money. Comprehensive universal pharmacare would be fully realized by 2027.

3. **Coverage for Rare Diseases:** Specific pathways for reimbursing drugs for rare diseases would be established by 2022.

The Hoskins Report proposed a gradual build-up, starting with foundational elements to prove the concept before expanding the program. This phased approach aimed to minimize disruption and allow stakeholders time to adjust. Following the report's release, the Liberal government committed to implementing universal pharmacare and adopting the report's recommendations. (Webster, 2019)

[2] Essential medicines normally cover most of the health needs of a population and they are also less expensive. (Taglione et al. 2017)

2.3 STEPS FORWARD, STEPS BACK

Progress towards implementing the Hoskins report recommendations was initially slow. In 2019, the federal budget allocated funds for creating a national drug agency. (Young, 2019) However, the COVID-19 pandemic in 2020 disrupted these efforts. The pandemic shifted the focus of federal-provincial relations, revealing the critical state of long-term care facilities and prompting the federal government to consider establishing national standards for this area of healthcare. (Estabrooks, et al., 2020) This focus led to push back from provinces and territories, who viewed increased federal involvement in healthcare as encroaching on their constitutional jurisdiction. (Gallant, 2020) Consequently, discussions about universal pharmacare stalled.

The only significant movement since the pandemic has been the 2021 agreement between PEI and the federal government, (Wilson, 2021) which saw the federal government commit to additional funding for PEI's 29 existing public drug plans, (Health Canada, 2021) without implementing a universal pharmacare program in the province.

In 2022, a political shift signaled a potential renewal of pharmacare initiatives. The 2021 federal election resulted in a minority government for the Liberal Party, which entered a Confidence and Supply Agreement with the New Democratic Party of Canada (NDP) in March 2022. (Office of the Prime Minister of Canada, 2022) This agreement included a condition for advancing universal pharmacare based on the Hoskins Report's recommendations. (Lexchin, 2022; Office of the Prime Minister of Canada 2022)

As a result, legislation to introduce the first phase of a national pharmacare program, Bill C-64, *An Act respecting Pharmacare,* was introduced in the House of Commons on February 29, 2024. (Health Canada, 2024a) The Confidence and Supply Agreement was officially ended on September 4, 2024, while Bill C-64 was already awaiting ratification at Canadian Senate, and was passed on October 10th. The end of the Agreement did not automatically trigger an election, but Bill-64's passing did become threatened by this precarious Parliamentary situation.

3. Bill C-64: *An Act Respecting Pharmacare*

Bill C-64, while universal pharmacare in principle, only proposes to cover contraceptives and drugs for diabetes. The basket of covered drugs is much smaller than the basket of essential medicines recommended by the Hoskins Report, though it still creates the ability to implement the institutions necessary for a national pharmacare system and, as a first step, begins testing the overall concept. The bill is designed to allow the basket of reimbursed drugs to be expanded in the future. The federal Minister of Health would also have to negotiate with each province and territory to determine the details and conditions that would allow funding of the universal coverage for listed drugs, without any out-of-pocket payments from patients. The details of what would be included in the negotiations remain obscure but will become apparent as the legislation is implemented.

3.1 COVERAGE FOR CONTRACEPTIVES AND DIABETES PRODUCTS

The inclusion of contraceptives, such as oral birth control pills, intrauterine devices (IUDs), and implants, (Health Canada, 2024b) represents a progressive stance on maternal and women's health. Both the Liberal Party under Justin Trudeau and the NDP under Jagmeet Singh have emphasized feminist values, aligning with this approach. Universal coverage of contraceptives can significantly benefit many Canadians by removing financial barriers and preserving patient confidentiality. An American study found that providing free access to contraceptives could reduce unplanned pregnancies by 32 percent. (Bailey, 2023) Patients accessing coverage through a private plan face concerns regarding these drugs and devices appearing in the plan's reimbursement billing history, which may be viewable by others, such as their parents or partner; compromising the confidentiality necessary for some women to access these products. However, access through a universal plan negates this weakness, as the patient's history would be viewable to them alone. A gap-filling approach would make this privacy advantage of universal coverage inaccessible to anyone with a private plan; universal access is therefore the best way to preserve patient confidentiality. (Albanese, 2024; Action Canada, 2022)

The choice to cover products for diabetes is also very important considering the significance of the socio-economic disparities that exist regarding access to these drugs. (Ladd, et al., 2022; Giruparajah, et al., 2022) A 2012 study estimated that first-dollar coverage for diabetes products could save over 700 lives annually in Ontario alone. (Booth, et al., 2012) Improved adherence to treatments would likely reduce hospitalizations and medical visits, resulting in significant savings for non-drug related healthcare expenditures. (Isaranuwatchai, et al., 2020)

3.2 A BILL DECEITFUL BY DESIGN?

When submitted on February 29, 2024, Bill C-64 *An Act Respecting Pharmacare* was clearly written in haste to respect the deadline imposed by the Confidence and Supply Agreement between the Liberals and the NDP in Parliament. The wording of the Bill, while building on the Hoskins Report and calling for universal pharmacare, remained equivocal, and its implementation without clarity on these equivocations could lead to potential challenges and unintended consequences.

Among potential challenges, agreements with provinces and territories will be necessary, and resistance from some provinces is likely. Additionally, commercial interests benefiting from the current inefficient and wasteful system continued to lobby against universal pharmacare and for Bill C-64 to keep the back door open for a “fill-the-gap” approach in which public coverage would be offered only to those without existing private coverage. (McLauchlan, 2024) More concerning, Health Minister Mark Holland has hinted that Bill C-64 would allow future federal-provincial agreements to be based on a fill-the-gap approach. (CPAC, 2024) Furthermore, the amount of funds allocated in the federal budget to implement national pharmacare also indicates that it may only cover existing gaps, without providing real universal coverage for Canadians. (Campbell, 2024)

While Bill C-64 seemed clear in supporting the implementation of a single-payer universal pharmacare model by beginning with the coverage of contraceptives and diabetes products, the wording of the Bill remains vague enough to allow for different interpretations. (Sanci, 2024; Morgan & Herder, 2024) This ambiguity in Bill C-64 raises the question: was the Bill designed to entrench a “fill-the-gap” approach in Canadian drug, while claiming to the contrary that it would implement universalized pharmacare? A bill of this design could be considered deceitful, placating the popular demand for universal pharmacare while purposely serving the interests of industry.

At issue with Bill C-64 is that pharmacare is defined as, “a program that provides coverage of prescription drugs and related products” (régime d’assurance-médicaments). However, pharmacare should be defined, instead, as a public program and not just any type of program that provides drug coverage. A second issue with Bill C-64 is that the word “universal” is used in an equivocal manner. A universal program should normally refer to the concept of universality, that has been well defined by social policy experts. (Béland, Marchildon, & Prince, 2019; Prince, 2014). According to the Canadian social policy textbook, *Universality and Social Policy in Canada*:

...in Universality as a distinctive governing instrument in social policy refers to public provisions in the form of benefits, services, or general rules anchored in legislation instead of discretionary public sector programming or provisions in the private sector, the domestic sector, or the voluntary sector, including charitable measures. Accessibility rests on citizenship or residency irrespective of financial need or income, and the benefit or service or rule is applicable to the general population (or a particular age group, such as children or older people) of a political jurisdiction. The operating principle for universal provision is of equal benefits or equal access. A further expression of this general sense of political community is that financing universal programs is wholly or primarily through general revenue sources. This points to the direct link between general taxation and universality because, in contrast to social insurance programs such as Employment Insurance and the Canada Pension Plan, which are typically financed through dedicated payroll contributions, universal programs depend on the flow of general fiscal revenues associated with income and sales taxes.

(Béland, Marchildon & Prince, 2019, pp. 4)

Universality as a program design feature means that a program then provides goods and services to all without criteria relating to individual or family income – it is not determined by a test of means or income. While people can sometimes opt-out or refuse the benefits of a universal program if this is their preference, a universal program is a public program offered to everyone, regardless of socioeconomic status. “Universal coverage” cannot mean that coverage is provided to everyone one way or the other; “universal” cannot describe a scheme where only some have access to public coverage and others must access a private option. For example, the Quebec pharmacare regime covers everyone in the province through a mix of private and public coverage; Quebec calls it a “general regime” (not a “universal regime”) because, if the regime were to provide coverage to all, it does not fit the definition of “universal” as used in social policy. The word “universal” does not appear anywhere in its “*Loi sur l’assurance-médicaments*,” (A-29.01) or in its “*Règlement sur le Régime général d’assurance-médicaments*.” (A-29.01, r.04) In contrast, the word “universal” appeared eleven times in Bill C-64. If Bill C-64 can be interpreted as the implementation of a drug coverage program like the scheme implemented in Quebec, then the word “universal” in Bill C-64 cannot describe the proposed program.

Instead, Bill C-64 as passed could open the door to the entrenchment of mandatory private coverage for everybody, which could enable a “universal pharmacare” considering that everyone would have access to a drug plan. This possibility is especially concerning, since the Parliamentary Budget Officer produced a report earlier in 2024 amid the Bill’s legislative processing that analyzed the cost of implementing C-64, indicating through its assumptions that private drug plans would continue to reimburse contraceptives and diabetes products covered by the public drug plan. (Barkova, 2024) Considering that it would be irrational for a private plan to reimburse something that could be reimbursed by another payer, one needs to assume that private plans could be compelled to maintain reimbursement of these products, for example by making them mandatory when available, as is the case in Quebec.

