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will run into the same difficulties. And in the case of Star Wars, the opposition will include a large number of very influential people.

De Novo: You once wrote that a major problem of public policy is to bring corporate purpose into accord with public purpose. It is possible to reconcile the private business interest in arms expenditures and weapons development, with the public interest in arms control and survival? And how do we increase public awareness of the military-industrial complex in both the U.S. and Russia that is averse to an effective arms control agreement?

Galbraith: This is something which needs to be much more actively discussed. Ever since 1961 when President Eisenhower, in his last speech before leaving office, made his well-known reference to the dangers of the military-industrial complex, we have been conscious of the force of military power. And one of the characteristics and strengths of this power is that people are reluctant to talk about it. To criticize military power seems in some sense unpatriotic. But we must talk about it. We must recognize that there is a very large civilian bureaucracy involved here, as well as the armed services, which has its own dynamic. And we must equally recognize the out-reach to the weapons firms which are influential and well-heeled, and beyond them, to the scientific and engineering community. I think that since President Eisenhower issued his famous warning, we have lost ground and I am very anxious to retrieve it. Retrieval consists of recognizing how much power, how much authority we have delegated over life and death to the military establishment. I have often said that we would not allow a similar kind of delegation over taxes that we have allowed over death.

De Novo: How could Canada, as a so-called middle power, best contribute to arms control? For example, was the Trudeau peace initiative of any consequence?

Galbraith: Certainly it was. I think it was very important. And one measure of its importance was that it caused a certain amount of annoyance in Washington. I have no hesitation in urging that the voice of common reason on these matters still continue to come from Canada.

De Novo: With reference to Canada's ability to pursue a foreign policy independent of the United States, could Canada, for example, assume a much higher profile in Central America? And would it be valuable if we joined the Organization of American States (OAS)?

Galbraith: I would welcome the addition of Canada to the OAS, and I would certainly be one of the millions who would welcome a stronger Canadian voice with respect to our incredible preoccupation with these small Central American countries with their unfortunate social structures. More generally, however, both Canadian economic policy and Canadian foreign policy are determined by the geographic location of Canada. There will always be a problem

of accommodation, but the history of Canadian-American relations, at least since 1814, has been better than that of most neighbors; in fact, it has been exemplary.

De Novo: What are the prospects for Third-World development in light of the billions of dollars of debt under which many developing countries now stagger? Do you see any resolution of this debt crisis?

Galbraith: The world debt crisis is a serious matter and could be an inhibiting factor in Third World development. But there is a remedy. This is to write down and write off a very substantial part of these loans. One can lay down a rule that when foolish banks make foolish loans to foolish governments, one should not expect them to be repaid. When you have new governments coming into office such as now in Argentina, it is a great mistake to ask them, in the interest of repayment, to undertake austerity measures that would not be tolerated in Canada or the United States. We should respect the fragility of democracy in these countries.

It is important to remember that there are precedents in this matter. The United States borrowed heavily from abroad for internal development, particularly in the first half of the last century for the building of canals, and in the last half of the century for the building of railways. A singular feature of much of that borrowing was that quite a bit of it was never repaid. No one can say that this had an enduring effect on the credit of the United States.

De Novo: How do we devise development strategies that permit an increase in agricultural productivity and yet avoid making many rural people redundant? Gunnar Myrdal suggested that the key is to improve rural life and keep people in the villages, while focusing on the basic necessities of health, education, nutrition, housing and reduced birth rates. Does this still have merit?

Galbraith: This is a subject that has been very close to my heart for many years — something that I have discussed extensively with Gunnar Myrdal. I have long felt that one of the mistakes in economic development was the tendency to bypass the requisites of early agricultural investment, particularly investment in rural education, but also in transportation and basic soil and water management. I became deeply persuaded of the importance of these while in India, but anyone aware of his or her own history must also agree.

If you asked Canadians what contributed to their economic development in the last century, it would be, first, rural education; second, the railways; and at a somewhat later stage, education in specific improved agricultural methods. Unfortunately, if you asked an African country, or one of its advisors from the United States, today what should be the highest priority in industrial development, they would say electrical development, a steel mill, an airport and a national airline.

De Novo: With respect to East-West relations, do you still believe in the broad convergence of the industrial systems in the socialist and non-socialist worlds?

