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SLOVENIA AND CANADA:

Economics, Politics and Labour

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Winter 2000-2001. The price of natural gas skyrockets and heating bills for Canadian families across the country jump dramatically. Why? The answer lies south of the Canada-United States border. Increased demand for energy by Americans drove up the price in Canada. That is because Canada is part of a continental energy market and under the terms of the North American Free Trade Agreement (NAFTA) Canada can not sell its gas at a higher price in the United States than it does at home. That is the new political economy of energy in North America at the end of the 20th century.

The intent of this book is to provide the tools to understand more fully, not only the political economy of energy, but of everyday life, of work and leisure, wages and prices, unemployment and consumption. It should help the reader to see through the pronouncements of governments, business and right-wing policy institutes supporting cuts to unemployment insurance, privatizing education and tax cuts for the wealthy.

Most people take the political-economic world we live in for granted, as some sort of natural evolution of a market economy. We go to work where we follow some learned routine or some supervisor's instructions until our work shift is done. We return home, share meals and household chores with our partners. Later, we take our kids – if we have any – to soccer practice or music lessons, then sit down for an hour or so to watch a TV show that is interspersed with advertising. If we are fortunate and are members of a union, our wages and working conditions will usually be decent and better than those of our non-unionized neighbours. Then, together with our partners, we will earn a comfortable living, own our own house, car and appliances, perhaps have a cottage or are able to travel to sunspots or ski hills during vacations.

On the other hand, if we are among the not so fortunate – if we are unemployed, employed part-time or in low wage, non-unionized jobs, or are a single parent mother – our life is very likely to be uncomfortable. We will live in poor quality, frequently rental housing. There is often not enough money to feed the family to the end or the month. We may then be forced to visit a food bank. We have to rely on a deteriorating and increasingly costly public transit system. Our kids may be able to take advantage of local community club recreation programs but, just as likely in many disadvantaged residential areas which lack such programs, they will find their recreation within the local street culture or watching advertising laden TV. Holidays and vacations are few and far between and usually spent in public parks or in the local area.

A few of us are truly fortunate. We have really good-paying, flexible and enjoyable jobs or we have our own private businesses where our employees generate the surplus income we enjoy. Our houses are large and upscale, with multiple vehicles gracing our driveways. Foreign recreational travel is a regular part of our annual routine. We can afford the best restaurants and season tickets to hockey and football, theatre, opera and the symphony. Our kids get the best schooling and virtually unlimited access to sport, recreational and cultural programs and facilities.

One thing that all of us in Canada are supposed to have is universal access to health care and to quality primary and secondary education. Unfortunately, over the last couple of decades government cutbacks to social programs have undermined the universality of access to these social programs, at least for the lower of these three strata of society. But that is getting ahead of our story.

Such is the world we live in – the **political-economic** world we inhabit. Few of us question it. We grouse about taxes without recognizing that taxes are the price we pay for health care, education, roads, public transit, snow clearing, recreation and cultural facilities – all the social infrastructure that we rely on to make life liveable and secure. Indeed, taxes are the price of civilization. We complain about low wages. But do we ask, why are wages of some workers below any decent level? Even if we do ask, do we have any answers? What can we do about it? We condemn high prices and inflation without ever asking what causes high and rising prices. And so on.

Every four years or so, provincial and federal politicians bombard us with promises to deal with our grievances. The parties on the right say "cut taxes". What they neglect to add is that in order to cut taxes they will have to cut services. Moreover, most of the tax cuts will benefit our third group, the "truly fortunate." Cuts to services will fall disproportionately on the first two groups, particularly the "unfortunate," the poor. These same parties argue that we can't raise wages, for that will cause inflation and unemployment. We must remain competitive, they argue, and we can only do this by holding down wages, making labour markets “flexible”, working longer hours or taking two jobs, and postponing retirement. “There is no alternative” (the TINA argument pioneered by Margaret Thatcher), they claim because the *market* dictates that workers must work harder and longer for Canadian business to remain competitive. In the neoliberal world, this is called economic reality.

But these neoliberal arguments which underpin our current political economy in Canada really valid? Are we so bound by economic “laws” which have given a name to economics from its early years – *the dismal science?* Must we accept the economic order we see around us? Why are we denied the democratic right to use legislation to change the rules of the game so that the economy serves people rather than the other way around?

The neoliberal argument is based on a number of fundamental assumptions which are, at best, questionable. The first is that the market is an efficient and democratic institution, even though democracy in this instance is defined as “one dollar, one vote”, not “one person, one vote.” But we all should ask, what is efficient and democratic about a system that pays CEOs over one hundred times as much as the average worker at his company or pays huge bonuses to its executive officers even as the company is falling into bankruptcy?

The second assumption is that markets involve competition between equal individuals or companies. Each firm, it is assumed, will compete with all the others by lowering prices to the minimum required to cover its costs. Each employer will compete with other employers for the best workers with premium wages. But it also means that when jobs are scarce, non-unionized workers will have to compete among themselves for available work by taking lower wages.

The third is, in the words of the queen mother of neoliberalism, Margaret Thatcher, “there is no such thing as society. There are only individuals and families.” That means that people all act as individuals without concern for the wider society. We are not, as the bible would have it, “our brothers’ keeper.”

The Conflict between Democracy and Neoliberalism

The author [John Gray] concludes that “the free market is not, as New Right thinkers have imagined or claimed, a gift of social evolution. It was an end product of social engineering and unyielding political will, feasible in 19th century England only because, and for as long as, functional democratic institutions were lacking.”

... “[T]he implications for the project of constructing a worldwide free market are... that the rules of the game of the market must be *insulated from democratic deliberation. Democracy and the free market are rivals, not allies.*” This, Gray noted, is well understood by clear sighted neoliberal thinkers. Gray knows whereof he speaks because he was, until recently, closely associated with Margaret Thatcher and the New Right. “Those who seek to design a free market on a world wide basis”, he wrote,”always insisted that the legal framework which defines and entrenches it must be placed beyond the reach of any democratic legislature... The rules of the game of the market must be elevated beyond any possibility of revision through democratic choice.”