When questioned about the possibility for C-64 being used as a backdoor to entrench private coverage during Senate testimony regarding the Bill on September 18, 2024, Health Minister Holland refused to commit that the program would be publicly administered. (Senate of Canada, 2024) When asked, "Minister, will national pharmacare be publicly administered?" Minister Holland replied to the inquiry: "I'm ambivalent about that." After receiving many criticisms about C-64 *An Act of Respecting Pharmacare* because it could maintain the current patchwork of drug coverage, and backdoor private administration, rather than the real implementation of universal pharmacare, Minister Holland wrote to the Senate on September 30, 2024 to clarify his position, and asserted that, "[u]nder this program, the cost of these medications will be paid for and administered through the public plan, rather than through a mix of public and private payers." (Kirkup, 2024)

While the letter clarifies the Minister's position about the government's intended use of the Bill, it does not resolve the ambiguity found in the Bill itself. The door remains open for a deceitful use of the bill, for example, by the next federal health minister who may seek to implement a different version of national drug coverage that shifts away from it's intended public administration.

4. Conclusion

The current patchwork of public and private drug plans creates high costs and does not provide good access to prescription drugs for Canadians. While Bill C-64 may be groundbreaking for public drug coverage in Canada, it is a very small step towards universal pharmacare as it only covers contraceptives and diabetes products. It could still very well be the small step that enables the institutional capacities necessary to create an efficient national drug coverage system that could replace, in the long run, the existing patchwork of tens of thousands of public and private drug plans.

At the time of writing in October 2024, it is still unclear if, in the end, anything was achieved by the reform of drug coverage in Canada. The ratification of Bill C-64 could end up being a game changer that transforms the landscape of drug coverage in Canada. Everything will depend in the ways in which the bill will be implemented and in the capacity of the Federal Government to achieve agreements with provinces for deploying the foundations of what could become the first steps of a real pharmacare system in Canada. However, because of the vague language of the bill and because of the unrelentless lobbying of commercial stakeholders, these first steps can very well end up even further entrenching the current inefficient, inequitable and wasteful mishmash of drug plans that has characterized Canadian drug coverage since the 1960s.

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Profits, Inflation and Survival in an Age of Emergencies: Why We Need a New Paradigm

Isabella Weber [1]

Thanks so much to the Broadbent Institute for this prize and to Ed Broadbent personally, whom I heard was still involved in the decision making, which is truly moving. Thanks also to Toronto Metropolitan University for hosting this tonight and for welcoming me with such warm words.

Just listening to you right now, what really moved me was the sentence: that this “equipped Canadian progressives with doing something different,” and I would never have imagined that my academic work would be able to do that.

But it’s absolutely thrilling to find that this is the case. And even the day today having exchanges with a number of progressive Canadian economists from unions and think tanks has been absolutely thrilling. And to see that ideas can actually travel in that way when they are being picked up, and when they happen to break through at the right moment, even under pretty atrocious circumstances to begin with.

[1] The 2024 Ellen Meiksins Wood Lecture was delivered by economist Isabella Weber at Toronto Metropolitan University on May 30. Professor Weber was awarded the 2024 Ellen Meiksins Wood Prize in recognition of outstanding contributions to political economy research that helps to defend the working-class in a time of economic crisis. This lecture has been transcribed and edited from its original delivery for clarity and brevity in this print version. Watch and listen to the full lecture at perspectivesjournal.ca.


The Guardian

Opinion

Could strategic price controls help fight inflation?
Isabella Weber

Headline of Isabella Weber's opinion article published in *The Guardian* on December 29, 2021 that received widespread international attention.

When I wrote this article in *The Guardian* in December 2021, I was pretty depressed with how the inflation debate was going.

There were basically two camps: one camp said that that we should have imposed austerity the day before yesterday camp. This camp basically said we need to push down the wages of working people, who are already in the middle of a cost of living crisis and who, by the way, are the ones who are carrying the brunt of the burden of inflation, so we should push them down even more. And in the course of doing that, we will push down the whole economy, sacrifice growth, and sacrifice the prospects for investment – especially the investments that we so urgently need for the energy transition that we can no longer wait for.

On the other side were those economists that were arguing, well, inflation at the end of the day is just transitory, so don't worry too much. These are just a bunch of shocks to some sectors. Eventually the shocks will seed and we will come back to the steady waters that we sailed out of, which I found also an utterly frustrating response to this inflation, especially looking at what kind of prices were exploding. The prices that were exploding were the prices of essentials, the prices of things that people cannot do without: the prices of food, the prices of energy, the prices of transportation, the prices of housing and utilities. I happened to come from a family where we lived on a budget. I remember how my mom would watch the advertisements from supermarkets and try to figure out how she could buy the best food for us so that we could be well fed, that we could be healthily fed despite being on a budget.

If you tell a family like that, "this is intransitory, in two, three years, the storm will be gone," it's hypocritical. It's unbearable. It's an unbearable message to send especially for someone who is sitting in front of a full fridge, probably in a fancy apartment in New York, or in some pleasant place of the world, making hundreds of thousands of dollars a year and going to the grocery store without even noticing how much they are paying.

So, I felt it was necessary to intervene. I also felt it was necessary to intervene based on the historical research that I had done on inflation since my message was, "There Is An Alternative." Neoliberalism has told us "There Is No Alternative;" TINA. But at the end of the day, TIAA is what rules. There is an alternative.

If we are trying, it is possible. And I think that this historical research, this attempt of trying to understand the evolution of economics, the evolution of the economy, the evolution of political dynamics in historical time and in its historical complexity, is where my work is linked to that of Ellen Meiksins Wood.

And that's why I'm absolutely thrilled to be awarded with a prize in her name. Thank you so much.

I also think that my work connects with her on the context, on one of her core concepts, of which is the concept of market dependence. At the end of the day, what we have been experiencing in terms of inflation, that in many ways centered on the prices of essentials, put the market dependence of people into focus.

The market dependence for the essentials that you cannot do without is through which we experienced inflation. And on that theme, I want to start my formal presentation. I will have to do an extra great job in explaining my charts, which is my ambition anyway.

The title of this lecture is, *Profits, Inflation and Survival in an Age of Emergencies: Why We Need a New Paradigm.* I decided to not make this lecture about settling scores, not make this lecture about who won the inflation debate, but make this lecture about what are we learning from this inflation debate when we look forward. And I would argue that in the worst case scenario, what we have seen in the last couple of years has been a dress rehearsal for what is to come. Therefore, I want to start this lecture by acknowledging that I think we are living in an age of emergencies.

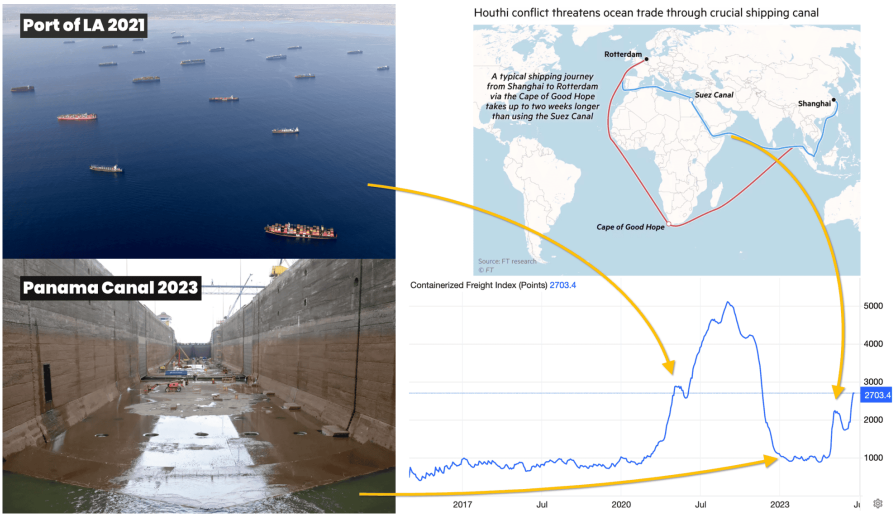
These are just some pictures and I probably should have included a picture of Gaza, and I feel a bit embarrassed that I didn't. But if we look at what is happening in Gaza, and the form of warfare being experienced there is the weaponization of essentials, right? It is cutting people off of the absolute necessities of life.

But even in more fortunate places like Toronto, we are living in a world of overlapping emergencies. We can be pretty sure that even in these comfortable places, there will be more supply shocks to come. We do not know when they are going to hit. We also do not know where they are going to hit. But we do know that they are already in the pipeline. If we look at what is happening with climate change, if we look at what is happening with the disintegration of the global political order, and the consequences of this for the stability of production networks and the flow of goods and services around the globe, I think we can be pretty certain that there will be more shocks.

We can be also certain that some shocks matter much more than others. And the shocks that matter are the shocks that hit the essentials, that hit the things that people or the economy cannot do without. I would argue that there is no hope for resilience when the firms that control essentials reap record profits from disasters. And that is exactly what we have seen.

All the talk about "resilience" is cheap talk if the incredibly capable, incredibly powerful, incredibly well organized, global, gigantic firms that often have more capacity than whole countries, that organize the essentials, profit off of disasters. And I want to give some examples of what I mean by that. Let's look at the example of shipping.

We probably all remember the news about the traffic jams in front of ports. For example, this is a picture of the Port of Los Angeles, which is one of the most important ports for the United States. The United States is, of course, an incredibly import dependent country for a lot of goods and services. This is a true "chokepoint" in the quite literal sense of the word, right?



On the bottom left is a picture of the Panama Canal in 2023. A drought had led to water levels that were so low that the traffic flow through the Panama Canal was drastically reduced. On the bottom right hand side is a map that shows you how much further a ship has to travel if it can no longer pass the Suez Canal, which is, of course, a situation that we are facing right as we speak with the Houthi attacks and the war in the Middle East.

