

paid a price: workers with frozen wages and less jobs, banks providing more and cheaper credit, students paying tuition, the riding public charged higher fares, noteholders with a temporary moratorium on repayment. But, today, the City with an equally activist mayor is thriving economically and has a balanced budget. Detroit can clearly follow a similar path.

America will become more realistic soon. It will not do so under the banner of "Laissez-faire;" neither will it do so under the banner of a prior day liberalism which has proven itself incapable of coping with our present problems. It will do so under the banner of a mixed economy, geared mostly to free enterprise, in which an active business-labor government partnership strikes the series of bargains, be it an

energy policy, regional policy, or industrial policy, which an advanced western democracy requires to function. This partnership will be as indigenous to our culture and traditions as the Germans and Japanese have geared their own; and it will be competitive.

America cannot survive, half rich, half poor; half suburb, half slum. All Americans must share in its benefits as well as assume its burdens.

Our defense posture throughout the world, our ability to protect ourselves and our friends, and to deter our enemies, all depend on a stable, solid economic, industrial, and social base at home. Like Siamese twins, our national security and our industrial base on the one hand, our social fabric on the other, are tied to one umbilical cord.

## Government Intervention

### WHAT PRICE PROGRESS IN CANADA?

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HONOURABLE Members of Parliament, the Right Honourable Joe Clark, Leader of the Opposition, Honourable Guests, Ladies and Gentlemen: Before launching into my topic, I want to say a few words about why I have chosen the subject area on which I will be speaking today. The first reason will be obvious to many of you. It is that the Fraser Institute seeks, upon every occasion it can, to provide a sobering reminder of the impact of government on the economic lives of Canadians, and the importance of maintaining a vibrant private sector in the delicate balance that has come to be called the mixed economy. That of course would have been reason enough for me to take the opportunity to speak about the pitfalls and dangers involved in increasing the amount of government intervention in the economy, to a gathering assembled by an avowedly conservative group.

The second reason, and a more important one, concerns the fact that two issues have assumed an almost exclusive preponderance in the ongoing Canadian political debate: the constitutional provision for the sharing of political power in our country, and the question of the National Energy Program. These are of course very important issues which deserve our attention. However, the focus in the debate and discussion about these problems has been almost entirely on the relationships between governments. The bulk of the constitutional debate has been a battle between governments about the distribution of governing powers. The preeminent concern in the oil war, if I can call it that, has been the dispute about which government gets the largest share of the energy tax pie.

And, of course, in the Canadian context, the relationships between governments are a very important aspect of our constitutional dilemma. It is, after all, a characteristic of federal nations that there should be a constant tension between the powers of the central government and the powers of the constituent elements which make up the federal system. However, I think there is some danger that an undue amount of attention is being paid to the relationships between the constituent governments. This

may lead to insufficient consideration of the relationships between governments and *individuals*.

The fundamental concern of constitutions ought to be to delineate and restrict the powers of government over the governed. And, indeed, historically constitutions have evolved principally as a device to protect the individual from the activities of the majority, as expressed in the actions of government. The Magna Carta which underlies the parliamentary form of government and has been considered part of Canada's constitution, is one such document; the American Constitution is another.

Significantly, the Canadian Charter of Rights and Freedoms contained in the constitutional package which the Supreme Court of Canada is considering, makes no provision for two rights of individuals which have characteristically preoccupied writers of constitutions. Namely, the right to own property and the right to engage in unimpeded trade with other citizens of the country, without the interposition of government. As you will be aware, both of these provisions have essentially been omitted from the constitutional protections provided to Canadians in the Charter of Rights, precisely because of the effect they would have had on the balance of power between governments.

This is why I think it important that focus be primarily placed on the relationship between governments and individuals.

Let me begin by reminding us of our political roots as conservatives, as Canadians, as lovers of individual liberty, and as part of western democratic civilization. I speak here of the English classical-liberal tradition as exemplified in the works of Adam Smith, John Stuart Mill, Lord Acton, Richard Cobden, John Bright, and Jeremy Bentham. I speak as well of the same French tradition of free markets and limited government, as found in the writings of Alexis de Tocqueville, Jean Baptiste Say, Charles Pierre Dunoyer, and Frederic Bastiat. More modern representatives of this school of political economy include Friedrich von Hayek, Ludwig von Mises, and Milton Friedman.

