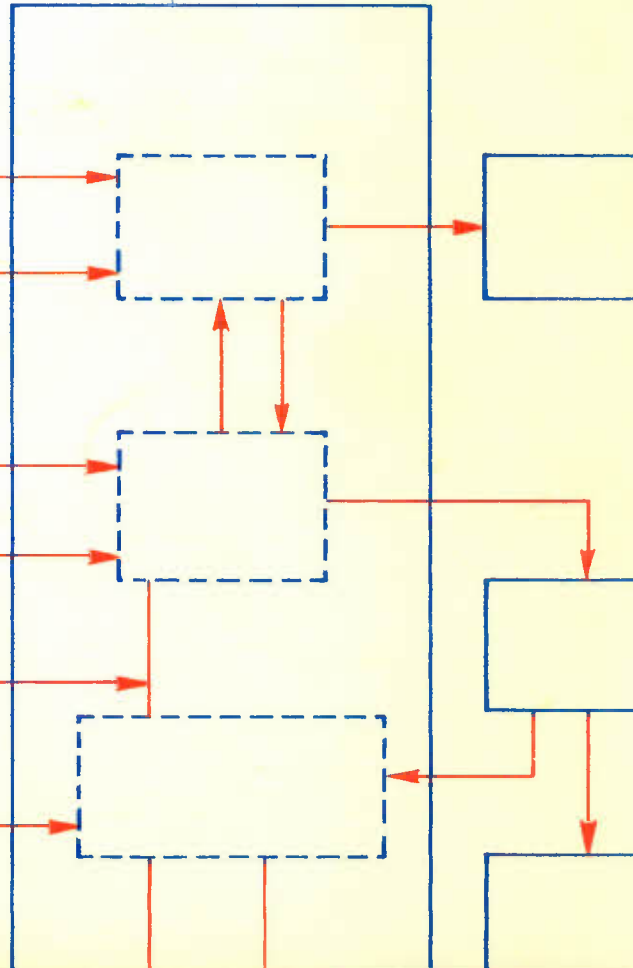
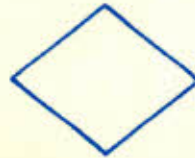
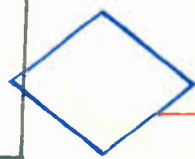
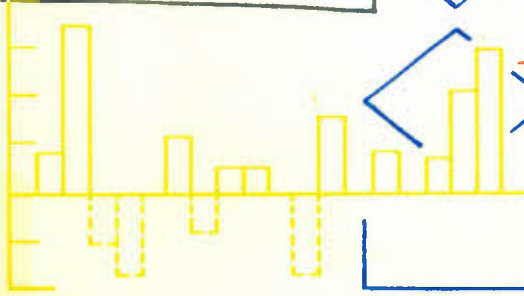




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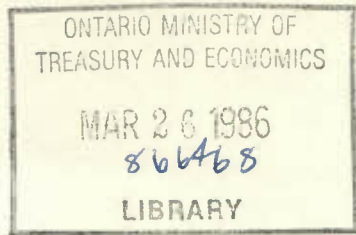
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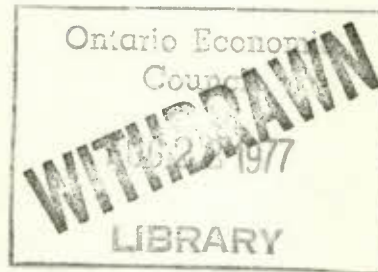
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DISCUSSION PAPER NO. 79

The Demand and Supply of Government:
What We Want and What We Get

by H. Scott Gordon



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Abstract

Scott Gordon, The Demand & Supply of Government: What We Want and What We Get

Professor Gordon points out that any satisfactory analysis of the operation of a social institution, such as "the government" must stand upon two legs: (a) a scientific empirical examination of the economic and social effects of specific governmental policies and modes of operation; and (b) the use of valid criteria concerning the general social ends which the policies and operations of government are expected to serve. His paper is concerned with the second of these two legs.

Drawing upon what he regards as the dominant philosophic tradition of modern democratic society, Professor Gordon argues that there is wide acceptance of the merits of three general objectives: the promotion of economic welfare; the achievement of a greater degree of social justice; and the preservation of individual freedom. He describes these as "primary social goods" and goes on in his paper to examine them in some detail. His main point is that all of these "primary social goods" are very complex and that a workable understanding of the role of government in modern society requires an appreciation of this complexity. It is not possible to judge the operations of government in a purely technical way since the evaluation of policies with reference to general social criteria is not a technically soluble problem. He argues that the main task of "politics" is precisely to deal, day to day, with problems that are not technically soluble. One can evaluate the merits of a government by using the criteria of welfare, justice and freedom, to ascertain its successes and failures in dealing with such problems.

The paper then goes on to examine the reasons why the scope of modern governments has grown so much in recent years. The main factor, he finds, is that people have become increasingly aware of the defects of a purely market organization of the economy and have demanded intervention by government to correct these defects in the interest of promoting a greater degree of economic welfare and the achievement of a higher order of social justice.

After a generation or so of expansion in the role of government in response to these demands, we now find a growing sentiment of dissatisfaction with its activities. Professor Gordon argues that part of this dissatisfaction springs from a realization that governments have not been as effective as was hoped in promoting welfare and justice by correcting the defects of market organization, but an even more important factor is that people have gradually come to appreciate that gains in welfare and justice are often attained at the expense of personal freedom. Professor Gordon attributes a large part of the recent growth of anti-government sentiment to the view that the value of the freedom lost is greater than the value of the welfare and justice gained by many governmental activities. This, he argues, is at least partly due to the fact that governments, in considering alternative policies and methods of operation, have often focused exclusively upon the welfare and justice effects of these activities, and have not adequately considered their effects upon personal freedom. The "supply" of government could be matched more effectively to the "demand" of the public for it if more explicit attention were paid to the fact that the three "primary social goods" are (a) complex rather than simple criteria; and (b) are not inherently harmonious with one another.

Résumé

Scott Gordon, The Demand & Supply of Government: What We Want and What We Get

Le professeur Gordon souligne que pour être satisfaisante, toute analyse du fonctionnement d'une institution sociale, comme "le gouvernement", doit comprendre deux éléments fondamentaux: a) un examen scientifique et empirique des effets économiques et sociaux de certaines de ses politiques et modalités de fonctionnement, et b) l'utilisation de critères valables quant aux buts sociaux généraux que les politiques et les activités du gouvernement sont censées viser. Le document porte sur se deuxième élément.

Se fondant sur ce qu'il considère être la tradition philosophique dominante dans la société démocratique moderne, le professeur Gordon soutient que le public en général reconnaît la valeur de trois objectifs généraux : la promotion du bien-être économique, la réalisation d'une plus grande justice sociale et la protection de la liberté individuelle. Il appelle ces trois objectifs "biens sociaux primaires" et il les analyse d'une façon assez détaillée. Il met en évidence le fait qu'ils sont très complexes et que pour bien s'entendre sur le rôle du gouvernement dans la société moderne, il faut faire au préalable une appréciation de cette complexité. Il n'est pas possible d'évaluer les activités gouvernementale sur un plan purement technique, étant donné que l'évaluation des politiques par rapport à des critères sociaux généraux n'est pas un problème que la technique puisse permettre de résoudre. Il est d'avis que la première tâche de la "politique" est précisément de s'occuper quotidiennement des problèmes de ce genre. On peut juger de la valeur d'un gouvernement en utilisant les critères de bien-être, de justice et de liberté pour constater ses succès et ses échecs face à ces problèmes.

L'auteur se demande ensuite pourquoi les gouvernements modernes ont connu une si grande expansion ces dernières années. Selon lui, la principale raison tient au fait que les gens sont devenus de plus en plus conscients des lacunes d'une organisation de l'économie purement fondée sur le marché et ont demandé que l'Etat intervienne pour les corriger afin de favoriser un plus fort degré de bien-être économique et la réalisation d'un niveau plus élevé de justice sociale.

Depuis environ une génération, l'Etat a élargi son rôle en réponse à ces demandes; aujourd'hui on constate une insatisfaction grandissante à l'égard de ses activités. Selon le professeur Gordon, cette insatisfaction vient en partie du fait que les Canadiens ont constaté que les gouvernements n'ont pas été aussi efficaces qu'ils l'avaient espéré dans la promotion du bien-être et de la justice, en corrigeant les déficiences de l'organisation du marché, mais, facteur encore plus important, les gens se sont graduellement rendus compte que les gains réalisés sur les plans du bien-être et de la justice le sont souvent aux dépenses de la liberté personnelle. L'auteur attribue une bonne partie de la récente vague de mécontentement à l'égard des gouvernements au fait que la liberté perdue a plus de valeur que l'accroissement du bien-être et de la justice découlant de beaucoup d'activités des pouvoirs publics. Cela, de dire le professeur Gordon, tient, au moins en partie, au fait que les gouvernements, lorsqu'ils ont eu à choisir entre diverses politiques et méthodes de fonctionnement, n'ont souvent fait attention qu'aux effets de ces activités sur le bien-être et la justice sociale, et n'ont pas suffisamment tenu compte de leurs répercussions sur la liberté personnelle. Il serait possible d'en arriver à une meilleure concordance entre "l'offre" de l'Etat et la "demande" du public pour son intervention, si l'on portait plus expressément attention au fait que les trois "biens sociaux primaires" ne sont pas des critères simples, mais complexes, et pas intrinsèquement en harmonie entre eux.

Introduction: The Positive and the Normative Analysis of Government

There never was, in human history, a golden age when men lived in perfect harmony with one another sharing the fruits of the earth together in universal love and peaceful order. And it is extremely unlikely that any such age will emerge in the future as a consequence either of the further natural evolution of the species, or as an act of creative design by human beings who take thought about the conditions of the ideal society. The imaginings of utopian political philosophers have placed much ink upon paper, but the best that can be said about them is that they are harmless; which is itself only true if no one is naive enough to try to transfer the vision from paper to practice.

If we are to think constructively and realistically about human problems we have to recognize first, that the organization of men into societies can be brought about by mechanisms of spontaneous order, mechanisms such as markets wherein men trade for mutual advantage; second, that such mechanisms are not capable of meeting all the needs for social organization and, in fact, they themselves could not function if there were no other devices which bind people together into an orderly social arrangement: The most important of these other devices is what is commonly called a "government." Even the simplest type of social organization requires a government. A small meeting must have a chairman and rules of procedure; a single family requires a structure which enables decisions to be made,

and actions taken on behalf of its members; even, as Shakespeare noted, when two men wish to ride a horse, "one must ride in front."

The simplest form of government is a dictatorship, where one man (or a very few) make decisions, and all others are constrained to obey. The task of government becomes steadily more complex, and more difficult, the more its essential processes are widened to permit participation by more and more segments of "the public." Such enlargement of the sphere of participation is an outstanding feature of the development of modern government in democratic societies, and it is not surprising that this development has been accompanied by a great deal of discussion about the nature of government, its proper tasks and its proper limits, how it tends to function and how it ought to function. Democracy is not just a matter of one person one vote; the universal franchise is a necessary but far from sufficient, condition of a good polity.

The discussion of the fundamentals of politics has also been greatly stimulated, in recent years, by the great expansion of the scope of government activities, especially in the sphere of economic activity. Canadian governments at all levels now manage some 40 per cent of the Gross National Product through the mechanisms of taxation and public expenditure, and there is much additional governmental intervention in economic processes, not represented in the financial accounts, through regulatory activities of various kinds. Even if governments were instruments of sublime perfection, there would be, on account of their economic size alone, much debate about their activities. Needless to say, modern governments are not only large but also imperfect, and there is ample

reason to examine both the scope of the responsibilities they have adopted and the methods they employ.

In the study of government, it is essential to distinguish two types of questions, the "positive" and the "normative." The first has to do with how governments of various types tend to work when they attempt to engage in activities of different kinds; the second has to do with what activities they ought to engage in, and how they ought to attempt them.

The history of economic theory is, at first sight, somewhat surprising so far as the functions of government are concerned. On the one hand, economists have always been vitally concerned about matters of economic policy and have aimed their analysis at the object of advising governments what they should do about contemporary economic problems. But on the other hand, the basic theoretical models which economists have employed are models of an economy virtually sans government. During the past two centuries, and especially since the development of the marginal analysis in the 1870s, economists have constructed more and more refined theories of how other decision-making entities behave, but until very recently, very little effort has been directed at the positive analysis of government, i.e., the development of testable theories about how governmental decision-making bodies behave. So, if one examines any standard modern textbook in economic theory, one will find large sections devoted to analysis of the behaviour of "households" and "firms" but no comparable analysis of government.

