Questioning "The Prophet Drummond" [1]

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EXCERPTS:

In the Commission report that bears his name, and in all of his media appearances since its release, Banker Don Drummond has ably played the disinterested expert, taking no pleasure in sharing the "gloomy message" he has for Ontario.

From the way most TV hosts and journalists have rushed forward to uncritically and sycophantically amplify not only Drummond's report but the details of his professional and personal life – including his height, physical fitness and workout plan – it's troublingly clear that most Ontarians in the fifth estate, and likely many in the general public, will accept at face value the predictions and prescriptions of a tall man in a suit no matter their impact on us, individually and collectively.

In fact, we'll thank him for his "unflinching" and "innovative" recommendations. We'll note his "impeccable qualifications and universal regard," and then we'll line up at the alter of deficit reduction to sacrifice whatever bits and pieces of our public services "the prophet Drummond" says we should. And we will do so knowing as much about deficit and government budgets as we know about metaphysics. We will take it all on faith.

Unless, of course, we decide not to.

It is in our power, as reporters and writers and ordinary people, to question the gospel coming from this government-finance cabal. When it comes to the Drummond report, there are two questions of primary importance: First, is the report based in sound economics? And second, in whose interests are its recommendations? Both questions dovetail into a larger, more fundamental one: is this really our best and only option?

It is my view, and one I share with many others, that it was falling for the Thatcher line at the dawn of the neoliberal era – "there is no alternative" – that all but guaranteed the world financial crisis of 2008. We would be wise not to fall for such rhetoric again.

Is the report based in sound economics?

While many journalists, political leaders and business folks have touted the report's "solid, technocratic advice", progressive economists have drawn attention to several serious flaws in Drummond's analysis and reporting. Some of them amount to appalling sleights of hand. The following are some of the most troubling examples, brought to light by speakers and participants at the CCPA's "Deconstructing Drummond" event, held last week in Toronto.

Accounting for inflation only when it's convenient

The most egregiously simple trick in the report is its selective approach to accounting for inflation. When Drummond forecasts that government spending increases will outpace increases on the revenue side – thereby increasing the deficit – he accounts for inflation in growth but "forgets" to do so in spending. The result is that the money coming in looks dramatically smaller than the money going out. Economist Hugh MacKenzie corrected this, as an experiment, and found that in many cases the difference is enough to make a deficit into a surplus. Journalists and political leaders are obligated to ask how and why this sort of discrepancy made it into the report, and to let the public know the answer. We can handle a little number-crunching.

Predicting dramatically higher debt-servicing costs against the evidence

The Drummond Report projects that debt servicing charhes on government debt will increase 60-108% over the next five or six years – from $9.5B to as much as $19.7B, depending on which of the report's three "scenarios" comes to fruition. As Hugh MacKenzie pointed out in his presentation, this implies a starting 4.4% interest rate, rising to 4.8% in 2017-18, when the current interest rate is only 3.5% – and portions of the government debt are slated to be refinanced at even lower rates over the next four years. Still, the Drummond report makes this prediction despite the US government's promise to keep interest at present levels until at least 2014. It's pure fantasy no right-minded economist would ever entertain seriously. And it makes *billions* of dollars of difference in the projected GDP-to-Debt ratio in 2018.

Including almost $2B in "contingency" funding

While it is probably fiscally prudent to have a bit of contingency money built into any economic plan, 6% of Drummond's worst-case-scenario projected deficit ($30B in total) is a contingency fund.

Focusing on spending

In his public appearances, Drummond has taken pains to point out that the "mandate" given to his commission by the McGuinty government "precludes […] recommending new or increased taxes," forcing him instead "to examine government spending as the primary source of a solution." That an economist – well, a banker, to be precise – of "impeccable qualifications" would *accept* such a lopsided mandate, and then point a quivering finger at it to deflect criticism away from himself, should spur us to seriously question his abilities and his integrity – not to mention his guts.

Imagine that a respiratory specialist is given a patient with lung disease. The patient smokes a pack of cigarettes a day. The patient's advocate asks the specialist to ignore the smoking and find solutions in every other aspect of the patient's habits, environment and physiology. There is no way the public, other experts, and those on the front lines of health service delivery would accept his recommendations. But that is exactly what we are doing, if we accept Drummond's recommendations without taking a good, long look at the revenue side of the deficit equation.