We may encapsulate this view of political economy in the

form of four basic planks: 1) Individualism, 2) Private property, 3) A preference for competitive markets in economic affairs, not government intervention, and 4) A strong, and crucially important, but *limited* role for government, in the fields of justice, defense, law and order. I shall discuss each in turn.

### 1) Individualism

At the core of the libertarian-conservative philosophy is the individual. It is the individual, with his unique hopes, dreams and aspirations who is the touchstone of public policy, and the ultimate test of liberty, justice and human rights. There is no such thing as "society" — apart from the individuals who compose it.

Strictly speaking, it is not "Canada" that has a National Energy Policy, nor "Spain" which colonized much of what is now Central and South America, nor "Russia" which has invaded Afghanistan. In each case, these were the actions of some *individuals* ordering other *individuals* to do, or refrain from doing, certain things. When we learn how some individuals were able to direct the others, and why these others obeyed, only then can we begin to understand how the world works.

Since society is no more than a group of individuals, in justice it can do nothing forbidden the individual. In the immortal words of John Stuart Mill: "If all mankind minus one were of one opinion, and only one person were of the contrary opinion, mankind would be no more justified in silencing that one person, than he, if he had the power, would be justified in silencing mankind." We must therefore be ever vigilant against the arrogance and pretensions of democracy. Just because a majority favors something, that does not make it right. Hitler, after all, came to power through a democratic process; but this hardly justifies everything — or *anything* — the Nazis did. In a properly *limited* democracy, there are some things it is simply improper for people to vote on, or for governments to undertake in their behalf. Among these, surely, are *individual* rights.

Now the political left has, in some cases, a good record in defending individual rights. Their oft-heard refrain, "all behavior between consenting adults should be legitimate" is a case in point. But their *application* of this principle is extremely limited. It concerns only such things as sex, drugs, free speech.

Where are the rights to *capitalist* acts between consenting adults? Where are the rights to trade, to buy and sell, to own property, to engage in labor contracts on an individual basis? Why should people have the right to gamble in lotteries, to play bingo and blackjack, but not to speculate in land development?

Individuals should also have the right to freely contract for labor services. In this regard, the minimum wage law is a direct and blatant interference with the right of individuals to enter into commercial arrangements on mutually satisfactory terms. According to this law, which applies in all 10 provinces, it is illegal, and punishable by fines and even jail sentences, for the firm to offer, and for the worker to accept, a wage below some arbitrary level set by government bureaucrats. If individuals have the right to *commit suicide*, as some prominent leftists have argued, do they not also have a moral right to enter into employment contracts of their own devising?

Not only do minimum wage laws violate the principles of

individualism, they create unemployment, especially teenage unemployment, and therefore crime, and social havoc.

A young person, especially if he is a minority group member, or handicapped, or uneducated, or an ex-convict, is likely to have a low productivity level in the marketplace. Let's suppose that such a person could add only \$2.00 per hour to the firm's revenue. What then will be the effect of a law requiring the employer to hire him at \$3.50 per hour? It's obvious. The employer will lose \$1.50 per hour, and thus be highly discouraged, to say the least, from hiring this person. As a result, instead of earning a more modest \$2.00 per hour, and learning the skills necessary to improve productivity, and enjoying the pride which comes from putting in an honest day's work, all too many young people are consigned to enforced idleness, where the only result is boredom, misery, alienation — and in some cases, a life of crime.

And yet our left-liberal pundits and commentators blame the capitalist system, and conservatives, for this problem. According to a PAGE SIX political commentary in the Vancouver Sun last week, "There is a profound failure in our Western societies: their inability to provide sufficient rewarding work for their young people. The jobless young have nowhere to go but the streets and little to do but cause or get into trouble." Yes indeed, but this is due to a violation of individualism on the part of bureaucratic socialism and the mixed economy, not to the operation of the competitive marketplace.

The minimum wage law is of particular relevance in trying to understand regional disparities. For example, the Province of Quebec, which has long been a target of the Department of Regional Economic Expansion, and receives from DREE about 50 percent of the amount spent in all the other provinces combined, happens to have one of the highest minimum wage laws in the country, if not the highest.

Here is a classic example of a case where one level of government purposefully passes laws — minimum wage laws — with adverse economic consequences, with the full knowledge that another level of government will bail it out. That is, the higher unemployment created by minimum wage laws is soaked up by DREE Grants, special employment grants, and of course unemployment insurance.