The reason for this apparent neglect is not that the classical and neo-classical economists were doctrinaire advocates

of laissez-faire. None of the great economists can be convicted of such a charge; those economists who did hold a laissez-faire ideology were both few in number and so minor in significance that their names are now known only to specialist antiquarians in the history of economic thought. The exclusion of government from the economic model was based upon sound methodological reasons which, indeed, sprang from the fact that the main task of economics was to evaluate existing governmental policy and to advise as to how it might be improved. This seeming paradox can best be explained by means of analogy. If a medical biochemist, for example, wants to find out the effect of synthetic cortisone on the human body, or if he wishes to design a drug that will work better, he must know a great deal about how the organism works without the drug. The task of the biochemist is in some respects easier than that of an economist, because there are human organisms available for direct examination which have not taken synthetic cortisone, while there are no examples of societies without governments. The way out of this problem is first to construct theoretical models of economics sans government; then add a hypothetical dash of governmental intervention of a specific kind; deduce theoretically what consequences will ensue; and, finally, test the analysis empirically so far as may be possible by statistical and econometric methods.

For these procedures of economic analysis to be carried out, government must be exogenous to the basic model, operating upon the economy as a deus ex machina so to speak. The procedure is valid, but it contains a potential trap which has not always

been avoided by economists and policy-makers. If economic theory discloses an imperfection in the functioning of economic processes sans government, there is therefore clearly a possibility of improving matters by governmental intervention. But this means only that an improvement is possible; whether it will be realized depends specifically upon what the government does and how it does it. No biochemist would argue that the discovery of an adrenal gland malfunction means that the physician can improve the patient without reference to his skill and knowledge as a medical practitioner. Medical therapy can be useless, or even harmful. But in the discussion of social problems we often argue as if the disclosure of a malfunction in the private economy were sufficient in itself to warrant governmental intervention. We say that the government ought to do "something" about the problem, without reference to what government in general or the specific government in the particular case is capable of doing or is likely to do.

Government must be ex machina but, perhaps unfortunately, (the "perhaps" is important) it is not Deus. Governments are composed of men, and even if they were all paragons of honesty and benevolence they would not be able to carry out their tasks with perfection. So, if we are to be realistic and sensible in the demands we make of government, we have to know not only how the private economy works and where its imperfections lie, but we must also know how governmental operations work and where their imperfections lie.

The positive analysis of government has only just begun to be carried out by economists. The foundations for it were laid by James Mill in his Essay on Government a century and a half ago, but the problem was not effectively attacked until the work of Buchanan and Tullock, Olsen, and Downs, within the past two decades. The subject has recently been pursued with great energy and enthusiasm. It is still too early to say that the current direction of this work will supply the crucial element that is missing in the theory of economic policy, but the signs are encouraging that we can look forward to a great improvement in the rational appraisal of the role of government and in the effective design of procedures for public decision-making.

But enthusiasms for new things, even when well grounded, can be carried to excess, and this would assuredly be the case if the positive analysis of how governments work were to stifle consideration of the more philosophical or "normative" questions that are involved in the determination of governmental policy. Even if we were to learn how to make governments much more efficient and effective, it does not follow that they ought to do everything they are capable of doing. Consideration of the proper scope and limits of government is, by striking contrast with the positive analysis of government, one of the oldest concerns of social thought, but it deals with problems that are not technically soluble, so sophisticated awareness of them must be kept alive by rational discussion in every age. The object of this paper is to present an orderly examination of the fundamental normative issues which are basic to any assessment of the proper role of government.

In the next chapter, I will pursue this in very general terms in order to identify the primary objectives that a government may properly adopt and to indicate some of the main difficulties and complications of social policy when analysed at this level. In the third chapter I will try to explain why, in view of the objectives discussed in section II, there has been such a notable growth in the economic size and scope of modern governments. Finally, in Chapter IV, I will advance some speculations as to why, in recent years, there has been a considerable growth of anti-government sentiment and demands that the magnitude of its operations be reduced.

II

The Primary Social Goods: Welfare, Justice and Freedom

Since the publication, in 1959 of R. A. Musgrave's Theory of Public Finance, it has been customary for economists to classify the objectives of economic policy under three headings: (a) "Allocation," which deals with the efforts of governments to correct or compensate for failures of the market mechanism to accomplish an efficient partition of the productive resources of the society among the various uses that may be made of them; (b) "Stabilization," which recognizes that the economy may be subject to substantial variations in the pace of economic activity, or to substantial changes in the value of money, or to persistent deficits in its balance of international payments; and it is a governmental responsibility to attempt to promote a greater degree of stability in these "macro" magnitudes. (c) "Distribution," which reflects the widely-held view that the national income may not be equitably shared by the members of society, and government policies may be used to alter this in a desirable direction. A fourth should be added, which Musgrave did not explicitly include in his classification. (d) "Economic Growth" - the adoption by government of responsibility for the promotion of economic development generally, or to alter the shape and direction of this development from what would be produced by the operation of private investment and other decisions.

This has proved to be an exceedingly useful classification, but I will not employ it in this paper, primarily because it focuses too exclusively on economic problems to permit the assessment of the

role of government that I want to undertake. The economy is enmeshed with all the other aspects of society and economic policy is never exclusively economic. We have to drive our examination down to more fundamental levels if we hope to understand what governments attempt to do, and to evaluate these efforts by normative and not merely technical criteria. We must not drive down too far, however, for if we do we are led to view the objectives of government as the promotion of "progress," or "civilization," or "the historical mission of the nation," or other concepts which are not capable of fruitful examination. This paper is based upon a level of analysis which I think is general enough to be comprehensive but, I hope to show, not so general as to become mystical. I advance the proposition that there are three "primary social goods" which are capable of being employed as reference criteria in the evaluation of a society and the actions of its governmental institutions. These are: WELFARE, JUSTICE, and FREEDOM. Most of this chapter will be directly concerned with the analysis of these primary goods.

First, I should make plain that my choice of these three rests more upon an empirical judgement of a sociological sort than upon the kind of argument that ethical philosophers traditionally employ. I do not derive them from a logical analysis of the meaning of words like "primary," "social," and "good," nor by means of any heuristic procedure such as, for example, John Rawls utilizes in his highly influential book A Theory of Justice. These criteria, or "primary social goods" may rest on nothing more than personal moral intuition, but if so, I think I may at least claim that it is not idiosyncratic; they appear to be very widely accepted as

general criteria in our society. I would not want to claim though that they are universally accepted, even within our own or similar societies. Ivan Illich, for example has recently condemned not only the actual practice of modern medicine, but even the search for health itself by medical means,¹ just as he earlier condemned formal education² - continuing a line of thought extending back at least to Rousseau, which rejects altogether the merit of what I mean by "welfare." And, certainly, there have been many thinkers, before and since Thomas Hobbes, who have rejected "freedom."

"Justice" has perhaps been less subject to explicit attack, but if one reads, for example, T. N. Carver's Essays in Social Justice (1915) one will find that distinguished Harvard economist of two generations back arguing that justice must be so subordinated to the needs of defensive military power that it loses any other meaning or merit that might be attributed to it. Hobbes, of course, subordinated justice, as he did all else, to order so, for him, that was the only primary social good. In Auguste Comte's perception of the good society, freedom was more bad than good, and there are modern thinkers, like B. F. Skinner, Harvard psychologist and utopianist, for whom human freedom is a "problem" that must be resolved rather than a fundamental good in itself.³ Nevertheless, it seems to me that these views and not my own, are grossly idiosyncratic (and otherwise unacceptable besides); the culture which we call "Western Civilization" is one in which there

¹ Medical Nemesis, The Expropriation of Health, (1976).

² Deschooling Society, (1971).

³ Beyond Freedom and Dignity, (1971).

is a widespread acceptance of a trinitarian social philosophy whose pediments are the ideas of Welfare, Justice and Freedom.

I would not wish to be interpreted as arguing that these three primary goods are the elements of a "social good" which transcends what is good for the individual members of society. One can hardly deny that "society" and "culture" exist as social "facts" so to speak. That is to say, there is more than simple aggregation of individuals going on in a society; men are social animals, not merely gregarious ones. But (and it is a very important but) I cannot accept the view that judgements of value lie at any level "above" (or "below" for that matter) that of the individual sentient biological organism, and I would restrict this (at least for practical purposes) to human organisms. This does not commit one to a philosophy of egoism. It simply means that whatever is regarded as good is seen to be so in the judgement of an individual sentient (human) being.

If we wish to talk in terms of utility functions (which is very useful, but needs to be done with much more care than is common), we may say that all utility functions are individual functions; there is no social utility or social welfare function. But these individual utility functions may contain as arguments qualities and quantities which are attached to other individuals. For example, John Smith's utility function may contain elements which apply to Henry Jones (and not merely to Smith's relationship to Jones). There are many problems here, springing primarily from the difficulty of aggregating interdependent utility functions and

from the fact that these arguments may have negative signs (envy, demand for punishment, etc.) which I here pass over. What is important (at this point in my discussion) is to refrain from taking what seems to be a plausible additional step by including social qualities in the individual utility functions: for example regarding Jones' utility as a function of the degree of welfare, justice, and freedom of the society as such, detached from the welfare, justice and freedom of its individual members. We speak often of societies having such qualities and I will do so repeatedly in this paper, but it is essential to clear thinking to regard these as locutions of convenience and not to slip into the error of claiming that, for example, a society as a whole can be made more just by doing an injustice to some of its members without being more just (but possibly conferring more of another primary good such as welfare) to others.

It may be worth noting at this point that despite this utilitarian formulation (which has some heuristic merits) I do not intend to make a utilitarian argument. It is tempting, because it enables one to reduce the three primary goods to one; and then one may proceed with the analysis of the characteristics of the optimum mix and bring into play the powerful techniques of the theory of rational choice. It is a temptation that must be resisted, (a) because any independent and non-tautological meaning that one might choose to give the concept "utility" is questionable both as an objective description of human behaviour and as a normative rule; and it is even more questionable if we regard utility as filling both roles, as Bentham did; (b) because, even

if (a) could be got over, and even if we had a quantitative measure of utility (Edgeworth's "hedonometer"), the aggregate of utility would be invalid if viewed as a normative objective in itself. Who is made happy by observing that aggregate happiness is maximized? God? Economists? Why not maximize the average happiness rather than the total; or why not maximize the attainable happiness of the most unhappy as Rawls suggests; or why not minimize the variance of happiness of individuals? The only merit I can see in seeking to maximize aggregate or average utility (the two are the same if we assume a fixed population) is that it seems likely that when these rise, the utility of most individuals rises also, so it is a handy index for practical purposes, a not unimportant virtue, but not the point of the present discussion.

Despite its various difficulties (which I shall have to discuss a bit further in the next section) the utilitarian approach to social problems has been enormously useful in permitting social scientists, especially economists, to develop effective theoretical models and to give them empirical content. Moreover, the emphasis of English utilitarianism upon the individual as the entity which experiences "pleasure" and "pain" has been a strong bulwark against the influence of romantic political philosophies which have advocated that the individual be sacrificed to "the state" or "the nation" or some other collective entity. So it would not be wise to abandon it unless or until one had available an approach that was clearly superior in analytical power and philosophical merit. In arguing that there are three primary

social goods, I do not intend to abandon utilitarianism as a social philosophy. But, just as Musgrave's focus upon allocation, distribution, and stabilization provide categories that are too narrow for the evaluation of the activity of government, utility as a single point of reference is too broad. The test of any scheme is whether it is effective in enabling us to engage in penetrating examination of the problem we wish to tackle, and it is in this loose pragmatic way that I will proceed to employ the ideas of welfare, justice and freedom as "primary social goods."

Welfare

If the three primary social goods were objectively measurable in some unambiguous or natural unit of account, the discussion of social problems would be greatly simplified. I do not know whether anyone has ever attempted to measure the quantity of freedom or justice, but a great deal of effort has been devoted to measuring welfare. A. C. Pigou, the founder of what economists call "welfare economics" noted that there may be some conflict between the economic and the non-economic constituents of human welfare, but he thought it very likely that economic welfare and welfare in general are very likely to change together in the same direction, so he devoted most of his seminal book¹ to the examination of the problems that are involved in the analysis and measurement of changes in economic welfare. Some social scientists have been highly critical of Pigou's working assumption and, in response, statisticians have developed in recent years a wide assortment of quantitative series which, by using data on such things as crime and delinquency, infant mortality, life expectancy, public opinion surveys on various matters, etc., hope to throw light on changes in welfare that are more broadly based than the traditional measurements of economic welfare alone. These "social indicators" are extremely useful for social analysis and social policy but it would be unfortunate, in my view, if they were to displace rather than

¹ The Economics of Welfare, (1920).

supplement the use of the narrower economic indicators. Some social philosophers, from Carlyle and Ruskin in the last century to John Kenneth Galbraith in our own time, have gone so far as to argue that the economic and the non-economic aspects of life are inherently contradictory, and that the attainment of higher cultural values requires that we halt or even reverse the direction of economic development towards greater material plenty. I do not hold this view. It is possible for the economic and non-economic constituents of welfare to conflict but the great weight of historical evidence is to the contrary, and Pigou was right in arguing that one should not abandon the search for greater economic welfare on mere supposition; the burden of proof must lie upon those who claim that there is a contradiction. In this paper I will restrict myself (but not quite so severely as economists usually do) to economic welfare.

