

FOCUS



ON
ECONOMICS AND
THE CANADIAN
BISHOPS

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**ON
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THE CANADIAN
BISHOPS**

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THE CANADIAN BISHOPS ON ECONOMICS AND THEOLOGY

I. INTRODUCTION

The Canadian Conference of Catholic Bishops (Episcopal Commission for Social Affairs) is to be congratulated for its recent report, **Ethical Reflections on the Economic Crisis**.

If there were any doubt about it before, there can be none now: our double digit unemployment rate is evidence not only of an economic crisis, but, as the bishops say, of a "basic moral disorder." When 1.5 million people out of a labour force of slightly less than 12 million cannot find a job, in large part because of the economic policies pursued by government, this is not only an economic problem, but a moral problem as well.

It took the moral authority of the Canadian Bishops to point this out in a way that cannot be overlooked, and to focus our concern on the plight of the downtrodden. Their statement is dramatic, compassionate and deeply ethical in its concern for our economy and its people.

If anything, however, the bishops' charge concerning the immorality of forced unemployment is understated. Their claim would have been as true, even were Canada not now suffering a "plague of unemployment" of such epic proportions. For a true concern with morality cannot be limited only to very large numbers of people.

Suppose forced unemployment in Canada dropped to only one half, or one quarter, of its present level. The human

psychological and personal tragedies of those remaining on the unemployment rolls would be every bit as sharp as they are today (if not more so, given that the unemployed have more company today). Even under such improved circumstances, the bishops' charges would thus be as true as they are today.

Pluralism

There is a second reason for welcoming **Ethical Reflections on the Economic Crisis**: concern for a pluralistic society. In our epoch, there is a distinct danger that the growth of a centralizing, self-aggrandizing, interventionist government will succeed in gradually sweeping aside all other alternative institutions.

A government bent on taking an ever larger role in the life of its citizenry sooner or later runs into conflict with other such institutions--church, union, family--which also command the strong loyalties of the people. And when this occurs, the government must either give up its totalitarian aspirations, acknowledge the legitimacy of these other loyalties, or determine to enter a give-no-quarter war with the alternative institutions.

In many countries, such as those behind the Iron Curtain, this war was fought long ago, and institutions such as church, family, union, social club, ethnic group have long been vanquished. In Canada, we still do acknowledge the rights of institutional alternatives.

This is why it is so important for the good of society that the churches speak out on economics, and on public policy issues (whether or not it is appropriate from a religious point of view is something each church must decide for itself). That a significant church group has dared to speak out against an establishment government cannot but help engender a more healthy pluralistic society in Canada.

Vilification

Instead of being welcomed on these or similar grounds, however, the bishops' statement has been condemned on an **ad hominum** basis. Most unfortunate has been the charge that the prelates do not have the right to speak out on public policy issues since they are not trained economists.

It has been suggested that they "stick to trying to save souls, and leave questions of economics to the experts;" they have been told to "worry about the eternal destinies of their flocks and butt out of things which do not concern them;" they have been dismissed out of hand on the truly nonsensical ground that Jesus Christ never spoke about "nuclear power, computer technology, megaprojects, 6 & 5, transnational corporations," etc.

Needless to say, this is all quite unjustified. The day economists are granted a monopoly privilege to speak out on economics will be a sorry day, indeed, for our liberty and our freedom. Businessmen, politicians and economists, moreover, are the groups most responsible for the sorry plight of our economy. If there is **any one group** that might profitably "push off and return to the ivy towers and cloisters," these would thus most highly qualify.

But in a free society such as Canada, it should be perfectly clear that all people have a right to free speech. If the Social Affairs Commission established nothing else, let us be grateful that by speaking out on economic issues, they have helped strengthen this principle.

Nor has the media focus on the number of bishops who agree with the statement been at all helpful. Instead, this has been an irrelevancy, diverting attention away from the issues themselves. If even **one** bishop supports **Ethical Reflections on the Economic Crisis** (and, of course, there are many who do so) it would still be important to come to grips with the philosophy espoused in the document.

Not a critique of laissez-faire capitalism

One final caveat before we begin to analyze the report itself. The bishops themselves, and the pundits as well, have interpreted the statement as a critique of capitalism. Indeed, one newspaper went so far as to headline its coverage: "Bishops' attack on capitalism stirs up storm." But one thing must be made clear at the outset: whatever it is, the bishops' report is not, and cannot be, a critique of laissez-faire capitalism. For it deals with the Canadian economy of 1982-1983, an economy which has many facets of public ownership and involvement. Therefore, in objecting to the unemployment which characterizes the Canadian economy, the bishops can and must be interpreted as objecting to the operation of our modern mixed economy! This is an economy in which government production of goods and services and government regulation and taxation account for nearly 50 per cent of all economic activity. Accordingly, the purpose of this Focus paper is to delve more deeply into the structural anomalies which are responsible for the difficulties to which the bishops have drawn our attention.

II. PRINCIPLES

The report of the Canadian Conference of Catholic Bishops is grounded on, and begins with, two "fundamental gospel principles."

1. Preferential Option for the Oppressed

The first is called the preferential option for the poor, the afflicted and the oppressed. This means that in our analysis of political economy, the downtrodden should occupy centre stage in our minds and hearts. We must be especially vigilant in our concern for those who are the victims of injustice.

It is indeed rare in the annals of political economy that such a concern should even be mentioned, let alone used as a foundation for the entire analysis. The bishops are therefore to be congratulated for this expression.

However, it is one thing to identify with the oppressed emotionally; it is quite a different matter to fashion programs which will actually help them. The road to hell, after all, is paved with good intentions. As we shall see below, one of the major shortcomings of the bishops' statement is that despite its avowed concern for those at the bottom of the economic pyramid, it urges policies which will have the diametric opposite effect of the results sought and expected; and it fails even to mention programs which discriminate against the most economically disadvantaged in our society. The ends of the bishops are unexceptionable; the means are problematic.

The rights of the downtrodden

Properly interpreted, the preferential option for the victimized can be understood only as protecting the rights of the poverty stricken against those who would violate those rights; it cannot be extended to defending the poor when they seek to violate the rights of others.

For example, if some poor youths burglarize a rich man's home, or pick his pocket, then, at least on the assumption that the rich man is not himself a thief, this action on the part of the youths would be considered immoral--despite the fact that they are poor. "Thou shalt not steal" applies to the poor as well as to the rich. The reason this principle is so important is that in the modern economy, it is the rich who so often in effect steal from the poor. They do it, unfortunately for the poor, not by stealth and in the dark of night (where they could be apprehended by the forces of law), but legally, out in the open, and in the light of day (where it is well nigh impossible to stop them).

Bailouts for large corporations, subsidies to the arts, to sport, protective tariffs which make it impossible to import cheap products from abroad, marketing boards which artificially raise the prices of items such as eggs and milk, subsidies to export companies to allow them to sell more cheaply in foreign markets, foreign aid (which goes mainly to wealthy leaders of impoverished countries), these and more are all ways in which monies are forcibly transferred ("stolen from") the poor and given to the rich.

The economically oppressed in Canada, and the cause of justice in general, must be eternally grateful to the Canadian Council of Catholic Bishops for focusing the spotlight on those "least among us" who are victimized through such policies.

2. Priority of Labour Over Capital

The second principle is the priority of labour over capital. According to this principle, "labour, not capital, must be given priority in the development of an economy based on justice;" the dignity of human labour must take precedence over capital and technology.

Although well intentioned, no doubt, this principle is fraught with difficulties.

First of all, it suggests that the rights of human beings can be set off against mere inanimate matter--machines and capital goods. But this could never be so, since capital, per se, can have no rights at all. Surely, the only sensible interpretation of the principle is that the rights of employees--human beings who have not saved money and invested it--shall take precedence over capitalists--human beings who have.

But why should this be so? Why is it moral to discourage people from saving money, and investing in capital equipment? What of the rich labourer and the poor capital owner? Although not the norm, our society is replete with such cases. There is the widow who has invested her mite in a small apartment block, forced by rent controls to allow working people, richer than she is, to dwell in the accommodations at rents subsidized by her, at rents far below market values. There is the struggling business owner with zero or even negative profits, forced to pay exorbitant union wage scales. This is by no means hypothetical: there were 23,036 personal and unincorporated business bankruptcies in Canada in 1981, and in 1982, there were 30,367 such cases.

According to the principle of the priority of labour, we should take the part of the rich labourer over such poor capital owners. But this would be in direct contradiction to the principle of the preferential option for the poor. There are many many employees, moreover, who save and invest money. According to our definition, these workers would also be capitalists. Are their savings to be expropriated, and thus their rights ignored, by a "preference for labour over capital?"

No moral relevance

Secondly, the principle of the priority of labour over capital has no moral relevance whatsoever. A capitalist, after all, is only a worker who has saved and invested some of his earnings. There is simply no case for preferring, on moral grounds, a prudent worker who has saved, to one who has not. (If anything, there is precedent--the parable of the talents--for the very opposite conclusion.)

From a Marxist point of view, of course, the labour-capital division is a moral one. Capital is, in and of itself, necessarily exploitative of labour. (That is to say, people who employ others necessarily exploit them.) This arises from a warped labour theory of value, according to which goods and services are worthwhile only to the extent that labour has gone into their production.

If the labour theory of value were correct, the ethical claim of the Marxists would be valid. For then labour would create the entire value of the product. Any divergence between the revenue derived from sale, and total wages--for example, money paid out in land rent, or interest, or retained as profits--would be a theft from the workers.

The labour theory of value, however, is simply mistaken. Labour creates value, to be sure, but so do other factors of production. The landlord or building owner supplies space to the production process, management mobilizes the work force, the capitalist supplies the wherewithal to pay the labourers' wages in the period before the final product can be sold, the entrepreneur converts the insights of the innovator into practical reality, the speculator transfers goods through time or space so as to enhance their value, etc.

Each of these economic actors contributes to the pie; in some cases--the diamond or gold nugget plucked from the ground--labour does very little indeed or absolutely nothing at all. That labourers do not receive a 100% share is thus not necessarily immoral.

Why, then, even make such a distinction, let alone elevate it to such a role of importance?

Oversimplification

A third difficulty is that to divide the entire economy into only two categories, labour and capital, is to hopelessly oversimplify matters. It is to ignore the fact that owners of different types of capital equipment often compete against each other--as do labourers with different types of skills. The real world is characterized by vastly numerous types of labour and capital, some complementary to (economically supportive of) each other, and some substitutes for (in competition with) each other, in bewildering complexity.

For example, based on the views of organized labour to allowing prison convicts to do meaningful work while still incarcerated (bitterly and adamantly opposed), we deduce a vigorous competition between these various types of labour. In the same way, based on the views of domestic businesses to reducing tariffs on capital or manufactured goods imported from abroad (bitterly and adamantly opposed), we deduce a similar vigorous competition among these various orders of capital goods owners. Were an economist to arbitrarily divide all theological concerns into "optimistic" and "pessimistic," he could not do any more injustice to the rich complexity of theology than a division into labour vs. capital does to analysis of the economy.

Marginalist economics

Such a distinction, moreover, completely ignores the marginalist revolution in economics of the 1870s. Prior to those days, economists committed fallacies similar to the division proposed by the bishops. For example, it was still a puzzle as to why diamonds were worth more than water, when the disappearance of the former would hardly be noticed, compared to the disappearance of the latter, which would mean no less than the death of all mankind. The pre-marginalist answer was that diamonds had more value "in exchange," and that water had more value "in use," but this was not an answer as much as a categorization of ignorance.

The marginalist insight was that we are never called upon to choose between **all** diamonds and **all** water. Rather, we always face a situation with a given amount of both items, and asked to choose between one extra (or marginal) unit of each. Given the availabilities, one might choose additional water over additional diamonds in the parched desert (and thus the marginal water would be worth more than some extra diamonds under these conditions), but in the normal situation, we have so much water and so few diamonds that an extra diamond is worth far more than an extra unit of water.