From a book review by Kari Polanyi-Levitt in Signalling LEFT, *June 2000.*

A fourth assumption is that information is equally available to everyone in the marketplace. This assumption is perhaps one of the hardest to accept. Were cigarette smokers aware of the health hazards of smoking before the 1990s? Were car-buyers knowledgeable about the dangers of exploding gas tanks or tires when they bought certain models of vehicles? Were workers aware of the dangers of asbestos or PCBs when they were instructed by their employers to work with these hazardous materials?

One can go on and on with the list of restrictive assumptions that have to be made about markets, corporations, consumers and workers to justify the neoliberal model of the economy and the policies that follow. But probably the greatest weakness in this analysis is the absence of any concept of the importance of *power* in the performance of the economy. It is true that **market power** is a concern of many orthodox economists. One merely needs to look at economists’ reactions to recent changes in the Canadian airline industry where the unequal economic power of Air Canada was able to destroy its competition, Canadian. Or look at the Microsoft case in the US where the courts have determined that Microsoft used its economic power to minimize competition from its rival internet browser, Netscape. Nevertheless, when the chips are down, the neoliberal economist will opt for an unregulated market rendering such concerns irrelevant.

Such market power, however, is just the tip of the iceberg in structuring our capitalist economy. Political economists are also concerned about the central role played by the state and its policies and institutions in distributing power within society. Furthermore, there are many other sources of power – political, institutional and class – which determine the performance of the economy and the distribution of the spoils. One of the main things that distinguishes political economy from orthodox, mainstream economics is its inclusion of power in analyzing contemporary Canadian capitalism.

Adam Smith on the Balance of Power between ’Masters and their Workers’

What are the common wages of labour, depends every where upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labour.

It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorises, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacture, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate.

...Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above the actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals... Masters too sometimes enter into particular combinations to sink the wages of labour even below this rate.... [When the workers resist, they] very seldom derive any advantage from the violence of those tumultuous combinations, which, partly from the interposition of the civil magistrate, partly from the superior steadiness of the masters, partly from the necessity which the greater part of the workmen are under of submitting for the sake of present subsistence, generally end in nothing, but the punishment or ruin of the ring-leaders.

Adam Smith, The Wealth of Nations, *1776.*

THE INTELLECTUAL ROOTS OF POLITICAL ECONOMY

The Greek word 'Oikonomia', from which our word 'economy' is derived, originally meant 'household management'. In early societies this was a natural association since the household was central to these economies. However, by the time Adam Smith, (often referred to as the 'father of modern economics') published his famous treatise *The Wealth of Nations* in 1776, western Europe had already experienced three centuries of expanding trade organized, not by households, but by associations of merchant capitalists. The household, though still the single most important economic institution, was gradually giving way to business institutions organized specifically for the purpose of carrying out *market* activity.

By Smith's time, these business organizations were involved not only in trade but increasingly in the production of goods and services which had previously been produced in the home. To emphasize that he was concerned, not primarily with household management, but with the *public* economy and economic *policy*, Smith and his classical followers adopted the term *political* economy - or the management of the 'public economy'.

To Smith, political economy also involved the application of the methods of scientific enquiry to the analysis of the emerging system of markets. His major analytic tool was the **labour theory of value** which argued that commodities produced for the market had a value based on the amount of labour expended on their production. The labour theory of value was elaborated on by two economists who followed in the classical tradition, but with quite divergent results. David Ricardo, the stock broker who used his formidable analytic skills to attack the protection afforded English landowners by the existing "corn laws" (tariffs on the import of wheat), emphasized abstract, deductive theorizing. Economics as it developed from these roots through the neoclassical (or 'new' classical) successors became increasingly divorced from observation and analysis of the real world and more a discipline of deductive speculation. mathematic formulae without grounding in real time or space. It became pure market relations independent of human agency or institutions, or of political, social and economic power. In the words of the American economist, Robert Heilbroner:

> [economics] ceased to be the proliferation of world views which, in the hands now of a philosopher, now a stockbroker, now a revolutionary, seemed to illuminate the whole avenue down which society was marching. It became instead the special province of professors, whose investigations threw out pin-point beams rather than the wide-searching beacons of the earlier economists. [Robert Heilbroner, *The Worldly Philosphers* (New York; Simon and Schuster, 1972) p. 166]

The 'revolutionary' mentioned by Heilbroner is of course, Karl Marx. Marx followed in the classical economic tradition of Smith. He elaborated with great effect the labour theory of value and Smith's analysis of stages in economic development from feudal agriculture, through trade, to the emergence of industrial capitalism. Marx also shared with Smith a concern with the economic functions of the state. Smith railled against the state on the grounds that the merchant states became agents for the merchant class, enriching them at the expense of the rest of society. What was required, Smith argued, was the replacement of state regulation with the 'invisible hand' of the market mechanism where, in theory, everyone's selfish pursuit of economic gain would turn to the benefit of all.

By the time Marx was writing (the first volume of his magnum opus, Das Kapital, was published in 1867), Smith's optimistic view of the salutary effects of unregulated markets had proven wrong. Private economic power had usurped the power of the state and, in combination with the state, turned the market from Smith's institution of opportunity into an institution of oppression. It was also an institution that was forced to rely on unemployment and periodic depressions to maintain itself.

Marx combined economic analysis of the **means of production** (capital equipment and resources) with social analysis of the **social relations of production** (the organization of people involved in production) employing the concepts of power and class. Marxian political economy, thus, was never confined by the narrow assumptions and abstractions that increasingly characterized orthodox neoclassical economics (though in the Stalinist period in Eastern Europe, it frequently became dogmatic and devoid of intellectual vitality, and ignored the rise to power of the administrative class).