The most general measurement of changes in economic welfare is changes in the Gross National Product, since this indicates the society's aggregate capacity to produce material goods and services. Economists have been scorned by some in recent years for a single-minded fixation upon the G.N.P. as a welfare indicator, so it is worth noting in passing that this quantity is very useful for two other purposes: (a) It is a necessary element in any study of the distribution of income. If we want to know how an aggregate is distributed we have to be able to measure the aggregate itself as well as the shares. Historically, this was the first use to which modern G.N.P. - type measurements were put - by people such as Bowley, Levy and Chiozza - Money in the late nineteenth century. (b) The G.N.P. is

extremely useful in the study of economic fluctuations, since a comprehensive measurement of changes in the pace of economic activity in terms that are comparable with other variables (i.e., money values) is essential to the empirical analysis of this important economic phenomenon. This use of G.N.P. - type measurements was greatly stimulated by the development of the modern theory of depression and unemployment by J. M. Keynes in the 1930s. It was due to interest in that problem that the present elaborate systems of national income accounts were constructed in the developed nations of the world. G.N.P. - type measurements are much more in use today for these two purposes than as indicators of welfare. I am not attempting to deny that they are employed by economists for the latter purpose but it does seem necessary to modify somewhat the caricature of economists as G.N.P. worshippers that one finds expressed by some critics.

I cannot, in the scope of this paper, survey the problems that are involved in analysing economic welfare or even in measuring it by some quantity such as the G.N.P. That would virtually amount to a survey of modern microeconomic theory. For the purposes of this paper, however, it will be useful to touch some points which are particularly germane to social policy and the assessment of the proper role of government. I should note before proceeding though, that even in this restricted discussion, I will not be able to keep the criterion of "welfare" clearly separated from "justice" and "freedom", which will be examined in subsequent sections.

If we take the view, which in my opinion is correct, that welfare is a concept that is meaningful only for individual persons and not for a society as such, we have to be very careful that in talking about the "social welfare" we mean only an aggregate of these individual welfares. If, in addition, we take the view, which in my opinion is also correct, that one person's sense of his welfare cannot be compared with another's, it seems as if such an aggregation is impossible and we would be logically precluded from talking about social welfare at all. The great Italian economist Vilfredo Pareto offered a way out of this difficulty by suggesting that while we cannot measure social welfare, even as an aggregate, we can, under certain conditions, say confidently that it has risen or fallen. The conditions are, simply, that if, between two states of affairs, at least one person's welfare has risen and no other person's welfare has fallen, then we can say that the social welfare has increased, and vice versa. This "Pareto criterion" has been extremely useful to economic theory, enabling economists to proceed much farther with the analysis of social welfare than they could otherwise.

However, there are severe difficulties in the use of the Pareto criterion by economic theory and even more severe ones are encountered in utilizing it for practical social policy. The main difficulties spring from the fact that the criterion provides a rule for policy that, formally, applies only to a static economy with a given distribution of income. If an economy is regarded as maximally efficient in the allocation of productive resources when no one can be made better off without someone else being made worse

off, this judgement depends upon accepting as given people's preferences for the various goods and services that can be produced with these resources, since it is illicit to say that one person's preferences are better (or worse) than another's. But a person's preferences, particularly for marginal increments of goods and services, clearly depends upon his income (and wealth) so we have different Pareto-efficient allocations for different distributions of income. This would be a soluble problem if one could say what distribution of income is the proper one but, as we shall see in the next section, this is an even more difficult problem than defining "social welfare."

This problem is compounded if we recognize that we live in a world of change. Economic development is affected by the allocation of resources and the distribution of income, so tomorrow's social welfare and today's are not independent of one another. If society had a clear goal, we could utilize some form of the "turnpike theorem" to determine the optimum path to it, but the very idea of a social goal is inconsistent with the individualistic assumption of the Pareto criterion and, even if we were prepared to relax this assumption, it would not define a definite goal, since what is desired alters as we progress towards it. One can build a turnpike from A to B only if B stays put. A highway contractor would despair if the city that is to be the end point of the road kept shifting, and he would go mad if it shifted unpredictably as a consequence of his own efforts in road building. Roads and cities, fortunately, are not like that, but societies are.

For these reasons,¹ the Pareto criterion is not directly useful as a guide for social policy. Almost everything a government does harms some and helps others, alters the distribution of income, affects the course and the goals of economic development, and so on. This does not mean that the task of government is hopeless, but it does mean that even if social policy were aimed only at the Pareto optimization of welfare, without explicit attention to the other primary social goods, it cannot be solved as a purely technical problem. The supporters of the Technocracy movement of the 1920s felt that "experts" should run society; J. K. Galbraith tells us that they are already running the major business enterprises, so why not have them take over the government as well? Even if welfare were the only social good, the promotion of it is not a technically soluble problem, and no one would make a worse job of it than one who was confident that he could do it with computer programmes and turnpike theorems.

What is the alternative? The alternative is called "politics." Politics is the way in which social problems are handled when there is no technical solution for them. The problems do not disappear because we have an imperfect ability to solve them, they must be met with whatever capability the society can muster, and when managed (not "solved") in this way they do not remain settled but return again and again, usually in different forms, demanding the attention of government repeatedly. One of the most

¹ This is far from a complete list of the weaknesses of the Pareto criterion as a guide of policy, but it serves to make my main point briefly.

common beliefs is that government would be better without politics. This is a fallacy. Government is politics, and part of the way to get better government is to improve the structure and operation of the political system. But even if we admit that governments manage rather than solve social problems it does not follow that it can attack or ought to attack every problem that becomes manifest. There are problems that cannot even be "managed" as I am using that term, and there are problems that are not the proper business of anyone but the individuals concerned. A government brings itself into disrepute when it does the wrong things about a social problem, but it also earns ill-will when it undertakes tasks that are beyond its capacity, or when it does things which are aimed not at "social" problems but private ones.

Social scientists have directed their main attention to the first of these types of governmental failure - cases where the policy is wrong in the simple sense that it will produce effects that are contrary to its own stated intentions. It is easy to see why this is so; it permits the social scientist to proceed with an examination of policy that is usefully constrained to questions that are amenable to analysis by means of the scientific techniques he has available, and it does not require him to make value judgments regarding the merits of the policy objectives. But, in evaluating the role of government, it is also necessary to consider that there are limits to a government's capacity to manage social problems which are not simply matters of doing wrong things when it might have done right ones, and there are moral as well as practical limits to what a government ought to do in interfering with the lives of private citizens.

This is one of the main themes of this paper, and I will come back to it again. Now, however, I want to return to consider some additional problems that are involved in the adoption of welfare as a primary social good; in particular, problems that involve "discounting" since this is a central issue in many debates over social policy. There are two principal types of discounting that are germane to social policy: discounting for time, and discounting for social distance. These will be discussed in turn.

In considering the welfare even of a single person we have to take cognizance of the fact that the life of an individual extends over time. The pattern of distribution of his welfare over his life-span is important in making any assessment of his welfare. For simplicity, let us pay attention only to his economic welfare and assume that income can be used as an index of that welfare. Consider the three life-patterns of income from birth to death as depicted in figure II-I. For a given life-span all three panels depict the same total income, but in A it is received in a constant stream, in B in a stream that constantly rises, and in C it is a stream that is at first large, then small, then large again. If the panels depicted three individuals living exactly concurrently, and we examined their incomes at a certain specific age, we would find that in early life, for example, $C > A > B$ while in mid life, $A \geq B > C$ while in late life $B > C > A$. Such point of time cross-sectional comparisons are, in fact, commonly made in the study of income distributions. But even if we were to examine the total life-span incomes of the three persons it would be

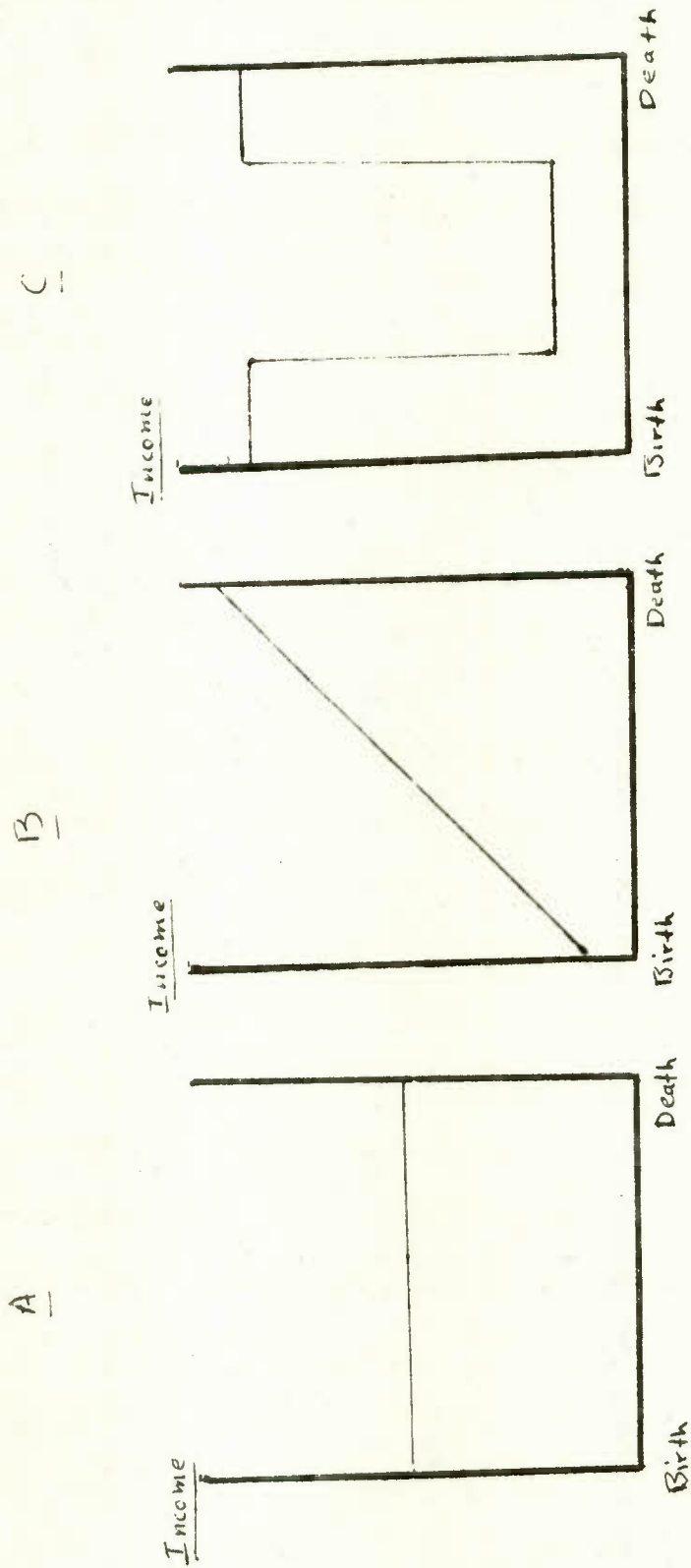


Fig. II - I

difficult to believe that their economic welfares were identical; A experiences steady improvement, while C experiences feast and famine.

A common practice in the quantitative handling of income that is time-distributed is to convert income flows into a stock evaluated at a point of time by using a discount rate. For example, we could calculate the "present value" at birth of these three life patterns of income by the use of the standard formula

$$PV = \sum_{t=1}^n \left(\frac{I_{t_1}, I_{t_2}, \dots, I_{t_n}}{(1+r)^t} \right)$$

which simply discounts the incomes received at the various points of time by an interest rate, r . If we were to apply this formula to our three cases we would find that A is unambiguously superior to B, while the status of C depends upon the specific pattern of his feast and famine periods. A procedure of this sort permits one to place incomes on a common basis but, in doing so, we have driven a further wedge between the welfare we seek to measure and the magnitude we are, in fact, measuring. If all persons had the same time preferences and if these preferences themselves remained constant over the life-span, we could employ a single discount rate, r , but these are assumptions that are hardly warranted.

The matter is practically important because, in fact, one of the major objectives of social policy is to alter the life-pattern of income. Old age pension systems are designed, in part, to force individuals to shift the use of income from earlier ages to later ones. We could take the view that if a person does not provide for his old age he is maximizing his own welfare according

to his own discount rate and it is no concern of government that he may act in what others consider to be an imprudent fashion. One of the most rapidly growing activities of modern governments consist of "paternalistic" policies which are designed to prevent people from being imprudent, ranging from the requirement that seat belts be used in automobiles to the requirement that large portions of income be allocated to meet the contingencies of ill health and old age. Nor are governments the only institutions which have adopted such paternalistic functions. Labour unions and private employers have also made it a condition of employment that the time-pattern of income be altered to provide for such contingencies.