Galbraith: The convergence that I see is the emergence in both systems of huge bureaucracies. I have no doubt that both the socialist and non-socialist worlds will continue to struggle with the unsolved problems of how to manage such large bureaucracies. If you are going to make steel on a large scale, or make automobiles on a large scale, you are going to have a similar organization whether it is in Gary Indiana, Detroit Michigan, or Oshawa Ontario. The socialist world struggles with such bureaucracies more intensely than we do only because it is a more highly centralized system.

De Novo: The new Russian leader, Mikhail Gorbachev, seems to be determined to implement significant social and economic reforms. How successful will he be?

Galbraith: I do not think anyone should minimize the task facing Gorbachev. It involves escaping a basic feature of the Communist system. To some extent the Chinese have done it, but only by going over to a market incentive system which I think the Russians would still find ideologically impossible. Both the Chinese and Hungarian systems also involve difficulties because you have to combine the notion of money-making as an incentive with the notion of a socialist mystique and morality. And this is a very difficult marriage.

De Novo: Many countries are concerned about the damaging international repercussions of high American interest rates. Do you see any possibility in the future that the United States might, by international agreement, accept some restrictions on its freedom to manipulate its macro-economic levers, notably the general rate of interest? More specifically, would the Federal Reserve Board agree to adjust its monetary targets according to world liquidity, and would the U.S. agree to synchronize spending and taxing decisions with those of other key nations?

Galbraith: I would not rule such a possibility out. I think that some measures of coordination are both possible and desirable. Central bankers greatly enjoy getting together and reflecting on their own power. Perhaps they can be persuaded to share it.

De Novo: What are the prospects for a new Bretton Woods agreement involving a more stable, international exchange rate regime?

Galbraith: The prospects are negligible. We have now learned that we can live with substantial exchange rate instability. Canada survives with a 73¢ dollar far better than anyone would have imagined back in the Bretton Woods days. At the same time, we have come to recognize that internal economic policy takes precedence over international exchange stability, and until we coordinate our internal monetary and fiscal policies, and achieve similar price

levels, we are not going to have international exchange stability. You cannot have stable exchanges and different rates of inflation in different countries.

De Novo: Paradoxically, as our economies become increasingly interdependent, we see increasing pressures for protectionism and evidence of rising nationalism and parochialism. What effect will this have on the prospects for the next round of trade negotiations under the General Agreement on Tariffs and Trade (GATT)?

Galbraith: I would not be as pessimistic on this issue as most. Much of the protectionist sentiment of these last two or three years has grown out of the particular problems of the high dollar. And if that could be corrected, as it should be corrected, by a better fiscal and monetary policy in the United States, then some, perhaps much, of the pressure for protection would disappear.

The politics of protection in the United States is by no means as strong as it was 50 years ago. Two things have intervened. One is the rise of the multinational corporation for which tariff barriers are in some degree simply a nuisance. One can state as an immutable truth that you do not fear foreign competition if you own the foreign competitor. The second change is that whereas 50 or 75 years ago American farmers were protectionist, they are now of course heavily dependent on export markets and are much less a voice for tariffs.

De Novo: You mentioned that the United States must pursue "better" fiscal and monetary policies as a means to encourage a drop in the value of the dollar. Could you elaborate?

Galbraith: There is no question that we should be moving to higher tax rates and, of course, less waste of money on military expenditures; this with a view to closing the deficit and reducing interest rates. It is the combination of high interest rates and a certain security/safety syndrome that has been attracting huge flows of capital funds to the United States, and bidding up the dollar. Although we probably cannot do anything about the security/safety syndrome — funds seeking a seemingly safe haven — we can do a great deal to bring down the dollar by relying more on fiscal policy and less on monetary policy, by accepting higher taxes and lower interest rates.

De Novo: You have suggested that fiscal restraint via increased taxes is less damaging to economic performance than monetary restraint via high interest rates. Yet the Reagan tax reform initiative seems to be moving in the direction of a reduction in the tax burden. What are the prospects for the tax reform proposal?

Galbraith: Reagan's tax policy is a possible bet for 1990 or 1995, but it is not going to happen in the near term. Moreover, what is called simplification of the tax system is very largely a design for getting further tax reductions for the high income brackets.