Marxian political economy was not the only political economy to survive alongside orthodox economics. In Britain and Germany in the late 19th century, economic historians argued that neoclassical economics with its emphasis on the individual and on static, equilibrium analysis of quantifiable variables was an inappropriate theoretical framework for the analysis of long term social and economic change. They began the evolution of **institutional economics**, an approach to political economy that stresses the institutional forces controlling the economy and its organizational structure; and the functions and importance of technology, the state, the law, property rights and social controls in determining economic performance. (Perhaps its two best-known practitioners, however, have been the Americans, John R. Commons and Thorstein Veblen).

A third element in the evolution of modern political economy can be traced to John Maynard Keynes and Michael Kalecki in the 1920s and 1930s. From different points of view both argued that, at the total economy level, the market was not a stable, self-regulating mechanism as neoclassical theory postulated - and they had the evidence of the great depression of the 1930s to prove their views. In fact their views had much in common with the crisis theory of Marxian political economy. As a result, in this book I will draw from all these strands of political economy to present a recognizable model of the contemporary economy.

Canadian Political Economy

Political economy has had a long and honorable tradition in Canada and for many years represented the core of the economics discipline. The main reason was the importance given to economic history and, in particular, to the uniqueness of the Canadian pattern of economic development. Inspired by the work of the late Harold Innis, a dominant figure at the University of Toronto from the 1920s through the 1940s, Canadian economic historians developed a non-Marxist school of political economy based on what Innis called **staples** (raw material exports) and the impact of staple dependence on other political, social and economic institutions. It has proved to be Canada's major international contribution to the field of economics.

In the last two decades, a new school of Canadian political economy has developed that has attempted to integrate much of this traditional institutional Canadian approach with elements of Marxist political economy and Keynesian/Kaleckian economics. As the editors of a recent collection in this new school point out there are still many issues to work out.

> [W]hile political economy is based on a tradition that investigates the relationship between economy and politics as they affect the social and cultural life of societies, within political economy there have been divergent tendencies. Broadly, the liberal political economy tradition has placed determinate weight on the political system and markets, while the Marxist tradition grants primacy to the economic system and classes. Such facile statements, however, underplay the complexity of positions within each tradition. Political economy at its strongest has focused on processes whereby social change is located in the historical interaction of the economic, political, cultural, and ideological moments of social life, with the dynamic rooted in socio-economic conflict. [Wallace Clement and Glen Williams, "Introduction", in *The New Canadian Political Economy*, ed. by Wallace Clement and Glen Williams (Kingston: McGill-Queen's, 1989) pp.6-7]

OUR SELECTIVE VISION:

Prairie farm crisis example of not making connections

By Jeffery Ewener

Selective vision – seeing every event in isolation, unconnected to any other – is a common

enough problem in our complex, confusing world, and we're all guilty of It. Somehow we have trouble raising our eyes from the immediate facts to the context around them, and it can't be just that the world has gotten so big and confusing. After all, if our social world is growing in complexity, that suggests there are *more* connections between events than ever before, if only we'd look for them.

Take the Prairie farm crisis, for instance. At first it might seem odd that this is occurring at a time when, we're told, science and technology are opening up a new golden age in agriculture. Genetic engineering is creating durable new strains of cash crops, able to withstand ferocious inundations of herbicide and pesticide, while hormone treatments are bringing us bigger and better yields of beef and milk from the same old cows.

But is this really just an odd coincidence? Or are the new bio-technologies partly *responsible* for the financial plight of farmers? Are they not in fact part of the deliberate financial pressures that are squeezing small farm operators to the wall, and eventually right out of the market – leaving the field to giant agro-conglomerates with colossal holdings, controlled suppliers and markets, and vast financial resources?

For those who don't know a rhetorical question when they see one, we have a third event to consider: last year's merger of agro-giant Cargill with its main rival, Continental Grain. Together they now control 94% of the U.S. soybean crop, and 53% of the corn, together with equally massive market clout in Canada and throughout the world. In 1998, Cargill semi-merged with Monsanto, the evil genius behind most of today's frankenfoods. Their main competitor now is Archer Daniels Midland or ADM (to whose board of directors Brian Mulroney retired after being hounded from public office), who have a similar working relationship with chemo-pharmaceutical giant Novartis, owner of Sandoz and Ciba-Geigy.

And we might also note that the Liberal government, which astounded the nation a while ago with its assertion that there *was* no crisis among Prairie farmers, is the same Liberal government that is trying to move the responsibility for the safety of our food from Health Canada (which is responsible for Canadians' health) to Agriculture Canada (which is responsible for increasing sales of agricultural products) – a transfer that will obviously make life much easier for the bio-technologists.

If the government is basically serving Cargill and ADM as Canadian District Sales Manager, we shouldn't be surprised if it sees the world through the eyes of its masters. Crisis? What crisis?

Even a political party so rooted in the West as Reform [now Alliance]can blithely ignore the connections between such events. Reform loudly protests the Supreme Court's *de facto* usurpation of Parliament's "sovereign" powers in making social policy decisions. They have a point. But at least the Supreme Court, though undemocratically appointed, operates within the Constitution of Canada, the same Constitution that gives Parliament its dubious "sovereignty."

The World Trade Organization (WTO), on the other hand, makes sweeping decisions affecting the health, environment and social conditions of people around the world, including Canadians, without being responsible to any democratic voters anywhere. Our own government used it to force Europe to accept our hormone-laced beef, despite ample scientific evidence that it's not healthy – evidence the WTO tribunal curtly dismissed. Yet who made the members of the WTO tribunal scientific experts? Are they competent? Says who? How can they be removed if they're not? How did they get their jobs in the first place? What, for that matter, are their *names?* This is an organization whose passion for secrecy goes far beyond the merely "shadowy." You wonder if they wear hoods over their faces at meetings.