I don't have time today to delve more deeply into this subject, but perhaps I have whetted your appetite for one of the articles in the Fraser Institute book on Confederation that I mentioned in the beginning. The article is by Professor T. J. Courchene of the University of Western Ontario, and considers in depth the issue of government bureaucratic wage legislation and the existence of regional disparities. Speaking of bureaucrats, I have to tell you some of my favorite bureaucrat jokes.

A bureaucrat is like a baby: uncontrollable appetite at one end, complete irresponsibility at the other.

A bureaucrat is like a nail without a head: easier to get in than to get out.

The head of one Ottawa bureau was approached by his secretary.

"Sir," she said, "our files are becoming overcrowded."

"What do you suggest we do?" asked the busy administrator.

"I think we ought to destroy all correspondence more

than six years old," answered the secretary.

"By all means," the prudent bureaucrat responded, "go right ahead. But be sure to make copies."

Three statements which nobody, but *nobody*, believes:

(1) The cheque is in the mail.

(2) Of course, dear, I'll respect you as much in the morning.

(3) I'm a government bureaucrat and I've come to help you.

## 2. Private Property Rights

I turn now to the second plank, private property rights. Of course, the most important private property right of all is that of self ownership. This is why slavery is illegitimate, and why so many of those active in the Abolitionist movement, such as John Brown and William Lloyd Garrison, were of classical liberal orientation. (By the way, as the "last stop" in the Underground Railway, Canada's defence of this private property right in human beings stands as a proud chapter in the history of human liberty).

Property rights over land, capital, animate and inanimate nature are derivative from, and secondary to, the private property rights we each hold in our own persons. But these too, are basic to the operation of the marketplace, for without them, individuals could not undertake commercial or any other activities, and thus there could be no marketplace.

The importance of private property rights may be underscored by the following: In the Soviet Union, 95 percent of the farmland is collectivized, but produces only 75 percent of the crops; on the other hand, only 5 percent of the arable land is in the form of private gardens, owned individually by the farm workers, yet it produces fully 25 percent of the produce in Russia.

For an example closer to home, we need look no further than the Vancouver housing shortage.

British Columbia has been the recipient of an unprecedented population explosion. Fueled by an annual immigration from other countries of more than 14,000 people last year, by almost 39,000 migrants from the other provinces, and by a net natural increase in population of over 17,000, this has amounted to over 70,000 people on a yearly basis, or more than 1,300 people per week. Most of these people have been moving into the lower mainland area, and all of them have been seeking housing accommodation.

Faced with this increased demand, the natural market response would have been to raise the supply of housing. That is where the profits are to be had, and businessmen have never been slow to provide what customers want, and are willing to pay for.

Instead, government has stepped in, rescinded property rights, and expropriated property values from their rightful owners. The agricultural land reserve policy refuses to allow property to be developed for housing, even though *consumers* value such land at hundreds of thousands of dollars per acre, while even the highest grade farmland is valued at only a small fraction of that. Zoning legislation prohibits the use of highly concentrated construction techniques; but the housing crisis cannot be solved unless land is able to be used *intensively*. Rent control laws divert what little funding is still available away from apartment accommodation. This is perhaps the strongest need of all, given the zero vacancy rates currently plaguing us. And when we consider inflation,

skyrocketing interest rates, and a tax policy which encourages movie making and other inessentials at the expense of housing, the present crisis should hardly be surprising.

It is important to realize that these violations of private property rights have hurt the poor — probably to a far greater degree than the rich. It is Vancouver's *poor* who are in a desperate plight because of the resulting housing shortage. It's doubtful that they can continue to afford to live here. With a 0.1 percent vacancy rate for apartment units, and with the smallest and meanest of single-family houses selling for \$80,000 to \$100,000, poor people who are evicted or displaced, or who try to set up new homes, have no real options on the Lower Mainland.

If the trend continues, the entire greater Vancouver region will become a haven for the rich — as West Vancouver and Shaughnessy now are — and the poor will be all but excluded.

Yet, as important as private property rights are for our economic well-being, they are under increasing attack. In order to see this, let us consider what rights really are. All rights have corresponding obligations. If I have a right to property, you have an obligation to refrain from stealing it or trespassing upon it. If you have an inviolable right in your person, I, and everyone else, have an obligation to leave you unmolested. Note that these are negative rights. They make it incumbent upon people to refrain; to cease and desist; to avoid certain aggressive behavior. But they impose no positive obligations whatsoever. Rights such as these, the rights to person and property, have been acknowledged since time immemorial, in every just society in the history of the world.