Overemphasizing spending as a cause of the deficit

The introductory chapter to the Drummond Report, helpfully reproduced, with no critical commentary, on the front page of the Toronto Star this past weekend, states that "the roots of Ontario's current fix lie in both the economy and in the province's **record of failing to keep growth in government spending in line with revenue growth**." This might be music to Tim Hudak's ears, but like most of the things in and around the PC leader's brain, it's more "truthiness" than "truth."

The fact is that Ontario's government spending, relative to GDP (which is the main manner in which government spending really matters), has actually been dropping fairly steadily since the early 1990s. It has, admittedly, spiked a bit recently, but it did so *in response to the global recession.*

Interpreting it the other way around is irresponsible economics, and just plain stupid. It confuses a cause with an effect. It would be like blaming your eating habits on your weight. It would be like trying to turn off the element by getting the water to stop boiling.

The recession got us into this manufactured "fix". Before that, we were not hurtling toward financial ruin. And we are *still* not headed there in a handbasket.

Who benefits?

The foregoing are not oversights. They might not amount to a full-fledged conspiracy, but they are part of a larger discursive frame designed to scare Ontarians, including the elected officials that represent the province and the journalists whose function it is to hold the latter accountable to the former, into submission.

I should make clear that I do not disagree with the idea of maximizing the efficiency of public services. I've been caught in the Kafka novel of provincial bureaucracy. I've been on the waiting list for a GP for over four years. I don't know how much money the program has spent "looking" for a doctor in a doctor shortage and sending me periodic letters instructing me to keep looking too.

There are also some decent specific recommendations. In health care, there's a good suggestion to move away from a model that pays docs for every patient they treat toward one that pays a salary. There's also an emphasis on the expansion and targeted growth of community care – a recommendation health practitioners and policy makers seem to agree with, although they are disappointed with the lack of attention to a glaring problem with our health system: *inequity of access and outcomes.* People who work in family services delivery and social assistance have also tepidly welcomed *some* of Drummond's "efficiencies". Ontario post-secondary students seem to have been spared the really harsh medicine too. The report's chapter on "Revenue Integrity" appears to be the best way Drummond could fit a discussion of taxation into the commission's limited mandate, and it's good.

But the overall framing of the issue, especially as it's trickled out through the mainstream media, serves those who can afford the increasing individualization of once-collectivized expenses, and who are free to rake in the rewards of historically low taxes while the rest of us have our backs turned to ponder the merit and value of a litany of public services.

There *is* an alternative, or at least a wise compliment, to slicing up the fabric of our social safety net and public, collectivized programs: increasing revenue.

How to increase revenue and why

As Jim Stanford underscored in his "Deconstructing Drummond" talk, the debt-to-GDP ratio, because it is a fraction (Net Debt/GDP), is inherently responsive to adjustments above and below the division line. We can try to shrink the numerator – debt – as Drummond's report has done, or we can try to grow the denominator. We certainly don't want to do the opposite.

The thing is, the examples of Greece and other European polities show us that one clear way to demolish GDP is by implementing austerity measures. Even the IMF has started to warn of the dire consequences of "moving too fast" in this regard. That is, when governments clamp down too hard on spending, growth slows considerably, which means job losses, stagnating capital investments and a shrinking tax base.

Moreover, on the opposite side of the coin, we know that government spending on public services has a "multiplier effect" in the wider economy – with each dollar invested in public programs generating as much as an additional 50 cents through, for example, increased consumer spending and capital investments.

Government spending on business tax cuts, and even personal taxes at the higher end of the wealth scale, have comparatively piddly multipliers. (Our federal government says these cuts translate into more benefits in the long run, but they don't back that claim up.) Reversing those tax cuts, in Ontario, would bring us up to a balanced budget.

Taxation is how we fund the things we want and need as a collective. Even the motley crew of citizens that we are, we have a shared interest in funding institutions like schools and hospitals, in investments in public transit infrastructure, renewable energy, research and development, and burgeoning industries, latent job-creators just *waiting* for an injection of capital (with strings attached – we don't need another Caterpillar). Beyond taxes, there is no shortage of innovative options for governments looking to build revenue in other ways.

Don Drummond may have been instructed not to "go there", but we weren't.

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