Another contradiction

Given this analysis, we can see another way in which the two basic principles of the bishops can contradict each other! If the priority of labour over capital is interpreted as the right to expropriate capital to use for consumption purposes, this will actually harm the poor in the long run. For the labourer will actually be better off **not** being allowed to forcibly extract someone else's savings for his own immediate personal consumption. Rather, by allowing money saved by capitalists to be invested, this will raise worker productivity.

Christ Himself was a carpenter, but an important reason why the productivity of His day was astronomically higher than that of a stone age craftsman, was that the metal tools he used were of immeasurably higher quality. As well, fire had been long since tamed for productive purposes, wheeled vehicles could deliver his products more cheaply and widely, and numerous other co-operative **capital** goods could be depended upon. The modern carpenter works with far more dignity, to greater effect, and with higher remuneration than his equivalent of Christ's day for the same reason: a still more vast and productive array of capital equipment available.

Should this second principle be taken literally, and to its logical conclusion, capital and technology would be converted to immediate consumption purposes. This would tend to drive the poor, and the rich as well, back toward a stone age existence. One can hardly exercise a preferential option for the poor by advocating policies which lead to general impoverishment. In what is to follow, then, we shall keep in mind the first principle of the preferential option for the poor, but shall reject the second principle, that of the priority of labour over capital.

Lastly, what of the capital intensity of the Catholic Church itself. Should those majestic cathedrals and houses of worship be sold off, in an attempt to increase labour intensity?

III. STRATEGIES

We now consider the short-term strategies urged by the bishops on both government and business. In our view, we must judge their recommendations, in large part, by how well they square with the first principle.

1. Unemployment, Not Inflation

The bishops claim that unemployment rather than inflation should be recognized as the number one problem, and recommend additional government spending for jobs creation and welfare. These, however, would fuel inflation. And inflation, apart from its other bad effects, is itself a major cause of unemployment. It misdirects capital and labour into activities which cannot in the long run be justified by the economic preferences of the citizenry. Trying to cure unemployment by adopting policies which promote inflation is like trying to put out a fire by pouring gasoline on it. One must, of course, sympathize with the bishops in seeing the importance of unemployment. But we need not accept their implicit premise that inflation is only of secondary importance.

To some degree, one can "cure" unemployment by creating inflation. But this artificially misallocates resources into paths that cannot be long sustained. The drug addict, too, can be temporarily "cured" by just "one more fix." But this path leads ultimately to ruination. In the long-run best interests of the downtrodden, inflation must be avoided like the economic disease it is.

Inflation, moreover, is a vicious attack on the aged, the poor, and those who remain unemployed, notwithstanding the inflation. It is an attack on all those who are more likely to be on limited and relatively fixed incomes than the average person. The rich can, to some limited degree, protect against inflation by investing in gold, jewelry, fine art, antiques, and other items which traditionally have held their values in

times of inflation. The rich can even gain from inflation, by borrowing heavily; they can stay above water by repaying their loans in cheaper inflated dollars. However, these alternatives are all but closed off to the poor, who cannot speculate in hedging operations, and who lack the collateral with which to negotiate loans.

2. Industrial Strategy

The bishops advocate an industrial strategy of low technology and high labour intensity. Motivated by the best intentions, they nevertheless fall victim to the hoary "lump of labour" fallacy. According to this specious argument, there is only so much work to be done, and if machines do more of it, less will remain for people to do.

On these grounds, the logical conclusion would be to end modern technology. The entire earth's population, to say nothing of a mere 1.5 million Canadians, could be employed merely in carrying by hand (in 100 pound parcels) all freight now transported between, say, Vancouver and Halifax. But this Luddite vision would consign most of the world's peoples to death by starvation, and to those few who remained living a life of poverty known last in the Stone Age.

To be sure, the bishops are correct in seeing computers, micro-chips and the new industry of robotics as threats to particular employment opportunities. However, we must never lose sight of the fact that we owe most of our jobs, to say nothing of our very lives, to past innovations, such as airplanes, trains, automobiles, spinning mills, etc.--and that these were also condemned, on grounds of creating unemployment, when first they were introduced.

The level of technology is not something which may be imposed from on high with impunity. At any time, there is an **optimal** level of technology for each society. This level is based on considerations such as the age, skills, health, ambitions, education of the populace; on the type, character and amount of capital equipment, transportation, buildings, factories, farms; and on the level of technological knowledge.

The high technology-low labour intensity industrial strategy offered by the Science Council of Canada would misallocate resources, stretching too thin our scientific, academic, industrial and laboratory endowments; it would also underutilize our manpower and low technology resources.

But, if enacted, the industrial strategy offered by the bishops would also misallocate resources--albeit in the opposite direction. The object of public policy should be full employment for all who want to work, not overfull employment for those lacking technological skills, and contrived unemployment for scientifically trained labour such as engineers, physicists, laboratory technicians, etc. It is hard to see, moreover, how a program aimed at substituting pickaxes and back-hoes for dynamite and steamshovels will enhance the dignity of labour.

Nor must we lose sight of the fact that technology usually benefits the poor relatively more than the rich. With the exception of modern medicine and dentistry, which eases the life of people from all income categories, the kings and nobles of the 16th century did not benefit from things like nylons, light bulbs, cars, and television as much as the poor. After all, they already had silk, all the candles and horses they wanted, and access to the best entertainers in the kingdom. Nor did the rich benefit much from things like washing machines, dryers, vacuum cleaners, dishwashers and modern stoves. They already had all the household servants they desired. Likewise, technological changes concerning sanitation, home heating, food and clothing also benefitted the poor far more than the rich.

To be sure, the rich benefit from technological progress. But in many cases, the economic effect is to bring pleasures enjoyed only by the rich to the middle class and poor as well.

3. Wage and Price Controls

The Episcopal Commission for Social Affairs sees a greater role for wage and price controls--of a more balanced and

equitable variety, aimed more at the rich--as a way of stemming the rate of inflation.

According to a Conference Board of Canada survey, however, executives, managers and professionals are already "leading all other working Canadians in accepting pay restraint, and that often means pay freezes or even pay cuts."

But a more radical vision would have seen wage and price controls--of any type--as a snare and a delusion. Wage and price controls do not cure inflation any more than pressing down on the water in a bathtub will lower its level. Inflation is caused by excessive money creation on the part of the government central banking authorities, and thus only a change in monetary policy can put an end to inflation. According to the authoritative Fraser Institute study, **The Illusion of Wage Price Controls**, moreover, this policy brings with it a host of other social and economic ills: black markets, shortages, queues, rationing, and a general disrespect for the law.

An even greater difficulty with wage-price controls becomes apparent when we reflect on the economic task that freely fluctuating wages and prices must accomplish. Wages and prices are a signalling and rationing device; when the government controls them, they cannot play this role.

Important as employment itself is, there is something of even far greater importance: **productive** employment, i.e., that which creates goods and services people really want. For example, when the "horseless carriage" was invented, people no longer wanted as many stirrups, saddles, bridles, horse whips, etc., as before. Within several decades of this innovation, there were thousands of automobile industry employees, where there were none before. This massive transfer of labour was accomplished because auto manufacturers were allowed to offer wages higher than those which prevailed elsewhere. Had there been a wage freeze, it would have been vastly more difficult, if not impossible, to induce so many labourers to leave horse and buggy-related industries, and to make themselves available for the manufacture of automobiles, in such a short time. There may not be a call for such massive shifts of labour today (although

it is impossible to predict how fast robotics, micro-chips, computers etc., will grow over the next decades), but if our economy is to attain health once again, it is imperative that it be as flexible as possible. Wage and price controls are an economic form of arteriosclerosis.

4. Welfare

The bishops call for greater emphasis on financial support for the poor and the unemployed. On humanitarian grounds, emergency economic aid of this sort can surely be justified. But once past a certain threshold point, it can threaten to promote continued unemployment. If, for example, one-industry towns suffering from plant shutdowns are slotted for additional aid, there is the danger that people will be discouraged from moving to places with greater employment possibilities. If this aid is contrived in such a manner as to financially penalize those who accept jobs, this will retard re-employment, not enhance it. In Canada, a family of four with one breadwinner can actually receive more money from welfare payments, than in the form of after-tax income from low wage employment. In British Columbia, for example, the minimum wage level is \$3.65 per hour. At 40 hours per week, this translates into a monthly after-tax, take-home pay of \$562.52. But the same family can be entitled to \$415 in support allowances, plus anywhere from \$0 to \$455 in the form of shelter allowances, adding up to a relatively hefty \$870 per month, at maximum. True, such a family could apply to the B.C. Ministry of Human Resources to make up the difference between actual earnings and welfare entitlements, so it would not actually lose out by engaging in paid labour. But under such a system, it should occasion little surprise that few labourers indeed, voluntarily venture out into the cold winds of employment. For it is the rare individual who would willingly give up his full-time leisure for the dubious prospects of low wage employment. Such a system is truly generous--but generous to a fault. It should be curtailed--in the interests of employment.

Another reform might be in the direction of eliminating the universality provisions of many of our give-away programs. Where is the case, for example, for giving family allowance payments to the well-to-do? If the monies necessary to finance these programs were not first collected from the taxpayers, the poor--and everyone else--would benefit.

There is no problem, of course, with private charity to the unemployed, or to the poor, at whatever level. For private charity, by its very nature, is far more flexible than the public version. First of all, since it is voluntary, it can be cut off if contributors feel it is doing more harm than good. No such option exists regarding tax dollars which supply the wherewithal for government welfare spending. Secondly, if for example, a bishop concerned with giving funds to the poor felt they had the effect of discouraging work, he could, far more easily than his public bureaucrat counterpart, shift the funds to the more deserving, such as those served by Catholic missions abroad. But once governmental welfare systems become involved, experience shows few such automatic self-correcting tendencies.

Before anything at all can be done about unemployment, we must have a clear idea of how serious is the problem. Present statistics hide almost more than they show, in part because of the liberalized Unemployment Insurance program in Canada. This encourages people to declare themselves "unemployed"--whether they really are or not--in order to collect the benefits. It overstimulates seasonal work, where it is easier to attain "unemployed" status. According to calculations made in a Fraser Institute study, **Unemployment Insurance: Global Evidence of its Effects on Unemployment**, this one program alone boosts registered unemployment rates by about 1.0 percentage points. This sounds almost insignificant, but actually represents a very high proportion of our present 12.7 per cent unemployment rate in Canada since much of what is counted as unemployment is really due to "friction," or to time spent in voluntary job search. If this frictional, voluntary, or natural rate of unemployment is 5 per cent, then the 1 per cent attributed to unemployment insurance amounts to some 13 per cent of the remainder.

Another problem with governmental unemployment insurance programs is that they actually promote unemployment. The phenomenon of "moral hazard" (the higher an activity is subsidized--unemployment or any other--the more of it will appear) practically assures this result.

Of course, the reaction of most sane, well-adjusted, non-economists to all of this is "rubbish." Nobody would opt for unemployment insurance rather than a good, steady job. And it may well be the case that this is true. However, the situation is not as well defined as all that. Take for example, the recent case of the Janbar Shingle Mill where the employees have defied the IWA and gone back to work at a lower-than-union scale. (At least the guaranteed rate of pay is lower than union scale. The workers can earn up to union scale by increased productivity.) In discussing their reasons for approaching the mill owner with an offer to work for less, the employees indicated that their unemployment insurance benefits had run out, and they were "damned if they were going on welfare."

Presumably, if the unemployment insurance benefits available to these individuals had been of shorter duration or lower, they may have come to this conclusion earlier than they did. To the extent that this kind of thinking permeates the workforce at the moment, the existence of social welfare payments in the form of unemployment insurance encourages people to wait and see, rather than act now to solve their own economic problems.

The happy ending of the story is that the mill, shut down in June of 1981 during an IWA strike which produced a 15 per cent pay increase, is now operating again. The ironic footnote to the story is that the IWA charges that the mill is being run illegally and is filing a complaint with the Labour Relations Board. At the same time, the former IWA members have applied to the Labour Relations Board for de-certification.