Of late, however, a new type of "right" has arisen. Widely trumpeted, these include a claim to everything from a "decent" level of clothing, food, housing, and medical care to rock music, sexual orgasms, and meaningful relationships. If this were only an emphasis of everyone's right to seek happiness in whatever manner chosen, provided no one else's rights were infringed in the process, it would be unobjectionable. Indeed this is the essence of the right to person and property. But something quite different is meant by those who hold — for example — that "housing is a basic human right." What is claimed here is not the right to be left alone, free to build, buy, or rent whatever shelter one can afford. Now demanded is a right to housing which implies an obligation on the part of other people to provide it. This claim, in other words, is for a so-called positive right, not the negative rights of classical origins.

But what is actually at stake here has nothing to do with rights at all. On the contrary, it is a disguised demand to, in biblical terms, reap where ye have not sowed. In the case of rights, proper, all that is required of outsiders is non-interference; but in the case of positive rights there is an unwarranted claim for a myriad of material goods and services.

In order to see just how radical a departure are the new "positive" rights, what Daniel Bell has called the revolution of rising entitlements, consider the following: mankind could at one fell swoop, if it were so minded, completely banish all violations of *negative* rights. All that need be done is for each and everyone of us to resolve not to initiate physical violence or fraud and then *act* on this basis. But all the agreement in the world would not be sufficient to

provide the level of wealth necessary to fulfill our so called positive rights to health, happiness, and so on.

There are other grave problems with this contention. First of all, if housing is a basic right, imposing ethical imperatives upon strangers, then each of us is immoral — not only if any of our countrymen are without "decent housing," but as long as anyone in the world is so lacking. For rights know no national boundaries. If it is morally incumbent on anyone to supply a good or service without his contractual agreement, then this applies to everyone.

Another logical implication is even more insidious. For rights, by their very nature, are egalitarian. It is clear that all of us, rich or poor, old or young, have equal (negative) rights: we are all equal in that, for example, murder committed upon any innocent person is wrong, and to the identical degree.

If positive claims are also rights, then people must not only have a right to "decent" shelter, but to an absolutely equal share of the world's housing. Since there is no logical stopping place for positive rights (if housing, why not medical care; if medical care, why not clothing? if clothing, why not recreation?) the claim of basic human needs as rights really amounts to a demand for absolute income equality. And the situation is even worse. For there is nothing in the logic of the argument to prevent the demand for equal intelligence, equal beauty, equal athletic and sexual prowess, and even equal happiness, if these things could somehow be accomplished.

No. We must reject this claim, and with it the moral swamp to which it necessarily leads.

### 3. Competitive Markets

The third aspect of classical-liberal philosophy I should like to discuss with you today is the emphasis on competition, and markets.

Let me state at the outset that "competition" in this sense is not in contrast to "cooperation." Rather, the only way in which the members of a large scale society can *cooperate* with each other is through *competition*. This may sound somewhat paradoxical, but, as I hope to show, it is not.

In a small group, such as a commune, an Israeli Kibbutz, or a marooned Swiss Family Robinson, the people might be so few, so well known to each other, and so empathetic, that they might be able to assign priorities to tasks, and divide up the labor and the final products amicably. But no large scale society of more than a few *dozen* or a few *hundred* people has ever, in all of history, been able to foster the required level of cooperation without that most magnificent of cooperative devices, *competition*, or of course coercion. And this (especially) includes all present socialist countries, which have found it absolutely necessary to allow for marketplaces and competition (if only in a very restrictive way) even though entirely inconsistent with their own ideologies, and this in spite of the brute force they exercise over their people.

Why are competitive markets so important, and how do they work?

At the core of the system is the business man, or entrepreneur. He risks his own money, or that of people he can convince to lend to him, or invest in his company, in the production of goods which will only be available at a later date. During this time he pays his workers, who of course can *keep* these earnings, regardless of how well the product sells when finally produced, or even if it doesn't sell at all.

The capitalist-entrepreneur is the owner of the residual income claims: if there is anything left over after the final sale, he gets to keep it, in the form of profits.

In the market economy, consumer sovereignty is served through the dollar vote: when the firm offers an item for sale, the consumer exercises a thumbs up approval or a thumbs down disapproval. It is thus the consumer who determines business success. If he buys, the business firm earn profits and prospers; if not, it fails and goes bankrupt. Profits, in other words, are the *leash* through which consumers control the actions of businessmen.