The paternalistic functions of government (requiring a person to do something for his own good rather than the good of others) ought to be scrutinized with special attention. Some social philosophers argue that they are beyond the legitimate province of government in principle but the old age pension case illustrates how difficult it is to take a hard line on this question. Consider, for example, an individual whose life-pattern of income was the inverse of panel C in figure II-1, a person who enjoyed high income in his middle years and very low (or say, zero) income in old age. If he did not provide personally for the needs of his old age, are we prepared to say that he is "the author of his own misfortunes" and must now suffer the consequences of his imprudence? I do not think that any civilized society is willing to adopt such a policy. But if the society supports the elderly indigent it encourages people not to provide for themselves, and the "free rider problem" becomes more severe

the higher the level of support provided from the public purse. In consequence, the society is driven to utilize the coercive powers of government (and other social institutions) to compel people to alter the time-pattern of their use of income. The main point I wish to make here is that even in the area of governmental activities that are most questionable, the paternalistic areas, it is not in accord with common sense or common sensibility to argue that the use of governmental intervention is illicit. But neither is it sensible to argue that paternalistic intervention is legitimate whenever and wherever it can be shown that such intervention improves individual welfare (the seat-belt case is perhaps a good example). I do not think that it is possible to determine firm rules which define the limits of government in such areas; again I would argue that this is a problem that must be managed (again, note, not "solved") by politics and the quality of the decisions made depend intimately upon the quality of the political system, and especially upon its ability to change policies that are shown to be faulty or objectionable.

Discounting for "social distance" arises from the fact that many social policies are designed to use the coercive powers of the state to compel some persons to benefit others. (In fact, a large part of old-age pensions are of this sort since the transfer of income they involve is a transfer between persons and not merely an alteration of the individual's time-pattern of consumption.) The literature on this question is vast, and embraces many disciplines, since it involves the issue of charity, or altruism. I will try to delineate the essentials of the problem by casting it in the framework of welfare or utility functions which enable one to identify

the extremes of policy and to throw light on the cloudy land which lies between them.

Consider an individual whose own welfare may involve the welfare of others, again utilizing income as an index of welfare. His personal welfare function is, then,

$$W_A = W_A(I_A, I_B, \dots, I_N)$$

where A refers to himself and B ... N to other persons. We may take the view that A maximizes his own welfare, and that the welfares of others are subject to discount according to the affinity or degree of "social distance" that exists between himself and others. Again, the standard discount formula may be employed. A's total welfare is, then

$$W_A = \sum_A^N \left(I_A, \frac{I_B}{(1+s)^{d_{A-B}}}, \dots, \frac{I_N}{(1+s)^{d_{A-N}}} \right)$$

where I_A is the income he retains for his own use, I_B, \dots, I_N are other persons' incomes, s is the rate at which the welfare of others is discounted, and d is a measure of the social distance between A and the other persons. Presumably, the magnitude of the social distance lying between A and others is small for those close to his heart and health and increases as the circle widens beyond his family and friends. The same argument can apply to persons yet unknown, which enables one to consider the issues of conservation and capital creation in this framework. It is possible for d to be negative, in which case A would absolutely value another's welfare higher than his own. This formula presents more difficulties than the time-discount one because there is no natural unit in which d

can be measured and there is no observable rate of discount, s , which corresponds to the market rate of interest in the first formula.

The extreme positions are, first, that the only legitimate variables s and d which may be employed in social policy are those which are perceived by A in his own welfare function, B in his own, and so on. That is to say, the only legitimate form of altruism is voluntary, and the state ought to act only as an agency (like private charitable institutions) carrying out the private altruistic wishes of its individual members, but not compelling anyone to be more charitable, or charitable in different directions, than he wishes to be. This approach is the basis of the modern economic analysis of altruism and has caught the attention of some economists because it harmonizes with the traditional principle of "consumer sovereignty," allowing individuals freedom to determine how they will spend their income, including spending it on the welfare of others. Its main difficulty is that it accepts the existing income distribution as proper. If that distribution were different, the allocation for altruistic purposes would be different. Since the whole object of altruism is to alter the income distribution, it is difficult to argue that the degree and direction of that alteration ought to be determined by the prior distribution.

The other extreme is the argument put forward by Henry Sidgwick in his influential book The Methods of Ethics (1874). Sidgwick argued that if a person is to behave in accordance with ethical principles and not merely with regard to his own welfare, he must consider the welfare of all persons as equally important

as his own. (Love thy neighbour as thyself is the way the New Testament puts it.) This means that all d's in the above formula are zero and there is, therefore, no discounting permissible for social distance. This is an unworkable rule. It would require one to canvass the needs of all other persons, including all yet unborn, before sitting down to eat one's dinner.

Consequently, the difficulty we are in is that a policy of redistributing welfare requires some social distance discounting, but it cannot restrict itself to the discounting which is revealed as private preferences in voluntary charity. Some determination of "proper" s's and d's in the above formula is necessary. Again, this is clearly a problem which has no technical solution and must be managed by the methods of politics. (By now the reader must be thinking that I throw to politics all problems that are so difficult that social scientists and philosophers despair of finding answers for them. That seems bizarre, but it is not far from my view of the basic task of politics.)

Finally, there is a further problem which I have only touched upon, but which must be noted more explicitly since some recent discussion has laid great emphasis upon it. What is the inclusion rule for considerations of welfare? Most people would include only human beings, and most would extend the rule to cover humans yet unborn (with discounting). But should it also include non-human organisms such as whales, whooping cranes, eagles, etc.? The issue is not whether man should be more wise in managing the use of other species for his own benefit, but whether the welfare of, for example, whales as such, should be

considered. Should we ascribe to them welfare functions which must carry weight in the determination of social policy, or to put it differently, should the state act as an agency not only for human welfare, including the inarticulate future generations of men, but also for the inarticulate present population of non-human animals and their future progeny? This has been, in effect, argued by some modern "environmentalists" and perhaps most strongly by an Australian philosopher Peter Singer in his book Animal Liberation. Moreover, it is embodied in legislation, such as the United States Endangered Species Act of 1973, which prohibits human interference with any species on the endangered species list and, of course, there are many other cases of governmental action of a positive nature allocating public funds to preservation of certain species.

I can see a great deal of merit in legislation aimed at making man's use of the natural environment more wise and more efficient over the long run, but I do not think it is sensible, from the practical standpoint if not a more philosophical one, to widen the inclusion rule to embrace non-human species. It is difficult enough to widen it sufficiently to include all humans; to attempt to include animals would require resources of intellect and administration that are far beyond our capacity to command, even if the ethics of the argument were sound, which is at least doubtful.

Justice

The problem of justice is probably the largest issue in social philosophy, if we measure the magnitude of an issue by the volume of literature and other discussion devoted to it, or by the amount of governmental action motivated by it, or by the intensity of feelings which are attached to it. Justice is the central concern not only of law and jurisprudence and a large part of the social sciences but also of philosophy, theology, and the arts, literature especially. In some social philosophies, most notably in Marxism, it is the primary social good, taking precedence over all others as a criterion for the evaluation of a social order. But even social philosophies which do not grant it such a paramount role have emphasized it increasingly in modern times. Classical liberalism of the last century, for example, laid its main emphasis upon freedom, but the social philosophy that is indicated by the modern term "liberalism" gives more weight to justice than to freedom, and social philosophers who focus upon freedom have had to coin a new term, "libertarianism" in order to differentiate their point of view.

Justice is an exceedingly complex concept and anyone who writes about it, even at much greater length than is possible in this paper, quickly becomes conscious of this. Awareness of this complexity is vital. Civilized society is always threatened by the "great simplifiers" and by none more seriously than those who believe that justice is a plain and homogeneous idea. The main object of this section is to show some of the complexity of

the concept of justice as a social good; we can obtain better understanding of the way in which the justice criterion has been the foundation of many of the activities of government by emphasizing its variegated nature than by simplification. I will, however, simplify to the extent of confining the discussion to issues of an economic nature.

If we use the term "property" in a broad way to refer to any source of income or direct consumption utility, we may consider the issue of justice as having to do with the justification of property ownership. There are three main questions that are involved here: (a) What kinds of procedures that lead to the acquisition of property can be considered just? (b) What procedures by which persons transform one kind of property into another are just? (c) Is the distribution of property that results from just procedures of acquisition and transformation automatically just, or are there criteria that may validly be employed to evaluate the justness of that distribution as such? Let us consider each of these briefly.

In John Locke's great Treatise on Civil Government (1698) which had an enormous and enduring impact on western political philosophy, the argument is made that a man justly owns what he has "removed from the state of nature" by his labour. Even if we apply this principle to the acquisition of land in a hitherto unpopulated territory, there are difficulties. Does one acquire land by walking over it? If one puts a fence around an area, is the area thereby one's property or does ownership apply only to that part of it on which the fence rests? And so on. Further

difficulties arise, as Locke himself noted, when there is no longer any unoccupied land, and they multiply very considerably when one considers property that is acquired by a process involving division of labour. What portion of a finished automobile is the just property of an assembly line worker at the Ford plant in Oakville?

Further: Does one acquire a just property right by inheritance? If not, then the previous owner of the property did not have unrestricted right to it because he could not dispose of it as he wished, by bequest. Is a sum of money won in a lottery justly acquired? Money found by chance on the street which is untraceable? If stealing is unjust, is it also unjust to steal from a thief? And so on. These are difficult questions to answer, but we have laws, reflecting social policy, concerning all of them. We have homestead laws, wage-contract laws, inheritance laws (and taxes), gambling laws, laws governing the ownership of findings and laws governing stolen property.

Property is "transformed" from one form to another by trading in markets. The prices there ruling determines how much of one type of property can be obtained for property of another type. What determines whether the system of prices is just? Is it just if there is perfect competition and all prices are parametric so far as the individual trader is concerned, no one being able to affect any price by his own actions? A great deal of modern economic theory appears to assume this and some economists, such as Lord Robbins and Joan Robinson, have made explicit statements to this effect. Or, is a just system of prices that which has the effect of keeping the social structure, the economic status of

different parts of the population, unchanged? St. Thomas Aquinas thought so, in putting forward his doctrine of the "just price." Is a transaction just if it involves a deferred payment and, during the period of deferral, a change takes place in the value of the unit of account? Many people think that inflation is unjust in this sense, and the Canadian government acted explicitly with respect to its own creditors when it recently raised substantially the amounts payable to holders of Government of Canada annuity contracts. Some transactions involve pooling, such as in insurance contracts. Is it just to discriminate in such pooling by, for example, offering professors lower life insurance rates than coal miners? Is it proper to differentiate between men and women in the determination of annuity rates on the statistical ground that women outlive men? The passage of the Equal Rights Amendment in the United States would presumably make this common practice unconstitutional. Again, and so on ...

Some recent writers on fundamental political philosophy (e.g., Robert Nozick, James Buchanan) have argued that justice consists in the working of just procedures without regard to the end results they produce. Most people would reject this I think; at any rate I would. If the procedures by which property is acquired and transformed are just, but they result in gross inequalities of income or incomes for some that were below the basic needs of existence, would we regard that distribution as just and not legitimately alterable by state action? On the other hand, most people would not regard the distribution of property (or income) as speaking plainly for itself as to its justice without

reference to why it is what it is. If all the poor were lazy it would clearly call for a different ethical judgement, and a different social policy, than if all the poor were physically disabled.

So much for my efforts to show what a tangled jungle the idea of justice is; let me now try to be more constructive by making some useful trails of passage.¹

Let me begin this effort by quoting the eighteenth century philosopher, David Hume, who perceived with his customary clarity the most essential feature of the problem of justice, and especially its connection with economics:

If men were supplied with everything in the same abundance (as air and water), or if everyone had the same affection and tender regard for everyone as for himself, justice and injustice would be equally unknown among mankind.

Here then is a proposition which, I think, may be regarded as certain, that it is only from the selfishness and confined generosity of man, along with the scanty provision nature has made for his wants, that justice derives its origin ...²

Note that Hume does not say that a society of unconstrained plenty, or one in which every person's welfare entered into the utility function of every other person without discount, would be a just society. He says, more correctly, that under either of these conditions, both justice and injustice would be "unknown," that is, the concepts would be meaningless. This is a point of crucial

¹ The following discussion is adopted from my essay on "Ideas of Economic Justice" Daedalus, summer, 1963, and from a paper given at the 1976 meetings of the Eastern Economic Association in Bloomsburg, P.A.

² David Hume, Treatise of Human Nature. Bk III, Pt. II, Sec. II, Reprinted in C.W. Hendel (ed.) David Hume's Political Essays, Library of Liberal Arts, pp. 28-38.

importance; it forces to our attention that the problem of justice is derived from the problem of conflict. A theory of justice must serve to mediate conflicts, not to eliminate them.

This enables us, at a stroke, to dismiss as irrelevant a large body of social theory which aims to present blueprints for a just society; viz. all utopian theories. From Plato, through Sir Thomas More to B. F. Skinner, men have imagined societies of cosmic transcendental order, or ones so structured that, as Hume put it, "everyone had the same affection and tender regard for everyone as for himself." It is also significant that in these scenarios there is no scarcity, no economy at all, not even an economy of the consuming household, let alone an economy of production.

