

TEXT
for
an
Address
on

THE CHOICES AHEAD

before

THE CANADIAN CLUB

by

JOHN CRISPO
Professor of Industrial Relations & Public Policy
University of Toronto

February 27, 1978

THE CHOICES AHEAD

by

John Crispo

There is no need to remind any audience in Canada today that this country is undergoing a protracted and strained period of national soul-searching. What needs to be emphasized is that much more is at stake than appears on the surface as if that in itself is not enough of a challenge.

The most critical outward challenge is to fashion a new basis for confederation which will satisfy the vast majority of Quebecois as well as the other forces for regionalism in the country. This challenge is made the more awesome by the fact that it could lead to a debilitating diminution in the powers of the federal government.

The second major challenge facing the country is to restore the economy to its long run potential growth rate. This process cannot be completed until the Western World in general and the U.S. in particular return to prosperity. Even then Canada will remain in difficulty unless it puts its own economic house in order.

One of the steps required in this process is a successful phasing out of the country's wage and price controls. To this end it is not just a question of avoiding an immediate wage and price explosion which now seems unlikely given the high levels of unemployment and idle capacity which prevail. More important is the need to avoid a situation in which a continuing recovery later on leads to unsustainable wage and price pressures. This could set the stage for another round of controls perhaps on a more permanent basis.

This brings out what could be the most fundamental challenge of all. Ultimately what is on the line in this country is the very nature of its socio-economic-political system. For the most part this paper will examine

this underlying challenge in terms of the possibility of preserving what's left of the enterprise or market system and the collective bargaining process. A section towards the end of the paper will stress why the fate of Canada's entire socio-economic-political system could well hinge on this possibility.

Canada's Economic Opportunities & Problems

Doom and gloom about the state of the Canadian economy have been in the forefront of many commentaries over the past few months. It is salutary, therefore, to begin on a more optimistic note. A year in Western Europe provides one with an intriguing foreign perspective on the Canadian scene. Most informed Western Europeans found it hard to believe that Canada had gotten itself into such economic difficulties.

Compared to Canada, Western Europe is resource poor. People over there look with envy upon this land of plenty. All they can see - albeit on an exaggerated basis - are bountiful resources in terms of land, minerals, space and water. Given its educated population, they simply could not fathom how a country like Canada could be mismanaging such a treasure chest of potential income and wealth.

Potential is the critical word in this context. Canada still has an immense potential to be realized. The problem is to figure out how to take full advantage of this potential once again. This obviously cannot be done until there is some common understanding about what's gone wrong.

The symptoms of Canada's present economic malaise are familiar. Stagflation is a handy catch-word which summarizes the country's plight in terms of its major economic goals. Canada has been experiencing sluggish growth, high unemployment and persistent inflation. Led by their governments Canadians have also displayed a propensity to live beyond their means. This has contributed to the country's tendency to price itself out of world markets.

All of these developments have culminated in a marked decline in the value of the Canadian dollar.

Another View of Canada's Economic Problems

Beneath these interrelated symptoms lie some basic causes of the country's problems. These causes can usefully be divided into three categories the first behavioural in nature, the second institutional, and the third structural.

Behaviourally there is the continuing struggle over the spoils of the system coupled with unreal expectations about the total capacity of the system to deliver such spoils. The squabble over relative shares has if anything intensified as the traditional income and pecking order has become less acceptable. The result has been an overall attempt to extract more from the economy than it is capable of producing. Canadian income advances have for some time been outstripping the country's productivity increases.

Institutionally more and more groups have been organizing to advance or at least protect their positions as the struggle over relative shares rages on. In the face of a less and less effective system of checks and balances the premium on organized power grows. The proliferation of marketing boards and public service unions highlight the trend. Organization becomes the only way to enhance one's position in the rat race and on the treadmill.

Structurally the trends reflect what has been happening behaviourally and institutionally. The comparatively unproductive public sector has been built up to the point where it has become a major power unto itself. At the same time through marketing boards, tariffs and other forms and types of protective regulation great segments of the private sector have been sheltered from competition either domestic or foreign in origin.

The results of all of these developments have been masked and muted to some extent over the past year or so by the wage and price controls. It remains to be seen what will happen as the controls are phased out and particularly as the economy begins to recover more fully as it could by next year.

The Choices Ahead

Either by design or default there are essentially four options which confront Canada in terms of its basic economic system. Any such classification is bound to be arbitrary and subject to various limitations. This one, for example, does not include muddling-on as one category even though the country has had some experience with this approach.