De Novo: In the foreword to the fourth edition of *The Affluent Society*, published in 1984, you argued that your prediction in 1958 that the newly affluent would take active steps to eliminate poverty was wrong. Now, in Canada as in the United States, we are witnessing a disturbing increase in poverty and a startling rise in the number of food banks. And it seems that despite our much vaunted welfare states, the poor have slipped even more into "voiceless anonymity". What is your view of the prospects for a renewed attack on poverty?

Galbraith: I feel somewhat pessimistic about this. What we are seeing is that the majority of people, whether in Canada or the United States, have become comfortable and that they are able to achieve the kind of psychological denial that in the past has always allowed people to ignore poverty. Social conscience in these matters, certainly in the United States, has gone into a dismal retreat.

I did not expect when I wrote *The Affluent Society* to see the President explaining that some people prefer to sleep on street grates; or that we would develop the doctrine, sometimes called supply side economics, which holds that the rich are not working because they have too little money, and the poor are not working because they have too much. There has been nothing like this since Social Darwinism.

De Novo: Charles Murray's recent book, *Losing Ground: American Social Policy, 1950-1980*, argues that the social welfare programs of the past 20 years have hurt the poor, not helped them, and that while social welfare costs have risen 20 times from 1950 to 1980, the entitlement programs have primarily benefited the middle class. He then advocates abolishing affirmative action programs and laws, and eliminating most of the federal government's social welfare programs, in order to eliminate the pernicious effects of welfare dependency. How do you counter such negative assessments of the record in social policy, and how do we convince the securely affluent that they have a direct stake in eliminating poverty and in increasing the productivity and adaptability of the poor?

Galbraith: The only option is to continue to talk about the need to eliminate poverty and to recognize that the Charles Murrays of the world, and indeed the Ronald Reagans of the world, are using the ideas of economic development as a camouflage for neglect of the poor and for returning more income to the affluent. There are two points that are omitted in Murray's book. One is how many poor we would have had if we had had not pursued the Great Society initiative and had no social security programs. The second is how many poor we will have if, as Murray comes close to suggesting, we abandon these programs.

De Novo: Recently, our politicians have focused on the small business sector as the most dynamic in the economy, and the greatest source of jobs. Do you think that this emphasis in our strategies for combating unemployment is well placed?

Galbraith: There is no form of romance that is stronger in our time than the myth of the entrepreneur and the rescue that awaits us from his intuition, initiative, and energy. Nobody should be captured by it. The larger share of economic activity is and will remain with the large corporations, and they are getting steadily larger by the process of concentration that we read about every day.

The myth of the heroic entrepreneur goes back to the early 1900s and the first writings of Joseph Schumpeter. It reflects the need for one hero in economic life. Obviously the worker won't do, obviously the capitalist won't do, obviously the corporate bureaucrat won't do. So, since we must have a hero, it is the entrepreneur. No — this is not the salvation for unemployment.

De Novo: What then is the solution to unemployment since the large and dominating corporations are, in fact, the ones that are shedding jobs?

Galbraith: In the first place, we must stop pursuing macroeconomic policies that are damaging to employment. These include those that contribute to the high American dollar. But, in addition, we must have a stand-by of opportunities for public employment that reaches down to workers who are released from the old industries, combined, of course, with retraining and relocation assistance. And we must provide the older workers with a decent income in recognition of the fact that they are not probably going to find further employment. All of these things rich countries can afford and all of these things we should do.

De Novo: It seems likely that we will soon face another round of inflation. Should we be considering the implementation of an incomes policy — a social partnership of sorts between employers and employees — to help deal with this?

Galbraith: I have long felt that an incomes policy is an indispensable part of modern macroeconomic policy, and this has ceased to be in any sense a radical proposal. The Germans, the Swiss, the Austrians, the Japanese all negotiate their wages in relation to what can be afforded out of the existing price structure. It is the three English-speaking countries — Britain, Canada and the United States — that lag behind on this. This is in part due to an almost theological commitment to the market. This keeps us from seeing that the wage-price spiral is one of the great realities of our time and is something that cannot be arrested by orthodox fiscal and monetary policy except by creating a great deal of unemployment. It is a mystery why the trade unions, the corporations and the governments of the three English-speaking countries have been so slow in grasping this idea. If we do not pursue an incomes policy, we will control inflation in the future only as we did in 1981 and 1982: by having massive unemployment.