

*Restraining the Economy: Social Credit Economic Policies for B.C. in the Eighties*, by Robert C. Allen and Gideon Rosenbluth. Vancouver: New Star Books, 1986. Pp. 320.

If I had the power to make orders to politicians (a recurring academic fantasy), I should want to insist that all the members of the present Social Credit cabinet, and in particular the current Premier, read this book. As a form of penance I should extend my injunction to Bill Bennett and all his palace guard who have not found places in the new order. At the same time it would be useful to ensure that Michael Harcourt and other leading New Democrats be denied copies in order to avoid a premature leap to conclusions.

In the real world of B.C. politics an opposite course will likely prevail; no copy of the book will be so rudely placed as to disturb Mr. Vander Zalm's sight, but Mr. Harcourt will find at least one copy tucked under his pillow by eager NDP caucus researchers. This is too bad, because as an analysis of the shortcomings of government economic policy *Restraining the Economy* is excellent; as a guide for future policy it has weaknesses.

There are fifteen chapters, authored and co-authored by fifteen economists, all but four of them members of the UBC Department of Economics. All are associated with the B.C. Economic Policy Institute established in the wake of the controversial 1983 provincial budget, a budget which provoked mass demonstrations in the province as well as the Solidarity Coalition's threat of a general strike. It also spawned several like-minded research groups, highly critical of government policy and anxious to demonstrate its underlying unsoundness. The volume itself provides a small scholarly mystery by listing Professors Allen and Rosenbluth as the editors, although the preface and the conclusion are written by Professors Donaldson and Rosenbluth.

The conclusion provides an excellent summary of the different chapters which, I rejoice to say, have more in common than one generally finds in such anthologies. The authors set out to show that the various aspects of the Bennett government's restraint package were based on faulty economic premises and that the package prolonged the agony of the 1980s recession. They conclude that cuts in government spending and public employment have directly increased unemployment by causing business bankruptcies; that cuts in education spending will deprive the province of properly trained workers which in turn will adversely affect future productivity; that, for no good purpose, cuts in various social programmes increased human misery and injustice; and that in many cases immediate savings

from cuts in services will be far outweighed by the greater long-term costs that will result from the misery, injustice, and social dislocation caused by the restraint package. Moreover, they argue that profligate expenditures on various megaprojects, particularly those such as Northeast Coal which have turned out to be bad investments threatening the province's credit rating, show that the government was not committed to public expenditure restraint but instead was perversely determined to cut expenditures in areas which would be economically beneficial and spend in areas which had a dubious long-term value.

Sensibly, the book also focuses on the federal government's role in sustaining the recession. Professor Gideon Rosenbluth, an ancient and venerable figure in this set of radical young economists, argues that fiscal policies pursued by the federal government and the Bank of Canada which continue effective interest rates at a record high level are primarily responsible for difficulties experienced by Canadian business in the last several years. He believes that prosperity will follow a reduction of the effective rates by two or three percent and that the argument of the central bankers, faithfully adhered to by successive federal regimes, of keeping rates higher than those in the United States so that capital will not flee south, is specious. Instead, Rosenbluth is among those who argue that a tax on interest income earned by Canadian residents from foreign sources, combined with exchange controls "confined to the movement of large sums by large corporations," will be sufficient to halt any capital flight induced by lower effective interest rates. He does not deal with the possibility — some would say likelihood — of American retaliation following such controls which, in certain forms, would cause greater problems for the economy than high interest rates.

The main intellectual thrust of the volume is set out in the first chapter by Professor Robert Allen, grandly titled "The B.C. Economy: Past, Present, Future." Allen advances an intriguing analysis of B.C.'s economic situation. Central to his analysis is a distinction between extensive and intensive growth. According to Allen "*(e)xtensive growth* occurs when the total production of goods and services in the province increases, and the population grows in the same proportion. *I ntensive growth* occurs when the output *per person* increases." He shows that the conventional strategy of encouraging the export of natural resource products has led to extensive growth in B.C. but argues that it has not led to intensive growth. The reason is the existence of a national labour market in Canada which permits migrants to the province to appropriate any surplus from extensive growth as they obtain jobs and wages for themselves. In turn this keeps

real wages level for those already in the province. He points out that this is not the case for some sectors of the economy, notably construction, and when extensive growth is so rapid as to cause a significant labour shortage. Such a boom has not occurred in B.C. since World War I and, he argues, is not at all likely to occur in the future now that the allowable annual cut of timber cannot be increased further without destroying the resource. This latter fact, combined with a foreseeable shortage of world markets for minerals, in particular for copper and coal, spell the end of resource-led extensive growth.