5. Labour Unions

Next, the bishops single out labour unions to play a more decisive role in curing unemployment. But this is like asking the fox to guard the chicken coop. The **raison d'être** of the union movement is to raise wages for its own membership--whether or not justified by productivity increases--and the major cause of unemployment is wage rates artificially boosted beyond productivity levels. According to Lady Barbara Wootton, a Labour Party Peer in the U.K. House of Lords, "(It is) the business of a union to be anti-social; the members would have a just grievance if their officials and committees ceased to put sectional interests first."

The view of unions held by most Canadians is that of a long-suffering underdog, struggling valiantly against overwhelming odds, to improve the wages and working conditions of all employees. Because of this image, most Canadians have been extremely sympathetic to the aims of the unions; our labour legislation is indicative of the warm support accorded by the citizenry. It is perhaps for this reason that our media have not subjected the unionized sector to the scrutiny it visits upon all other Canadian economic institutions.

But the statement of Lady Barbara Wootton paints an entirely different picture. To be sure, in this view unions can still be counted upon to improve the employment package--but only for their own membership. We must realize that the poor, the afflicted, the oppressed, those at the very bottom of the economic pyramid, are unlikely to be accepted as union members. Our first principle thus gives us pause before entrusting the welfare of the economically downtrodden to the tender mercies of organized labour.

Consider the traditional opposition of union leaders to allowing prison inmates to work on jobs which would train them for life outside. Numerous studies have shown that recidivism rates would plummet were convicts allowed meaningful work behind bars. Yet the unions have adamantly refused to allow this to occur; and have had the political

muscle to see to it that prisoners, in this year of our Lord 1983, are still precluded from any work which would compete with unionized labour.

The union argument--that there is only so much work to be done, and that if prisoners do some of it, there will be less left for union members--is, as we have seen, as economically nonsensical as it is morally unacceptable.

And, as we shall see below, union-supported minimum wage laws have visited the spectre of heavy unemployment on still other groups of the economically depressed peoples. No, the best way to safeguard the interests of the "least of my brethren" is not to trust them to unions.

IV. REFLECTIONS

In the course of their report, the Canadian Conference of Catholic bishops briefly touch upon several other issues of political economy. They are not fully developed, but are highly illuminating of the mindset and political philosophy of the authors. No reply such as this can therefore afford to ignore them. Accordingly, we consider a number of them in some detail.

I. Social Darwinism

According to this charge, the free marketplace is like a jungle, where the strong kill and eat the weak, and only the "fittest" survive. People who advocate such an economic system, it would appear, are thus certainly in violation of the first principle.

But this is completely erroneous. The "market" is simply a label we use to describe all two-party trades which take place in the economy, and each and every such trade must of necessity benefit **both** parties. For example, I would not trade you my tie for your wristwatch, or a labour hour of mine for \$6, or \$10 for an hour of your services, or 25¢ for a newspaper, or \$5 for a basket of fruit, if I did not expect to **benefit**. You, for your part, would not enter into such transactions if you did not have the same intention.

And the benefits can even be specified. They are, the difference to each party between the higher value he places on what he will receive, and the lower value he places on what he will give up.

Now it may be that in the event, one or the other of the consenting adults to these capitalist acts becomes disappointed with the swap he made. But what better guarantee of satisfaction can there be other than initial consent? The presumption must be that, in the absence of force or fraud,

the overwhelming number of such trades are not regretted by either side.

Economic losers in the market?

It may be that one party to the trade is so economically helpless, that he is still in a sorry state even after the trade. (For example, a very poor person agrees to work for a low wage.) Nevertheless, without the trade he would be in even worse shape, otherwise he would not have voluntarily agreed to it in the first place.

It may be that one or the other of the trading partners refuses to continue this practice. For example, after the car is invented, consumers refuse to patronize the horse and buggy industry; horse and buggy businessmen are no longer able and willing to continue to offer employment--a trade of money for time--to their workers. In this case, some pundits would claim that the bankrupt horse and buggy industry, and its employees, are "losers."

But this only proves our thesis that in the market, all participants benefit. Certainly, before the advent of the automobile, the horse and buggy industry--management and labour--benefited. The proof is that when this market disappears, they feel at a loss.

And that is the point: when we claim that all market participants benefit, we do not imply that they benefit even in the **absence** of a market.

When the horse and buggy market disappears and the people involved no longer benefit from it, does this show the "heartlessness" of free enterprise? Only if we believe that the world owes the horse and buggy people a permanent living. But the ethic of the marketplace is only that everyone has the right to make offers, and benefit when they are accepted, not the right to compel people to make trades they are no longer willing to undertake.

It may be that the two traders are of such unequal wealth positions (one poor, one rich) that one of them could

have given better than the agreed terms to the other, had he wished. It still remains true, however, that the trade was mutually beneficial. Just because one of the parties could have been made even better off, through receiving an extra gift, does not deny the fact that both parties gained from the trade. It does not render the marketplace a jungle.

2. Profit

On several occasions in their report, the bishops single out profits for special condemnation. This is highly unfortunate, since a more accurate assessment would show that far from being an enemy of the economically afflicted, profit is a phenomenon that works in their favour.

Profit can only be earned through trade, and is the difference between the value of what is given up, and the value received. In the usual "bottom line" sense, profit is the residual that remains after the good is sold, and all costs, such as rent, interest, wages, etc., are subtracted. But the persons who barter a wristwatch for a tie also profit thereby. The employee who sells his labour services gains the difference to him between the value of the wages he receives, and the costs, to him, of the labour he expends.

The profit and loss system is the best way in which consumers can lead producers to manufacture the items they desire. The initiative, of course, belongs to the firm. It proposes; but the consumer disposes. By purchasing, it confers profit on the firm; by refusing, it confers losses. It is in this way that the manufacturer is led ("as if by an invisible hand") to produce cherry pies, not mud pies. If the profit and loss system is not allowed to operate in directing the allocation of resources, the only alternative is some form of central control. But this is inefficient, cumbersome (think of Soviet farming) and has led to diminution of liberty in every society that has tried it, throughout history.

Those who demand production for use instead of profit (the bishops call it "socially useful forms of production") are

thus wide of the mark. How **else** can profits be earned, except by producing goods and services consumers deem useful? (Profits can of course be earned, not through satisfying consumers, but by receiving money from government in the form of subsidies that consumers were unwilling to spend voluntarily. But that is the system of corporate state monopoly capitalism, not the laissez-faire capitalism we are discussing here.) Henry Ford earned vast amounts of profits by providing people with cheap transportation. When he said that the public could have any colour "Model T" it wanted--so long as it was black--he began to lose customers to others who were more attuned to customer desires.

Why don't employees go into business for themselves?

Profits are not earned at the expense of wages. Wage rates are agreed upon beforehand, long in advance of the sale of the final good. Wages are unaffected by profits, as they are by losses. If labourers were of a mind, they could band together and work together in a vast partnership. They could cut out the middleman businessman, who earns a profit.

But if they did so, they would have to undertake, on their own behalf, two tasks now bourne for them by the businessman. First of all, the employee is paid his wage well in advance of the sale of the final product. Were the workers to go into business on their own accounts, they would have to dip into past savings to sustain themselves during the period of production, before any receipts from sales were available. This alone would prove onerous--especially in the manufacture of items which take years to produce.

The second task now provided by business is the assumption of risk. There is always the possibility that the final good, when at last completed, will not be saleable at all, or at least not at a price which will defray all costs. In this case, the entrepreneur, as residual income claimant, cannot go to his employees and demand a refund from them. He can make profits, but he must also suffer losses. Were the workers doing business on their own, not only would they not

be paid until the good was sold, they might not be paid at all—even after long and arduous work, or they might be paid far less than they had anticipated.

In a free society, the workers are always at liberty to leave the status of employee and strike out on their own. Certainly the advent of labour unions has made feasible the collection of adequate funding. That the labour movement with its vast pension funds has chosen not to do this, implies that the profit-seeking enterprisers still confer benefits on the workers, greater than the perceived costs.

3. Income Distribution

The bishops express themselves as unsatisfied with a Canadian income distribution where "the top 20 per cent receive 42.5 per cent of total personal income, while the bottom 20 per cent receive 4.1 per cent." They term these "patterns of domination" and in this they are certainly at least partially correct, in that at least some of this pattern is attributable to anti-free market privileges conferred on business by government.

Apart from this, there are grave difficulties in the position taken by the bishops. First is the implication that the only equitable income distribution is an equal one. Although the words "equitable" (fair, just) and "equal" (a state of mathematical equality) have been used synonymously, they connote very different things. For surely it would be unjust to steal from a rich, honest man, merely because he was wealthy, and give the money to a poor man, in order to promote income equality. And should those who work hard necessarily be paid the exact amount as those who are unwilling to do so?

There are two kinds of theories concerning income distribution: process theories and end state theories.

In the first one, an income (or wealth) distribution is pronounced just, provided that the initial endowment was

just, and that all subsequent changes were proper (no force or fraud was used).

In the second case, an income (or wealth) distribution is deemed ethical only if it meets some preconceived notion of what is proper. (This is usually defined as equality, although this is not necessary.)

The bishops appear to hold an egalitarian-type end state theory. They will thus criticize **any** system, no matter how just it is otherwise, which does not lead to rough income (or wealth) equality as a result.

The problem here is that such a vision is simply incompatible with human freedom. For example, any acquisitive action whatsoever must be prohibited by an egalitarian end state theory, for it is likely to lead to financial inequalities; or, the state would have to be constantly engaged in taking from those who apply themselves to productive activities, and giving to those who do not. In such a system, there would be no possibility for a Wayne Gretzky to earn (and **keep**) the millions of dollars he has amassed so far—even if every penny were obtained honestly, through the willing consent of happy and satisfied customers. Strictly speaking, even gift-giving would have to be disallowed, lest some people turn out to be more popular than others, and thus ruin the amount of equality desired.

One could, of course, allow such activities to take place. But if the end state distribution is to be protected, there would have to be a constant and continual redistribution of money. But this would effectively negate a prime motivation for productive economic effort.

Measurement problems

Then there is the question of measuring well-being solely in monetary terms. In the Soviet Union, for example, there is a greater amount of monetary income equality. But when limousines, country estates and other privileges are also taken into account, there is much less equality.

And there is an important reason why this is so. Trade, commerce and the marketplace are positive sum games--everybody wins. Yes, Henry Ford can make a fortune, but only by enriching the lives of millions of his customers. He becomes rich in absolute terms, but not so much in relative terms, given that he is pulling everyone else up on the income scale, along with him.

Were the command society merely to decree that millions of people be taxed in order to give Henry Ford the same amount of money he earned on the market, this would be a zero sum game: what they lost, Ford would win. (Actually, it would be a negative sum game when the costs of the transfer are taken into account.) In this example, Ford would again become rich in absolute terms, but less so relatively, since the well-being of the mass of people would no longer be tied to his coat tails.

Statistical bias

Another problem is that our income distribution statistics are unreliable--and biased in the direction of enhancing measured inequality.

In days of yore, some people were born rich, lived rich, and died rich; others were born poor, lived poor and died poor. There are still people like that, with "flat" (unvarying) lifetime earnings. But nowadays age-income profiles tend to be much more highly skewed. That is, income in the teens and early twenties are more likely to be very low indeed; then they can rise sharply during the productive 30s through 50s, and tail off again during retirement years. We also see a person working at a traditional job for a year or two, then taking a similar amount of time off to write poetry, or to study film making, only to return again to a high paying position. (These are phenomena associated with rising incomes; when they were much lower, mere physical survival mitigated against such patterns.)

With flat earnings profiles, earnings statistics gave a reasonable, if imperfect, picture of income distribution. But at present, they do not.