If we turn our backs upon wild imaginings of ideal societies which go "Beyond Freedom and Dignity" (the title of Skinner's book), beyond "alienation" (the current fad of Marxian sociologists), beyond scarcity, beyond conflict, beyond everything that creates social problems, then, and only then, do we face the question of justice. The history of the subject is instructive, mainly because it shows man's yearning for simple rules to guide him in his relations with other men. "Do unto others as you would have them do unto you;" "treat others as ends and not as means;" "act only in such ways that your action could be a universal rule" - these are a few of the common formulas which have won wide assent. But, of course, they are faulty; as George Bernard Shaw pointed out, one should not do unto others as you would have them do unto you, because they may have different tastes (a good economist's

point of view); men are means as well as ends, especially in economic activity; there are probably no actions, except ones of little consequence, which can be universalized; ... and so it goes, I think, for every simple formula that has been, or can be, devised. In order to make progress on this subject it is essential, in my view, to eschew simplicity. Simplicity may be a valid epistemological criterion; it may even be a good aesthetic criterion; but it is hopelessly in error as an ethical criterion. The idea of justice is a compound of many ideas, and not an orderly compound either. It is like a ragged rope of many strands of different qualities and different lengths. What I shall try to do here is to follow some of the strands that have economic importance, but I shall not, for I cannot, try to disentangle the structure of the whole.

The most common idea of justice that one seems to encounter in discussions among ethicists is one founded on an economic conception. It is the idea of justice as fair exchange. This has a long history, and is an explicit theory of justice in Thomistic philosophy, Aristotle, and the Old Testament. We have already encountered it in the above discussion of the justice of "transformation." It is the idea that justice is done if there is a proper exchange between the parties, a quid pro quo, a giving for getting. What "proper" means we shall shortly examine. There is also the associated idea, which is more generally metaphysical, that balance must be preserved and that proper exchange is necessary to this equilibrium.

We find this concept of "commutative" justice applied even to retribution, which one would think had nothing or little to do with economics. The Old Testament speaks of an eye for an eye and a tooth for a tooth. The defense of capital punishment, for example, on the grounds of retribution rather than on the pragmatic ground of deterrence, (which has little to do with justice) is founded on the idea of exchange. The exchange of a life for a life is thought by some to accomplish some "good" end, even though no positive utility is created at all. This basis of punishment (even such an absolute punishment as death) is the justice of proper exchange, and one speaks, without metaphor really, of punishment as "balancing the books," "settling accounts," or "paying one's debt."

The Goddess Justice is pictured holding a scales, but she is also blindfolded, signifying impartiality. This quality is also involved in the economists' conception of the competitive market. The picture is one of buyers and sellers exchanging "at arm's length," anonymously even. The seller presents his wares, as in a modern supermarket, and all who wish may buy. But not all exchanges are like this, and when they are not, we encounter difficult problems. Suppose that a white man prefers not to deal with Negroes and is willing to pay to satisfy his racial bigotry, just as he pays to satisfy his hunger or desire for display or any other felt want. Should he be allowed to buy discrimination, like bread, in the market place? Most of us would answer no, and it is clear that justice involves more than exchange under conditions of freedom. It may indeed involve coercion in the interests of

equality and impartiality, but justice is far from a simple matter, both ethically and pragmatically, as the integration movement in the United States has demonstrated. Such difficulties as now exist, however, are as nothing compared to what will be the case if the principle of commutative justice is carried to the point where discrimination on behalf of blacks is regarded as the just quid pro quo of the long standing discrimination against them by whites.

Closely connected with the idea of commutative justice is the idea of desert, which, in turn, is related to yet another idea, that of merit, which will be touched on later. Classical economics gave rise to much consideration of the justice of income distribution based on the ethical complex of exchange and desert. The issue was clearly put by Ricardo's theory of land rent. Land is a factor of production and its scarcity means that it will yield income to its owner, but what does the owner contribute to the production process? The land itself gives its services freely. There is no disutility of work involved, as there is with labour as a factor of production. What does the landlord give in exchange? Why does he deserve an income? Does he not obtain income solely because of the legal fact of possession, which is probably due to an inheritance ultimately traceable to the superior force of his ancestors? These are difficult questions to answer, and led in the nineteenth century to one of the main-streams of radical advocacy, including the various proposals for land nationalization and the single-tax principles of Henry George. It was not much easier to explain the exchange-desert of the

capitalist than to explain that of the landlord and when Nassau Senior suggested that the capitalist's contribution was that of "abstaining" from the immediate consumption of his wealth, no one was really satisfied.

Later in the nineteenth century the economic theory of income distribution became much more elegant, and it was shown that rent, interest, and wages, are not categorically different types of income. Rent is the income equivalent of the "marginal productivity" of land, and interest the marginal productivity of capital, just as wages are the marginal productivity of labour. This seemed to remove the Ricardian distinction between the various production factors; and some economic theorists, most notably John Bates Clark in the United States, asserted that if income were distributed in accordance with marginal productivities, an ethically just distribution would result. This normative judgement mistook the shadow for the substance. The issue was not whether the land or the capital contributed to the production process but whether the landlord and the capitalist did. The distinction that had moved the post-Ricardian radicals was that between income from work and income from possession. But this distinction, too, runs rather quickly to a dead end when one looks carefully at the rewards of "work." Is the high income of a neurosurgeon due to work or to the possession of talent, intelligence, skill and training? Is a movie queen rewarded for her work or for her possessions? Is even a day labourer in Canada rewarded solely for work, or partly for his possession of valuable membership in a rich nation which excludes, by power, hordes of other nationals who would gladly come to compete with him in the Canadian marketplace

if allowed? It seems to be clear that economic theory can contribute little to an exchange-desert basis of distributive justice, beyond warning ethicists not to travel this road, exclusively.

In the field of public policy, the exchange-desert criterion of distributive justice and the distinction between the income of work and the income of possessions have exerted some influence which is discernible in the fiscal systems of a number of countries. But a far greater influence has been felt from another criterion, that of equality. Much of the fiscal system of the modern state is built upon the view that it is desirable to reduce the degree of income inequality in society. New fiscal proposals are more frequently judged on this ethical criterion than any other. Egalitarianism is not usually referred to any other ethical principle; it is regarded as a principle fundamental in itself. Yet it is quite plain that few of us wish to follow the principle to its end - to literal equality of income.

Economic theory provides, in fact, a rather strong argument for such complete equality. If we assume that the object of the economic system is to maximize the aggregate happiness of the whole society, and if we further assume that all individuals are equally good at, or not discoverably different at, getting pleasures or happiness out of income, then the "law of diminishing marginal utility" leads by strict mathematics to the conclusion that income should be distributed equally. Economists have always shrunk from this conclusion, but without really advancing any good arguments to explain why the theorem is "wrong."

The important point here, I think, is that while egalitarianism is a basic principle of economic ethics, the appeal that it makes to our consciences is really a negative one and a very unprecise one. We do not really believe that strict income equality would be just, but that gross income inequality is unjust, and should be tempered by public policy. The reception given by economists to the "Pareto Law" of income distribution bears this out. Vilfredo Pareto studied income distributions statistically for different countries and different periods and arrived at the conclusion that the degree of inequality was remarkably constant. He concluded that this feature of economic life must be embedded in something natural rather than institutional, and advanced the suggestion that income distributions merely reflected the gross inequality in the distribution of human abilities. It was easy to conclude that the inequality of income could not and should not, in justice, be tempered. The fact that economists were as unwilling to accept this conclusion as they were to accept the logical conclusion of the marginal utility theorem is a testimony to their good sense. There are times when conscience calls upon us to be vaguely rather than precisely wrong.

There is another principle of income distribution, though it is not clear whether it is a principle of justice, which usually runs counter to the egalitarian ideal and may partly explain the ambivalence towards egalitarianism. This is the idea of reward for merit. A merit principle need not necessarily lead away from equality; the injunction of Christ to the wealthy ruler seeking to earn eternal life, was "Give all that thou hast and distribute

unto the poor." The idea that charity earns merit for the donor is a strong theme in Christian thought, which is only now passing away with the institutionalization of charity into the "welfare state."

From the economic standpoint, however, the dominant theme is the other way round: that social merit deserves rewards which will give the meritorious person a high status in society. The theory of aristocracy is involved here: the idea that a society needs men of distinction who may be looked upon as models to be admired and emulated. The North American society, which does not possess a hereditary aristocracy and has always been something less than fully respectful towards the aristocracy of business, is always in search of new models. When a new candidate is found, the argument is inevitably made that he should be handsomely rewarded with money. This reflects the fact that in North America, the only distinction that is readily recognizable is material affluence.

Closely connected with the equality criterion of economic justice, and in some ways the opposite of the merit principle, is the principle of need. The assertion here is that no one should be left without the minimum requisites of existence, regardless of what the cause of his difficulty may be - whether he is the "author of his own misfortune" or not. The most interesting feature of the needs criterion of economic justice is the change it has undergone, with the enormous growth of state-sponsored welfare activities, in recent years. The change has not only transferred charity from the realm of benevolence into that of

justice, but has attempted to provide it with a firm justicial basis in the principle of exchange. This development might be called the "Beveridge transform" since it derives from Sir William Beveridge's famous report on the British social security system in 1942. What Beveridge was concerned to do was to eliminate all things, such as means tests, which carried the implication that a person's needs would be served by the benevolent sentiments of the society, operating through the agency of the state, and to place social security and welfare on the firm ground of legal right. This is the real significance of the so-called "insurance principle." The suggestion that people really pay by their contributions for their retirement pensions or health services of unemployment benefits, is a sham, for many of these contingencies are not subject to actuarial calculation and in the case of most of those that are, no effort is made to make contributions bear the whole cost. It is a deliberate sham, however, and serves the same function as the legal practice of transferring valuable property for a one-dollar payment. The payer acquires an unambiguous legal right by this pretended act of exchange. In the same way, the modern welfare state has conferred upon its citizens the right to receive succour from society, with a minimum of reference to the sentiments of compassion and benevolence which actuated the older forms of charity. The "Beveridge transform" may turn out to be the most significant change in the socio-economic relationships of Western society since labour became a commodity that was bought and sold in the marketplace.

One further criterion of economic justice must be briefly discussed, the idea that expectations should be fulfilled as much as possible. This idea gives ethical sanction to prescriptive claims, the argument being that when a status or a practice has persisted for some time, people have been led to expect that it will continue and that those who benefit from it have acquired a right to its continuance. The moral basis of this doctrine is the proposition that it is right that one should keep one's promises since they have raised expectations in others. This is usually argued in terms of direct relations among individuals; but if we consider that a society gives an implied promise to its members, by means of the duration or persistence of a practice, that it will continue, we arrive at the fundamental doctrine of political conservatism.

Applications of this principle of justice are present in many modern discussions of economic policy, often advocated by people who do not regard themselves as conservatives in political philosophy. A specific application of exceptional current importance is perhaps worth noting - the problem of inflation. If one reads the popular literature on this problem, one cannot fail to be impressed with the extent to which inflation is regarded as a problem that is not merely economic but moral. It is invested with far more moral phraseology than one finds in discussion of other economic problems. Below the clichés one finds the view that an economic system in which exchanges and debts are made and settled in paper money creates the expectation that the real value of money will not alter. Inflation is immoral because it disappoints

this legitimate expectation. The argument that inflation as an economic problem must be given priority over all other economic problems - unemployment, for example - will not stand on solely economic grounds for an instant, but it has, in fact, been given a very considerable priority in the public policy of some nations, including the United States and Canada, during the past several years, largely because of the moral elements that have been attached to it.

What can we say as a result of following these tracks in the jungle? Is there a criterion of economic justice that meets the tests of philosophical and economic analysis, appeals to our moral and aesthetic intuitions, and stands up under the test of application? The answer is clearly no.

Are we then locked into a kind of exercise wheel which goes round and round without forward motion? We are indeed, if we are looking for a firm principle of justice, but our efforts are not futile if we are less ambitious and less naive than that. What a civilized society really needs is to be able to recognize injustice, and that only when it is large. We should not try to fine-tune our ethics. A world of perfect equality is not only impossible, it would be terrible; but we can recognize gross inequalities and act to reduce them. A world in which everyone got exactly what he deserved would be intolerable; but we can act against gross departures from desert, making our society more just by doing so. This is not a view that has much intellectual appeal. It is not systematic or rigorous, but I think it can prevent us from doing great evil by trying to do too much good.

What I have done here is to "unpack" (as philosophers say) the concept of justice as a primary social good and have tried to argue that there are six criteria of justice that are commonly employed in the discussion of social problems of an economic sort: fair exchange, desert, equality, merit, need, and expectation. To have six criteria rather than one complicates matters considerably but, as I have already indicated, each of these is far from simple in itself. This discussion may already have become tedious to the reader but I want to impose on his patience still further by some further "unpacking," not of all of these criteria, but of two of them which have played especially important roles in economic theory and in the formation of the social policies of modern governments: The criteria of desert and equality.

The idea of desert has a variety of meanings that are applicable to the question of economic justice. One may say, for example, that a person is deserving because of the effort he makes in his work, or because of the effort that is required of him by that work; or we may call him deserving because of his character and other personal qualities; or we may say that a person is deserving because he has been, heretofore, a victim of misfortune; or we may say that what a person deserves to receive is determined by what he contributes. All of these are sensible statements involving quite different (and not harmonious) criteria of economic justice, and I am sure that they are not the only sensible statements that could be made about the basis of desert. I cannot make this examination exhaustive, but the idea that

desert springs from contribution is worth some special attention because of its close connection with important propositions in economic theory.