Further, according to Allen, there is little reason to believe that the classic model of development from a resource-based economy to one more reliant on the export of secondary manufactures (say furniture) is possible for B.C. as it was for Canada as a whole. Despite efforts to add value to basic resource exports, the secondary manufacturing sector has shown little real growth in the province because, as in the Atlantic provinces, the domestic provincial market is too small and the larger markets of central Canada are too far away. Thus attempts to lure secondary manufacturing to the province by various forms of public subsidy (tax breaks, duty free and union free enterprise zones, and so on) will only serve to lower the welfare of most B.C. residents by raising taxes, or starving social services to provide the subsidy. At best the subsidy will simply engender additional jobs to be filled by more new migrants to the province.

From all this Allen concludes that the restraint programme, mega-projects as catalysts for sustained economic growth, and government subsidization of economic diversification are all doomed to failure. The whole approach identified with Social Credit, and applauded by some private sector unions and some sections of the NDP, needs to be abandoned. Instead, since the "B.C. real wage is determined in the national labour market" the fate of the provincial economy is in national hands and the fate of provincial workers is determined by national policies on employment levels, productivity, and income distribution. Provincial governments, it would seem, are reduced to the tasks of encouraging national initiatives and, I presume, helping, in certain cases, to administer them.

There are two major problems with this centralizing remedy. First, it runs counter to the last thirty years of our constitutional history and experience. The provinces have come to exercise more authority over the economy rather than less. Not even Pierre Trudeau could prevent the growth of the provincial state and the shifting balance of revenues and powers from the federal to provincial jurisdictions. This country cannot be governed as though it were a unitary state, and any attempt to do so

will provoke the same reaction in western Canada as was experienced in Quebec during and after the Quiet Revolution. Provincial governments associated with whatever ideological and political stance will necessarily see themselves, and be seen, as responsible for the economic well-being of the province. If the best economic advice were to leave Ottawa with the problems, that advice will be ignored, and rightly so, because it fails to adequately deal with the regional nature of both the economy and the polity. Inevitably provincial governments, including the British Columbia government, will pursue economic strategies which seek to strengthen regional economies at the expense of a national economy and, let it be said, in opposition to the strategies pursued by the other provinces — in particular the two central provinces. Any B.C. government that was seen to be neglecting the narrower interests of the province would not last very long — and a good thing, too, since an economic strategy controlled entirely by an Ottawa government invariably dominated by interests in Ontario and Quebec would not, in a democratic milieu, provide procurement policy, or transportation policy, or energy policy, or even fisheries policy, that would bring to B.C. residents advantages equivalent to those provided by an economic strategy which need not heed all the dictates of the federal authorities. A free market might, but there is no free market in Canada; rather there is a set of markets regulated in one form or another by provincial and federal authorities. In that circumstance it is not likely to be in the interests of those who live in western Canada to have all those regulations (or lack thereof) promulgated in Ottawa.

Second, without chasing the will 'o the wisp of secondary manufacturing, it still remains necessary for British Columbians to find external markets for B.C. products. Those products will certainly include resource products, particularly wood products, they may include manufactured goods and they ought to include the services that can be provided by a well-educated, highly skilled population. But whatever we produce we will need export markets. The fundamental reality is that every economy needs to produce goods and services necessary to meet the needs hierarchy of the individuals within it, and in a contemporary democratic society that needs hierarchy cannot be limited to food, clothing, and shelter. It must necessarily include transportation of various modes and entertainment of the widest variety including VCRs, cameras, stereo equipment, wilderness parks, magazines (the list is endless), along with access to scientific discovery and what are sometimes termed cultural experiences, which themselves range from religious freedom to live symphonies in small towns. Those goods and services which people value and which cannot be pro-

duced domestically must be imported, and those imports must be paid for by wealth generated from exports. The alternative of an autarkic economy founded in local self-sufficiencies is romantically attractive but requires a living standards self-sacrifice on the part of most individuals that is not politically feasible.

Moreover, there are real possibilities. California, the world's seventh largest economy, is not far away. It needs many of our products, from bottled water to hydro-electric power. This state of more than twenty-five million people, expected to grow dramatically over the next twenty years, abounds with opportunities for those who would feed its appetites. It is true that B.C. has not always pursued such markets with wisdom — certainly in terms of hydro-electric power there have been mistakes — yet even the chapter in this volume which is so scornful of energy policy in the province acknowledges the potential, if properly managed, for sales and profits in the California market.

This is a well-crafted book, worth the modest price, but it provides an incomplete analysis. The slightly self-serving remedy of an education policy designed to produce more productive workers who will, in turn, promote the sought-after intensive growth is not a sufficient remedy. Other factors of production need to be encouraged lest all the most productive of these new workers are lured to more lucrative pastures elsewhere. It is no doubt true that periods of extensive and intensive growth are not coterminous, but that does not prove that a link between these two concepts does not exist. It is that link that needs further analysis.

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