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CIVIC AFFAIRS

GOVERNMENT AND BUSINESS

The text of the address delivered by Dr. W. A. Mackintosh before the annual meeting on May 2nd, 1950.

We are living in the period when the whole relation between government and business, between public and private initiative, is under heated discussion. The air is full of slogans which are often more vigorous than descriptive. In this atmosphere it is necessary only to give a man a label to condemn him without either facts or logic.

There are, of course, special elements which underlie this situation. There is the challenge of Soviet Russia which, while more military and political than economic, does create a special awareness to the role of Government.

The fact that in the United Kingdom and some European countries there are labour governments representing a party committed to socialism is another element. Particularly in the United Kingdom, there is great confusion as the government is faced with peculiarly complex and intractable problems and to a degree insists on attacking them with the rather ancient weapons of a 19th century socialist theory.

In contrast the United States re-echoes with an exaggerated praise of private enterprise not all of whose works at all times have been praiseworthy. The lack of moderation is made more evident by the frequency with which the people of the United States forget

the very great fortuitous advantages which have come to them as a result of wars.

Perhaps equally important is the experience of the '30s when a whole generation was taught by hardship to look very critically at the performances of both government and private business.

The relationships to which I am referring form the basis of a very old and endless argument. It might be very interesting to trace its history through the middle ages when church rather than government was the controlling power, through the period when the great merchants in the new Nation-States evolved a series of theories and precepts which we call mercantilism and down through the period of Adam Smith and Karl Marx. This could be very interesting but I realize that this is not the place for an academic lecture.

There are, however, some things to be noted briefly in the long period from Adam Smith down to our own age. While there was a great movement to free private business from the control of government practice all writers recognized the propriety of the State overruling private gain and the rights of private property in favour of the interests of the whole group who made up the nation, "Defence," said Adam Smith, "is more important

than opulence" and there were many other things he also thought were more important. What he particularly attacked was first the ineffectiveness and wrong-headedness of the measures which governments used and secondly the influence of private groups in preserving vested interests in uneconomic positions and practices. These he contended might enhance particular incomes but would reduce the national income.

The nineteenth century was an age of liberation but it was never at any time an age of complete *laissez faire*. The main step toward freeing foreign trade came in the repeal of the Corn Laws in 1846, but the first step toward establishing minimum conditions of work had taken place in 1802 and before 1846 a general Factory Act had been achieved.

In the twentieth century we have faced the same problems but important new elements have been added. Political democracy has pervaded many countries and the political weapon is in the hands of groups whose influence had earlier been small. They are now in a position to exercise a sort of monopoly which in the eighteenth century was wielded by the favoured few.

We are affected also by the sharp growth in materialism, the dominant importance which people tend to give to the rewards of the moment and to short-run objectives.

Finally, the growth of the art of organization and of mass communication has introduced a very significant factor in bringing pressure to bear on governments whether through the ballot box or otherwise.

In some of this we have something of a separate Canadian tradition and point of view. In the whole field of regulation determining conditions of work dealing with monopolies and so forth, we have in

the main borrowed from the United Kingdom and United States and have made only minor innovations of our own. But in the field of positive government policy looking toward economic development we have followed our own line. In the promotion of transportation facilities, we have not been seriously troubled with doctrine. We have not for long disputed about government or private construction of railways nor of what particular blend of government and private enterprise we should adopt. The only question when railways were being extended was how can we get railways. The fact that in the East telephones are provided by a private utility and on the Prairies by government enterprise has aroused little discussion. It was a matter of expediency and of getting telephones in the West more quickly than private enterprise was likely to provide them. We are not disturbed by the fact that some provinces develop their own electric power while others regulate private utilities.

There is a second item that is worth noting in passing. The war period saw very wide extensions of government enterprise but now that the war is five years behind us we can see that in the field of operating industry there has actually been very little extension except in the province of Saskatchewan and in a few defence industries which have been maintained more or less on a stand-by basis.

The real challenge before us does not concern government operation of industry. Neither does it to any great extent concern the continuance of direct controls over business operations. Rather, it is two-fold.