This, by the way, is the argument against the reimposition of an anti inflation board, a tax-based incomes policy, or wage-price controls. In addition to interfering with individual liberty, it subverts the market process.

One of the great benefits of the competitive enterprise system are the market *prices* it generates. These are based, on the one hand, on the relative scarcities of goods, talents, resources, skills, capital, land etc.; and on the other hand, on the subjective evaluation the marginal consumer gives to each of these items.

It is market prices which allow us to determine if it is wiser and more economical to construct boats out of wood or plastic; to rely on coal, oil, nuclear or solar power for our energy needs; to tell us whether a given piece of land has its best and highest use as the foundation for a house, a factory, or a farm; to indicate if Wayne Gretzky is better employed as a hockey player, a lawyer or a truck driver. Such information is diffuse and decentralized, able to coordinate the action of numerous market participants.

It is the information miraculously stored in each and every market price which allows for rational economic planning and mutual cooperation. It is the *lack* of such insight which confines socialist countries to economic inefficiency. And it is the interference with market prices which robs us of the ability to cooperate with each other to the extent we otherwise might — and which creates shortages, surpluses, bottlenecks, waste and mismanagement. In the minimum wage law case, as we have seen, it was a surplus of labor, or unemployment; with rent control, it is a shortage of rental accommodation, i.e. low vacancy rates. And when price-wage controls are instituted, shortage and surpluses crop up in arbitrary places, and the economy begins to lose its ability to calculate.

Having discussed the market system, the importance of information, and how it leads to social cooperation, we turn to several other reasons for preferring a shift in the pendulum toward the private sector and away from the public sector in economic affairs.

1. The automatic way in which the market operates. Let me give you a simple illustration of that.

We have all just had a nice luncheon. Many of us have eaten that dessert. And some of us have decided, therefore, to go on a diet.

If we go on a diet, what does this mean? It means, if it means anything at all, that we're going to want more carrots, for example, and less cheesecake. Given the market system, we won't have to petition our MLA, we need not bother our MP, we don't have to consult the Right Honorable Joe Clark, leader of the Opposition, and the Ottawa mandarins do not have to step into the picture. All we need do is start buying more carrots and stop buying so much cheesecake.

And when we start buying carrots, the price of carrots rises. The profits to be earned in carrot production increase, and there are thus greater incentives on the part of businessmen to start producing carrots. The obverse of course occurs for cheesecake. We stop buying it, the profits go out of cheesecake, people are discouraged from creating it, those who insist on continuing anyway lose money, and either get pushed out of the market entirely, or into carrot or alfalfa production. So we see how the market process allocates money in conformity to consumer demand.

This assumes though, that the government will not pass a law restricting profits in carrots even under the guise of protecting the public from profiteers. For to do so would be to interfere with the whole process. No longer would the businessman be led "as if by an invisible hand" (said Adam Smith) — but actually by the lure of profits — to act in the consumer or public interest.

This analysis also assumes that the government will not engage in any Chrysler or Massey Ferguson-type "rescue operations." For these bail outs were an attempt to short circuit the marketplace. As consumers, we have in effect said that the Chrysler products are not worth what it costs to keep the company in business. And then government turns around and short circuits our consumer sovereignty, declares our dollar vote null and void, and says in effect "We don't care if consumers rejected Chrysler and gave it the 'thumbs down' sign. We are going to transfer funds from the citizens to the company, in the form of taxes, even though the people refused to pay to Chrysler for its products on a voluntary basis."

2. A second reason for supporting the market is its relative efficiency in economic matters compared to the bureaucratic public sector.

And this is not because the businessman is smarter, more dedicated, or harder working than the bureaucrat. Indeed Canada is noted for the high quality of its civil servants. This reminds me of a story.

An explorer to an African village which practices cannibalism saw the following sign in a grocery store window:

SALE	
Brains	
Farmers	\$ 1/lb
Hunters	2/lb
Teachers	3/lb
Doctors	4/lb
Fishermen	5/lb
Bureaucrats	100/lb

"Why so much for bureaucrats' brains?" the explorer asked the storekeeper.

"Oh sir," came the answer, "if you knew how many bureaucrats we had to catch to get a pound of brains, you wouldn't ask that question."

Actually, I don't agree with the idea behind the last point. The real difference between businessmen and bureaucrats is to be found in the fact that on the market, the businessman is subject to a day-in, day-out market test of profit and loss, which continually weeds out inefficiency, while the bureaucrat is not.