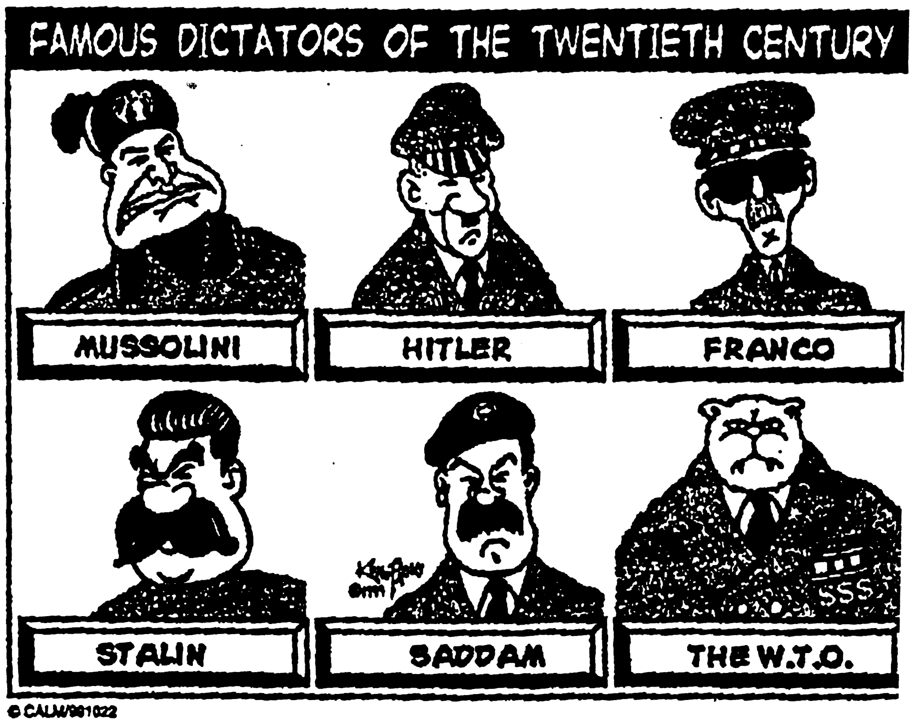
An Extract from the CCPA Monitor, *January 2000*

ECONOMICS, POWER AND DEMOCRACY

Economics is sometimes understood as pure market relations independent of political, social and economic power. Such a narrow approach, however, minimizes one's ability to analyze and to understand the real world, including that particular market that is one of the most central institutions in shaping our society, the labour market. In fact, most orthodox economists are guilty of selective vision (see box) by restricting their analysis of welfare and efficiency to pure market arrangements, thereby ignoring issues such as quality of life, income distribution, the environment, and the distribution of political power.

If we really want to understand contemporary society we can not ignore the distribution of social, institutional and political power as well as economic power. Take for example the World Trade Organization (WTO) or its sister international finance bodies, the International Monetary Fund (IMF) and the World Bank (IBRD). None of these bodies are elected nor are they responsible to any elected or representative government. Yet they have the power to demand and enforce the repeal of democratically enacted legislation on environmental protection, social, agricultural, cultural and research support programs, and health protection measures – all at the behest of one small and powerful class of the "truly fortunate", multinational capitalists. While 'free markets' (neoliberalism) may be deemed democratic from the limited perspective of the orthodox economists looking only at the players in the market and assuming that democracy equates to one dollar one vote, neoliberalism as a system is clearly incompatible with political democracy which attempts to embed the economy in the values of society, not society in the values of the market.

For this reason, the approach taken here is better known as political economy, defined by the eminent Yugoslav economist, Branko Horvat, as "a fusion of economic and political theory into one single social theory". In short, the economy can not be studied or understood independent of the distribution of economic and political power and of the social and political institutions that shape its operations.



CHAPTER

ONE

Political Economy and Economics: The Issues

THE POLITICAL ECONOMY OF WHAT? HOW? AND FOR WHOM?

Any society needs to produce goods and services to fulfill basic human needs -- food, clothing, shelter -- but few societies today produce only necessities. What is produced beyond mere subsistence is a surplus. It is necessary, therefore, for an economy not only to decide how the necessities are to be produced, but also how, how much and what surplus goods and services are to be produced. Therefore, we must have a mechanism first for determining what is to be produced. Second, we need a method for organizing production. Finally, of course, the goods and services produced must ultimately be distributed for consumption by the people in the society. Therefore, we must also have a mechanism for deciding who will receive those goods and services and, in particular, who will receive the production surplus over what is necessary to sustain the general population. In short, the questions any economy must determine are **What, How, and For Whom** the system will produce.

Traditional and Feudal Society

There are various ways, or institutional forms, for solving these three basic questions. Historically, the three most important have been the **family, custom, and religious practice; political decision making;** and **the market**. Traditional, non-market societies[1] relied primarily on the family, often composed of many generations and related nuclear families, the tribe or clan and on custom to determine what and how to produce though, for the most part, the surplus was minimal and was consumed communally. Production was for the use of all the members of the family and was not ordinarily produced for trade with others inside or outside the family or clan. Within the family, the distribution of work was organized primarily around a sexual division of labour.

Surplus would usually be shared through feasts and other social gatherings or used to support a religious and political leadership. Where this leadership became

[1] Anthropologists often use the term “primitive” to describe the early non-market societies which did not have an established state or governmental structure.

Box 1.1 "The Sexual Division of Labour among the Cree"

"In the [Cree] hunting camps a division of labour based on sex was evident. The primary male role was that of hunter and trapper... They butchered their kills and hauled back meat from the hunt. Men did the heavy work of transporting supplies and setting up camp, and they also manufactured most wooden articles, such as toboggans, sleds and snowshoe frames. Women's tasks were primarily performed in the vicinity of the base camp. The caught fish with set lines and hunted or trapped small game such as hare and ptarmigan... Women also performed day-to-day tasks in the camp, such as gathering and splitting firewood, replacing conifer bough flooring, cooking meals, and preparing hides and pelts, as well as engaging in constant manufacture and mending of moccasins, mittens and other apparel. Adolescent daughters aided in these tasks and in the care of younger children."