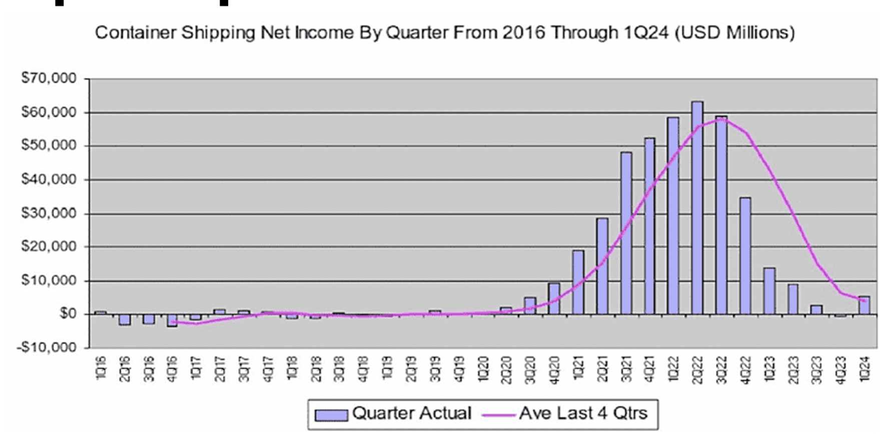
On the bottom right hand side you see a chart of the World Containerized Freight Index. I've joked earlier that I am actually following this index, and not expecting anyone else to do so. But I think it's quite remarkable when you actually look at that index, because you see that it's been basically flat [until 2020], right? The first part of the index is completely boring. It's basically flat.

And then you see something that looks literally like a tsunami. You don't even need to see the exact numbers, just look at the line. You see basically a total tsunami that takes off in 2021 and peaks in 2022, which is the time when we were talking about all the supply chain issues, day-in and day-out. These supply chain issues in many ways were linked to shipping, and then you see at the end of the chart this trend picking up again, which happened exactly in late 2023 when the war in the Middle East started to escalate. You can see this increase again in recent weeks as the situation, the safety of passage, further deteriorated.

This is one part of the story. If we then look at what the flip side of this explosion of freight rates is, there is an explosion of profits, which is pretty unsurprising, because the cost structure might have changed a little bit, it might have become a little bit more expensive because they have to hold and wait on their cargo, or they have some supply chain slack, or whatever.

But costs did not explode – they might have picked up where prices exploded, but the result of that price explosion is a profit explosion where profits are the difference between prices and costs, which you see in the chart below.

The flip side of the price explosion is a profit explosion.



As a recent working paper of the International Monetary Fund points out, we find that spikes in the Baltic Exchange Dry Index, which is one of these freight indices, are followed by sizable and statistically significant increases in import prices, the Producer Price Index (PPI), headline and core inflation, as well as inflation expectations. You don’t have to trust some unreal, weird economists to learn that shipping costs affect inflation, you can literally read this in IMF working papers. According to this paper, the impact of shocks to global shipping costs are similar in magnitude, but are persistent than shocks to global oil and food prices.

In other words, these enormous price explosions have systemic implications for monetary stability way beyond the prices in this one sector. If we look at who is actually running the shipping sector, then it's a handful of companies; it's literally eight carrier groups that have a share of more than 80 percent of the global fleet. And these companies, unsurprisingly if we look at the profits in the sector, recorded the best financial returns in their histories.

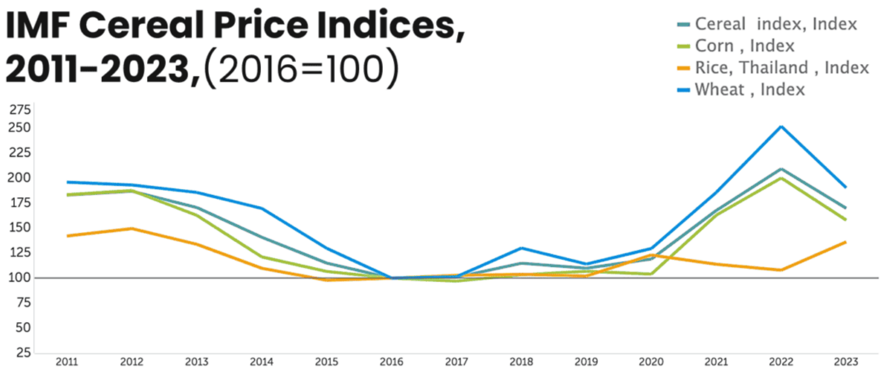
To just give some examples here, Maersk, a company founded in 1904 (we are talking about a pretty long history of more than 100 years here), had the best financial results in its history in 2022, showing a net profit of $29.3 billion USD. The privately held Mediterranean Shipping Company (MSC) achieved an astounding annual net profit of 36.3 billion EUR in 2022. And in 2022, CMA CGM had been France's most profitable company, overtaking the likes of TotalEnergies and LVMH, with an annual net profit of $24.88 billion USD.

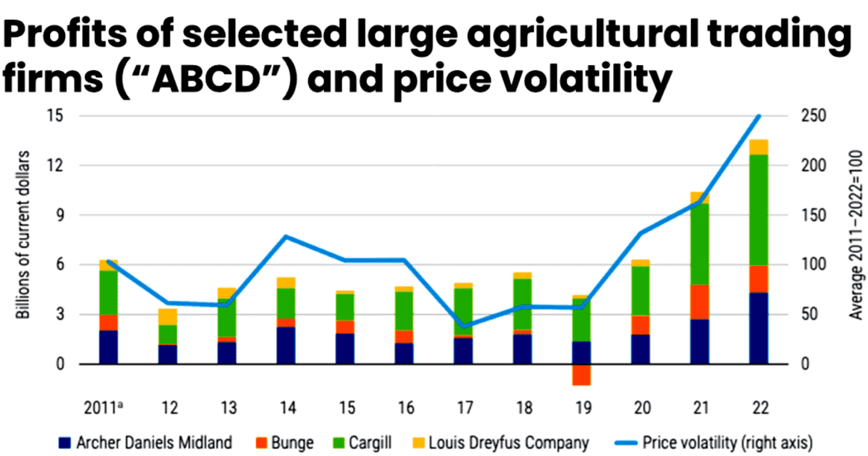
Now, probably most of you don't have a very clear idea of what around $30 billion USD looks like, but it is about twice the GDP of a country like Madagascar or so. This is very, very big money.

Profits of commodity traders thrive on volatility

"**Cargill [founded in 1865]** reported that its fiscal year **2022 revenue jumped 23 percent a year earlier**, to a **record $165 billion**." (*Reuters,* 2023)

"**Gross profits from commodities trading activities** — including by banks, hedge funds, independent traders and asset-backed businesses — rose from about $36 billion in 2018, to a record $148 billion in 2022, **largely because of fallout from the War in Ukraine**." (*Financial Times*, 2024)





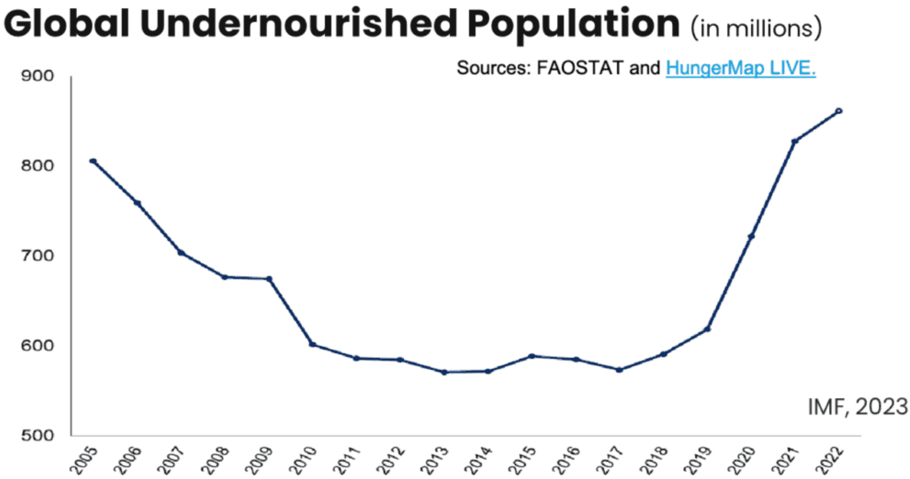
Source: UNCTAD calculations based on FAO *Real Food Price Index*, Blas and Farchy (2021: Appendix ii), Eikon Refinitiv, and Louis Dreyfus Commodities' Financial Results Reports (various issues).

If we take another central sector, namely grain, we have a similar situation where the grain prices on the top chart of the cereal index of the IMF, where you have corn prices in green and rice prices in yellow – rice prices move quite differently for various reasons, and wheat prices in blue. You can see these indexes exploded from 2021 to 2022. You can also see on the bottom chart how the five companies that control 70 percent to 90 percent of global grain trade, the so called "ABCD," which stands for the first letters of the names of these companies, saw their profits increase very dramatically, not just with price increases, but also with an increase in price volatility. In other words, these are gigantic companies that have several hundreds of companies inside them that manage storage, shipping, information about agricultural yields, and even have "shadow banks" within them. So, they end up even betting on their own business in the future markets. These companies thrive on volatility, but of course, farmers don't thrive on volatility; final consumers don't thrive on volatility, but these gigantic companies do.