In a simple society of individual self-sufficiency, the contribution criterion of desert would be in a sense, automatic. Each person's productive activity contributes only to his own welfare and he would deserve to keep whatever he produces. The criterion would operate to condemn theft, but that is all. In a society of division of labour and exchange, it is no longer plain what each person produces or what its "true value" is. His productive activity is a contribution to a collective output and it becomes difficult to determine what part of this he deserves to receive. This problem is addressed in a penetrating way by the theory of marginal productivity. We may identify a person's contribution as being the value that his effort adds to the collective output. When it was shown by P. H. Wicksteed in 1894 that the sum of these marginal products would exactly equal the total product (under certain assumptions), some economists felt that they had hold of a proposition that was not only scientifically elegant but which solved the problem of the ethics of distribution. The leading American economist of that time, J. B. Clark, was especially enthusiastic about the philosophic possibilities of the "marginal productivity theory of distribution" as it was called. As a principle of economic justice, however, marginal productivity theory has many severe difficulties. Not only does it neglect other justice criteria such as need (the marginal product of a disabled person, for example, is zero), equality, etc., but it has difficulties of its own, as follows:

(a) The marginal productivity theorem applies only to a static economy; in a dynamic one the sum of the marginal products does not equal the total output and there are residual products (which may be negative) whose ownership is undetermined.

(b) The theorem necessarily ascribes marginal productivity to all factors of production, human and non-human, but only humans receive income. If, for illustrative purposes, we consider two factors of production, called "labour" and "property," then the income of a person is the sum of his receipts from the sale of whatever quantity of labour and property services he owns. For any particular person,

$$\text{Income} = L \cdot MP_L + P \cdot MP_P$$

where L and P are his quantities of labour and property and the MP's are their marginal products. Even if everyone had the same quantity of labour to dispose of and the prices of labour and property services were equal to their marginal products, one would have to justify the distribution of property ownership in order to say that the resulting distribution of income is just, even according to the limited criterion of desert according to contributions. Needless to say, the issue of property ownership has been a major focus of the continuing debate on the ethics of distribution.

(c) The marginal product of any factor depends on the quantity of other factors that are complementary or substitutional with it in the productive process. If one argues, for example, that a man gets what he deserves when he receives his marginal product, one must accept the fact that this marginal product is not uniquely

determined by his own efforts. Some would accept this as a condition of deservingness but others would not.

(d) The marginal productivity of a factor is not its physical output, but its addition to the value output, so it depends in part on the market price of the product. But this, in turn, depends in part on the distribution of income. So, one must justify the prior distribution of income before we can employ marginal productivity theory as a justification of the distribution of income, a rather nasty circularity.

This does not exhaust the list of difficulties that are involved in using marginal productivity theory as a criterion of desert, but it will serve to indicate their severity. In fact, it is now well-recognized by modern economic theory that marginal productivity theory is not really a theory of distribution at all but an allocative efficiency theorem. If, for example, we wish to allocate a factor of production, labour say, between two industries, A and B, that allocation is most efficient (in the static case) when the marginal product of labour is equal in the two industries, or

$$MPL_A = MPL_B$$

In a private enterprise economy, each firm maximizes its profits only when the marginal product of labour is equal to the wage rate, or

$$MPL_A = w_A$$

$$MPL_B = w_B$$

If the "labour" we are talking about is homogeneous and there is perfect competition in the labour market, then $w_A = w_B$ and the condition of efficient allocation is met. (One should note also

that paying labour its marginal product is not the only way of meeting this condition; it could theoretically be done by allocating labour directly, so it is sufficient but not necessary to pay factors their market products, and the distribution of income can be divorced from marginal productivity without necessarily producing inefficiency.)

Let us now go on to do a bit of unpacking of the idea of equality as a criterion of economic justice. At first sight this would seem to be the most straightforward of the six ideas of economic justice that I have suggested. Equality implies equation; we should be able to write an equation sign and put John Smith on one side and Henry Jones on the other according to some dimension, stating in an unambiguous fashion that they are equal. But what dimension can be so employed? If Smith and Jones were prisoners of war and received identical Red Cross parcels, one could say that they were treated equally. But would this equality remain if they commenced trading with one another, exchanging, say, chocolate for aspirin? There is nothing observable that would permit one to assert that they were still equal, and one would have to involve another criterion of justice, such as fair exchange, or need. If we introduce production activity into this little economy, the complications increase vary considerably. We might then say that Smith and Jones are equal in receiving identical rewards if and only if they work equally hard, equally conscientiously, and equally skilfully. It is clear that the initial simplicity of the idea of equality is illusory.

Nevertheless, the idea of equality has been a very powerful concept of social justice and it is not likely to be much attenuated by arguments such as these. Most of the discussion of equality has, in fact, focused upon two conceptions: equality of income and equality of opportunity. The former has given rise to a great deal of statistical work designed to measure the degree of inequality of income and to ascertain whether it has been changing, and in which direction. This statistical debate began with Robert Giffen's papers delivered to the Royal Statistical Society in 1883 and 1886, and has continued since with varying degrees of intensity. Most people seem to feel that the degree of income inequality in our society is too great; but most would also reject perfect equality of income as a practical or even as an ethical ideal. The issue then becomes what degree of inequality is appropriate or proper? In any attempt to answer this question, one is forced away from the idea of equality as a criterion of justice to the use of other criteria. Some philosophers, as diverse as John Rawls and Karl Popper, have argued that we should not use the criterion of equality, as such, in the development of social policy but should aim at ameliorating the lot of the "least advantaged" or poorest sections of society. This means that the desired distribution of income is not necessarily one with a small variance but one that is truncated at the lower end. This is obviously the object of anti-poverty or social welfare policies. It is clear, though, that the justice criterion which is the motivating force behind such policies is not equality but need.

The idea of equality of opportunity rather than equality of results (income) has been strongly advocated by some social philosophers and it is the justice concept which lies behind such social policies as the prohibition of racial and other discrimination and the financing of education from public funds. I do not think that many would argue that these are not desirable social policies or that the criterion of equality of opportunity is ethically invalid. There are some, indeed, who would defend it as the paramount criterion of justice or even as the paramount social good. The idea has been and will continue to be a touchstone of social policy that has great merit, but it is not without ambiguity. A. M. Macleod of Queen's University, has recently demonstrated this latter point with compelling force.¹ He argues that the word "opportunity" must necessarily mean opportunity to do something, or become something, or obtain something, etc., and so the phrase "equality of opportunity" is empty without such specification. There may, however, be many such specifications referring, for example, to educational opportunity, occupational opportunity, opportunity for self-fulfilment, etc., and it is not obvious which of these should be the object of policy. This would be a minor difficulty if these various forms of opportunity were independent of, or complementary to, one another, but if they are not, it means that one can only obtain a greater opportunity of one sort by sacrificing

¹ "Equality of Opportunity: Some Ambiguities in the Ideal," Proceedings of the World Congress in Philosophy of Law and Social Philosophy, St. Louis, Mo., 1975 (publication forthcoming).

some of another sort, and there is no way in which some optimum mixture of opportunities can be specified.

Macleod points out also that the term "opportunity" not only requires specification but is subject to ambiguity in itself. To say that John Smith has an opportunity to achieve a state X, may mean that it is entirely up to him whether he achieves X or not; but it is normally the case that if Smith wants to achieve the state X it is necessary that he do the action Y. Doing Y, however, may not be sufficient to guarantee that X will ensue. For example, if Smith wishes to be a Wintario winner he must buy a ticket, but buying a ticket will not assure that he will become a winner. Analogies with educational and occupational opportunities are plain. So all that is provided by equality of opportunity is that all have a chance (and not necessarily an equal chance as in a lottery) to do or become what one wishes. If one were to argue that all such chances must be equal for there to be equality of opportunity, one would be saying that all must have equal chances to become concert pianists, movie actors, etc., irrespective of physical endowments and talents. This is clearly unworkable and it becomes necessary to redefine equality of opportunity to mean that the opportunity is open, not to all, but to those capable of achieving the desired state; which amounts to saying that no inappropriate or irrelevant criteria must be in force such as, for example, the colour of a person's skin. This is the basis of anti-discrimination policy but, as Macleod points out, it is not always easy to determine what are inappropriate or irrelevant criteria, a problem that is now becoming manifest in the area of sexual discrimination.

So one can see that the criteria of equality and equality of opportunity are not simple and straightforward. Moreover, they are to a considerable degree inharmonious with one another. In a world when people differ in either their natural endowments or their preferences, or both, equality of opportunity, properly defined, will lead to inequality of resulting states (such as income); while if we insist on producing equality of resulting states, we will prevent the working of equality of opportunity.

Some readers of this paper may feel, by this point, that the concept of justice as a social good is so complex and fraught with difficulty that it is altogether useless in the discussion of social policy, perhaps even meaningless. This has been argued recently,¹ but I would not draw this conclusion. If one is looking for a simple and direct guide for social policy one will not find it in the concept of justice, but one will not find such a guide anywhere else either. That man is concerned about justice is a mark of his civilized nature, which has been hard to achieve and will not be lightly abandoned. Justice will continue to be, and ought to continue to be, a primary objective of social policy.

¹ See W. Kaufman, Without Guilt and Justice, 1973.

Freedom

Like the other primary social goods, freedom has been the subject of a vast literature, especially since the Renaissance with its emphasis upon individualism, rather than communalism and corporatism, as providing the fundamental point of reference for human life and social organization. This literature, like that dealing with justice, embraces virtually all fields of intellectual interest and it is more than somewhat pretentious to discuss the question of freedom in the small space of a paper such as this. But no examination of the role of government could pretend to be even barely relevant to modern social concerns if it did not pay some explicit attention to the issue of freedom and, I would argue, its status as a primary social good. As in the preceding discussion of the other primary goods, my main object is not to solve the profound social, economic, or philosophical problems which are involved in the idea of freedom as a social good, but to indicate the complexity of the idea. There is a school of social philosophy which goes back (at least) to the philosophical anarchists of the eighteenth century and is represented today by such diverse writers as Ayn Rand, Murray Rothbard, and, in a somewhat less extreme way, by F. A. Hayek, Nobel Laureate in economics, and Milton Friedman, which takes the view that individualistic freedom can act as a clear and luminous guiding star that is sufficient in itself to assure the safe and purposeful navigation of social policy. I do not believe that this is so. If, for some reason, I were forced to choose

one of my three primary social goods as the super-primary so to speak, I would choose freedom above the other two, but (though acutely conscious of the fact that there are severe logical problems involved in the adoption of any social philosophy with more than one primary good) it seems to me that the evaluation of modern social policy requires (a) that we do not seriously subordinate any of the three primary goods to another, and (b) that we are aware of the complexity of all three. So let us search out some of the complexities in the concept of freedom.

The problem of freedom essentially involves the constraints which limit individual action. If, for example, we examine the factors which constrain an individual in his desire to play the piano, these are of various sorts, such as: (a) he is imprisoned and piano playing is one of many activities that are proscribed because of his particular status; (b) piano-playing is a licenced activity (like automobile driving or medical practice) and he does not have, and cannot for some reason obtain, a licence: (c) he lives in an apartment house and piano playing produces "externalities" to which his neighbours object, and, in some fashion, are able to give force to their objection; (d) he does not own a piano and cannot acquire one; (e) he has no musical ability or is otherwise physically disabled. These are, clearly, very different constraints upon personal freedom.

Illustration (d) above raises the question of whether economic constraints ought to be regarded as constraints on freedom. In a division of labour economy, obtaining something, like a piano, involves giving something in exchange. (Even in a

Robinson Crusoe economy this is also so.) To say that Henry Jones' freedom to play the piano is constrained by the fact that he must buy or rent a piano is not a meaningless statement, but it is not a very useful way of speaking. It draws attention from the fundamental economic fact that voluntary exchange in a division-of-labour economy is mutually beneficial to the parties. Admittedly, Jones would be better off if he could obtain a piano for nothing, but this could not be generalized; Jones' "free" piano is really a piano for which someone else has paid. One of the conspicuous weaknesses of virtually all utopian scenarios of the good society is that they view the economic process as sharing rather than exchanging and neglect the essential fact that goods must be produced as well as distributed. To say that a man's freedom is constrained by the fact that he must pay for what he receives is even less useful than saying that his freedom to fly is constrained by the law of gravity.

There is, however, a case in which it seems to be somewhat less misleading to speak of a person's freedom as being constrained by economic conditions. If Jones is extremely poor, one might say that his poverty is a constraint upon his freedom, and one might therefore regard social security programmes as aimed at the enlargement of freedom. But even in this case one must recognize that what Jones receives is contributed by or taken from someone else, so it is an aid to clear thinking about the matter to regard social security programmes as a matter of justice rather than freedom. What this discussion leads to is that it is not satisfactory to regard freedom as the absence of constraint

as some philosophers (e.g., Hayek) tend to do, since some constraints are much more relevant to the issue of freedom than others.