For example, consider the 20 per cent of people at the bottom of the distribution, who together receive only 4.1 per cent of the income. The implication is that these are poor people--people who are born, live and die poor. This is true for some undetermined portion of this 20 per cent of the population. But for others, it is not. Rather, their present earnings may be far below their long-run "permanent" income, either because they are working intermittently while still in school, or are temporarily experimenting with such professions as actor, poet, musician. One proof of this contention is that when the statistics are based on assets, not annual income, they show a far greater degree of equality. Such surveys no longer even ask about presence or absence of household items such as phones, T.V.s and refrigerators--since these are now present in virtually all Canadian households. One survey found that colour T.V. purchases were on the fastest increase among that sector of the population with the lowest incomes. Another proof is the fact that many of the people in the lowest quintile are there only temporarily. Although there will "always be" a lowest 20 per cent of the population by income, the actual inhabitants of this category are continually changing.

In any case, even if we consider incomes alone, the statistics do not bear out the picture of Canada as a nation with a vast reservoir of desperately poor people. For in 1980, 12 per cent of our people had incomes in excess of \$40,000; 15 per cent were between \$30,000 and \$40,000; 23 per cent were in the \$20,000 to \$30,000 range; 22 per cent earned \$10,000 to \$20,000; and only 25 per cent failed to reach the \$10,000 mark. This is hardly the picture of a few wealthy people, perched on top of the masses suffering in dire poverty.

4. Business Concentration

On no fewer than three separate occasions, the bishops criticize business concentration as inimical to the health of the Canadian economy. The main difficulty is that this charge is based on an untenable and outmoded theory that economic concentration and competition are inconsistent.

But the truth is almost the exact opposite. Competition and concentration of achievement, in fact, go hand in hand in most human endeavours. Given that talents and abilities are unequally spread around among the population, and given that full and rigorous competition takes place, it should occasion no surprise that there are only a few eminent persons associated with each activity. This is true in sports, politics, the arts--and business as well. But it is only in business where unequal results are seen as evidence of noncompetitiveness.

The winners in the highly competitive and democratic Canadian political arena are also highly concentrated. The Social Credit Party of Alberta enjoyed an uninterrupted reign of 36 years, from 1935 to 1971; and the Progressive Conservative Party has completely dominated Alberta provincial politics since 1971. Ontario has been ruled by one party, the Progressive Conservatives, for 38 years in a row. And the national Liberals have been all but frozen out of the four Western provinces in the past decade, while still managing a virtual "monopoly" over the national Progressive Conservative and New Democratic parties in Quebec, to say nothing of the nation as a whole.

Is government the source of monopoly? Yes

There is all the difference in the world between a company that attains a (temporary) monopoly position through service to the consumer (new product, lower price, better service, and the like) and one that attains a permanent monopoly position through the coercive power of the state. The pre-eminent example in the latter category is Canada Post. It owes its monopoly not to its superior competitive activity, but to the law of the land which threatens those who would deliver mail privately with stiff fines and even jail sentences.

Moreover, the government is itself guilty of discouraging competition by artificially protecting incumbent firms and setting up legal barriers for new entrants.

Industries where government reduces competition in this regard include: professional occupations, railways, trucking, taxicabs, airlines and agricultural products. In each of these cases, governments--at federal, provincial and local levels--have reduced economic competition by setting up barriers protecting incumbent firms and practitioners, at the expense of new entrants--and the public. Whether it be marketing boards, licensing arrangements, special permissions or franchises, by setting up manifold legal barriers to entry, government has been a major force disruptive of competition. If government truly had the interests of the public at heart, and wanted to promote competition, it would rescind the complex welter of regulations that discourage new entry.

Does monopoly cause inflation? No

Nor is inflation caused by monopoly control of prices, as contended by the bishops. The monopolist, whether created on the marketplace, or by dint of exclusive government privileges, will attempt to set prices so as to maximize profits. (Although the market "monopolist" must always worry about competition, the government-protected one need not.)

Note what is to be maximized: profits, not prices. For if prices are too high, paradoxically, profits will not be at the greatest level obtainable. What the monopolist earns in the form of high prices will be more than offset by reduced sales. Alternatively, prices must not be too low either, for then although sales will pick up, this will be more than offset by the margin obtainable on each unit.

So the monopolist will strive mightily to attain this "monopoly price," the one at which profits are maximized. Once he reaches it, he will strive mightily to keep it, lest **any** change, in **any** direction, **reduce** his profits. If nothing else in the system changes, our greedy monopolist will certainly not change his price policy.

But this scenario is very far removed indeed from that of inflation, which is a steady, grinding, week by week upsurge in prices. The one has nothing to do with the other.

Price rises

There are, of course, two circumstances under which monopoly prices will rise. First, a monopolist might discover that previously his prices were too low, and that he can better maximize profits by raising them. But this is hardly a satisfactory account of the monopoly-causes-inflation thesis, relying as it does on a rather stupid monopolist. Give the "devil" his due: if there is anything the monopolist is, it is not stupid—certainly not when it comes to making profits.

Secondly, monopoly prices can rise if the incidence of monopoly in the economy increases. Say, for example, that a new Crown Corporation is created. But this cannot explain inflation either. For if prices in one sector of the economy rise, assuming a non-inflationary supply of money (the real cause of inflation, of course, is excessive governmental creation of money), then people will have just that many fewer resources to spend elsewhere. The price of oil may rise, but if people have less money to spend on other goods and services, then the prices in these other sectors of the economy must fall. Inflation, a general rise in **all** prices, cannot be accounted for by such a phenomenon.

5. Self-Sufficiency

Although the bishops are clearly motivated by a sense of benevolence, their advice that Canada adopt a policy of self-sufficiency is really a condemnation to national poverty.

In order to see this clearly, let us start not with a nation which refuses to trade with others, but with an individual who sets up trade barriers between himself and all

other people. Such a self-sufficient person, of course, will have to provide for all of his needs.

He will have to grow his own food, make and mend his own clothing, build a house for himself, minister to himself when he falls ill, entertain himself, etc. Not being able to specialize in any one thing, his productivity will not be able to attain livable levels. He will be a "jack of all trades, master of none." If everyone tried the path of economic solipsism, this fertile earth, which today can support the lives of over four billion people, might possibly be able to keep at most a few million snarling savages living on a miserable semi-starvation basis.

On a national level, one argument for self-sufficiency and protectionism is that a policy of free trade would mean the loss of jobs for Canadians. And this, it must be conceded, is true. If buyers are offered the choice between a made-in-Canada sweater for \$50, and an identical one manufactured in southeast Asia for \$10, there is little doubt that virtually all consumers would choose to be thrifty and save 40 of their hard earned dollars. And the inevitable result would be the loss of Canadian jobs --in sweater production.

But let us not stop here, as do the economic nationalists, for there are several more effects to be considered. What, pray tell, will the consumers do with the extra \$40 they can keep? They may spend it on other Canadian products, but if they do, some of the now unemployed sweater workers can find jobs in these other lines. They can save this money, but then the banks will be able to make loans on easier terms, thus creating additional jobs in construction, house-building, and heavy industry. Alternatively, they could purchase four additional foreign sweaters (or other imports from other countries) for the same amount.

What will the foreign suppliers do with the \$10 (or \$50) paid to them by the Canadians? One possibility is to buy Canadian products, thus further strengthening domestic industry. (It is well known that a principal reason why trade with Pacific Rim countries is not more extensive is that those countries have difficulty acquiring foreign exchange through trade.) They might also spend the dollars in Third

World countries, whose nationals can then turn around and purchase Canadian goods, again giving our country a boost in employment.

Mattress stuffing

But what if the foreigners, perhaps determined to wreck our economy, decide instead merely to sit on their newly acquired Canadian funds? What if they merely stuff this money into their mattresses?

If they were so foolish, they would only succeed in giving us their sweaters for free! By this policy, they would present us with valuable commodities, and receive in return pieces of paper their own actions render worthless. This form of financial reparation would, of course, make our sweater industry superfluous, but all Canadians saving on their clothing bills would now be able to afford additional goods--and new jobs would be created in the industries catering to these new desires.

The main sufferers from a policy of free trade are not the lower paid workers with generalized training, which is as applicable to sweater production as to anything else. They will find alternative employment at comparable wages. The real losers are the protected factory owners, and the well paid, highly unionized workers with a great investment in skills specific to sweater manufacture. It is only they who will suffer losses unless retrained. As a result, the unions support the manufacturers in their bid for more protection and more assistance.

If another country can make sweaters more cheaply than we can, it makes sense **not** to be self-sufficient, but to concentrate on what we do best, allow them to do the same, and then to trade--utilizing the special skills and factor endowments of each region of the globe.

We're not going to be a very rich nation if we make people work at jobs others can do more cheaply.

Why the futile crusade?

Why is it, if the case for free trade makes so much sense, that we nonetheless find ourselves barricaded from affluence by high tariff walls?

The answer seems to be in our social and economic organization. As producers, our interests are highly concentrated. It is the rare person who has more than one source of employment; most investors focus on one or just a few industries. But as consumers, we typically purchase literally tens of thousands of items. Our interests, here, are staggeringly diffuse.

It is little wonder then, that when it comes to considering a tariff on shoes or toothbrushes or paper clips or bubblegum, the producers of these items can easily mobilize on their own behalf. The trade "protection" may cost the general public tens of millions, and be worth only hundreds of thousands to the manufacturers. Yet because of their diffuseness as consumers and because of the fact that the tariff will cost each of us only a few pennies, Canadians have little individual incentive to organize a resistance. The populace in general, and the bishops in particular, are so befuddled by the media blitz created by the real beneficiaries of protectionism--the protected manufacturers and unionized workers--that it has come to feel, vaguely, that trade barriers are really in their own and in the public interest.

This philosophy of cutting ourselves off from our brothers and sisters in the rest of the world--of discriminating against foreigners--is called "economic nationalism." When will we begin to see economic nationalism in the same way we see racism, sexism, anti-Semitism, anti-Catholicism, and other such movements? When will well-meaning people of good will stop being taken in by such prejudices of **any** sort?

According to the bishops, exports serve markets elsewhere (i.e., foreigners), rather than the basic needs of people in this country, and are thus to be discouraged. Even if this rather remarkable and unfortunate statement were true, exports should **still** be encouraged. For, given that

foreigners are poorer than Canadians, and given an adherence to the first principle, exports would help the poorest people in the world, at the expense of the relatively well-off people in Canada.

But this claim is far from true. Exports do not help foreigners at our expense. As our analysis of voluntary trade has shown, **both** parties gain. We export so as to gain more thereby, than we can produce directly for ourselves. Indeed, even the labourer "exports" his labour to the market because he can earn more by working for someone else ("exporting" his labour to the employer) than he can working for himself.

6. Automation

The bishops see automation, computers, micro-chip technology, etc., as a substitute for, and therefore as a threat to, human work. They fear that "human work is rapidly being replaced by machines on the assembly line and in administrative centres."

The fear may seem reasonable, but it is not. In order to see this, we must first realize that employment is a means, not an end. In the best of all possible worlds, mankind would be able to attain the kinds of goods and services most Canadians now enjoy--by merely pushing a button--not as the result of working full out. If things worked this way, if robots did most of the work now being done by people, and other robots built and serviced these "worker" robots, then human beings could be freed up to try to turn their wildest dreams into realities.

As long as there are unmet needs, and people willing to work to attain these ends, there will be new positions created. From the vantage point of our agricultural economy of 150 years ago, it would have been impossible to predict precisely what kind of jobs would come into existence today. In like manner, we cannot now predict which occupations will arise to take the place of those shown to be unnecessary by the new computer revolution.

Job creation

However, we know that they will be created, and we know why. If a robot, at both minimal outlay and subsequent maintenance cost, is really able to replace 1000 workers (to take the "worst" possible case) then some truly monumental results will ensue, and each of them will create new employment opportunities.

In the first instance, immense profits will be earned by such companies. Their shareholders (and/or private owners) will either spend or save their new-found wealth. In the former case, this will encourage the industries which receive the new stream of expenditures; in the latter case, interest rates will be driven down, creating new loan opportunities and new employment, throughout the entire economy.