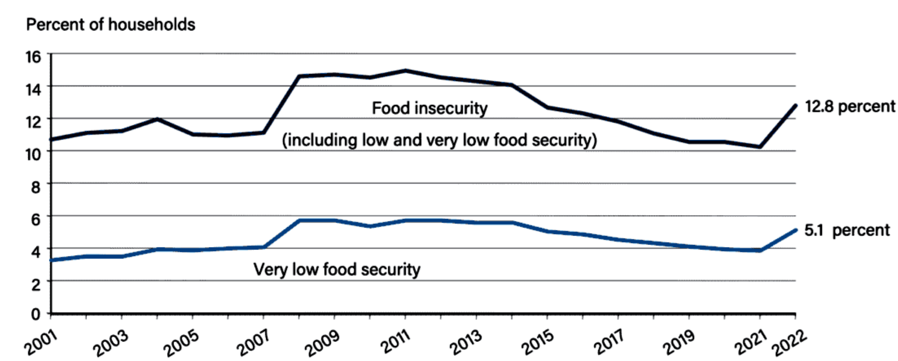
Cargill, for example, founded in 1865, reported that its fiscal year 2022 revenue jumped 23 percent from a year earlier to a record $165 billion USD. Since 1865, this company that has been controlling large parts of the global grain trade for a pretty long while, has never reaped profits of the kind that we have seen in 2022. And the list basically goes on. This is not just about cargo; this is generally about commodity trading. So here's the Financial Times saying, "Gross profits from commodities trading activities, including by banks, hedge funds, independent traders and asset backed businesses that have increasingly moved into commodity trading, rose from about $36 billion USD in 2018 to a record $148 billion USD in 2022, largely because of the fallout from the war in Ukraine."

Now, you can notice that, of course, Cargill's business is not just commodity trading; otherwise these numbers wouldn't add up. But the point is that in commodity trading as a whole, you have seen absolute record profits, and you have seen an increased financialization of this sector, which means that these people thrive off the volatility in this market of essentials.

While food commodity traders had the best of times, global hunger has skyrocketed



Prevalence of food insecurity in 2022 increased from 2021

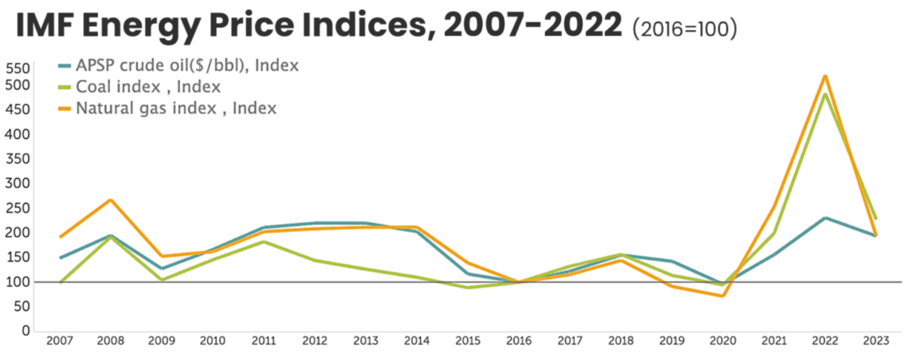


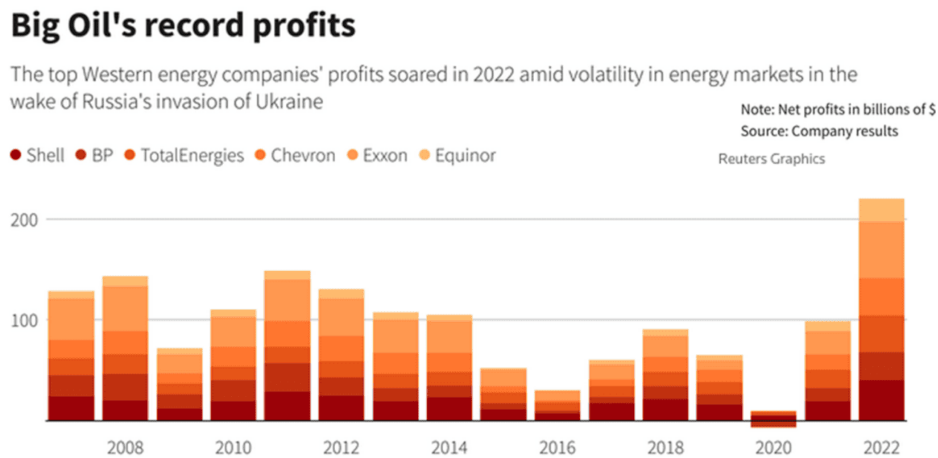
Source: USDA, Economic Reserach Service using data from U.S. Department of Commerce, Bureau of the Census, Current Population Survey Food Security Supplement.

The flip side of this is not just inflation: if we are worried about food price inflation in countries as rich as Canada and the United States, we are talking about hunger in the rest of the world. At the top, you have a chart of the globally unnourished population based on estimates of the IMF. As you can see in 2004, there were around 800 million people around the world that were undernourished, and this is probably a relatively conservative estimate. This number in 2022 climbed to almost 900 million.

In other words, all the progress of eradicating hunger in the last 20 years has been erased in the span of just one year. On the flip side of this price explosion in an essential like grain. When I'm talking about survival, you might call me dramatic, you might call me exaggerated, you might call me an unreal economist standing in front of you in a bright yellow suit. That seems a little bit unserious. But I am actually pretty serious about this, because what I'm saying is that as long as these essentials are managed in the ways in which they are essentially managed right now, it is literally the survival of people at stake when we are dealing with major shocks. On the bottom left hand side, you can see food insecurity in the United States, and you can see that in 2022, even in a rich country like the United States, food insecurity picked up with inflation.

One last essential, and then I stop boring you with this, but I think it's important. You will also have noticed that this is all totally unsophisticated. I'm just showing you screenshots from databases that you can Google and find online. And I'm doing it in this totally unsophisticated way, quite consciously, because I want to show that this is in plain sight. This is not something where you need to dig into fancy data that no one can find. This is not something that is out of reach for "ordinary people," this is something that is literally headline news, where you just have to piece through and ask the questions that are actually pretty obvious and dare to ask them and look for the information. And don't feel embarrassed for not being sophisticated and not running fancy regressions in your presentation.





At the top, you see a chart for the prices in crude oil in blue, coal in green, and natural gas in yellow. And of course, there has also been a major explosion in 2022 of these prices. On the bottom, you can see the record profits of the world's largest oil companies: Shell, BP, TotalEnergies, Chevron, Exxon, and Equinor. Now, part of this was, of course, a windfall from the war in Ukraine, and part of it was also that in 2020 the demand for fossil fuels collapsed in a way in which it had never really collapsed ever. For the first time, oil prices went negative, as you might remember. In other words, this negative demand shock that happened as we were all hunkering down during the COVID pandemic resulted in a situation where you basically had a coordinated reduction in production; something that we have all been dreaming about in terms of fighting climate change.

It seemed not possible, but it happened. This is also something that would not have been possible if any one firm would have said, “Oh, Chevron, I’m now going to pump a little less oil,” then Exxon would have said, “Oh, wonderful, thank you very much. I’m now going to pump a little more oil and take your market share. Thank you very much.” This could not happen, but we instead had this coordination effect through the negative demand shock. When demand picked back up in 2021, the oil firms were in no rush to increase production, unsurprisingly, because what they found was that costs were down. When it came to capacity they had to shut down, where did they shut down? The highest cost capacity. If you have to call the shots, you’re going to shut down the highest cost capacity. When demand picked back up, prices went up, costs were down, and they were finding themselves with record margins.

Or, in the words of the Chief Executive of ExxonMobil, Darren Woods, during the second quarter earnings call of 2022, “we have created this hole with a lot more capacity coming offline, without a whole lot of new capacity. That capacity is not coming on so we’ve got this gap, demand recovers and we don’t have the capacity to meet that because we have created that hole which has led to record high refining margins.”

This is not me spreading conspiracy theories. This is what corporate earnings calls tell us when we read them. This is what people are saying on record to their investors. In fact, in recent weeks, the US Federal Trade Commission has picked up on that, and is now looking into a possible collusion with Organization of the Petroleum Exporting Countries (OPEC) around fixing prices in 2020 and around the actual reduction in production. Also in the US, the House Democrats have started investigating whether big oil colluded with OPEC to inflate gas prices in 2020. But even without these investigations, this has been basically in plain sight from the earnings calls.

Moving from essentials, you probably expected a lecture about inflation. You're like, "why is she talking about these specific firms and global hunger?" Moving from essentials to inflation, I'm puzzling you even more by showing you a picture of a coin-powered horse. I would argue that the pre pandemic way of thinking about inflation was basically similar to the workings of this coin-powered horse.

I think one key feature of this horse is that it's one dimensional, right? It rocks back and forth and that's it. Another key feature is that we can know exactly by how much it is going to the front and how much it's going to the back, and what the mechanism is that holds the movement of this horse within this precise bandwidth.

So we are in a one dimensional world. We know exactly what the variables that we need to manipulate to keep things within the desired band, which is kind of what monetary policy was supposed to be. It was supposed to keep the interest rate on target with basically one policy lever, assuming that inflation originated on the macroeconomic level, being basically macroeconomic in origin to macroeconomic in outcome, one dimensional, and as such, could also be controlled with one lever.

I think this way of thinking about inflation, unfortunately, was slightly simplistic. And of course, my portrayal was also simple, to be fair. But I think this thinking has failed us in the context of the pandemic. In fact, what underpinned this understanding was still the spirit of Milton Friedman, as he, for example, expressed in 1974, where he said, responding to people that pointed to the prices of oil and food as drivers of inflation.