From Alan McMillan, Native Peoples and Cultures of Canada, *(Vancouver: Douglas and McIntyre, 1995) p. 117.*

a ruling elite over a larger body of peoples, such as in early Egyptian kingdoms, slaves was also used for production and the surplus was accumulated by the rulers, often in the form of monuments and temples (for example, the pyramids.) In other similar societies where there were significant surpluses and private wealth accumulated, there were methods of redistribution such as the Jewish custom of "Jubilee", the redistribution of wealth every 50 years, or the Canadian west coast Aboriginal custom of the "Potlatch."

Box 1.2: Potlatch

"The potlatch, from the Chinook word Patshatl, validated status, rank and established claims to names, powers and privileges. Wealth in the form of utilitarian goods such as blankets, carved cedar boxes, food and fish or canoes, and prestige items such as slaves and coppers were accumulated to be bestowed on others or even destroyed with great ceremony. Potlatches were held to celebrate initiation, to mourn the dead, or to mark the investiture of chiefs in a continuing series of often competitive exchanges between clans, lineages and rival groups. A great potlatch could be many years in the making, might last for several days, and would involve fasting, spirit dances, theatrical demonstrations and distribution of gifts. An intolerant federal government banned the potlatch from 1884 to 1951, ostensible because of native treatment of property."

From Rene Gadacz, "Potlatch," The Canadian Encyclopedia, *2nd edition, (Edmonton: Hurtig, 1988) volume 3, p. 1731*

This is not to say there was no trade. Aboriginals in North America traded a number of products, most notably obsidian, a volcanic glass used for making cutting tools, silica stone, copper, shells, and amber. These products were traded for thousands of years and in some cases over many thousands of kilometres, long before the arrival of the Europeans. Often they were raw materials that were found only in certain places. Trade provided tribes with the opportunity to exchange surplus local production in areas where these resources were plentiful[2] for goods and resources that were not available in that area. Such trade goods may well have also served as a source of food and subsistence goods for nomadic tribes. Trade in perishables also took place between neighbouring tribes as they traded their surplus for a supplemental supply of alternative goods. For instance, the Huron Indians traded surplus corn from their cultivated fields for animal products, particularly hides used for making clothing, with their hunting neighbours, the Nippising. However, as the *Historical Atlas of Canada* notes (volume 1, plate 14) "wherever it took place, trade was integrated with local economies that provided for most subsistence needs."

Medieval feudalism and similar societies relied on a mixture of the family division of labour, custom and political (including military) and religious institutions but with a minimal intrusion of the market. The place held today by markets was then taken by obligations of the mass of agricultural workers to the hierarchy of upper classes.

The classic example was the manorial system common to much of Europe. The land was technically owned by the King or Prince of the region who parcelled it out to his lords and knights in exchange for tribute and military support. The lords of the manor, in turn, allocated sub-plots of their serfs, agriculturists tied to the land who practised a form of mixed farming. The lord also was required to provide such facilities as a grain mill and a blacksmiths shop while the serf was obligated to provide the lord with both labour to till the lord's land and a portion of the produce of the serf's plots to maintain the manorial household. These obligations, in labour, money or produce, were fixed by custom or, in some cases, by law. The income of the peasant, therefore, was determined by the bounty of nature, the home industry of his family, and by the beneficence of his lord.

Again, this does not mean that markets did not exist, particularly for luxury goods not available locally. Rather, it means that the greatest number of people produced for themselves (production for use, not trade), with a portion being taxed away to support the political-military superstructure with only surplus output entering the marketplace.

Even for that surplus that was traded, state or church regulation of prices and incomes had a limiting effect on the market mechanism. The doctrine of 'just price,' laws banning or limiting usury (charging interest on loans), and regulation of wages were some of the partially successful attempts to contain the market mechanism to achieve societal goals. It was only with the specialization of economic functions, the resulting increase in the complexity of the economy, and the

[2] Economists call this practice of trading goods surplus to local needs as "a vent for surplus."

rise of capitalism that markets became the dominant institution by which goods and services and incomes were allocated. Even then, Britain, the first nation to accept self-regulating markets, only did so in the mid-years of the 19th Century – and then almost immediately began to introduce laws to mitigate the anti-social results of unregulated markets resulting in the "double movement".

Box 1.3: The Double Movement

"For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in deliberate directions. Vital though such a countermovement was for the protection of society, in the last analysis it was incompatible with self-regulation of the market, and thus with the market system itself.... [The double movement] can best be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market – primarily, but not exclusively, the working and the landed classes – and using protective legislation, restrictive associations, and other instruments of intervention as its methods."

Karl Polanyi, The Great Transformation*, (Boston: The Beacon Press, 1944) pp. 133-134.*

Command Economies

Etatist, or state-planned "command" economies such as the former USSR and its eastern European allies, China and Vietnam (at least before the widespread introduction of market reforms) and contemporary Cuba, heavily favoured political decision making.

The system that used to be used in the Soviet Union can be described as follows. The national political body, in the former Soviet Union the Central Committee of the Communist Party and its executive Politburo, would establish planning objectives, the desired output levels of various industrial, agricultural, and service sectors. Using these goals, the national economic planning body would establish targets for production of the major sectors of the economy. Sectoral and regional planning agencies would then allocate targets and quotas to enterprises, factories, and collective farms usually with some form of incentive or penalties for not meeting targets. Government planning bodies also made basic decisions on what proportion of resources, raw materials and capital goods were to go to different sectors, industries, or firms, at prices set to represent planning values and not necessarily market values.

The planning proposals were reviewed at the local enterprise level which could suggest revisions that travelled back up the planning chain before the final plan was adopted. Then, of course, frequent revisions were made to the plan which had to be constantly altered in response to actual performance. Goods and services were distributed through markets and stores but at prices which reflected political and planning priorities rather than market prices. Thus, for example, bread and rents were much lower than would prevail in a market economy which accounts for the frequent problems of shortages, rationing, and lineups for many goods and apartments. Simply put, people wanted to buy more that the plan called for or the enterprises could supply at the planned prices.