Just as cells in our bodies get old and must make way for new ones if we are to remain healthy, so must business firms which can no longer satisfy consumer wants wither away, if the economy is to prosper. If not, we would still have the horse and buggy industry with us, and no room for the more

vital goods and services which have long since replaced it.

But this process does not and cannot work in the public sector. Take the post office for example. In the last two fiscal years, it has compiled losses of \$765.1 million dollars. That is more than  $\frac{1}{4}$  of a billion dollars! Or consider public municipal sanitation services, which study after study has shown to operate at from three to four times the cost of their private counterparts.

Were these public enterprises to be cut off and cast adrift from the umbilical cord of the public purse, there is little doubt that their management would either undergo remarkable improvement, or, through bankruptcy, fall into the hands of businessmen more capable of conducting them. The gain would be to the long suffering taxpayer, in the form of tax reductions, and to the long suffering consumer, in the form of lower prices and better service.

And the same goes for hundreds of our Crown Corporations, up to and including, dare I mention it, Petro Canada. There are some brilliant managers in each of these Crown Corporations, who could do as magnificent a job in private industry as anyone else there now. That is not the point. At issue is the *system* of enterprise, not the personalities involved.

Given that we live in a sea of ignorance, and that human beings by their very nature are subject to error, of which *system* do we expect better results? Of one which puts all of our eggs in one gigantic Crown Corporation basket? Or of one which features competition among several, or many industrial firms? Can we expect more efficiency from a *system* in which businessmen control only their own money, and monies voluntarily entrusted to them through loans and investments? Or from one which allows bureaucrats to manage investment funds given to them involuntarily, through taxes?

Let me put this in another way. Suppose you were trying to teach rats to run a maze. In one group of rats you automatically rewarded success with food, and punished failure with an electric shock. Call them the businessman rats. In the other group, success was not materially rewarded, nor failure punished. Call these the bureaucrat rats. Is there any doubt as to which rats would perform better, even if they were randomly distributed at first? Of course you do have to admit that bureaucrats make better lovers than businessmen. When the bureaucrat comes home from work at night, he's not as tired as the businessman. And he's already read the newspaper.

3. A third reason for preferring private to public enterprise has to do with the technical term in economics called "demonstrated preference." This means, simply, that actual choice demonstrates, or reveals, a person's true preferences.

If for example I trade this pen for your handkerchief, it implies that we evaluate the two items in opposite ways. For my part, since I give up the pen and accept the handkerchief, this shows that I value the handkerchief more than the pen. Otherwise I would not have willingly made the trade. For your part, since you accepted the pen in trade for the handkerchief, we can all deduce that you value the pen more than the handkerchief.

And more. Based on this little business arrangement, we also know that each party to the trade has gained from it. I earned the difference in value, for me, between the handkerchief I received and the pen I gave up. Your profit was the differential in evaluation, for you, between the more

highly prized pen, and the lesser valued handkerchief. One or both of us may later come to regret his rash commercial behavior. But *at the time of the trade*, each of us benefited. Or we would not have agreed to go through with it.

The same analysis applies to buying a newspaper for a quarter; it applies to *every trade for whatever items between any two people*. And since the marketplace is only a complex amalgam of all such capitalist acts between consenting adults, we are entitled to say that in the market, all parties benefit.

Compare this, now, to the typical transaction in the public sector: the citizen pays \$1,000 in taxes for which he receives in effect any combination of government services you care to mention which cost \$1,000; for example 1 percent of a city bus's services for a week, 0.1 percent of the benefits of keeping 3 Canadian jet fighter airplanes in the air for 10 minutes, 5 percent of a teacher's monthly salary, and 1 millionth of the subsidy to Chrysler. Is there any one prepared definitively to say that the taxpayer receives more than \$1,000 worth of value from his \$1,000 of taxes? He might, but he might also be a bus hater, a pacifist, a Ford owner, and have no children of school age. If the taxpayer *does* benefit, and to an equal or greater extent, demonstration is far from clear.

The same analysis can be used to criticize the Foreign Investment Review Agency (FIRA), and the protectionist sentiment in Canada of which it is a reflection.

According to this view, sometimes called "economic nationalism," the greatest threats to our economic well-being are external in origin; unscrupulous foreigners, outsiders, imperialists, are ever ready to swoop down on Canada, to take advantage of her supposedly weak position. I shall deal briefly with a few of these claims, and then show some weaknesses in the case for FIRA.