(1) Reform and Revitalization of What's Left of the Enterprise or Market System and the Collective Bargaining Process

The first option may be described as reform and revitalization of what's left of the enterprise or market system and the collective bargaining process. These interdependent institutions have served the country well in the past and could do so again if given the chance. What is required is not just a reduction in the governments' role in the economy. There is also a need for a renewed commitment to both competitive and countervailing forces in the form of a combination of market and institutional checks and balances designed to ensure that no one entity or group acquires too much power.

Central to such a commitment should be the establishment of an independent monitoring agency with a mandate to expose, investigate, and recommend remedies for abuses of power wherever they occur in the economic system. This agency should maintain a series of income and cost indices, research and hold public hearings on those behind any untoward movements in those indices, and propose changes which will limit their abilities to engage in similar conduct in the future.

The monitoring agency should not have control or rollback powers. Such measures only deal with the symptoms of abuse of power and not with the underlying causes. These causes can normally be traced back to the prerogatives and vested interests of out-of-line groups be they in labour, management, the professions, the public sector or anywhere else in the system. Illustrations of such prerogatives and vested interests which come readily to mind include hiring halls in the building trades, self-licensing powers in the professions, lack of public accountability in business and corporate circles, and the absence of either a bottom line or competition in government.

Where the monitoring agency discovers abuse of power it should develop recommendations designed to get at the base of that power. Assuming a good part of its advice and counsel were adopted up it would create an entirely new atmosphere. Organized labour, corporate management, the professions, quasi-public bodies and even governments themselves might begin to behave in the public interest for the only reason they are ever likely to, that is because it is in their own self interest to do so. Otherwise they might be the next to come under careful scrutiny by the monitoring agency.

If this agency sounds too influential that is the intent. Yet it is to be emphasized that it would only have the power to expose, examine and recommend. Where it unearths cause for remedial action it would be up to the applicable legislature to follow-up on its efforts.

Whether one agrees with such an agency or not, the point is that Canada is going to have to work hard at the preservation of what's left of the enterprise or market system and the collective bargaining process. Otherwise they will continue to falter, forfeit whatever faith the public has left in them, and fall prey to more government controls, regulations and/or takeovers.

(2) Beyond Reform and Revitalization of What's Left of the Enterprise or Market Systems and the Collective Bargaining Process

The second choice is based on the first but adds to it adaptations of a number of foreign institutional innovations. Such adaptations are required for a variety of reasons. In the first place the problems confronting the Canadian economy are becoming increasingly complex and thereby less amenable to treatment by straightforward fiscal and monetary policies even when supplemented by competitive and structural measures. At the same time the major interest groups in the economy are becoming more powerful in terms of their capacity to disrupt the system. The only alternative is to provide a basis for them to work together more effectively within it.

At least three new institutions are required in Canada besides the aforementioned monitoring agency. The first should be a cross between West Germany's Committee of Five Wise Men and the U.S. Council of Economic Advisors. This Council should be composed of five independent economists at least some of whom can communicate with laymen and the public at large. Their basic task should be to present an annual report on the state of the Canadian economy. They should continually monitor its behaviour and performance with a view to offering alternative policies for reconciling the country's various economic goals.

The report of this Council should be presented to a new Standing Committee of the House of Commons on the Economy which should operate similarly to the Joint Economic Committee of the U.S. Congress. Upon receipt of this Council report the Standing Committee should hold public hearings led off by testimony from the Bank of Canada and the Department of Finance. Other significant institutions - both public and private - should also be given an opportunity to appear before the Committee. It should then publish its findings in the form of majority and minority reports. If nothing else one result of this process would hopefully be that it would raise the level of public debate and understanding about the economic outlook of the country.

Canada must also strive to create a widely representative and yet basically tripartite national economic and social consultative body. Either on its own initiative or at the request of government or parliament this body should explore and try to reach agreement on any number of issues. Initially such a body would achieve great success if it only managed to develop a measure of consensus on the economic facts of life facing the country. Later on it might prove capable of playing a part in the resolution of the real challenges lying ahead.

Essentially these challenges are twofold. On the one hand the country must begin to work towards an industrial structure that better exploits the country's comparative advantages. On the other hand - and this is a mouthful in more ways than one - the country must begin to at least think about a level and distribution of income both more commensurate with its productivity performance and representing a more effective meshing of equity and incentive considerations.

(3) The Democratic Corporate State

Having stated the impossible it now seems appropriate to turn to the third option available to the country. This is what is often termed the democratic corporate state if that is not a contradiction in terms. It may not be such a contradiction if one can judge from Austria's experience. There every group is organized by law into well financed chambers which play a major - predominant might be a better word - part in the country's affairs. Although it is something of an over simplification, one gets the distinct impression that the governance of Austria depends much more on the interactions of these power blocs than on what transpires in parliament. Indeed, when the power blocs formally or informally arrive at a consensus on anything, parliament would appear to do little more than rubber stamp it.