> *"What of oil and food to which every government official has pointed? Are they note the obvious immediate cause of the price explosion? Not at all. It is essential to distinguish changes in relative prices form changes in absolute prices. The special conditions that drove up the prices of oil and food required purchasers to spend more on them, leaving less to spend on other items. Did that not force other prices to go down or to rise less rapidly than otherwise? Why should the average level of all prices be affected significantly by changes in the prices of some things relative to others?"*

— Milton Friedman, 1974

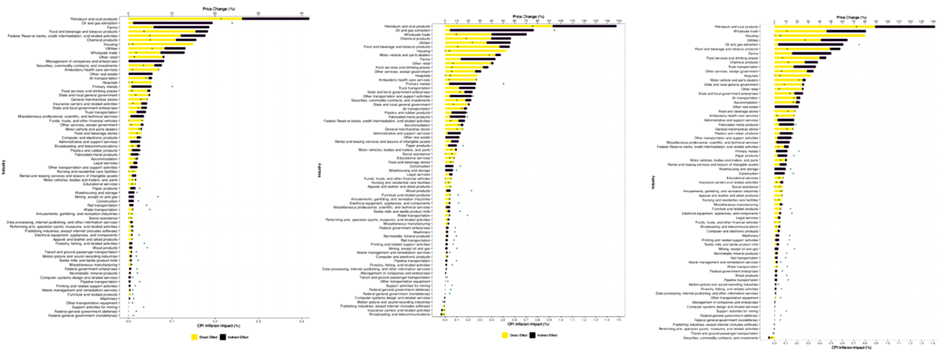
One thing that I want to note from the introduction, it was pointed out that we need an explanation of inflation that people can actually understand. The implicit attack here is on ordinary people's understanding of inflation: "You just don't get it. You look at oil and food, but, sorry, you just don't get it. You need an economist in the room to explain to you." It's kind of the implicit undertone here I would argue that this has already been replaced with a new kind of common sentence in the last year, year and a half where we now, I think, have already a number of papers by very established, very mainstream economists.

If you want to make sense of inflation today use this language: "Economists show that supply shocks and bottlenecks mattered for the return of inflation."

In other words, changes in relative prices were absolutely essential for the return of inflation. What we do not have a good sense of, however, is that if we are living in such a world of emergencies, if we are living in a world where more shocks are going to come, what are the shocks that we should be worried about? What if we look back to the financial crisis, and what we did after the financial crisis, where we started to run stress tests on banks? If we want to run stress tests on our economy today, what are the sectors, what are the prices that present points of vulnerability for monetary stability?

Speaking with a German accent, I feel I can make this rather morbid comparison. Input-output modeling was first applied during the Second World War in US strategic bombing, when they were asking the questions: What are the targets in the enemy's economy that are the points of vulnerability? That when we hit these points, will it create a blast to the enemy's economy that is disproportionate to the damage done locally? For that, they used network analysis to identify these neuralgic points.

Some prices matter much more than others for inflation



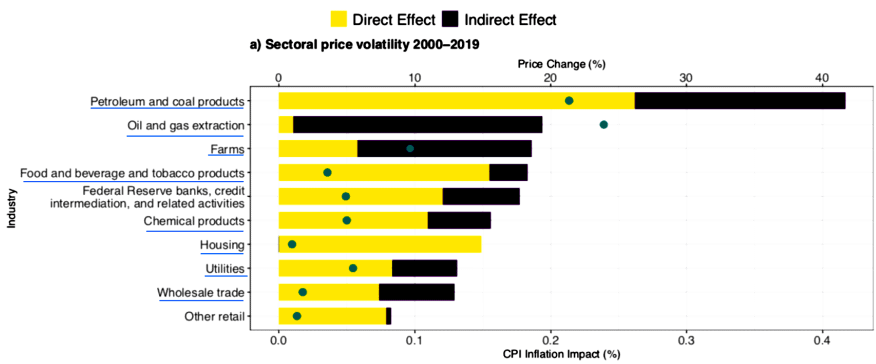
Weber, Jauregui, Teixeira, Nassif (2024)

What we have been doing in our research is to try to identify these points of vulnerability if we look at inflation. We have been running simulations, and I illustrate this based on the next chart that I'm pretty sure that no one can read. Each of these bars represents a sector, and each of these bars has two colors: yellow and purple. What we have done is we have "shocked" each of the economic sectors in this input-output network with a price increase, and so, we have simulated what happens if prices increase in that sector by a certain amount. We then do this to the next sector, and the next sector, and the next sector.

Through this simulation, we see a direct effect because when the price of food goes up, inflation goes up because the price in the Consumer Price Index goes up. We also see an indirect effect because the input prices for restaurants go up, and hence an indirect effect on cue.

On the left hand side, we have used price changes based on the price volatility before the pandemic in the United States. In the middle chart, we have used the actual price increases in the fourth quarter of 2021 – just at the time when we moved out of the pandemic shutdowns. And on the right hand side, we have used the price increase in the second quarter of 2022 – just at the onset of the Ukraine war.

What we can see is that the prices of some sectors matter much more than the prices of others. There's nothing in here in the way in which we have modeled this that would have given us the shape of these bar charts. But we can see that there's a handful of sectors that have a very large inflation impact, and all the other sectors don't matter as much.



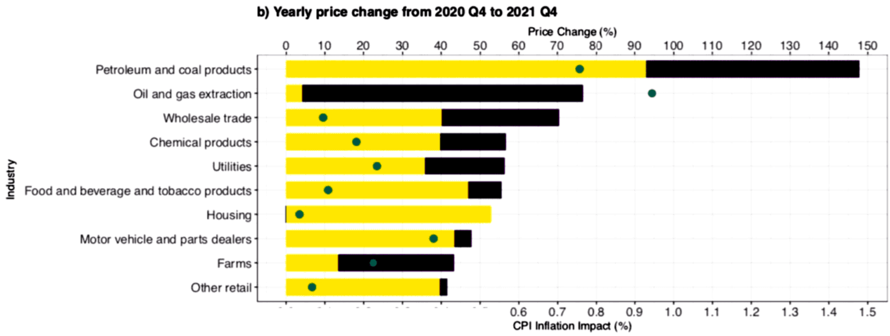
Latent systemical significance

Weber, Jauregui, Teixeira, Nassif (2024)

If we zoom in to look at what these sectors actually are, we find that they are petroleum and coal products, oil and gas extraction, farms, food and beverage and tobacco products, chemical products, housing, utilities, and wholesale trade. Now, this is using the pre-crisis price volatility. You'll have noticed that I've skipped over the Federal Reserve. Of course, I'm not of the opinion that the Federal Reserve is not systemically significant. In other words, I am absolutely of the opinion that the Federal Reserve is systemically significant. In fact, I would argue that currently we have an inflation fighting regime that relies on manipulating the price of only one systemically significant sector, namely money. In other words, we try to manage the whole inflation problem by focusing on only the interest rate, only the price of money, whereas I would argue that there's a range of other systemically significant prices that we should also be paying attention to if we want to achieve greater price stability, which I think is important.

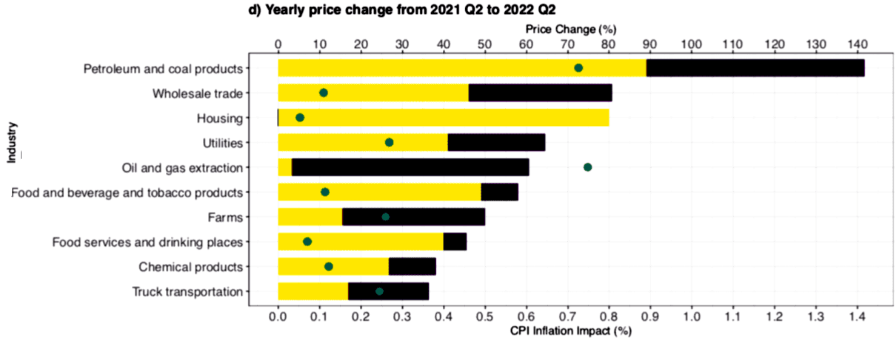
Systemic significance in the post–pandemic shutdown inflation

Weber, Jauregui, Teixeira, Nassif (2024)

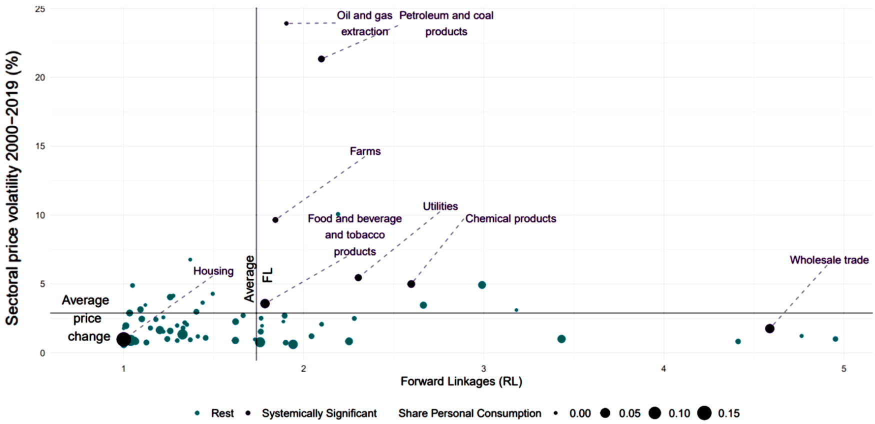


Systemic significance in the Ukraine War inflation

Weber, Jauregui, Teixeira, Nassif (2024)



Pathways to systemic significance



Weber, Jauregui, Teixeira, Nassif (2024)

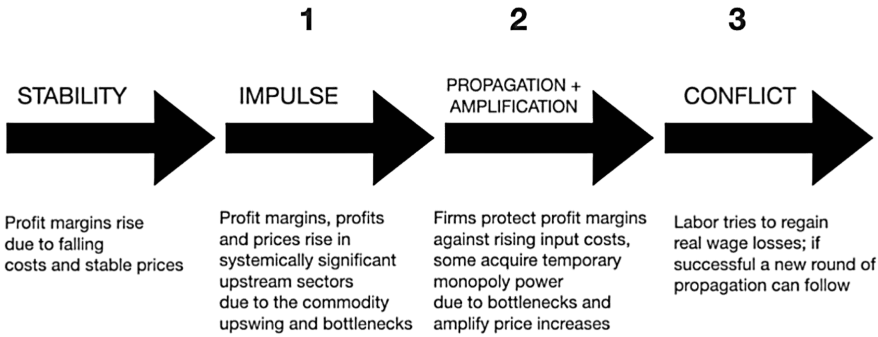
The first one is the weight in the CPI, the weight in the consumption basket, or, to put this into more common language, the importance of a good for people's consumption and livelihoods.