In common speech one sometimes goes to extremes, contrasting "freedom" on the one hand with "slavery," "imprisonment" or, in the political sphere, "dictatorship" or "tyranny" on the other. Such absolute conceptions may be rhetorically serviceable, but they do disservice to the needs of rational discourse. Men are never in a condition of absolute freedom. They are very unlikely to be in a position of absolute unfreedom either; in Solzhenitsyn's First Circle he shows how, even in a prison camp of the hardest possible sort, men ingeniously make small areas of freedom for themselves. What is important is not describing a condition as one of "freedom," or otherwise, but analysing the types and degrees of constrain which operate on personal freedom, how they function, and what purposes they are intended to serve and do, in fact, serve. If one were an absolutist doctrinaire on the matter of freedom one might find oneself saying that the right-hand driving rule destroys freedom because it eliminates any choice as to which side of the road to drive on; and that when a mugger demands "Your money or your life" one is still free because a choice remains. Common sense is correct in considering the right-hand driving rule as of little significance and the mugger's demand as very important in the matter of freedom. What common sense recognizes is that freedom is never absolute and that the important issues have to do with the specific constraints that are imposed, how they are administered, and what purposes they serve.

In the philosophical literature the discussion of freedom has focused upon two issues: the metaphysical problem of freedom, and the social problem of freedom. The metaphysical problem arises from the fact that if all events, human as well as other, were uniquely determined by "laws of nature" there could be no sense in which one could say that a person has freedom of action; the endogenous conditions of his personal existence would be as uniquely determined as the exogenous conditions. In such a Laplacean¹ world, freedom would not merely be absent; the idea itself would be meaningless. This problem has troubled many thinkers and has driven some to bizarre lengths, such as existentialist philosophers like Jean Paul Sartre who seem to say that one can only prove that one has freedom by doing bizarre or capricious things, like driving a knife through one's own hand! No Laplacean would regard this as a valid proof, for obvious reasons, and indeed, no valid proof of metaphysical freedom is possible. I am content to say though that since I am taking the trouble to write this paper and the reader is taking the trouble to read it, there is presumption enough in favour of metaphysical freedom for one to dispose of this ancient debate in one short paragraph. The reader might feel that even this paragraph is unnecessary in a paper of this sort, but I include it because one

¹ Pierre Laplace (1749-1827), French astronomer and mathematician argued that the world is so rigorously law-governed that knowledge of the laws plus knowledge of the positions and velocities of all "particles" in the universe would suffice to predict all future events and to retrodict (as we now say) all past events. The best attack on this that I know of is in Karl Popper's various writings.

could not logically go on to the second main issue, the problem of social freedom, without rejecting the Laplacean conception of the world.

The social problem of freedom is a problem in ethics: concerning those constraints upon one's freedom that result from the actions of others, can principles be defined which would determine which constraints are proper and which are not? In this statement of the issue I have put the matter very broadly in order to avoid a common error in social philosophy: the identification of constraints upon personal freedom with the actions of government. It is true that government possesses sovereignty, but it is not true that it utterly monopolizes the use of coercive power, even in the most "totalitarian" state. One's personal freedom is constrained not only by law but by custom and practice. If the mores of a society are strongly against the wearing of beards and beads, then some people who would otherwise do so will not, and those who do will be forced to pay for their idiosyncrasy in various ways. If business firms require that executive employees must join a golf club, those who dislike the game and its associated activities are restricted in their freedom if the practice becomes so general that there are effectively no openings for their executive talents which do not carry this condition. Families have great powers of coercion on their young members and, in some families, this does not diminish much upon maturity.

Some actions of the state are clearly aimed at increasing the freedom of some by constraining the freedom of others to coerce the former. A policeman walking a beat constrains the freedom of muggers to coerce others. If a government uses tax funds (a coerced payment) to operate a refuge centre to which women may go who are in danger of maltreatment by their husbands, then clearly the coercion of the state is being used to reduce other infringements on freedom. If, as in the American South until recent years, racial discrimination in occupations is largely operated through custom, the enactment of laws which prohibit the continuance of such customary practices (and attack the mores which sanction them) is the constraining of freedom to constrain freedom. Thus, it should be clear that it is far from satisfactory to base a social philosophy on the supposition, as, for example, is done by Milton Friedman in his influential Capitalism and Freedom (1962), that the state is the only important source of coercion and that whatever it does has that indelible mark upon it.

But there is also a widely held error that is almost diametric to this: the doctrine that in a democratic society the government is "ourselves," and whatever is done by legitimately constituted public authorities in constraining the freedom of individual members of society is a form of "self-discipline," no more a true reduction of freedom than that which occurs if a person decides that it is for his own good to forgo dessert after dinner. One of the great illusions of democratic social theory is that government can be government "by the people." It assuredly is, in any polity, government of the people, and in a good polity it

is government for the people, but it can never be government by the people. All government involves the coercion of some by others. Democratic theory is sound in regarding one of the strengths of democracy as being the establishment of a philosophically defensible basis of legitimacy for the exercise of state power, but it is a profound error to assert that it is not coercive because it is legitimate. This error becomes more important when the state carries out its policies, not by the passage of explicit legislation but by the enactment of general enabling legislation which places extensive discretionary power in the hands of administrative personnel. The use of administrative law clothes the bureaucrat with authority, which the courts recognize as firm, but the doctrine that his actions are not only legally and politically legitimate, but are acts of "self-discipline" or "self-government" by the people themselves is a philosophical rationalization which must be discarded if one is to think clearly about politics. It would be an aid to such clarity if, instead of referring to those who wield the administrative power of the state as "public servants" we were to call them "public masters." We will return to this point when we come to consider the growing dissatisfaction with modern government.

If we could discover a valid and workable principle concerning the ethical legitimacy of governmental action, we would be able to determine the proper limits of the coercive power of the state. The establishment of an entrenched Bill of Rights, as in the United States constitution, is basically an effort to do this, but even countries which have such constitutions do not find it easy to fix firm barriers against encroachment on personal freedom.

Some political philosophers have tried to establish the proper limits of state power by rigorous argument from some indisputable first principle. So, for example, Robert Nozick in his Anarchy, State and Utopia (1974) postulates that all persons have comprehensive natural rights which can only be diminished by voluntary agreement, and that for only one purpose: protection of the individual and his property against depredation by others. Thus he arrives at the doctrine of the "minimal state" which restricts its legitimate rule to that of adjudicating the contending claims of private persons.¹ In John Stuart Mill's famous essay On Liberty (1859) he attempted to argue that there exists a natural line of demarcation between actions which concern only the individuals who perform them and those which affect others, restricting the role of the state to the latter sphere. The present Prime Minister of Canada was reflecting Mill's demarcation when he asserted a few years ago that the state has no business in the bedrooms of the nation. But this is difficult to sustain as a hard rule. Some people are deeply offended by what takes place even in private, and some would argue further that such private actions have important social consequences. So, to make Mill's rule work one would have to add some further statements which govern what senses of offensiveness, and what kind and degree of social consequences justify the use of state power to constrain freedom. If the state has no business in private bedrooms, has

¹ See my review of Nozick's book, along with similar efforts by Rawls and Buchanan in "The New Contractarians," Journal of Political Economy, 1976.

it any business in private automobiles, as in the enactment of legislation making the use of seat belts compulsory? Is that legislation justified by empirical demonstration that it reduces death and injury in automobile accidents? Mountain climbing is also dangerous, so should it be prohibited? Moreover, it is not a purely self-regarding action since, if some climbers are lost, search parties must be sent for them, which involves expenditure of someone else's funds and exposes these other persons to dangers that may be as great as those faced by the original climbers. Obviously, the sphere of purely self-regarding action is small and if one grants the legitimacy of state power to prevent people doing harm to themselves it diminishes to near zero.

Mill's principle is a good one only if one does not expect to extract from it unambiguous rules respecting the proper limits of state power which constrains freedom. It will break if one tries to cut a bold fine line with it, but it is certainly one of the basic considerations which ought to enter the determination of social policy. Once again, the reader of this paper finds me arguing on behalf of principles that are broadly and roughly persuasive, and workable, rather than ones that are logically compelling and definitive.

In the essay On Liberty Mill made another argument which is of exceptional importance, having to do with those actions which involve freedom in the sphere of thought, opinion, and discussion. What is the warrant for permitting such freedom and, more important, what justifies freedom of expression for those who

hold opinions that are considered heretical and even dangerous by most others? Mill defended such freedom on two grounds: (a) That it is a necessary part of the dynamics of truth discovery. Without intellectual freedom it is not possible to advance knowledge; (b) That, even if the ultimate truth about something were already known and heretical opinion could not possibly add to it, freedom to express such heretical views is necessary to preserve the character of knowledge as "living truth" rather than degenerating into "dead dogma." These are powerful arguments which, it should be noted, are based upon the pragmatic or utilitarian value of intellectual freedom, not upon any doctrine of "natural rights."

I would add two further pragmatic arguments to Mill's defence of intellectual liberty: (c) I think that it is historically demonstrable that liberty in this sphere of human life is a precondition of the effective attack on virtually all social evils. The geneticist must be free to investigate as he sees fit, or the agronomist will be hampered in his research for better varieties of food plants. (The history of Russian genetics and agriculture under Stalin is a dramatic modern instance.) The statistician must be free to devise better ways of measuring income distributions if we are to devise effective policies for reducing economic inequality or meeting basic needs; and so on. Intellectual freedom is not merely required in order to advance knowledge for its own sake or to prevent it from hardening into dogma, but it is also necessary if we are to use it in pursuit of effective social change.

(d) Freedom of thought and discussion is a necessary constituent of any political process which seeks to manage social problems that are not technically soluble which, as I have argued above, is the basic task of all politics. Let me illustrate this by reference to the problems raised by Kenneth Arrow, Nobel Laureate in economics, in his book Social Choice and Individual Values (1951). Arrow enunciates a "general impossibility theorem" which concerns voting procedures as ways of solving social problems. Suppose that a collectivity of three persons, X, Y, and Z, meet to decide which of three courses of action to take: build a big road (B), a small road (S), or no road at all (N). (The theorem does not depend on there being only three persons and three possible policies; it is generally valid.) The preferences of the three persons might be as follows (the symbol > being used to mean "prefers to"):

X's preferences: B > S > N

Y's preferences: S > N > B

S's preferences: N > B > S

Each member of the collectivity has perfectly reasonable and consistent preferences, but it is not possible, in this case, to arrive at a consistent policy by the usual mechanism of majority rule. We find that two-to-one majorities can be generated for B > S > N but also for N > B, so the collective preferences do not satisfy the basic logical law of transitivity, and it is not possible to determine what to do. How can a difficulty of this sort be resolved? I would argue that, in such a situation, discussion is vital. If preferences are regarded as primordial nuggets of intransigent desire there is no way out, but if they are regarded as modifiable

by rational argument (as most preferences assuredly are) then the impossibility theorem falls if we consider a collective decision-making process which involves freedom of discussion as well as voting. It is a poor political system which does not permit people to vote on matters of common concern, but it is also a poor one which uses voting but prohibits discussion of such matters. Some political scientists, like Lord Bryce, have defined democracy as "government by discussion," but without going quite as far as this, it is clear that intellectual freedom is a necessary constituent of any political process that is not an absolute dictatorship. One may admit that intellectual freedom is more valued by intellectuals than by others, but I do not think that the arguments for it can be dismissed as the rationalizations of interested parties.

The reader may feel that this is of little practical interest in a society that has firmly established traditions of intellectual freedom and has even less interest for those who are primarily concerned with economic problems. That such a view may be illusory is demonstrated by the political situation Great Britain now finds herself in as a consequence of the recent passage of the Trade Union and Labour Relations (Amendments) Act, 1976. By this Act a person cannot hold an occupational position without being a member of the union which has jurisdiction in the trade. The Act does not stipulate that anyone must join the union if employed, but that only those who are members may be employed, and it lays no effective obligation on unions to accept all applicants for membership, or to preserve the rights of membership for those who are already members. This

means that the potential cost faced by anyone who criticizes his union executive, the political party which it supports, or does anything which the union finds unpalatable, is that he may be ejected from the union, and this means that he would lose his job; if the jurisdiction of the union is industry-wide, he would be proscribed from pursuing his occupation anywhere in the country. If the editors of a newspaper are under the jurisdiction of the same union which embraces printers and typesetters, then these people or, rather, the executive officers of the union, have power to control the editorial policy of that newspaper; and, again if the jurisdiction is industry-wide, the union can control the whole press of the country and assure that what it publishes is in agreement with the views of union leaders. Richard Lipsey, Canada's most distinguished economist, traces a direct connection between the passage of this Act in Great Britain and the efforts of that country to combat inflation by the use of wage and price controls.¹ The connection is neither rationally implausible nor historically fanciful, and anyone who regards freedom as a primary social good should pay great attention to Lipsey's analysis of recent events in Britain.