These economies had, or have, something in common with traditional economies in that 'political' and 'distributional' criteria prevail to a much greater extent in determining the composition and distribution of output of the economy than in market economies. In addition, allocation of many goods, such as housing, tended to reflect social or political priorities rather than the ability and willingness to pay that characterizes the market system. In this respect, the Soviet attitude toward housing was similar to Canada's attitude toward medicare – both were comprised as necessary social programs.

This is not to say that markets play no role in real-world command economies. To a greater or lesser extent in the various countries that had, or have, command systems, small firms such as small, private agricultural plots and personal services, and even occasionally larger firms, sold or sell their output in uncontrolled markets. In any case, once the supply of goods and services for consumption is determined, it is usually distributed in large part through consumer markets though, as I have noted, at plan-determined prices.

What happens if the planners err, producing too much of one good and not enough of another? In market economies, prices of goods in short supply would rise, those of surplus products would fall. That is, 'rationing' between consumers is accomplished through changes in relative *prices*. In the command economy, in contrast, planners would attempt to alter the *quantities* of these goods produced in the following period and resort to rationing or storage in the short run.

Market Socialism

In market socialism, as the name implies, the market plays a central role not unlike that of market capitalism. The main theoretical difference between the two systems lies in the ownership of the 'means of production' or capital, natural resources and land – which would be public in the socialist case. As a result, the income that would otherwise accrue to the owners of property in a capitalist economy belongs to the public. This also affects the motivation of firms since the state or the public at large has less interest in maximizing profits in the publically owned firms and more in producing higher levels of output at lower prices. This difference in motivation can be seen in public hydro systems and automobile insurance plans in Canada which aim to deliver power or insurance to provincial consumers at cost of production, or break-even, prices and not to make monopoly profits.

In market socialism, planning takes place primarily to predict what the market *would* accomplish if it were efficient and unrestrained and included *all* of the costs of production and consumption (including such costs as accrue to society at large, like pollution) which do not affect the firms or consumers directly. Planning would also be required to ensure that adequate savings and investments took place and in the appropriate sectors to guarantee sustainable rates of income growth and full employment without supply bottlenecks.

There are two main variants of market socialism. The first is similar in many respects to the command system where planners set 'shadow prices' at levels they expect the open market would ideally produce. Consumers and producers would make their decision on the basis of these prices and if the planners are wrong, the short run surpluses and shortages would be indicators to them to alter prices through a series of successive approximations until markets clear – that is, until there are no shortages or surpluses at the planners' prices. The same mechanism would hold for the labour market, allowing free mobility of labour. The elimination of individual non-labour income (interest, profits and rent) would tend to diminish the unequal 'voting power' in the market by reducing the spread in incomes.

A second variant of market socialism has become more popular in recent years. This involves some form of worker or labour self-management. Productive capital and resources would be owned either 'socially' (by society), by the workers in each enterprise collectively, or by the state but the management of the individual enterprises would be the responsibility of the workers employed in the firms. Each enterprise would be forced to compete in the marketplace for the consumer's dollar. The primary responsibility of the planners would be to ensure a level of savings and investment that would achieve desired levels of economic growth and employment, and would provide for necessary social and economic infrastructure.

The closest approximation to this form of socialist economy, the former Yugoslavia, used the market to decide what to produce. But how it was produced and the distribution of income was greatly affected by the political institution of social ownership of most productive capacity, its management by the workers, and the redistribution of property income under the self-management system.

After the Second World War and the triumph of Marshall Tito's communists over the fascists, Yugoslavia introduced a centrally planned economy on the Soviet model. However, Tito broke with Stalin over economic policy and Yugoslavia was expelled from the Soviet economic block. In any case, the decentralized nature of the Yugoslav economy and the independence of its peasant class made central planning difficult if not impossible and led Yugoslavia into its experiment with worker self-management. State firms were turned into 'socially owned' firms and their management turned over to managers appointed by the workers themselves. Workers councils in the enterprises determined policy including the level and distribution of incomes within the firms and of new capital investment. It is worthy of note that the distribution of income within Yugoslav firms was the most equal of all countries in the world indicating a high preference for equality and sharing among the Yugoslav people. The workers also determined directly and through their delegates to government legislatures how much money was to be put aside from enterprise incomes for schools and hospitals which served the firms.

The initial success of Yugoslav self-management was demonstrated by the country's economic growth rate in the first few decades after the war, among the highest in the world. In the 1980s the system began to falter quite badly, although for reasons not directly related to its self-management market socialist system. Economic difficulties contributed to ethnic rivalries and the eventual breakup of the country. However, it is interesting to note that the most successful republic of the former Yugoslavia, Slovenia, when it abandoned self-managed socialism, adopted a privatization plan that provided for worker buy-outs of most socially owned enterprises thus retaining some elements of the former market socialist system.[3]

Market Capitalism

The defining characteristic of capitalism is, first and foremost, the fact that most of the means of production are privately owned and controlled. That is, the majority of firms, their capital equipment and buildings, and the rights to resources are owned by individuals. This can be either directly through the personal ownership of a business (a proprietorship or partnership) or through ownership of shares or stock in a corporate form of business; or indirectly through ownership of shares in investment or mutual funds that are the direct owner of a bundle of shares or stocks.

Private ownership of productive capital can be contrasted to three other forms – public, social and co-operative. Canadians are familiar with public ownership, primarily in the form of crown corporations such as the provincial hydro compa-

[3] I have written extensively on the economy of Yugoslavia and of Slovenia. For the history of the experiment with self-managed market socialism, see Paul Phillips and Bogomil Ferfila, *The Rise and Fall of the Third Way: Yugoslavia 1945-1991,* (Halifax: Fernwood, 1992. For a description of Slovenia's post-independence economic system, see Paul Phillips and Bogomil Ferfila, "The Legacy of Socialist Self-Management: Worker Ownership and Worker Participation in Management in Slovenia", *Socialist Studies Bulletin*, no. 61 July-September, 2000.

nies, the Post Office and the Canadian Broadcasting Corporation (CBC). However public ownership also includes the educational and health authorities which own or run the public schools and hospitals throughout the country.