The second dimension is the forward linkages, which we have here on the horizontal axis, or in other words, the importance of a sector to the production of all other sectors.

And the third dimension is price volatility. Or in other words, the tendency of prices to move, since not all prices move by the same amount, because they all have different markets, different dimensions, different dynamics.

If we think about this more intuitively, this is basically saying that the essentials for inflation fall into three groups. They are about the essentials for human livelihoods, essentials for production, and also essential for circulation and commerce, such as wholesale trade. This includes all the kind of commercial infrastructure that you need to move stuff around, which also includes maritime shipping.

Stages in the inflation process



Weber and Wasner(2023)

Moving from this analysis of what are the sensitive points to putting this together into an actual analysis of inflation, is what we did in the sellers' inflation paper, where we were arguing there are three stages in the inflation process. Coming out of a situation of price stability, we already had incredibly high levels of corporate concentration and we already had incredibly high levels of market power. We already had very greedy corporations, if you want to use this morally loaded language, which maybe we want for political reasons, maybe we don't want for analytical reasons, but in any case, corporations were already profit-seeking and greedy before. But prices were very stable. So what is it that happened that turned the situation of stability into a situation of instability?

What we are arguing is that this has been set off by shocks to the essential sectors that we just identified. But if you had just these shocks, then you would have also had local price explosions. And maybe we could have said, "Oh, it's transitory, we can lean back and wait." I still don't think so, because we are talking about essentials, and the price of food matters to people so much that saying we lean back and wait is not a great solution.

What did happen was that these local price shocks were turned into generalized inflation through a process of "sellers' inflation," where firms that were confronted with these cost increases did not absorb these cost increases, but instead responded to these shocks by pricing to protect their profit margins. Up to this point, we have a situation where the majority of people would have seen an erosion of their purchasing power. They are faced with firms that protected their margins, but meanwhile people have lost purchasing power. Eventually, people will fight back and will ask for higher wages, at which point you can enter into a conflict stage of sellers' inflation.

However, the wage catch up here is a result of this inflation, and not the origin of inflation. This is the desperate attempt of working people to regain their living standards; not the beginning, not the origin, not the thing that kicked off inflation to focus at the sellers' inflation stage. I think to understand this, we have to emphasize that these cost shocks function as coordinating mechanisms for firms, even in very highly concentrated firms.

If you have, let's say, three firms that control a whole sector, it's difficult for them to start increasing prices without being sure that the other firms are also increasing prices. If you start increasing price, let's say, you are Honda and I am Toyota, and Honda starts increasing prices, then Toyota hypothetically says:

"Oh, thank you very much. I will take your market share because I am in command of one of the most efficient, global, powerful production networks that has ever existed in the car sector, as are you, my friend Honda. But since you chose to increase prices, you lost your market share. I could just ramp up my production overnight because I have all these different firms around the world, all these plants across the whole planet that I can mobilize very quickly."

Obviously, this is totally stupid and in this kind of situation, no one is doing this. This is why we see, even in incredibly concentrated sectors, firms keep prices stable in stable times. However, if there is a shock that sends a very clear sense of signal to everybody in this sector that costs have gone up and now everybody's going to price to protect margins, then this fear of another firm taking your market share is no longer there because the cost structure itself has coordinated the pricing behavior.

If, on top of this, there's also a shortage, let's say, I'm still Toyota and you are Honda. We both rely on computer chips and there's a computer chip shortage, as I think has happened at some point in recent history, then this means that suddenly we both know of one another, that we can only produce as many cars as we have computer chips. All the competition over market share is gone because you have your market share frozen by the number of computer chips that you have. I have my market share frozen by the number of computer chips that I have. And now we can start hiking prices in ways as if we were each a monopolist, which means that we can hike prices in ways that increase profit margins.

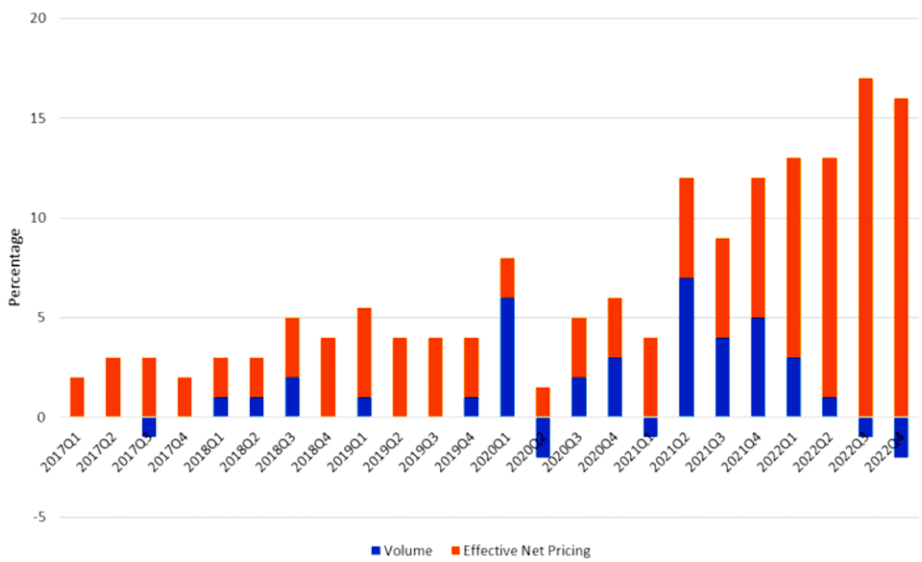
I would argue that this temporary monopoly story is an important story, but it's not the general story. The general story is the one of cost shocks, and cost shocks coordinating price hikes, which is why I am so worried about the overlapping emergencies, and why I started this lecture with these shocks.

Just to give you a little flavor of earnings calls that we have been reading – and I encourage everybody to read earnings call. In fact, I think that no one should graduate with a degree in economics without ever having read an earnings call, because this is the best lesson you can get on how corporate leaders are thinking about business strategy and how they are communicating to the people that they want to convince to give them money, which is pretty high stakes conversation for them. Take Pepsico, for example, talking about how they are going to deal with cost shocks:

"How we are going to deal with pricing in the coming months, I would say obviously, same as everybody else, we're seeing inflation in our business... [where they basically mean higher costs] across many of our raw ingredients, some of our inputs... We are working with our partners... to make the right decisions in pricing to [keep] the consumers with us whilst we improve our margins."

Pepsico contributions to change in revenue

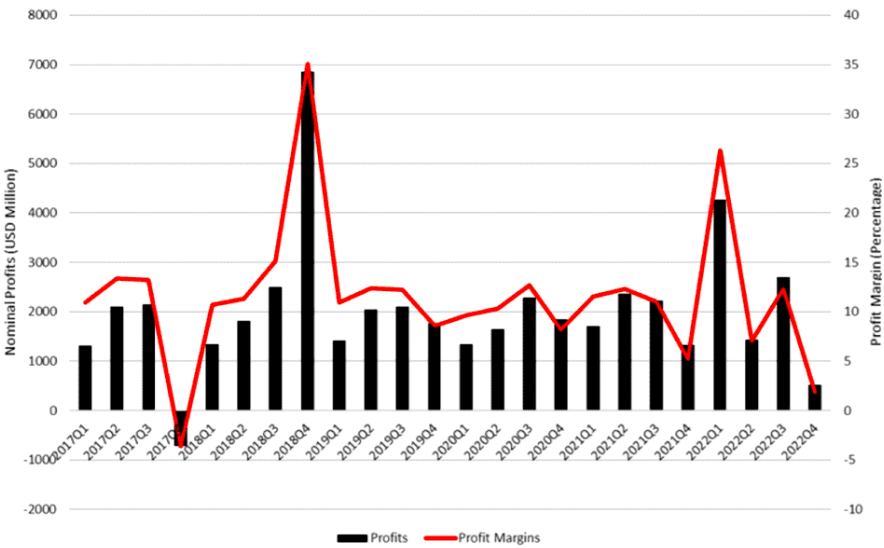
Weber and Wasner(2023)



From the top of the chart, you can see in orange the price increases, and in blue the volume increases. You can see that even when volumes were declining, prices were still increasing by a lot. In other words, this is not a situation where demand is picking up, where people are asking for more, and then they start increasing prices. This is a situation where demand is actually going down, volumes are going down, and prices are going up.

Pepsico nominal profits and profit margins

Weber and Wasner(2023)



You can also see on the bottom chart, in red, the profit margins. And you can see that while they did pretty well, they basically protected their margins rather than increase them. So they were bowsing about increasing margins, but what they basically achieved is margin protection.

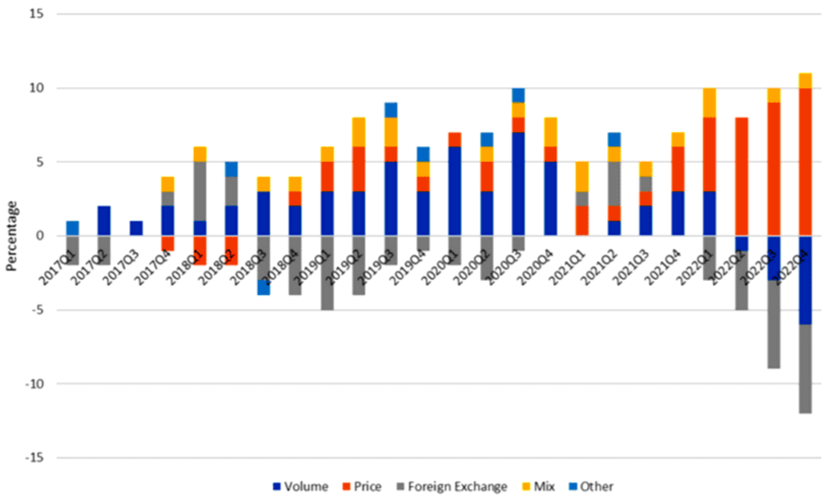
Another example is Procter and Gamble, where they are saying:

> "We are better positioned for dealing with an inflationary environment... than we have ever been been before, starting with a portfolio that is... focused on daily use categories, health, hygiene and cleaning, that are essential to the consumer, versus discretionary categories which in these environments are the first ones to lose focus from the consumer."