The first challenge is the fact that from now on governments are bound to try to conquer and off-set economic depressions. There is no option about this. It is not a matter of party policy but of political necessity from which no govern-

ment will escape. Governments will vary greatly in their methods but nothing is more certain but that they will try to act. It is altogether likely that the most vigorous, if not the most intelligent, action will come from the United States, the citadel of private enterprise. The only question is whether governments should depend on improvising when the situation arises or plan ahead. When I mention the word plan I am not thinking of five-year plans though they might be appropriate in such fields as the conservation of resources. I am thinking of knowing how it would be feasible to act in possible eventualities. In the pressing circumstances of any depression it is going to be difficult politically to follow intelligent policy. Nothing could in itself appear as such plain sense to either businessmen or economists as the economy of postponing government expenditures from periods of high business activity to slacker periods. Nevertheless, it is politically difficult to do so in the face of pressures both for expenditures and tax reductions. The long period of active business bolstered by defence needs has made many expenditures which were postponable in 1945, urgent in 1950.

The second challenge is that of what some people are calling welfare state. In part this provides an insurance against risks which have been brought about or increased by industrialization. The most common of these are unemployment, accident, old age. Of course, old age is not a risk, but the problem of providing for it is sharply different for an industrial employee than for a land-owning farmer. In part, other welfare measures represent a redistribution of income to protect freedom of opportunity. Family allowances, health expenditures and the provision of education and other services are of this sort.

There will be plenty of arguments about measures of this kind and there

is no clear view as to how far they should go but we can be quite sure that in some form and in some degree they are here to stay and must be dealt with. What is needed is an intelligent discrimination, a realization that they present difficult problems and that what is provided must be paid for.

Our governments are now spending vastly increased sums in comparison with their prewar expenditures but in comparison with our national income or product we are spending if anything slightly less proportionately than before the war. That, of course, is only because our national income is very high. According to the national accounts we are spending less than proportionately on government salaries and wages, on the interest on the dead-weight debt, but we are spending more than proportionately on the armed services, on government purchases from private business, and on welfare payments.

In looking at the functions which governments are now exercising or propose to exercise what are the standards of judgment which we ought to apply. Of course, there are various standards of efficiency to be considered once an object of expenditure has been approved, but I am thinking of much more general standards. Even though there is not time to discuss them I would like to mention some which seem to me important.

The first is that government functions should not be extended to the point where they interfere significantly with the operation of a reasonably free price system. Governments can control credit, can manage expenditures, can even undertake some mitigation of extreme price fluctuations and yet leave an effective price system for the guidance of the major area of economic activity. The second standard is that measures should not seriously impair incentives. We hear a lot of

talk about the profit motive but there is no profit motive except in the sense that there is a rent motive, an interest motive and a wage motive. There is rather an economic motive. It does not account for the higher forms of achievement either in business or any other field but it does carry most of us over the low spots. Thirdly, all measures undertaken by governments should look to an enlargement of opportunity for individuals and not to restriction. Fourthly, before programmes of expenditure are undertaken it is important there be a wide understanding of the policy proposed and a general willingness to pay for the benefits expected. It follows that there should be a periodic assessment of results and costs.

All this means that we have to proceed cautiously whether the proposal of further expenditures comes from the Government or any other source. We cannot have all that we want. We have to select what seems to us more important. We have to select those expenditures which in the long run will produce the most economic results and the most stable political structure. A mere protest against government spending is likely to be ineffective unless there is discrimination.

I have spoken mostly about government, but there are one or two things I would like to say about business. We strongly support private enterprise. We sometimes forget that the essential word is enterprise. Unless a business is enterprising and maintains its record of progress and flexibility it will cease to be private. In some industries because of their nature there must be monopolies or near monopolies. If they are to remain private, they must act with reference to the consumer and the employee as nearly as possible as if they were competitive. The management of corporations must examine their responsibility and hand back to their shareholders the capital or

earnings which the directors cannot invest profitably or justifiably retain as necessary reserves. It is important that in all corporations, which like governments tend to become a bit bureaucratic with size, privilege should be reduced to a minimum.

What we all need to keep in mind whether in business or government is that the end of all our endeavours is not bigger and better corporations nor bigger and better unions nor yet bigger and better political parties but bigger and better people.

by Dr. E. A. Mackintosh
on May 2nd, 1950.

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