But such profit levels cannot long endure. In a reasonably free market system, new entrants will swarm in, to take advantage of the high profits. They will purchase additional robotic factors of production, and hence raise their prices. And when the newcomers begin selling more such products at lower prices, profit levels will tend to be dissipated. The former will encourage more employment in robot production, and the latter will enable consumers to purchase yet even more with a given dollar, thus raising their standards of living yet again. This will lead to still more employment in those areas where the new purchasing power is spent.

It was through a procedure such as this that large employment shifts have taken place in the past. There is no doubt that it will work again. It was once feared that automatic spinning mills would permanently unemploy the entire hand-weaving industry. Instead, the results were cheaper clothing and more jobs in cloth making. First generation computers were supposed to create a permanent "army of the unemployed" amongst office workers. Instead, companies like IBM have created literally millions of jobs throughout the economy, with lower prices and higher standards of living to boot.

No less will be true of the new artificial intelligence revolution. The worm in the apple will not be a cold faceless

computer-robot, taking the bread away from the workers' tables. Instead it will be modern Luddites, who once again threaten progress.

7. Job Retraining

One antidote to technological unemployment offered by the bishops is that someone, presumably government, should begin an ambitious program of job retraining.

However obvious such a solution, there are grave difficulties. For job training takes **time**: weeks and months for low levels of skill, years in order to fill the kinds of technology now needed by modern industry. And during the necessary retraining time, the requirements of industry have a nasty habit of changing. There is no guarantee, that is, that when the graduates of any job training program are ready to re-enter the labour force, industry will still require the skills they have learned. Forecasting future manufacturing needs, and matching these to training programs, is a task calling for a high level of sophistication and ability--to say the least. There is not a single solitary shred of evidence that our government has been able to mobilize such talent in the past, or any indication that it has learned how to accomplish this for the future.

On the contrary, all evidence points to the opposite conclusion. The present system has created numerous "horror stories:" the Newfoundland technical college which has graduated students in electronics who were trained with obsolete tube-type equipment; a Montreal community college with no computer department, even though there were many such unfilled positions nearby; the Cape Breton fishing industry, which had to import technical assistance from Boston, because none of the local colleges offered courses in the repair and maintenance of newly installed electronic fish-finding equipment.

Moreover, the Adult Occupational Training Act has been in effect for the last 13 years. If this were a reasonable

solution, surely we would not still have these problems today. Why should this tired and outmoded system of government job-training initiatives be given yet another chance, when it has failed so often, and so dismally, in the past?

No, the real solution to this problem lies in other directions. The difficulty facing Canadian job training programs is how to pick the winners: the skills that will be needed, starting in the next few months and years, and continuing, if possible, for the next two or three decades as well.

Two alternatives

There are, ultimately, two means to this end. Under the present system, society puts all its eggs in one basket. Money is channelled from numerous sources in the private sector toward a single training "czar." We hope and pray that he will choose wisely, for the future of the entire economy is in his hands.

The other system is one of decentralization. Here, the relevant tax monies remain in private hands, and individuals, firms and corporations are free to enter the job training industry. In the natural course of events, some will be good forecasters, able to peer into the future, and prepare their students accordingly. Others will not. This will be beneficial, for with numerous competitors, many options will be tried. The failures will learn from the successes, first in order to earn greater profits and secondly, in order to stave off bankruptcy.

This idea may sound novel to sophisticated people living in a mixed economy in the latter part of the 20th century, and accustomed to a virtual government monopoly of retraining efforts. But this system of competitive provision of services works remarkably well wherever it is tried. It can work, and work well, in the task of job training too, if only we allow it. The task of converting a centralized-statist job training and education system into a decentralized private

industry is indeed a great challenge. But it is well worth undertaking, and must be implemented, if our training crisis is to be solved.

Why promote failure?

We must conclude that there is little need for an upgraded public sector role for matching people with jobs; on the contrary, government has been tried, and found wanting. Government bureaucrats have in the past guessed incorrectly, all too often, about the future path of the Canadian economy, and the job skills which would later be required. That is why we are now in the present mess. Why should we assume that government can now pick the winners, the "national occupations" of the next decades? Far better to leave this responsibility to numerous entrepreneurs who bear the risks of failure.

It is of great importance that the politicians and bureaucrats put their own house in order: one, by ending the barriers to interprovincial mobility of skills they themselves have erected; and two, by leaving the labour retraining business to the private sector. And while they are at it, they might consider relaxing laws against indentured service--which gives the public sector (defence forces) an artificial advantage over private sector job training incentives.

There is yet another reason for opposing government job training initiatives--even if they could somehow work: the first principle of the preferential option for the poor. Any such program must be funded out of general tax revenues--paid for, in part, that is to say, by the poor. Yet for similar reasons discussed above under "self-sufficiency," the workers most likely to be unemployed by robots or micro-chips technology are not the poor, the unskilled, the marginal and peripheral workers--but rather skilled, unionized and/or middle class employees. It would be just plain silly to supplant the poorly paid teenage labour that works in places such as McDonalds with immensely expensive robots. Instead, micro-chip technology will, in the foreseeable future,

take the places of relatively higher paid typists, stenographers, draftsmen, etc. These are the sorts of people who will have to be retrained (to work in the new robotics industries, and in their spin-offs). But taking money from the poor (in part), in order to subsidize retraining for the (relatively) rich, flies in the face of the first principle.

In any case, highly skilled people are similar to capitalists. They invest in (human) capital, in order to raise their incomes. When these skills are rendered obsolete by ongoing technology, why should the general public, the poor included, be called upon to make good on their investments? There is no more justification for subsidizing skilled workers (investors in human capital) in this way than for bailing out those who have unwisely invested in physical capital--such as the owners of large corporations.

8. North-South

The Canadian Conference of Catholic Bishops cites, as an example of the special vulnerability of the poor, the fact that three-quarters of the world's population, the nations of the South, live on less than one-fifth of the world's income.

The difficulty with this view is that it makes it appear as if the reason the underdeveloped nations of the South have so little is because the industrial democracies of the North have taken it from them: i.e., that the riches of the North are a result of the exploitation of the South.

Actually, however, almost the exact opposite is the case. The underdeveloped world would be doing far worse, economically speaking, were it not for the degree of economic integration it enjoys with the more advanced nations. Evidence shows that those nations which have had the greatest contact with the capitalist-oriented countries have made the greatest strides toward development (Malaya, Ghana, Nigeria) and those which have been virtually untouched by "exploitation," "imperialism," etc., have lagged the furthest behind (aboriginal peoples). It is no accident

that the relatively prosperous Canada, U.S., and Australia were former colonies of a developed country (as Hong Kong still is), while the most backward countries in the world were never colonized (Afghanistan, Tibet, Nepal, Liberia). Indeed, the very idea of an ongoing material progress is essentially a western idea.

Foreign aid

One of the main points of emphasis of the North-South dialogue, and of liberation theology, is the importance of foreign aid in the alleviation of Third World poverty.

There is much evidence, however, showing aid programs to be questionable means toward these worthy ends. Food grants are obviously basic, because the malnutrition which unfortunately prevails in many less developed countries is one of the blocks to economic betterment. But compelling humanitarian requirements in cases of actual famine aside, even this sort of aid is fraught with danger: massive gifts can take the profit incentive out of local agriculture; with fewer farmers and less land under cultivation, this can paradoxically worsen, not improve, the long-term prospects of food production and hence safety from future starvation.

Capital grants are likewise destructive to long-term productivity. Although the ancient Egyptian pyramids were an extraordinary instance of capital accumulation, they resulted in no economic gain in the basic sense of contributing to the well-being of the great masses of people.

Even more wasteful are the modern equivalents of such monument-building made possible by foreign aid: the steel mills in Egypt, the modern chemical plants in India, the tractors given to aboriginal peoples who cannot operate them, the automobile assembly plants scattered widely throughout the Third World (which are the result of protective tariffs on automobile imports as well).

These are wasteful because the products fabricated in this highly technological manner actually cost the under-

developed countries more to manufacture themselves than they could have paid by importing the finished product from more developed countries.

Many people deduce from the fact that the rich countries have much capital and the poor ones little that what is required is vast capital infusions. But this wet-sidewalks-cause-rain reasoning points to almost the exact opposite of what is really needed. Capital, in and of itself, does not create wealth. It is rather the **result** of a process of economic development that also includes, as complementary factors, such things as the willingness to work, the skill and education of the labour force, and relatively free and private markets protected by a stable code of laws.

One indication of the importance of these other phenomena is the fact that a large proportion of the very limited capital generated in the poor countries is actually invested in the more advanced nations, where private property rights are far more secure.

Then there is foreign aid in the form of technological and other education. The problem is that in the absence of such facilities as fully equipped laboratories, libraries, computer centres, and without the mutual support of thousands of other similarly educated scientists and technologists, such aid cannot be efficiently utilized. And the proof can be seen in the emigration patterns of the educated classes in the Third World--a "reverse brain drain," toward the more advanced countries.

Moreover, foreign aid of whatever variety--food, capital, technology or outright cash grants--sets up a welfare-like dependency status on the recipient country.

Another problem is that Canadian aid is traditionally in the form of government-to-government grants. This strengthens the role of the public vs. the private sector in the underdeveloped countries. But political freedom is a delicate and precious flower; it cannot live where the bulk of economic activity is carried on in the public sector.

Also, Canadian foreign aid has been given to countries that have espoused socialist centralized economic planning--

and our largesse has in no small degree shielded them from the repercussions of such policies and allowed them to continue unchecked down this path. For example, we find in the five-year plan of India, a country which continues to receive strong Canadian support, the view that "planning should take place with a view to the establishment of a socialist pattern of society where the principle means of production are under social ownership or control."

Of far greater benefit to the nations of both North and South is a policy of free trade and unregulated international flow of capital. This will greatly benefit the Canadian standard of living, as we can purchase many goods such as clothing from the less developed world for far less than it costs to make them ourselves. But of far greater importance, such policies will truly lead to Third World economic development--and to tighter integration with our own economy.

V. OVERSIGHTS

Having discussed the principles and strategies of the Canadian bishops, and commented on some of the reflections on economics they have made, we now move on to consider several issues of crucial relevance for unemployment and the economic crisis which they have neglected.

I. The Minimum Wage Law

Our minimum wage legislation is vociferously and passionately advocated by the union movement. Yet, in requiring that employees be paid \$4.00 per hour, or more in some provinces, this law effectively consigns to unemployment all those whose productivity rates are below that level. In order to see the economic effects of such legislation, we may contemplate what would happen if the minimum wage cut-off point were raised to \$35 per hour. In this case, even people worth as much as \$15 or even \$25 per hour would be unhirable, as any manufacturer foolish enough to employ them would suffer grievous economic losses. If he is forced to pay \$35 per hour to workers who can produce only \$20 per hour for him, he loses \$15 per hour, for each and every such worker he hires. (If, with a given amount of plant and equipment, the value of the total product produced in a factory is \$10,020 per hour with an additional employee, but only \$10,000 per hour without him, then the marginal revenue product, or the amount produced by this extra worker, is said to be equal to \$20 per hour.)

But the same logic applies to those at the lower end of the wage scale. At a minimum wage level of \$4 per hour, hiring a person with productivity of only \$1 per hour would entail a loss of \$3 per hour. Now perhaps a particularly beneficent employer might employ one or two such people under these conditions--and swallow the losses out of his own pocket--but as a prescription for widespread employment, such a law is no less than a disaster.

The downtrodden

What kind of people have below minimum wage productivity levels? Included in such a group would be the uneducated, the unskilled, alcoholics, unreliable workers who are habitually tardy, who fight with one another, or who destroy the employer's property either purposefully or out of inadvertance. Groups likely to be statistically overrepresented in such a sample are teenagers, native peoples, downtrodden ethnic and national peoples, the physically and mentally handicapped. In short, people with low productivity, the people most likely to become unemployed by minimum wage legislation, are amongst the "wretched of the earth." These are precisely the people toward whom the bishops' principle of "the preferential option for the poor, the afflicted and the oppressed" directs us to have special compassion and concern.