Most Canadians are also familiar with co-operative enterprises such as the retail consumer co-ops, particularly in western Canada, or the co-operative consumer banks known as credit unions in English Canada and caisse populaire in French speaking parts of the country. In these cases the means of production are owned collectively by the consumer members who have ultimate control of the co-operative on a democratic 'one member, one vote' basis rather than the private capital system of 'one share, one vote' system. A lesser known form of co-operative is the producer co-operative where members are themselves the basic producers or workers in the organization. Again, control of the co-op is on a 'one member, one vote' system but in this case, the members are the workers. (This is similar to the second market socialism model discussed above.) The most famous such co-operative in the world is in the Basque region of Spain, known as the Mondragon Co-operatives, a huge complex of manufacturing, research and education, sales, agricultural, fishing and financial co-operatives.

Box 1.4: Mondragon

"The Mondragon complex of companies in the Basque region of Spain, with over 30,000 workers and over six billion dollars in annual sales, has attracted international attention. By linking businesses, university and research institutes into one operational organism, with their own cooperative bank, Mondragon has created a synergy which has been extremely effective in generating new businesses and jobs. For example, Mondragon leaders projected the creation of 8,000 new jobs from 1996 to 2000.

Besides being an economic achievement, the Mondragon experiment is a fascinating social experiment. The total complex is owned by workers and consumers. Further, an over-riding altruistic sense of community responsibility dominates the total system. In an age of disillusionment with the prevalent social economic systems, the achievements in Mondragon have had a tremendous attraction for reform-minded people in the Western world."

Greg MacLeod, From Mondragon to America, *(Sydney, NS: University College of Cape Breton, 1997) p. 13.*

Social capital is a more difficult concept. Yugoslav critics of their former system defined it as "property owned by everybody and by nobody." In theory at least, it is productive property owned by 'society' which receives the income from such property either through taxation, a capital charge, or through collective consumption. Workers have the use of such property and management may be exercised either by the workers or by the consumers of the goods and services produced, or jointly by both. Society also constrains the workers' or consumers' rights to destroy, sell or remove the property. In Canada, social property has largely been of the 'consumer' type in the form of not-for-profit community organizations – cultural, recreational, health and welfare services – financed, at least in part, by the public purse. They are frequently under the control of self-appointed and self-perpetuating volunteer boards. These **non-government organizations** or **NGOs** are now sometimes referred to as the third sector of society, or **civil society**, along side the private and public sectors.

While private ownership of capital is the dominant characteristic of capitalist economies, it is not the only defining feature. Western capitalist economies rely first and foremost on the market to determine what to produce and how to organize production. The rationale for this process was provided by Adam Smith. He argued that if everyone seeks his own maximum benefit, the "**invisible hand**" of competition will work through the market to maximize output and incomes, although the distribution of incomes will depend in part on the distribution of ownership of the means of production and of the talents and skills of individuals. Consumers, he argued, would buy goods and services on the basis of their own preferences, though constrained by what they are able to pay. Firms will produce depending on the demand for their goods and the production costs they face in the marketplace.

A similar reliance on the market for the distribution of income marks the third defining characteristic of the capitalist system. But for this to happen we must have markets *for everything that goes into production*. There must be markets for labour, resources, capital goods, *and* the means to purchase capital goods and resources, that is a market for money. Labour, of course will earn wages and salaries. Owners of resources will be paid rents.[4] Owners of capital and monetary wealth will be paid interest, dividends and profits. Thus the distribution of income is determined by markets for labour, resources and wealth *as if* they were commodities produced for consumer markets.

Box 1.5, "The Investor's Advice to His Son"

"Buy land son! God isn't making any more of it"

Anon.

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[4] During the period the classical economists were writing, the prime economic resource was agricultural land for which tenant farmers paid rent. Therefore, the three factors of production were deemed to be labour, *land* and capital, while land was paid *rent*. This terminology has tended to be maintained among economists. However, land should be seen in the broader context of natural resources and rent as the income accruing to owners of the 'bounties of nature'.

But labour, natural resources and money are not commodities produced for the market. For this reason we follow Karl Polanyi's lead and call them **fictitious commodities**, factors that are sold on the market *as if* they were commodities when clearly they are not. Children, outside of slave systems, are not 'produced' to be sold on the market. Natural resources are not produced at all, at least by humans. Money is not produced for sale. Note also that labour'earns wages, but rents, interest an profits are paid to the owners of resources and wealth because they own wealth, not because they earn the income.

However, despite the primacy of the "invisible hand" of the market in capitalism, a very significant part of production and distribution is determined by political decisions, particularly in countries that may be considered welfare states or Social Democracies (for example, Scandinavia, France, Germany and Austria). In most developed western countries, for instance, the government's participation in the total economy approaches half, in some cases even more than half, of all that is produced. This includes both social services such as health and education as well as government transfer payments such as old age pensions and social assistance.

Box 1.6 Government Participation in Selected Capitalis Countries: General Government Total Outlays as Percentage of GDP in1998 with projections for 1999 and 2000

Country	1998	1999*	2000*
Canada	42.1	41.8	41.5
USA	33.6	32.3	32.2
Japan	36.9	39.2	39.8
Australia	32.9	32.6	32.3
Great Britain	40.2	40.8	41.1
Germany	46.9	47.1	46.8
France	54.3	54.1	53.6
Italy	49.1	29.2	48.5
Austria	49.4	49.3	49.0
Denmark	55.1	54.4	53.4
Norway	46.9	47.0	47.0
Sweden	42.2	42.2	41.8
Spain	41.8	41.6	40.5
All OECD	39.4	39.6	39.5
European Union	47.5	47.6	47.2

* projected
Source: OECD, *Economic Outlook*, June 1999

Finally, where private ownership and markets fail to efficiently deliver politically-acceptable levels of production of socially necessary goods and services, the state intervenes to determine, produce or (re)distribute output in order to do so.