You can also see on the bottom chart, in red, the profit margins. In other words, this idea of focusing on essentials, on stuff where demand is very inelastic, is part of the portfolio strategy of a company like Procter and Gamble. If a firm protects its margins, it by definition a basic matter of accounting.

Proctor and Gamble contributions to change in net sales

Weber and Wasner(2023)



Proctor and Gamble nominal profits and profit margins

Weber and Wasner(2023)

Below is a chart from the European Central Bank that shows that this is basically a matter of basic accounting. If profit margins stay constant in response to increases in costs, this means that profits go up. This is like when you buy a cheap house and you pay a 3 percent agency fee to your broker, or you buy an expensive house and you pay 3 percent agency fee to your broker, then one was a high cost, the other was a low cost. In one case, the profits of the broker will be much larger than the other, but the percentage stays the same. This is the exact same mechanic behind why protecting margins results in increased profits.

Table A

Stylised example of developments in profit indicators in response to an input cost shock

National accounts indicators	Initial period (T0)	Case 1 Constant mark-up assumption		Case 2 No constant mark-up assumption	
		T1	% change T0 to T1	T1	% change T0 to T1
Mark-up on total costs	20%	20%	0%	15%	-25%
Real units	100	100	0%	100	0%
Intermediate costs	6,000	10,000	67%	10,000	67%
Labour costs	6,000	6,000	0%	6,000	0%
Total costs = intermediate costs + labour costs	12,000	16,000	33%	16,000	33%
Profits	2,400	3,200	33%	2,400	0%
Nominal gross output = total costs + profits	14,400	19,200	33%	18,400	28%
Unit profits = profits / real units	24	32	33%	24	0%
Price = nominal gross output / real units	144	192	33%	184	28%
Profit share = profits / (profits + labour costs)	29%	35%	22%	29%	0%
Profit share = profits / nominal gross output	17%	17%	0%	13%	-22%

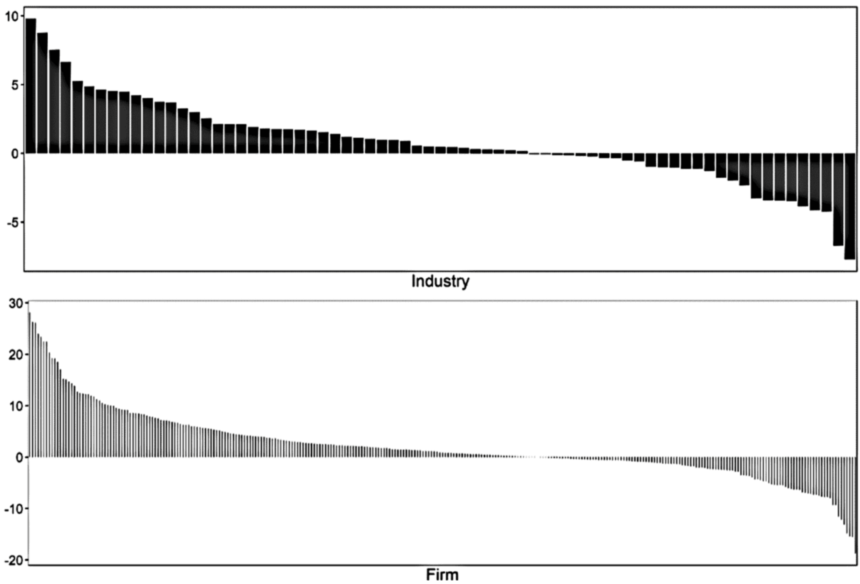
Source: ECB.
Note: In Case 1, the mark-up on total costs is assumed to remain constant; in Case 2, the calculation of the mark-up is based on an assumption that the price only reflects the additional input costs, not additional profits.

All of what I've shown you so far is very pedestrian, but I also want to make the point that if you want to understand economic phenomena in real time, you need to work with the data that you have. Corporate earnings calls are one of the data points that you can use in real time, even if they are not as "systematic" as economic indicators, but again, this goes back to the point of empowering "ordinary people" to think about inflation. This is the kind of data that everybody can read that is publicly available and that is coming out in real time.

There has also been a certain demand side to this, where I would argue that prices are not just a point in a supply and demand diagram but, at the end of the day, prices are a social relationship between firms and their customers. I would argue that firms in their pricing strategies manage this like a social relationship where they look at how much price they can take without disturbing the customers in ways that end the relationship because they feel cheated.

If you watch television, you see retail business groups warn of catastrophic supply chain disruptions. You see this kind of news every time you turn on your TV, which was especially the case during the height of the pandemic, and you then go to the grocery store and you find that the stuff that you are buying is suddenly 20 percent more expensive than it used to be. You go like, "Oh, yeah, makes sense. Obviously, there have been all these massive disruptions. There are supply chain issues. Things are getting more expensive because there's a shortage." This legitimacy on the part of what customers are willing to pay, I think, is an important part of this equation, and it's what Tracy Alloway, Managing Editor at Bloomberg, has been dubbing "excuseflation."

Distribution of changes in profit margins among industries and firms (2021 compared to 2017-19 average)

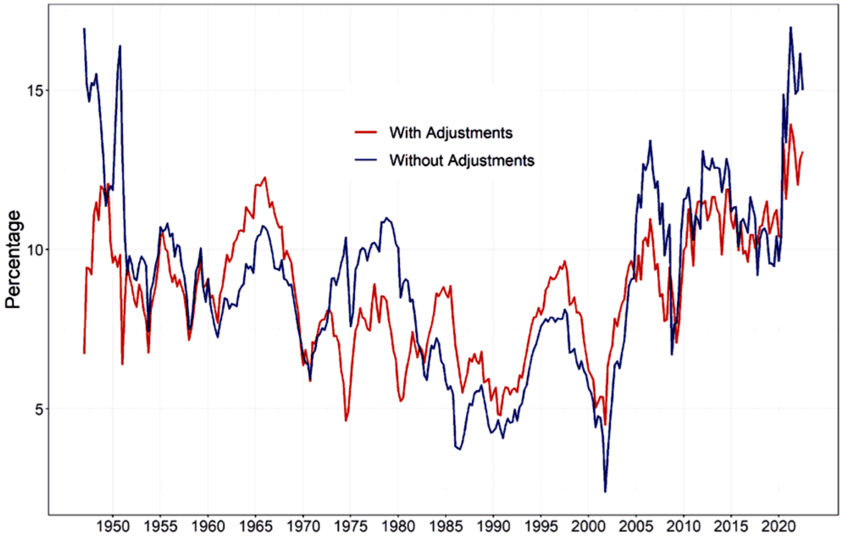


Weber and Wasner(2023)

Of course, not all firms benefited from this. Here you can see changes in profit margins from 2021 compared to the 2017-2019 average at the industry level in the top chart, and the firm level in the bottom chart. We can see that about two-thirds or so of these firms profited from these shocks, and about one third or so lost. There are now some papers that have come out that have suggested that firms that had more market power before these economic shocks happened benefited more than firms that had less.

If we put together profit explosions in these essential sectors and margin protection as a general trend across the economy, then we get a margin increase. And in fact, this here is a chart of non-financial corporate business margins in the United States from

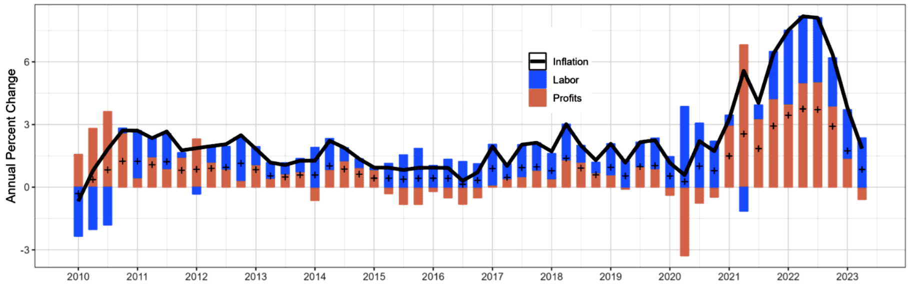
The economy-wide margin explosion: after-tax profit margins of non-financial corporate business



Weber and Wasner(2023)

1947 to 2023 where you can see this almost vertical line from 2020 to 2021. This was precisely the moment when I wrote that article in The Guardian because I was watching the profit margin news and I was seeing these margins explode at that time. I was looking at the long chart and I saw that nothing like it had happened since the transition from the Second World War. I had studied the transition from the Second World War in my book, *How China Escaped Shock Therapy*, which had a whole chapter on that transition and the challenge of inflation at the time. This is how I came to understand that economists at the time from across all sorts of schools of thought, at this moment of transition and post-war profit explosion, argued for a sectorally tied and targeted intervention, arguing for price controls.

Profits have captured the largest part of high inflation, wages catch up when inflation is falling



Weber and Wasner(2023)

If we come to the conflict stage and we look at the distribution of inflation between profits and wages, you can see in the above chart, with profits in orange and labor wage share in the GDP deflator in inflation in blue, that the wage share increases when inflation is going down. It is true that in more recent financial quarters in the US, wages have been accounting for larger shares of inflation, but at a time when inflation was trending downward. This is perfectly consistent with what we have been arguing from day one: that eventually wages will have to catch up because people will not accept a permanent decline in living conditions.