It is no accident that while the unemployment rate for the general population hovers around the 12 per cent mark, (it was 12.7 per cent in December 1982), it was almost double that for teenagers (23.1 per cent), significantly higher for persons of little education (15.6 per cent) and, according to some estimates, over 50 per cent for native persons. And even these figures are undoubtedly underestimates of the true dimensions of the problem, for only people who are still actively seeking a job are counted as unemployed. Those who have given up the quest--even because of repeated failure--are no longer counted as unemployed. Although statistics are not collected in a manner which could verify this, the unemployment rate for people who combine all or most of the disadvantages correlated with low productivity mentioned above could be expected to approach an unemployment rate literally of 100 per cent.

The cause of the problem

This phenomenon is almost entirely related to the minimum wage law. At present in the U.S., black teenage unemploy-

ment rates are roughly twice as high as for white teenagers. Yet, before the advent of this legislation, black and white teenage unemployment rates had been virtually identical. And the same is true when we compare unemployment rates for adults and teenagers. Before minimum wage legislation, the gap in the rate between them was very narrow. Nowadays it is roughly two to one. This is not due to the "natural order of things" but rather to this pernicious legislation.

Why does organized labour support legislation which creates such a monstrous predicament for the most hapless of workers? Part of the reason must be sheer economic confusion. Many people feel that in the absence of a minimum wage law, wage determination would be at the discretion of the employer. Given his primary motivation as a profit maximizer, the fear is that employers will set wages at a level hardly able to sustain life.

However, on a free market, the employer, the purchaser of labour services, is no more able to set wages than is any other purchaser able to set prices. Wages, rather, are set by a complex interaction of all suppliers of, and demanders for, labour, based on its productivity. Let us show this by deliberately assuming the contrary, and showing why such a scenario cannot exist.

Assume, then, that a certain type of employee has a productivity of \$1 per hour, and is presently being paid only 5¢ per hour. Under these conditions, the employer would make a pure profit of 95¢ per hour. It would be as if each worker had printed a sign on his forehead stating that here was an opportunity to sieze 95¢ per hour, at no cost whatsoever. Employers would grab up such opportunities with alacrity, but the only way--in the marketplace--to avail oneself of such an employee is to offer a higher wage. Accordingly, bids of 6¢, 7¢ and even 10¢ per hour would be made. But vast profits would still remain, even at these wage levels (90¢ profit at a wage of 10¢ per hour), and so the upward bidding would have to continue.

Where would it end? Only at the point where the costs of seeking out these underpaid workers began to exceed the

extra profits to be derived thereby. The wage offers would approach, although not quite reach, \$1 per hour, which explains the economic law that in a market, "wages tend to equal productivity levels."

The employer cartel

But suppose the employers mutually agree not to hire workers at more than 5¢ per hour? This occurred in the Middle Ages when cartels of employers got together, with the aid of the state, to pass laws which prohibited wage levels above a certain maximum. Such agreements can succeed only with government aid and there are good reasons why this is so.

In the non-cartel situation, the employer hires a certain number of workers--the number which he believes will yield the maximum profit. If an employer hires only ten workers, it is because he thinks the productivity of the tenth will be greater than the wage he must pay, and that the productivity of an eleventh would be less than this amount.

If then, a cartel succeeds in lowering the wage of workers with a marginal productivity of \$1 to 5¢ per hour, each employer will want to hire many more workers. The worker whose productivity was, in the eyes of the employer, just below \$1, and therefore not worth hiring at \$1 per hour, will be eagerly sought at 5¢ per hour.

This leads to the first flaw in the cartel scheme; each employer who is a party to it has a great financial incentive to cheat. (Shades of OPEC.) Each employer will try to bid workers away from the others. The only way he can do this is by offering higher wages. How much higher? All the way up to \$1, as we have seen before, and for the same reason.

The second flaw is that non-members of the cartel arrangement would want to hire these workers at 5¢ per hour, even assuming no "cheating" by members. This also tends to drive up the wage from 5¢ toward \$1 per hour. Others, such as would-be employers in non-cartel geographical areas, self-

employed artisans who could not before afford employees, and employers who had previously hired only part-time workers, would all contribute to an upward trend in the wage level.

Labour market knowledge

Even if the workers themselves are ignorant of wage levels paid elsewhere, or are located in isolated areas where there is no alternative employment, these forces will apply. It is not necessary that both parties to a trade have knowledge of all relevant conditions. It has been said that unless both parties are equally well-informed, "imperfect competition" results, and economic laws somehow do not apply. But this is mistaken. Workers usually have little over-all knowledge of the labour market, but employers are supposedly much better informed. And this is all that is necessary. While the worker may not be well-informed about alternative job opportunities, he knows well enough to take the highest paying job. All that is necessary is that the employer present himself to the employee who is earning less than his marginal productivity, and offer him a higher wage.

And this is exactly what happens. The self-interest of employers leads them "as if by an invisible hand" to ferret out low-wage workers, offer them higher wages, and spirit them away. The whole process tends to raise wages to the level of marginal productivity. This applies not only to urban workers, but to workers in isolated areas who are ignorant of alternative job opportunities and would not have the money to get there even if aware of them. (It is of course true that the differential between the wage level and the productivity of the unsophisticated worker will have to be great enough to compensate the employer for the costs of finding the worker, informing him of job alternatives, and paying the costs of transporting him there.)

The impoverished workers of the Third World

The Mexican "wetbacks" are a case in point. Few groups have less knowledge of the labour market in Canada, and less money for travelling to more lucrative jobs. Not only do employers from B.C. travel hundreds of miles to find them, but they also furnish trucks or travel money to transport them northward. In fact, employers from as far away as Ontario travel to Mexico for "cheap labour" (workers receiving less than their marginal product). This is eloquent testimony to the workings of an obscure economic law of which they have never heard. (There are complaints about the poor working conditions of these migrant workers. But these complaints are mainly from either well-intentioned people who are unaware of the economic realities, or from those not in sympathy with these hapless workers receiving full value for their labours. The Mexican workers themselves view the package of wages and working conditions as favourable compared to alternatives at home. This is seen in their willingness, year after year, to come to Canada during the harvesting season.)

Another case in point is the "transnational corporations" disapprovingly cited by the bishops in their report, who "move capital from one country to another in order to take advantage of cheaper labour conditions..."

Yes, precisely! The entrepreneur abhors a situation where workers are being paid significantly below their marginal productivities ("cheap labour"), as much as nature abhors a vacuum. The solution, in this case, is to open a factory nearby, to "take advantage" or "exploit" these workers--by offering them more pay! This is part and parcel of the real world bidding process which tends to ensure equality between wages and productivity levels.

It is a complete mystery as to why the bishops should object to this process. Certainly, if we keep our minds firmly on the first principle of the preferential option for the poor, we must realize that, as badly off as are Canadian employees, especially during this economic crisis, labour in the Third World is in immeasurably more dire circumstances.

The initiative of the transnational corporations, then, must be applauded, not derogated. One may call it "taking advantage of cheap labour" if one wishes, but a more accurate description would be "boosting the wage rates of the most afflicted and dispossessed workers in the entire world."

The bishops' critique of the multinationals is even more difficult in the light of their own suggestion on this matter, made later in the report. Say the bishops, "In our view, it is important...to redistribute capital for industrial development in underdeveloped regions...." But whatever else can it be supposed that the multinationals are doing, in their unending quest for the "almighty dollar?"

A second confusion

A second source of confusion is that, in the short run, the minimum wage law really does boost the level of wages paid to unskilled workers! When the minimum wage level rises, say, from \$3.25 to \$4 per hour, the factory owner with 1000 such employees cannot immediately fire them all. Production and profits would cease and chaos ensue. So in the days and weeks immediately following the upward ratchet of the minimum wage level, workers who had heretofore been paid \$3.25 are now seen as the recipients of \$4 per hour. The law is widely credited with this happy occurrence.

We must remember, however, that if the workers were previously receiving \$3.25, their marginal productivity could not have been much higher than that amount. (Otherwise, other employers would bid these workers away from their present jobs, if they were really worth more than \$3.25, but paid only this amount.) But when employers are forced to pay out \$4 per hour for a service worth only \$3.25, this cannot long endure. Rather, as soon as they can, they will begin to fire the low-skilled workers, and replace them with employees of greater productivity. But this will be done on a gradual basis, and it might be several months, or even years, before all the low productivity workers will be forced off the payroll. It is the acute observer who will be able to relate these gradual firings to the previous minimum wage increase.

Further complicating matters is the fact that some of these original workers may, in the intervening period, have upgraded their skills sufficiently to be kept on at \$4 per hour. In the absence of a legislated wage increase, such workers would have been given raises (not out of employer generosity, in most cases, but rather out of fear of losing such profitable, productive personnel to competitors). But in the present case, the legislated minimum wage increase will be given credit for the pay raise.

Elevator operators

A real life illustration of this phenomenon took place when the minimum wage level was legislatively boosted during the era of manned elevators. Before this change in the law, it was of course technologically possible to replace the elevator operators with automatic equipment. But it was **cheaper** to maintain the status quo. Then the law changed, and it became more economical to install the new elevators.

Naturally, however, the elevators in Canada couldn't be changed over all at once. It was a gradual process. So much so that it was difficult to relate the cause to the effect. But the one caused the other, as surely as night follows day.

Incidentally, this phenomenon is related to the bishops' concern about an overly capital-intensive technology. For there is only one economical way to replace low-skilled workers rendered redundant through the wage law: first, it must be done by utilizing workers with greater skills, whose productivity levels are higher than the new wages stipulated by law; and second, when skilled workers are substituted for unskilled, more sophisticated (more capital intensive) machinery must be utilized as well.

In this case, tens of thousands of unskilled manual operators were replaced by hundreds of semi-skilled factory workers producing the elevators, and hundreds of highly skilled installers and repairmen; the labour intensive old-fashioned elevators were replaced by new, more capital intensive units.

In the event, the minimum wage law not only caused unemployment, but misallocated resources as well. It forced the marketplace to use an inappropriately high level of capital intensity. To this extent, and for this reason, the bishops are entirely justified in objecting to the artificial level of capital intensity imposed on the market. But, it must be emphasized, this is the result of an interventionistic law, not of the operation of the marketplace.

A third confusion

A third source of confusion arises out of the following feeling: even if economic theory is correct, and employees **will** tend to be paid at their productivity levels, still, the ensuing wages will be far too low to support a life of dignity. In this view, better to have a minimum wage law, to be unemployed as a result, and to receive welfare payments; than not to have such legislation, to be employed at, say \$1 per hour, and practically starve to death.

This way of looking at things, though quite understandable, is completely mischievous. It is like making headaches attractive by giving a great deal of money to those afflicted, and then asking if, on balance, people wouldn't really rather have a headache.

Of course, if you give people who are afflicted with a headache enough money, they will actually prefer this state of events. But that doesn't make headaches a good thing. In like manner, if the unemployed are bribed sufficiently by welfare payments, of course they will choose a well-paid unemployment over a poorly paid job. (In this choice, however, such people might be ignoring their own long-term best interest. True, at present, unemployment may pay more than employment. But unemployment tends to breed boredom, a poor self-image, and dependency, and is correlated with petty crime and eventual jail sentences. Employment on the other hand, even at initially low wages, leads to a better sense of worth. On-the-job training is provided—even an elevator operator learns such basic "work skills" as showing

up on time, being reliable, getting along well with the public—which ultimately brings higher wages than welfare can provide. When the lower rungs of employment are cut off in such a manner, it becomes more and more difficult to "pole vault" onto the intermediate rungs.)

The point is, in trying to determine the effects of minimum wages, one must compare the situation with and without such legislation, **other things equal**. It will not do to add welfare payments to the situation which arises as a result of the law, but not in its absence. The law of the land may require that this be done, but if we want to focus on the real economic effects, we must either incorporate welfare payments into both situations, or leave them out of both. The employed non-minimum wage situation will be preferred to the unemployed non-minimum wage case either way. In the former case, pay from a job **plus** welfare will be greater than an equal amount of welfare alone. In the latter case, some pay will be preferred to zero pay, in the absence of any welfare payments.