There are those who would rule out any such possibility in Canada. One can only hope and trust that they are correct. To raise doubts one need only

recall the Prime Minister's musings of a year or so ago. Also of significance was the largely unintended but nevertheless intriguing corporatist interpretation which could be placed on the CLC's Manifesto promulgated in response to the government's wage and price controls. Nor have business interests shied away from a kind of corporatist mentality when they have felt the need for protectionist and regulatory support of one kind or another. Certainly many of the professions with their guild-like governing bodies are no strangers to the corporatist approach.

(4) The Undemocratic Corporate State

What is most frightening about anything like a corporate state is the unlikelihood of it remaining democratic. Corporatism by its very nature leads to the centralization and concentration of power. There is an old saying about power that bears no repetition here. Suffice it to say that it can become too ready and tempting for one or other powerful element to resist a takeover bid. It matters not whether the takeover comes from the left or the right. It would still end up being authoritarian, fascist and totalitarian.

The Ultimate Stakes

This helps to make it clear why Canada should be doing everything possible to salvage what's left of the enterprise or market system and the collective bargaining process. They are central to a hierarchy of values and institutions which most Canadians tend to take for granted all too casually and lightly. At the base of this hierarchy are what are known as fundamental Western values. Traditionally these have included freedom of assembly and speech and freedom of contract and property. Recently, more but not yet enough emphasis has been placed on such allied concerns as equality of opportunity and protection from human degradation, poverty and suffering.

At least the more historical of these fundamental Western values have flowered best within what may be described as liberal democratic political systems.

Whether parliamentary or congressional in form or some combination of the two these systems have served best the American constitutional concept of government of, by and for the people. Individual freedoms, again at least in their traditional senses, have fared comparatively well under these systems.

The next link in this hierarchy of values and institutions is more controversial but to the author no less controvertible. There is no successful let alone surviving liberal-democratic form of government which has not been combined with both an enterprise or market system and a collective bargaining process. History is hardly irrefutable in any regard but it has yet to reveal any other viable combination involving the former. Left wingers of one extreme persuasion or another are convinced that such a combination is possible. Hopefully they will never have a chance to use Canada as a laboratory for whatever experimentation they may have in mind.

Ultimately what is really at stake is freedom in its many forms. While there may be disagreement about which of these freedoms are the most important - to the author freedom of speech is naturally uppermost - most Canadians can surely agree that collectively these are freedoms they do not want to jeopardize.

Conclusion

There is no convenient way to conclude or even summarize these remarks. To begin with there is the need to underscore the long run potential of this country. The only question concerns its capacity to realize that potential while adhering to its customary values.

Next a word or two of caution is in order concerning the proposals advanced in this paper. It is important neither to exaggerate their potential nor to minimize the obstacles to their introduction. On their own these proposals are not going to resolve Canada's many socio-economic-political

problems. These problems are too deep-rooted to lend themselves to easy solutions. Appropriate fiscal and monetary policies are clearly required as no doubt are some basic attitudinal and philosophic changes.

As for the obstacles involved one has to start with the government even though there is a tendency these days to blame it for too many of our difficulties. What is really most worrisome about the federal government in particular is the drift and indecision which has characterized its conduct of the country's affairs. It does not seem firmly committed to any course of action. Rather it has almost seemed to settle for muddling-on in a manner all too similar to Britain's recent experience.

But the sole villain in the piece is not government. Other powerful interest groups in Canada also bear major responsibility for the country's situation. Take organized labour and corporate management and the matter of wage and price controls. Eventually they both condemned the controls while failing to suggest anything very meaningful in their place. Recently they have both resisted the idea of an effective monitoring agency. It is almost as if they both believe they can return to relatively free and unfettered wage and price setting. Yet that is only possible if the country restores some meaningful checks and balances within its economic system so that no one group or series of groups can run roughshod over the remainder.

If labour and management persist in their opposition to any real progress in curbing this phenomenon they will have to share much of the blame if controls are reimposed. One should not minimize this possibility. In the absence of a more effective system of checks and balances Canada could all too readily slide down the slippery garden path of on-again off-again controls.

Further down that slippery garden path lies the very real and treacherous risk of uncharted and unplanned socio-economic-political change. It is time Canadians made up their minds about the kind of a society they really want.

It does not have to be that much different from the one now in place.

But it is going to take a lot of effort, some of it seemingly negative and some of it more obviously positive, to salvage the best of the existing system. Under the former category must come an effective monitoring agency. Under the latter should come the other councils and forums referred to earlier.

The greatest threat could lie in further procrastination. Time will probably narrow the options available and in anything but a favourable manner.

February 27, 1978

John Crispo