To conclude, I want to start by recapping why I think the old stabilization paradigm fails the many. Monetary and fiscal austerity is meant to cool down the economy and push down wages, but wage increases are a consequence of sellers' inflation and demand changed more in composition than in levels. It's true that there have been demand spikes at certain levels, but the composition change was much larger than the level change. The idea of imposing austerity is to push down the level.

Preventing wage catch up cements the redistribution from the bottom to the top that sellers' inflation brings about. Macroeconomic tightening kicks in when inflation is already generalized at the third stage of this inflation process, and comes at a high economic and, I would like to add, political cost.

We have many very thorough empirical studies that show the link between austerity and the rise of right wing parties. At a time where our democracies are as fragile as they have ever been in a long time, we have to take this seriously, and we have to understand the political consequences of fighting inflation with austerity as a serious concern from a progressive perspective, in addition to all the other economic reasons,

Credit tightening also affects smaller firms much more than larger ones, since larger firms are more credit-worthy than smaller ones, and can in fact increase corporate concentration. It also exacerbates the affordability crisis in housing, one of the essential sectors that has been a driver of inflation, while generating yet another round of windfall profits for banks that have been very fast in passing on the interest rate increase to those people who hold a mortgage, and very slow in passing on the interest rate increase to those people who have savings accounts.

Addressing climate change requires large scale investments and popular support. I think the popular support part has often been underestimated, but it's absolutely critical. Both are undermined by austerity. Debt and exchange rate crises in the Global South are accepted in this present "stabilization paradigm" as collateral damage for the stabilization of rich countries.

That's why I think we need a new paradigm.

Corporations in systemically significant sectors are "too-essential-to-fail," just like banks have been too-big-to-fail, so we need to apply the exact same logic to essential sectors. That is, in fact, what I am developing in my forthcoming book. Cost shocks and supply constraints can limit competition and coordinate price hikes, and thus increase profits. In other words, competition fails to control prices in these situations of emergencies. While during normal times competition can control prices, more shocks are coming in our times of overlapping emergencies. If the worst of times for most people are the best of times for companies, economic resilience is out of reach.

We need an inflation fighting toolbox that buffers against supply shocks in essential sectors, prevents price explosions, and contains sellers' inflation while enabling a green transition.

Some key instruments for such a toolbox can be price monitoring in all early warning systems for essentials, because we should be paying attention since timing is of the essence.

As I can tell you from the experience that we had in Germany during the energy crisis, we need virtual and physical buffer stocks for essentials, ideally on different geographical levels of organization, not only to stabilize prices, but also to use them as strategic tools for public procurement, in order to encourage a green transformation.

We need emergency price caps to prevent price explosions in essentials, when we do not have instruments to adjust supply, and make supply more resilient. We need windfall profit taxes and price gouging legislation to prevent these price spikes from rippling through the whole economy. We need strict regulation, definancialization, antitrust, resilience, and transformation standards for essentials.

And of course, we need public investment in resilience and transformation of essentials. Transformation, at the end of the day, is focused on the big challenges: how to transform the essentials.

Thank you very much.

REVIEW: Escaping the Consulting Trap

Jack McClelland

The Consulting Trap: How Professional Service Firms Hook Governments and Undermine Democracy

By Chris Hurl & Leah B. Werner | Fernwood Publishing

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The Canadian government has faced more and more scandals involving private sector consultants over the last decade. From the costly Phoenix pay system debacle that left federal public servants without reliable pay cheques for years, to the corrupt contracting practices behind the faulty, pandemic-era ArriveCAN app, problematic consultants have been behind these efforts to cut corners at tremendous cost. Rather than focus on serving the public through public services, the private sector has taken over to make massive profits at the cost of public trust and tax dollars.

In *The Consulting Trap: How Professional Service Firms Hook Governments and Undermine Democracy*, authors Chris Hurl and Leah B. Werner track the malpractices brought on by "transnational public service firms" (TPSFs); the longhand name for 'professional' service firms at the crossroads of consulting, auditing, and Information Technology services. Hurl and Werner show how companies like McKinsey, Deloitte, and KPMG, "have popularized dubious financial models and metrics that legitimize the high costs of privately financed infrastructures." In other words, private consultants have played a role in enriching the powerful through cuts and corruption, all while deskilling civil servants, eroding democratic institutions, and weakening public services. The Consulting Trap's case studies demonstrate how the nebulous global consulting industry has subsumed itself within the public sectors of advanced industrial economies, and why we are left with malfunctioning public services at higher costs.

Hurl and Werner point out that while Canada may not be the biggest site for TPSF exploits, the country has a long history of employing the consulting industry. Tracing the roots of private sector consultants back to a 1911 monograph written by American engineer Frederick Taylor entitled *The Principles of Scientific Management*, Hurl and Werner illustrate how the approach developed in this era of industrialization sought a re-orientation of the public service, "and enable[d] the objective assessment of civil servants based on their merit." Over the course of the 20th century, "scientific management" came to develop modern day technocracy, where more sophisticated expansions of the theory were employed by TPSFs, "to hard-wire neoliberal operating systems into the state," by the 1980s and 90s. Completing the technocratic transformation by the first quarter of the 21st century, "these firms have assumed control over the core hardware of governance," Hurl and Werner argue, creating feeble public sectors in most major Western democracies.

In Canada, the fingerprints of TPSFs can be found at all levels of governance. While primarily detailing the disaster of the federal Phoenix pay system, Hurl and Werner also examine provinces that have fallen into the "consulting trap" by way of right-wing governments. Looking back at Mike Harris's Progressive Conservative government in Ontario through the late 1990s and early 2000s, the authors detail how the province became the first North American administration to measure "performance" over its municipal administrations, "requiring that they publicly disclose standardized information," on public service performance. Once Ontario outsourced these mechanisms of public administration to TPSFs, the Harris government began to pay out, "millions of dollars in contracts that assess municipal services," and continued to do so among successor provincial regimes.

Obscurity is largely how these practices escape the eyes of the public sphere, and they have proliferated throughout Canada's various levels of administration. As Ontario's public sector unions such as the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO) asked in 2023, "How much does Ontario pay for IT consultants? Whoever knows this number is not sharing it with the public." The authors also highlight Prime Minister Justin Trudeau's own close ties to TPSFs, who form something of a "shadow government" that spends public money on opaque initiatives. There have been some attempts to open up public scrutiny into this industry; a simple visit to the search function of the Open Canada portal demonstrates just how much public money is being spent on consultant contracts. Still, these data points are just the tip of the iceberg. According to experts within the federal public service, "it's hard to tell, from the publicly available data, what a given contract was for."

The Consulting Trap also puts Canada into the greater Anglo-political economy context, examining the private consulting industries in both the United States and United Kingdom. In particular, the UK provides an interesting case study of how the management industry morphed into a product of global neoliberalism. In the aftermath of the Second World War, the US exported consulting science to Europe alongside the American-led Marshall Plan aid packages. The UK, with a more similar political economy to the US compared to Continental Europe given their common historical origins, became a testing grounds for these firms before embedding themselves in European democracies. Throughout the latter part of the 20th century, exchanges in personnel between TPSFs and centre-right governments across the Atlantic grew before becoming common practice around the world by the 1990s. The authors ask, "why do they keep getting hired, when they are frequently at the centre of public scandals?" A follow up question that better serves as an answer: what can average citizens do about any of this?

Against the narrative of overwhelming power and influence of the TPSFs over governments, there are stories of resistance and case studies to be learned from, of ordinary citizens taking back democratic control. Hurl and Werner's own research did not come from some secret database or information leak; publicly-disclosed and readily available information backs their analysis despite only being a small sample of the bigger issue.

Still, it is these nuggets of information that reinforce movements seeking democratic equality. Throughout the Anglo-capitalist countries that originated the global consulting industry, activists, researchers, and citizens have formed movements, particularly at the municipal level, to push back against the consulting trap at city council meetings and public hearings that provide entry points for taking back democratic control. "Access to information itself becomes an object of mobilization," with democratic activists pushing for a shift towards a public service built on, "collective learning, community archives, and public deliberation."

While these localized democratic movements are admirable and needed, more ambitious action is needed to restore democratic control over institutions and fight private sector encroachment. In the authors' conclusion, they champion wider legislation that increases regulation, improved reporting from firms on their activities, and bans against certain "bad apples" in the consulting industry. The majority of the work to correct this neoliberal trend, however, is prescribed in the book to citizen-activists. In pushing back against this industry, there may be an opportunity to strengthen the movement. While the federal public service sector grows and plays catch up a decade after the Stephen Harper government's cuts and freezes, public service workers face deskilling and vulnerability to future austerity, due to private sector encroachment. Public worker mobilization for better wages amid the affordability crisis in recent years has also demonstrated an appetite for labour's leadership against the consulting trap, and could fight to bring outsourced services back into a reinvigorated public service.

Hurl and Werner address the limits to their work, providing a traceable history to the Anglo-American consulting trap while offering some solutions to how we may restore democratic accountability. Out of scope, unfortunately, is the wreckage these corporate consultants have brought outside the West – namely, in the Global South. McKinsey's 2022 corruption case in South Africa offers a clear example of TPSFs' reach in the developing world, and a wider study should fully reckon with the modern-day colonialism these companies perpetuate. Similar Global South shortcomings abound in other works analyzing the consulting industry such as *The Big Con: How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies* released last year by Broadbent Fellow Mariana Mazzucato and co-author Rosie Collington. Nonetheless, The *Consulting Trap* offers a timely and alarming reading of the consultocracy in an Anglo-American context.

Listen to an interview with Chris Hurl and Leah B. Warner, the authors of *The Consulting Trap: How Professional Service Firms Hook Governments and Undermine Democracy*, on the *Perspectives Journal podcast* available to subscribe on Spotify, Apple podcasts, YouTube, Amazon Music, and all other major podcast platforms.

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