A more sinister explanation

We have discussed several confusions which explain why minimum wage legislation might be advocated, even though it brings such desolation to the poor, the afflicted and the oppressed. These might well apply to the general public, and to most members of unions in Canada. People such as these are benevolent, and well disposed toward those less fortunate than themselves.

But only a rather more sinister explanation will suffice for union leaders, and their professional advisors, who know full well the economic effects of this law. As we have said above, the *sine qua non* of unionism is to raise wages for its members. However, skilled unionized labour is, within certain broad bounds, always in competition with other workers. A given product might be produced with 200 skilled employees and 100 unskilled, where the latter act as "go-fers" and assistants to the former; with 100 skilled and 500

unskilled, where the former act as section leaders to the latter; or with even as few as 10 skilled workers, coupled with, say, 1000 unskilled, as in much of the undeveloped world. Thus, whenever a union leader demands a wage increase, he must be ever-vigilant concerning the extent to which his members can be replaced by workers of other (lesser) skill levels. But the unskilled, of course, are only good substitutes for union labour if they can be hired at low enough wages: that is, commensurate with their low productivity levels.

What better way to end, once and for all, any challenge from the unskilled end of the spectrum than by supporting a law which prices these people out of the market? If forced to pay \$4 per hour, the employers' option to hire unskilled workers is reduced. And to that extent, the employer will be forced to go along with union demands for wage increases (or, in the present 1983 context, to go along with opposition to wage reductions).

It is to the eternal shame of union leaders that, in order to feather their own nest to some slight degree, they have actively exploited the most helpless class of workers in the country--by supporting and perpetrating the minimum wage law on them!

To attempt to analyze and discuss Canadian unemployment, as the bishops have done, without even mentioning minimum wage enactments is thus to miss a central part of the problem. This is even more so for a group that announces a "preferential option for the poor, the afflicted and the oppressed"--the first principle of the Social Affairs Commission.

An ethical analysis

While the bishops have shown themselves to be ethically acute in branding our present unemployment fiasco as "immoral," we cannot leave this section without noting that their public policy analysis and recommendations leave something to be desired--even in this regard.

This is neither the time nor place for a full-blown exploration of the realm of morality. We cannot, here, expound fully upon what makes for morality in the realm of political economy. But if we are to assess the ethical claims of the bishops, we must set forth at least one criteria of immorality: the initiation of coercive aggression against an innocent party who has not first initiated coercion.

Using this criteria, the bishops' characterization of our unemployment crisis as immoral can immediately be seen as well founded.

In the case of the minimum wage law, this legislation prevents two adults (the would-be employer and the would-be employee) from engaging in commercial acts with each other (trading labour services for financial considerations--otherwise called employment). Neither party was guilty of any act whatsoever; it would therefore be inappropriate to punish either by subjecting it to a minimum wage law.

But if we have unearthed (at least one of) the criteria upon which the bishops' charge of the immorality of unemployment could be sustained, it is clear that the bishops themselves have not consistently carried through on this criterion. Indeed, they contradict it. For the immoral minimum wage law is central to the shopping list of organized labour. In calling for a greater union role in fighting unemployment, the bishops are thus supporting no small level of immorality.

2. Corporate-State Capitalism vs. Laissez-Faire Capitalism

As we have seen above, the marketplace does not fit the charge of Social Darwinism. But there is a "dog eat dog," "survival of the fittest" jungle operating in the Canadian economy today, one that the bishops, unfortunately, have overlooked. It is not laissez-faire capitalism, but rather, what might be termed corporate state monopoly capitalism--or the mixed economy.

The essence of this system is not voluntary trade, but coercive taxation and regulation. When the government provides bailouts and subsidies to large corporations, for example, it mulcts resources from the poor (and others) which they were not willing to spend in the form of trade, as consumers. When the government sets up tariffs, or marketing boards, or licences lawyers, or prohibits advertising by doctors, or imposes a taxi cab medallion system, it pre-emptes trades that would otherwise have taken place. This has the effect of raising prices, and/or closing off employment opportunities to the poor.

In the marketplace, as we have seen, there are no "losers." Both parties to a trade gain, and since the market consists of no more than all such pair-wise trades, all are "winners" in the market.

But under the corporate state capitalist system, there certainly are winners and losers. And what the winners win, the losers lose. The tax-transfer of vast amounts of funds from the entire citizenry to the coffers of a large subsidized business, or a crown corporation, serves as a paradigm example of this practice.

It is a puzzle that the bishops should see Social Darwinism in the market, where none exists, and ignore it when government grants special privileges to business, which is Social Darwinism incarnate.

Perhaps the bishops have been fooled by the professionals and businessmen who favour the free enterprise system "in theory," but who sing an entirely different tune when the question of privileges arises in their particular industry. The truth of the matter, of course, is that the favour-begging and privilege-seeking businessmen have little to gain from free enterprise, and much to lose from it. There is nothing that such businessmen fear more than the disappearance of our present system of government created privileges, and its replacement by laissez-faire capitalism. They fear this even more, if this be possible, than a complete takeover by socialism. For at least that system would still need managers--slots they could fill with ease.

But under laissez-faire, such businesses would no longer be protected from competition, and could no longer count on subsidies to bail them out. They would be replaced by new entrepreneurs, those who could better satisfy the consuming public.

In criticizing laissez-faire capitalism, the bishops are thus not attacking the power of these "progressive" businessmen, who exploit the poor; on the contrary, they are supporting them. It is a tragic misunderstanding of present day reality to think that business is 100 per cent--or anything like it--in favour of laissez-faire capitalism.

3. Labour Mobility

If we want to match jobs and people, we must realize that new employment opportunities are likely to pop up anywhere at all. In a resource-based economy, new jobs tend to follow the path of new discoveries--and these are no respecters of present settlement patterns in Canada.

This means that labour mobility must be as smooth and easy as possible. Yet provincial and local governments have placed numerous barriers on interprovincial labour (and job-creating capital) mobility. Calgary Mayor Ralph Klein's bigotted outburst about putting job-seeking "bums" from eastern Canada in Calgary's jails is only the latest entry in a rather unfortunate chapter of our economic history. Shorn of its red-neck verbiage, B.C. Premier Bill Bennett implied virtually the same thing when he scotched an attempt by Canadian Pacific to invest in forestry giant MacMillan Bloedel by saying that "B.C. is not for sale." And numerous additional provinces, from one end of the country to the other, give preferential treatment to indigenous capital and labour--another form of discrimination against labour and labour mobility. For a comprehensive categorization of mobility barriers--including union-imposed seniority rules and professional and trade licensing restrictions, social and education impediments--see the Fraser Institute's **Canadian Confederation at the Crossroads**.

VI CONCLUSION

Ethical Reflections on the Economic Crisis is a powerful moral indictment of the **present** economic system of Canada--a mixed system where central planning, government regulatory intervention, and the marketplace all play a role. It is unfortunate that many of its policy recommendations would only carry us further into the central planning-government intervention abyss. But the moral vision it imparts, the spotlight it focuses on the plight of the unemployed, stand as eloquent testimony to the important task just begun by the Canadian Conference of Catholic Bishops.

Their views are exceedingly important when interpreted **not** as a final, closed, inflexible position, but rather as an opening attempt to create a dialogue on economic questions from a religious and moral perspective. The bishops themselves, on several occasions, see their report in this light. This short document is **not** offered as the final word on the Canadian economic crisis, as most of the more vituperative critics have implicitly alleged. There is thus no warrant at all for castigating the work of the bishops as "naive," and dismissing it.

As an opening statement, it is welcomed by the Centre for the Study of Economics and Religion (CSER), whose role is to promote dialogue between ecclesiastics involved in the study of public policy, and economists concerned with the ethical and religious implications of their analysis. CSER focuses attention on the interface between economics and religion through a series of seminars and publications, and is attempting to encourage a new academic discipline, economic-theology (or theological economics).

We at CSER are determined to take the report of the bishops as it was meant, and therefore to enter into a discussion with them concerning the economic and ethical issues they have raised. In the spirit of promoting an ongoing dialogue, then, we ask that the bishops consider the following:

- the unemployment created by the minimum wage law, and by other union-inspired legislation which allows the setting of wages above productivity levels
- the unemployment created by a myriad of government licensing laws, which, for example will not allow free entry into the taxi cab business
- the unemployment created by our "protective" tariff legislation, especially in the Third World, but also in Canadian export industries
- the present unemployment created by our past inflationary policies, and the future unemployment, now being created by our present inflationary policies.
- and most of all, the importance of the first principle of the preferential option for the most helpless amongst us.

SUGGESTED READINGS

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APPENDIX: ETHICAL REFLECTIONS ON THE ECONOMIC CRISIS

This statement was prepared by the eight bishops of the Social Affairs Commission of the Canadian Conference of Catholic Bishops. It does not necessarily reflect the opinions of every individual Canadian bishop, nor of the conference as a whole.

As the New Year begins, we wish to share some ethical reflections on the critical issues facing the Canadian economy.

In recent years, the Catholic church has become increasingly concerned about the scourge of unemployment that plagues our society today and the corresponding struggles of workers in this country. A number of pastoral statements and social projects have been launched by church groups in national, regional, and local communities as a response to various aspects of the emerging economic crisis. On this occasion, we wish to make some brief comments on the immediate economic and social problems followed by some brief observations on the deeper social and ethical issues at stake in developing future economic strategies.

As pastors, our concerns about the economy are not based on any **specific political options**. Instead, they are inspired by the gospel message of Jesus Christ. In particular, we cite two fundamental gospel principles that underlie our concerns.

The first principle has to do with the preferential option for the poor, the afflicted, and the oppressed. In the tradition of the prophets, Jesus dedicated his ministry to bringing "good news to the poor" and "liberty to the oppressed." As Christians, we are called to follow Jesus by identifying with the victims of injustice, by analyzing the dominant attitudes and structures that cause human suffering, and by actively supporting the poor and oppressed in their struggles to transform society. For, as Jesus declared, "when you did it unto these, the least of my brethren, you did it unto me."

The second principle concerns the special value and dignity of human work in God's plan for Creation. It is

through the activity of work that people are able to exercise their creative spirit, realize their human dignity, and share in Creation. By interacting with fellow workers in a common task, men and women have an opportunity to further develop their personalities and sense of self-worth. In so doing, people participate in the development of their society and give meaning to their existence as human beings. Indeed, the importance of human labor is illustrated in the life of Jesus who was himself a worker, "a craftsman like Joseph of Nazareth."

It is from the perspective of these basic gospel principles that we wish to share our reflections on the current economic crisis. Along with most people in Canada today, we realize that our economy is in serious trouble. In our own regions, we have seen the economic realities of plant shut-downs, massive layoffs of workers, wage restraint programs, and suspension of collective bargaining rights for public sector workers. At the same time, we have seen the social realities of abandoned one-industry towns, depleting unemployment insurance benefits, cut-backs in health and social services, and line-ups at local soup kitchens. And, we have also witnessed, first hand, the results of a troubled economy: personal tragedies, emotional strain, loss of human dignity, family breakdown, and even suicide.

Indeed, we recognize that serious economic challenges lie ahead for this country. If our society is going to face up to these challenges, people must meet and work together as a "true community" with vision and courage. In developing strategies for economic recovery, we firmly believe that first priority must be given to the real victims of the current recession, namely--the unemployed, the welfare poor, the working poor--pensioners, native peoples, women, young people--and small farmers, fishermen, some factory workers, and some small business men and women. This option calls for economic policies which realize that the needs of the poor have priority over the wants of the rich; that the rights of workers are more important than the maximization of profits; that the participation of marginalized groups takes precedence over the preservation of a system which excludes them.

In response to current economic problems, we suggest that priority be given to the following short-term strategies by both government and business.

First, unemployment rather than inflation, should be recognized as the number one problem to be tackled in overcoming the present crisis. The fact that some 1.5 million people are jobless constitutes a serious moral as well as

economic crisis in this country. While efforts should continually be made to curb wasteful spending, it is imperative that primary emphasis be placed on combatting unemployment.