1. The Canadian economy is weak because we are "hewers of wood and drawers of water." But even on its own ground, the argument makes little sense. Are the Arab Sheiks supposed to give up their Rolls Royces, yachts and private jet planes because they are "drawers of oil?" Are those in control of the riches of South Africa supposed to whimper in dismay because they are "hewers of diamonds?"

No. The Canadian endowments of wood, water and other material resources have not made us a poor country; on the contrary, they are a blessing. They have enriched our economy in the past, and will continue to do so in the future. Do we really wish these abundances would all disappear, leaving us in the middle of a barren and inhospitable desert?

2. Canada is poor because other countries have "dumped" their export goods on us at below-cost prices, creating unemployment in domestic industries.

When I first heard this dumping argument, many years ago, I pictured the Japanese as flying over us in B-52s, high up in the sky, and actually *dumping* Toyotas down on us, from 50,000 feet up. These automobiles would hit people, houses, factories, and really ruin, unemploy, and even kill us.

Fortunately, that's not what "dumping" means. Although Japan and other countries have been *accused* of trying to sell us goods at prices below what it costs to manufacture them, this has never been proven. It doesn't make sense anyway, because the foreigners would lose money on each item sold. Nor could they ever profit by encouraging Canadians to become dependent on Japanese ex-

ports, and then suddenly double the prices on us. There are plenty of other markets which would welcome Canadian trade.

But even if these charges were *true*, so called "dumping" cannot hurt us. Were the war-torn countries of western Europe *harmed* by Marshall Plan aid in the late 1940s? Did Israel actually *lose out* by receiving war reparations from Germany? And to take a case closer to home, is Prime Minister Trudeau really hoping to economically *destroy* the countries of the third world by stepping up North South foreign aid? Yet in each of these cases, the donor is "dumping:" giving away goods and services either below cost, or for free; and the recipient is *benefiting*.

Without FIRA, foreign investment would overwhelm and control this country. So strong is the support for this position in the Canadian media, it sometimes seems that this is the *only* proposition we can all agree to.

But there is no need for agonized wailing and gnashing of teeth every time a B.C. farmer "gives up" his land to a Spaniard; or whenever a U.S. corporation "takes over" a thriving Canadian concern and turns it into a branch plant; or just because a Montreal office building "falls into the clutches" of a Japanese investor.

For, as in the case of the handkerchief and the pen, each of the above are mutually agreeable *trades* between consenting adults. If the B.C. farmer didn't think the money he received for his land was worth more than the land itself, he wouldn't have agreed to sell it! Unless the owners of the Canadian firm or office building valued the price they were paid more than what they gave up, they would have refused the deal.

Does FIRA think that each and every Canadian businessman, when dealing with a foreigner, suddenly turns into an utter blathering *idiot*? Does FIRA see the Canadian business community as essentially *stupid*? Well, it's either that, or the fact that FIRA concentrates its attention on what Canadians *give up* in trade, and completely ignores what they *receive* in payment. For we know that when the Canadians receive their payment from foreigners, they can be relied upon to turn around and invest it in something even more valuable than what they gave up in the first place.

Foreign investment, and international flows of capital are a two way street, just as is trade in any other item. Of late, the U.S. has begun turning to protectionism against *Canadian* foreign investments south of the border, in retaliation to FIRA. Representative Jim Wright of Texas, Democratic majority leader in the House, and Clarence Brown, ranking Republican on the House energy and commerce committee, have protested the actions of FIRA to Secretary of State Alexander Haig, Energy Secretary James Edwards and Interior Secretary James Watt.

#### 4. Limited Government

I turn now to the fourth and last plank of the classical liberal position: limited government.

So far we haven't had much of anything good to say about government. This does not mean, however, that the classical-liberals would push the pendulum all the way toward no government. On the contrary, there is a strong, and crucially important, but *limited* role for government.

Assigned tasks, in this view, would include defense, peace, order, domestic tranquility, and perhaps in the modern era, economic stability and income maintenance for the poor. The institutions assigned to government to enable it to fulfill

these roles might include armies, police, courts, legislation, and, depending on which version we are considering, the maintenance and control over such basic social overhead capital as roads, ports, utilities, banking and money supply.

In short, the idea here is that government should be a referee and law-maker, not a "be-all-end-all" to the whole society and in control of the entire economy.