This is a hugely important function of the state as indicated in part by the large proportion of the GDP, reported above, produced or redistributed by contemporary governments. As I shall detail later, markets are prone to failure – failure to provide adequate levels of economic and social infrastructure, failure to provide distributions of income that are not socially and economically destructive, and failure to ensure against repetitive breakdowns that call into question the sustainability not only of the capitalist system but of humanity itself. But this means I must first explore the problems and limits of the market as the generator and regulator of economic activity.

MARKETS

The central co-ordinating institution of contemporary capitalist economies is 'the market.' In fact, of course, there are many markets and the play different roles and have different functions. Markets by be used to distribute surplus production – that is the function of vent for surplus – as we noted in our discussion of traditional economies. And such markets still exist today as can be seen in summertime farmers' markets and roadside stands. This is in contrast to most major markets where production is more or less exclusively directed to a specific market and where the organization of production of commodities for the market functions to determine the social relations between classes.

> Box 1.7: "Commodities"
>
> Commodities: A **commodity** is a good or service produced for sale on a market, and not for the use of the producer.

The principle function of goods and services markets is to bring together producers and consumers in a way that the process of the determination of prices and quantities of commodities directs what is to be produced and how it is to be produced. The principle function of markets for labour, resources and money is the determination of the distribution of income between workers and the owners of wealth and of resources. Wealth, of course, can be held in more than one way. The wealthy can own factories, buildings, land, equipment and other forms of real capital goods. Alternatively, wealth can be held in the form of money or claims to money such as bonds, mortgages, treasury bills and other forms of paper wealth, which economists refer to as monetary capital.

It is important to distinguish between the functions in commodity markets and in factor markets because markets for goods and services are **real**, but markets for labour, resources and money, as we have noted, are **fictitious**.

Adam Smith believed that if all individuals pursued their own self-interest in competitive markets, the 'invisible hand' of the marketplace would result in the maximum benefit for all. Unfortunately, however, the human and social costs of reliance on self-regulating markets have proved so devastating that governments have been forced by society to limit certain market excesses, to regulate markets or, in some cases, to replace markets altogether. The reason for these human and social costs is that most, if not all, markets are subject to some degree of breakdown – what economists refer to as **market failure**. There are two reasons for market failure. The first is the inability of some markets to function effectively or efficiently without intervention or controls. Second is the tendency for some unregulated markets to produce unacceptable economic and social consequences. In short, the 'invisible hand,' for some reason or another, does not function in the manner in which Smith envisaged or even if it did, it produces economic results that are simply not socially acceptable.

Market failure can further be attributed to two major causes, imperfect markets and market breakdown. The prime cause of imperfect markets is the result of one party in the market having sufficient power to distort the price or income result in a way that it benefits at the expense of the others. The most obvious case is a monopoly (one seller) situation. If you, as a consumer, have a problem with the price or service from your local cable provider, you don't have the option of "going to the competition" – there isn't any. The competitive market does not exist.

Pure monopolies such as cable systems are relatively rare, but at the other end of the spectrum, highly competitive markets of the type envisaged by Smith have also largely disappeared even in agriculture where the small independent farmer now faces the monopoly power of agribusiness suppliers and marketing corporations. What has replaced small competitive business as the dominant players in the market place are a small number of very large corporations who tend to control most markets. (More of this in the next chapter.)

Economists call markets dominated by a few firms **oligopolies** (from the Greek meaning a few sellers). Each of these dominant firms may have a 'degree of monopoly' based on such things as brand names, copyrights, patents, advertising, promotion of product differentiation, and 'branding.' Alternatively market power can result from control over specific resources. For

example, DeBeers' has maintained world wide control of the diamond trade for decades because of its virtual monopoly in the wholesale trade in the precious stones established when DeBeers of South Africa was the world's largest diamond producer. Or it may be because a company has developed a unique and effective production or marketing technique or practice. The reason the market fails to function as expected is that the few large firms have the power to manipulate their prices and restrict the supply of a product in order to make higher profits at the expense of consumers, suppliers and workers.

Box 1.8: "Farmers are victims of market failure"

"The reality is that the market is failing farmers. It is failing them all around the world, and has been since at least the late 1970s. It is failing to give farmers a fair and adequate share of the consumer dollar. It is failing to give them a reasonable return on labour, management, and equity from our agri-food system's huge revenue stream.

Moreover, this market failure was *entirely predictable*. I has been a direct result of the dramatic power imbalances that have developed between the multinational agri-food corporations and the family farms that must do business with them.

Modern food production takes place in a chain that includes oil, fertilizer, seed, chemical, and machinery companies on the input side, and grain companies, railways, packers, processors, retailers, and restaurants on the "downstream" side. Almost every link in this chain, nearly ever sector, id dominated by between two and 10 multi-billion-dollar multinational corporations:

- Three companies retail and distribute the bulk of Canadian gasoline and diesel fuel.
- Three produce most of the nitrogen fertilizer.
- Nine companies make our pesticides.
- Four companies are gaining control of our seed market.
- Three produce most of our major farm machinery.

The situation is the same on the "downstream" side of the food production chain:

- Nine grain companies collect Canadian grain.
- Two railways haul it.
- Two companies dominate the beef packing sector and a few other dominate pork.
- Three large firms manufacture 87% of the pasta in Canada.
- Four corporations mill 80% of Canadian flour.
- Three companies manufacture the bulk of the soft drinks sold.
- Four companies produce most of the [breakfast] cereal.
- Five companies control food retailing in Canada.
- A handful of restaurant chains control a large and increasing portion of the restaurant business.

The single significant exception to this patten of extreme concentration is the farm link. In Canada, that link is made up of over 270,000 relative small family farms."

National Farmers' Union Submission to the Senate Standing Committee on Agriculture and Forestry, reported in *The CCPA Monitor,* May 2000.

The second major cause of market failure occurs when the market is unable to allocate the product or the cost of producing the product. There are two major causes of this kind of market failure, **public goods** and **externalities**. These are best explained by example.

A public good is one that can be supplied to one consumer or to a thousand