Second, an industrial strategy should be developed to create permanent and meaningful jobs for people in local communities. To be effective, such a strategy should be designed at both national and regional levels. It should include emphasis on increased production, creation of new labor intensive industries for basic needs, and measures to ensure job security for workers.

Third, a more balanced and equitable program should be developed for reducing and stemming the rate of inflation. This requires shifting the burden for wage controls to upper income earners and introducing controls on prices and new forms of taxes on investment income (e.g., dividends, interest).

Fourth, greater emphasis should be given to the goal of social responsibility in the current recession. This means that every effort must be made to curtail cut-backs in social services, maintain adequate health care and social security benefits, and above all, guarantee special assistance for the unemployed, welfare recipients, the working poor and one-industry towns suffering from plant shut-downs.

Fifth, labor unions should be asked to play a more decisive and responsible role in developing strategies for economic recovery and unemployment. This requires the restoration of collective bargaining rights where they have been suspended, collaboration between unions and the unemployed and unorganized workers, and assurances that labor unions will have an effective role in developing economic policies.

Furthermore, all peoples of goodwill in local and regional communities throughout the country must be encouraged to coordinate their efforts to develop and implement such strategies. As a step in this direction, we again call on local Christian communities to become actively involved in the six-point plan of action outlined in the message of the Canadian bishops on **Unemployment: The Human Costs**.

We recognize that these proposals run counter to some current policies or strategies advanced by both governments and corporations. We are also aware of the limited perspectives and excessive demands of some labor unions. To be certain, the issues are complex; there are no simple or magical solutions. Yet, from the stand-point of the church's social teachings, we firmly believe that present economic realities reveal a "moral disorder" in our society. As pastors,

we have a responsibility to raise some of the fundamental social and ethical issues pertaining to the economic order. In so doing, we expect that there will be considerable discussion and debate within the Christian community itself on these issues. Indeed, we hope that the following reflections will help to explain our concerns and contribute to the current public debate about the economy.

Economic crisis

The present recession appears to be symptomatic of a much larger structural crisis in the international system of capitalism. Observers point out that profound changes are taking place in the structure of both **capital** and **technology** which are bound to have serious social impacts on **labor**. We are now in an age, for example, where transnational corporations and banks can move capital from one country to another in order to take advantage of cheaper labor conditions, lower taxes, and reduced environmental restrictions. We are also in an age of automation and computers where human work is rapidly being replaced by machines on the assembly line and in administrative centres. In effect, capital has become transnational and technology has become increasingly capital-intensive. The consequences are likely to be permanent or structural unemployment and increasing marginalization for a large segment of the population in Canada and other countries. In this context, the increasing concentration of capital and technology in the production of military armaments further intensifies this economic crisis, rather than bringing about recovery.

Indeed, these structural changes largely explain the nature of the current economic recession at home and throughout the world. While there does not appear to be a global shortage of capital *per se*, large scale banks and corporations continue to wait for a more profitable investment climate. Many companies are also experiencing a temporary shortage of investment funds required for the new technology, due largely to an over extension of production and related factors. In order to restore profit margins needed for new investment, companies are cutting back on production, laying-off workers, and selling off their inventories. The result has been economic slow-down and soaring unemployment. To stimulate economic growth, governments are being called upon to provide a more favorable climate for private investments. Since capital tends to flow wherever the returns are greatest, reduced labor costs and lower taxes are

required if countries are to remain competitive. As a result, most governments are introducing austerity measures such as wage restraint programs, cut-backs in social services and other reductions in social spending in order to attract more private investment. And, to enforce such economic policies some countries have introduced repressive measures for restraining civil liberties and controlling social unrest.

Moral crisis

The current structural changes in the global economy, in turn, reveal a deepening moral crisis. Through these structural changes, "capital" is reasserted as the dominant organizing principle of economic life. This orientation directly contradicts the ethical principle that labor, not capital, must be given priority in the development of an economy based on justice. There is, in other words, an ethical order in which human labor, the subject of production, takes precedence over capital and technology. This is the **priority of labor** principle. By placing greater importance on the accumulation of profits and machines than on the people who work in a given economy, the value, meaning, and dignity of human labor is violated. By creating conditions for permanent unemployment, an increasingly large segment of the population is threatened with the loss of human dignity. In effect, there is a tendency for people to be treated as an impersonal force having little or no significance beyond their economic purpose in the system. As long as technology and capital are not harnessed by society to serve basic human needs, they are likely to become an enemy rather than an ally in the development of peoples.

In addition, the renewed emphasis on the "survival of the fittest" as the supreme law of economics is likely to increase the domination of the weak by the strong, both at home and abroad. The "survival of the fittest" theory has often been used to rationalize the increasing concentration of wealth and power in the hands of a few. The strong survive, the weak are eliminated. Under conditions of "tough competition" in international markets for capital and trade, the poor majority of the world is especially vulnerable. With three-quarters of the world's population, for example, the poor nations of the South are already expected to survive on less than one-fifth of the world's income. Within Canada itself, the top 20 percent receive 42.5 percent of total personal income while the bottom 20 percent receive 4.1 percent. These patterns of domination and inequality are

likely to further intensify as the "survival of the fittest" doctrine is applied more rigorously to the economic order. While these Darwinian theories partly explain the rules that govern the animal world, they are in our view, morally unacceptable as a "rule of life" for the human community.

Present strategies

There is a very real danger that these same structural and moral problems are present in Canada's strategies for economic recovery. As recent economic policy statements reveal, the primary objective is to restore profitability and competitiveness in certain Canadian industries and provide more favorable conditions for private investment in the country. The private sector is to be the "engine" for economic recovery. To achieve these goals, inflation is put forth as the number one problem. The causes of inflation are seen as workers' wages, government spending and low productivity rather than monopoly control of prices. The means for curbing inflation are such austerity measures as the federal six and five wage restraint program and cut-backs in social spending (e.g., hospitals, medicare, public services, education and foreign aid), rather than controls on profits and prices. These measures, in turn, have been strengthened by a series of corporate tax reductions and direct investment incentives for such sectors as the petroleum industry. In effect, the survival of capital takes priority over labor in present strategies for economic recovery.

At the same time, working people, the unemployed, young people, and those on fixed incomes are increasingly called upon to make the most sacrifice for economic recovery. For it is these people who suffer most from layoffs, wage restraints, and cut-backs in social services. The recent tax changes, which have the effect of raising taxes for working people and lowering them for the wealthy, adds to this burden. And these conditions, in turn, are reinforced, by the existence of large-scale unemployment which tends to generate a climate of social fear and passive acceptance. Moreover, the federal and provincial wage control programs are inequitable, imposing the same control rate on lower incomes as on upper incomes. If successfully implemented, these programs could also have the effect of transferring income from wages to profits. Yet, there are no clear reasons to believe that working people will ever really benefit from these and other sacrifices they are called to make. For even if companies recover and increase their

profit margins, the additional revenues are likely to be reinvested in more labor-saving technology, exported to other countries, or spent on market speculation or luxury goods.

Alternative approaches

An alternative approach calls for a re-ordering of values and priorities in our economic life. What is required first is a basic shift in values: the goal of serving the human needs of all people in our society must take precedence over the maximization of profits and growth, and priority must be given to the dignity of human labor, not machines. From this perspective, economic policies that focus primary attention on inflation and treat soaring unemployment as an inevitable problem, clearly violate these basic ethical values and priorities. There is nothing "normal" or "natural" about present unemployment rates. Indeed, massive unemployment which deprives people of the dignity of human work and an adequate family income, constitutes a social evil. It is also a major economic problem since high unemployment rates are accompanied by lower productivity, lower consumption of products, reduced public revenues, and increasing social welfare costs. Thus, alternative strategies are required which place primary emphasis on the goals of combatting unemployment by stimulating production and permanent job creation in basic industries; developing a more balanced and equitable program for curbing inflation; and maintaining health care, social security, and special assistance programs.

An alternative approach also requires that serious attention be given to the development of new industrial strategies. In recent years, people have begun to raise serious questions about the desirability of economic strategies based on mega-projects, wherein large amounts of capital are invested in high technology resource developments (e.g., large-scale nuclear plants, pipelines, hydro-electric projects). Such mega-projects may increase economic growth and profits but they generally end up producing relatively few permanent jobs while adding to a large national debt. In our view, it is important to increase the self-sufficiency of Canada's industries, to strengthen manufacturing and construction industries, to create new job producing industries in local communities, to redistribute capital for industrial development in underdeveloped regions, and to provide relevant job training programs. It is imperative that such strategies, wherever possible, be developed on a regional basis and that labor unions and community organizations be effectively involved in their design and implementation.

New directions

In order to implement these alternatives there is a need for people to take a closer look at the industrial vision and economic model that govern our society. Indeed, it is becoming more evident that an industrial future is already being planned by governments and corporations. According to this industrial vision, we are now preparing to move into the high technology computer age of the 1990s. In order to become more competitive in world markets, the strategy for the 80s is to re-tool Canadian industries with new technologies, create new forms of high-tech industries, (e.g., micro-electronic, petro-chemical, nuclear industries), and phase out many labor-intensive industries (e.g., textile, clothing and footwear industries). This industrial vision, in turn, is to be realized through an economic model of development that is primarily: capital-intensive (using less and less human labor); energy-intensive (requiring more non-renewable energy sources); foreign controlled (orienting development priorities to external interests); and export-oriented (providing resources or products for markets elsewhere rather than serving basic needs of people in this country).

There are, of course, alternative ways of looking at our industrial future and organizing our economy. This does not imply a halt to technological progress but rather a fundamental re-ordering of the basic values and priorities of economic development. An alternative economic vision for example, could place priority on serving the basic needs of all people in this country, on the value of human labor, and an equitable distribution of wealth and power among people and regions. What would it mean to develop an alternative economic model that would place emphasis on socially-useful forms of production; labor-intensive industries; the use of appropriate forms of technology; self-reliant models of economic development; community ownership and control of industries; new forms of worker management and ownership; and greater use of the renewable energy sources in industrial production? As a country, we have the resources, the capital, the technology and above all else, the aspirations and skills of working men and women required to build an alternative economic future. Yet, the people of this country have seldom been challenged to envision and develop alternatives to the dominant economic model that governs our society.

At the outset, we agreed that people must indeed meet and work together as a "true community" in the face of the current economic crisis. Yet, in order to forge a true community out of the present crisis, people must have a chance to choose their economic future rather than have one forced upon them. What is required, in our judgement, is a real public debate about economic visions and industrial strategies involving choices about values and priorities for the future direction of this country. Across our society there are working and non-working people in communities--factory workers, farmers, forestry workers, miners, people on welfare, fishermen, native peoples, public service workers, and many others--who have a creative and dynamic contribution to make in shaping the economic future of our society. It is essential that serious attention be given to their concerns and proposals if the seeds of trust are to be sown for the development of a true community and a new economic order.

For our part, we will do whatever we can to stimulate public dialogue about alternative visions and strategies. More specifically, we urge local parishes or Christian communities, wherever possible, to organize public forums for discussion and debate on major issues of economic justice. Such events could provide a significant opportunity for people to discuss:

- (a) specific struggles of workers, the poor, and the unemployed in local communities;
- (b) analysis of local and regional economic problems and structures;
- (c) major ethical principles of economic life in the church's recent social teachings;
- (d) suggestions for alternative economic visions;
- (e) new proposals for industrial strategies that reflect basic ethical principles.

In some communities and regions, Christian groups in collaboration with other concerned groups, have already launched similar events or activities for economic justice. And we encourage them to continue doing so.

Indeed, we hope and pray that more people will join in this search for alternative economic visions and strategies. For the present economic crisis, as we have seen, reveals a deepening moral disorder in the values and priorities of our society. We believe that the cries of the poor and the powerless are the voice of Christ, the Lord of History, in our midst. As Christians, we are called to become involved in struggles for economic justice and participate in the building up of a new society based on gospel principles. In so doing, we fulfill our vocation as a pilgrim people on earth, participating in Creation and preparing for the coming kingdom.