If you look at it in terms of hockey, the government is like the referee making the rules, blowing the whistle and keeping order. The difficulty is that our modern government in Canada and in many western democracies is not content blowing the whistle and being the referee. It wants to pick up the hockey stick, get into the game, and shoot the puck into the goal as well. The difficulties are two: (1) government is a lousy hockey player, as I've tried to indicate and (2) if government picks up the hockey stick, who's going to make up the rules and blow the whistle? The players certainly cannot be assigned this delicate task.

If government is so busy playing hockey that it cannot give full attention to the roles that only *it* can fulfill, then we have chaos. If the government is too busy trying to deliver

mail, trying to discover oil, imposing unwise controls over the economy, increasing taxes and creating inflation, its own proper legitimate functions are left undone. As a result, we have catastrophes of all sorts.

I don't think it's an accident that if you list the public policy problems of the day, the subjects editorialists address themselves to, you will find things with which government is intimately connected. For example, inflation, high taxes, high interest rates, unemployment, health services, transportation, labor strikes, housing shortages . . . But where is the frisbee problem? where is the paper clip crisis? why is there no chaos in the children's toy industry? in toothbrush production?

It is clear that government's plate is full — even if only its *legitimate, limited* functions are taken into account. It is clear that the crisis of the modern era is due to government overreaching itself, taking upon itself responsibilities for which it is not suited, and leaving undone tasks for which it, and it alone, is able to accomplish. It is clear that the price of progress is excessive government intervention.

Ladies and gentlemen, thank you for your kind attention.

## Chinese Contradictions

### WE OUGHT TO BE CAUTIOUS TOWARD CHINA

By LINDA MATHEWS, *Op-Ed Page Editor and Former Peking and Hong Kong Bureau Chief, Los Angeles Times*

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**W**HILE we were living in Peking, our 6-year-old son, Joe, brought home a top-secret art project he'd been working on at school for weeks. It turned out to be a six-foot-long scroll-like drawing of the Great Wall of China. He unrolled it and pointed to some fierce and ugly figures advancing toward the wall which were, he reported, the Russians attacking on horseback. Fighter aircraft with Soviet and Chinese insignia clashed overhead. Atop the wall, repulsing the invaders with crossbows and cannons, were the Chinese troops. "They're the good guys," Joe declared.

I hope you'll indulge me this story about my son. There is a point to it. It seems to me that many Americans, like 6-year-old Joe, have made up their minds very fast that the Chinese are the good guys. Ever since President Carter abruptly recognized the government of China two and a half years ago, there seems to have been a headlong rush by American businesses, newspapers, universities, and even the U.S. government itself, to embrace China.

Now, 60,000 American tourists crowd into China's overtaxed hotels every year. American businessmen have rushed to sell the Chinese everything from Boeing 747's to Coca Cola bottling plants and Max Factor cosmetics. American oil companies are competing with each other to drill oil wells in the South China Sea, one of the last unexploited offshore oil reserves in the world. American department stores have imported huge quantities of Chinese rugs, baskets and silks for special exhibitions, and sold them at inflated prices that make visitors from Peking giggle. The latest fad on college campuses are cloth workers' shoes from China — which the Chinese spurn as soon as they can afford leather.

The enthusiasm for China extends to the U.S. govern-

ment, too. The Carter Administration followed up on diplomatic recognition by signing trade, cultural, maritime and aviation agreements with Peking. China has been granted most-favored-nation trade status so that her goods enter this country under the same low tariffs applied to Great Britain and our other traditional allies — a privilege that has never been extended to the Soviet Union. A week after the Russians invaded Afghanistan, the Carter Administration dropped its pretense of even-handedness toward the Soviets and the Chinese. The Pentagon announced that it would allow American companies to export nonlethal military equipment — computers, radar systems, transport planes, helicopters, army trucks — to China. China became our very favorite Communist state.

Initially, the Reagan Administration seemed more wary. But soon after taking office, Defense Secretary Casper Weinberger warned that if the Russians took one step into Poland, President Reagan might retaliate by selling the Chinese offensive weapons. Weinberger's statement set off alarms in Moscow, for the Russians are now convinced that there is a Sino-American alliance forming against them.

This headlong rush into China's arms worries me. It's as unthinking in its own way as the revulsion that Americans felt for the Chinese in the 19th century — which resulted in the passage of federal laws to exclude them from our shores — and as ill-considered as the patronizing attitude of the 1930s, when American missionaries wanted to save the souls of heathen Chinese.

Americans still suffer from illusions about China — illusions that keep us from seeing that country as it is and from facing the realities of what we can expect of our relationship with the Chinese. We need to deflate a few

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