The Trade Union and Labour Relations (Amendments) Act, 1976 may be viewed as a case of inadvertence; the loss of freedom resulting from the unintended consequences of other actions. If so, it is not less serious on that account, but if this consequence was, in fact, the intention of those who sponsored and voted for legislation,

¹ Richard Lipsey, Canadian Public Policy (forthcoming).

it raises the important issue which some philosophers call "the paradox of freedom." The paradox is most clearly seen in considering the issue of voluntary slavery. If we adopt the principle that everyone is free to do what he wishes with his own person, does that include freedom to sell himself into slavery, this being a purely self-regarding action in Mill's sense? If so, then he is no longer free; if not, then he is not free either. One may try to avoid this paradox by arguing that no rational person would voluntarily enslave himself, and anyone who might attempt to do so deserves the same protection from acts of self-destruction that society accords to insane persons. Historical evidence does not support the contention that only an insane person would voluntarily place himself under the complete control of another, so this route of escape from the paradox is empirically weak, but its main defect is that it creates a deeper paradox of freedom than it resolves. If desire to enslave oneself is accepted as a clear indicator of mental incompetence, requiring the protective action of the state, then there may be other such indicators as well, such as creating works of art which authoritative critics find bizarre, advancing scientific theories which run counter to the ruling ideology, or even criticizing the government. In the Soviet Union such acts have been interpreted as symptoms of mental illness and some of their doers have been confined to mental institutions. So this resolution of the paradox opens wide the door to the destruction of personal freedoms, in the name of freedom.

In democratic societies the usual approach to the problem involves grasping one horn of the dilemma and not worrying much about inconsistency. Slavery is prohibited even if voluntary, and the same prohibition (or withdrawal of legal enforcement) is extended to other actions which are quasi-slavery in nature, such as long-term indenture contracts. If freedom were regarded as an absolute and as the only primary social good, the paradox of freedom would be an agonizing problem for social policy and not merely for academic philosophy. If it is not so regarded, the paradox is unimportant (in the sphere of personal behaviour) and this discussion of it simply acts as a further warning that when a government embarks on paternalistic actions, constraining the freedom of individuals to do harm to themselves, it should do so with special care and reluctance, using the power of the state in this way only where the weight of argument and evidence is very heavy.

So far I have discussed this problem in the context of personal freedom, which is an issue that is involved in actions such as the British Universal Closed Shop Act, but this is not the most important issue raised by it. If one takes the view that all actions of the state are legitimate if they are the outcome of duly constituted procedures, is it permissible for a democratic state to decide, by democratic procedures, to end the democratic procedure of public decision-making? Twenty-five hundred years ago, Plato used the paradox of freedom to attack the Athenian democracy, arguing that his fellow citizens could legitimately end their system of democratic government, since political freedom is clearly self-contradictory when viewed as absolute. I have

argued above that personal freedom cannot be regarded as absolute and that it is necessary, in a good polity, to grasp one of the horns of the dilemma that is posed by the paradox of freedom; does the same argument apply to the sphere of political freedom? I think that it does, and with much greater weight than in the sphere of purely personal action. Even if the members of a society voted unanimously to end democratic procedures, to do so would be improper. The reason for this is that a political decision to this effect is irreversible except by violence (which itself rarely has the effect of establishing, or reestablishing democracy). If personal slavery were legally permissible as a voluntary act, there would still be hope of reversing a decision to enslave oneself since the governing law can be changed. But if political freedom is abandoned there is no way of recovering it by orderly methods, since the political authority is the repository of sovereign power. In the political sphere, the paradox of freedom becomes a paradox of sovereignty: is the sovereignty of the state subject to constraints and, therefore, not truly "sovereign"? If one holds the view espoused by Karl Popper in his treatment of the methods of scientific discovery, that men learn mainly from their mistakes, it is essential that they be free to change their minds, and this means that freedom must be retained over a large area of life, and most especially in the political sphere. No decision to abandon political freedom can be unanimous because it binds future generations, which had no say in the decision; but even if future generations could somehow be canvassed and a truly unanimous decision to end political freedom attained, it would be illegitimate because there is one absolute freedom, freedom to change one's mind, and the preservation of this requires the preservation of political freedom.

This is no mere academic problem. The German people had to face it with the rise of the Nazi Party in the 1920s and 30s; the Italian people face it today with the rise of the Communist Party; the British people now face it in a more subtle form; and it would be naive to believe that "it can't happen here." The problem of what constraints should be imposed on the political freedom of those who, if they were to attain political power, would end political freedom, and the constraints that should be imposed on actions by sincere democrats which operate to end, or seriously erode, political freedom by inadvertence, are the most serious and most difficult of all the problems faced by contemporary society.

Addendum: Some Problems of Economic Freedom

This paper is intended to be mainly concerned with economic issues and some readers may feel that I have wandered rather far from these. I have tried to indicate that the problems in political philosophy I have focused on are intimately involved with economic issues and, in a larger framework, I think I could do more to show this connection. But some explicit attention to economic issues in the more restricted sense, in the context of freedom as a primary social good, may be worthwhile. I will discuss only a few basic points.

The long tradition of orthodox economic theory is based upon utilitarianism interpreted in a highly individualistic way. If an economist responds to the philosopher's problem of defining what is good, his answer is that it is good that people should,

as individuals, have what they want. This position contains a serious difficulty which most philosophers and some economists (e.g., Frank Knight), have noted, in that it does not seem possible to say that it is good that people should have what they want unless it can be shown that what they want is good, by some independent criterion. There is no law of nature which assures that people cannot want bad things and many people would acknowledge it to be a fact that they often do. At bottom, the defence of the economist's traditional position does not consist of defining what is good as what is wanted, but rests upon the recognition, which is sound, that no independent criterion of what is intrinsically good can be found; and, in practice, the claim that there are intrinsically good things amounts to the claimant's efforts to substitute his preferences for those of others. (This issue is the heart of the current debate over the "quality of life," and is a revival of romantic philosophy which, in the nineteenth century, contended with utilitarianism for the dominance of social policy.) One does not have to argue that all preferences have equal ethical merit in order to espouse the principle that the best social policy is one which aims at satisfying people's wants without attempting to differentiate their intrinsic qualities. It is a "second-best" principle but that is often (perhaps always) the best that can be done.

The doctrine that people should have what they want becomes more complex when one recognizes that, in the economic sphere, everyone plays two roles: as producer and as consumer. Orthodox economics attempts to meet this problem by a sharp means-ends dichotomy, regarding production as means and consumption as

the sole end of economic activity. This was the basis of Adam Smith's critique of "mercantilism" in his great Wealth of Nations (1776) which originated the science of economics as an analytical and empirical discipline. Adam Smith attacked the economic policies of his day as being oriented to the welfare of producers rather than consumers, claiming that "consumption is the sole end and purpose of production." Economists have been attacking mercantilists' policies ever since with, admittedly, only indifferent success. Hardly anyone who is not a mystic would attempt to argue that people's wants can be satisfied without an efficient system of production, but the point of the orthodox economic view is that the criterion of efficiency is how well productive resources are used to satisfy these wants, rather than any independent evaluation of production as such. This is the doctrine of "consumer sovereignty," which occupies a central role in every orthodox textbook that is used in the teaching of the basic principles of modern economic analysis.

In the preceding paragraph I have been at pains to identify this doctrine with "orthodox" or "traditional" economic analysis. Throughout the history of economics there have been many who have rejected it, such as Ruskin, Carlyle, Emerson, Thoreau, and other romantics; Karl Marx and his disciples; the historical school of economists; the institutionalist economists; the Galbraithians; and all utopianists. Gunnar Myrdal, Nobel Laureate in economics, has repeatedly argued¹ that the means-ends

¹ See, for example, a collection of his papers in his Values in Social Theory (1958) and the introduction to the third printing of this (1968) by Paul Streeten.

dichotomy which economists employ in arriving at the doctrine of consumer sovereignty is invalid, the so-called means (production activities) being at least in part ends as well. What this amounts to concretely is that the conditions of work are part of a person's economic welfare as well as the output of that work which provides him with the income with which to buy consumer goods and services. This is difficult to deny. When the standard work week was eighty hours it occupied most of a person's working time so the conditions he encountered there as a "producer" must have been more important to his welfare than those of his home where he acted as a "consumer." The argument is less compelling now that the standard work week is half (or less than) that of the early nineteenth century, but it is still not without force. I would not go so far as the Marxists in claiming that work in a private-enterprise economy is necessarily degrading and productive of "alienation" (indeed, I am not sure that alienation is universally a bad thing) but the strict consumer sovereignty doctrine with its sharp means-ends dichotomy seems to me to be untenable.

An orthodox economist would respond to this by arguing that in a free competitive labour market the conditions of work are part of the voluntary contract that an employee makes with his employer and the economy will offer alternatives among which he may freely choose just as it offers alternative goods and services. This is a strong defense, and where there is a high degree of equality of occupational opportunity, the arguments of the critics of orthodox economics lose a great deal of their weight. Why then does this issue fall under the heading of "freedom" rather than

"justice" or "welfare"? Because, in a large part of the modern economy, a person cannot satisfy his individual work preferences to the same degree that he is free to satisfy his preferences as a consumer. The individual can eat what he pleases or wear what he pleases without it being necessary that others do likewise; but he cannot exercise such freedom of individual choice with respect to the conditions of work in most occupations. In a factory or an office, the specific hours of work, the conditions of the physical environment, and the social relationships that pertain there must be broadly uniform, and the variety of them that is offered, or can be offered, by different employees is not large. These conditions can be bargained for but they must be negotiated collectively, not as items of individual voluntary exchange.

This problem is not confined to the conditions of work. Even if one accepts fully the doctrine of consumer sovereignty, it will be encountered in the sphere of consumption as well. Again, a person can eat and wear what he wishes without it being necessary that others do likewise, but it is not possible for one person (in a given area) to satisfy his preference for street cleaning while another satisfies a different preference in kind or degree. The same applies to national defence, police and fire protection, welfare services, and all the other consumer goods that are inherently or practically collective in nature.

The import of this is that many important individual preferences cannot be fully served, and economic freedom is thus constrained by the fact that much of both production and consumption

activity is collective. But, that freedom is constrained to varying degrees by the form of organization that is employed in production and collective consumption. If one firm has a monopoly of steel production and adopts the policy that there are to be uniform conditions of work in all plants, then there is little freedom of choice for steel workers; if there is no monopoly, but the steel workers' union bargains for uniform industry-wide conditions of work, freedom of the individual worker is not larger; if street cleaning services are forced to a uniform standard throughout a province or a nation, then freedom of choice concerning them involves a willingness to migrate and is constrained by the costs of and opportunities to do so. This means that freedom is constricted more than it need be by the adoption of uniform standards in the conditions of work or the production of collective goods. There are good arguments for decentralization which political scientists have made because it prevents concentration of power; there are also good arguments for it on the ground that it produces variety, which is essential to the practical exercise of economic freedom.

III

The Growth of Modern Government

The growth of governmental activities has been the object of much attention by economists, especially in recent years since specialists in the field of public finance, who formerly dealt almost solely with taxation, began to apply analytical techniques to the examination of the expenditure side of the fiscal process. The scope of this paper does not permit a detailed analysis of the various specific ways in which governmental activities have grown. Many of these, especially those that are reflected in the fiscal accounts, are extensively detailed and assessed elsewhere and, even if a further study of them were not redundant, it would be beyond the competence of this writer. What may be useful is a discussion of the growth of government that is more general, lying on a plane of discourse similar to that which has been employed in the former sections of this paper. What I have to say on this issue is not novel; the specific elements of the discussion are already known to any student of the economics of public policy, but it may be useful to draw them together in a way that relates them to the concept of "primary social goods."

It would, I think, be useful to classify governmental activities, in detail, under the three categories I have been using: welfare, justice, and freedom; and perhaps even to sub-classify further using, for example, the six criteria of justice I postulated in the above discussion of that primary social good. I cannot embark on such an exercise in this paper. (A colleague and I are currently

engaged in an exploration of the possibility of this in a limited field.) All that can be fruitfully done at this point is to employ the arguments I have made above in a less formal way as normative evaluational criteria for governmental activities.

In order to grapple with the more "positive" issue - the understanding of the actual growth of government and why it has taken place - rather than the "normative" evaluation of this development, it is useful to employ a different classification scheme, which was basically suggested a century ago by Henry Sidgwick.¹ (I will modify his classification somewhat, and modernize his terminology.)

This taxonomy classifies governmental activities under four headings, which are mutually exclusive and collectively exhaustive only to an imperfect, but nevertheless useful, degree: (A) Some governmental activities are aimed primarily at the prevention of what economists call negative "externalities" or "neighbourhood effects"; that is, the harm that one person's action may do to others; (B) some activities are aimed at the production of positive externalities; that is, requiring that a person do something which benefits others; (C) some activities are "paternalistic", requiring a person to do something primarily for his own good; (D) there is a large range of governmental activities that are undertaken to produce goods and services that are "collective" in nature; and (E) there are some goods and services that can be produced privately, but only under inadequately competitive conditions.

¹ See his Principles of Political Economy (1883) and Elements of Politics (1891).

A. Negative Externality Policies

Virtually all of the criminal law is designed to prevent one person from harming another, and a large part of civil law as well. Some economists have recently devoted the techniques of economic theory to the analysis of crime, working on the assumption that most criminals are rational and that reduction of crime depends therefore upon altering the comparative magnitudes of the yields and costs of criminal activities. Two centuries ago, Jeremy Bentham, the founder of utilitarian social philosophy, pointed out that rational calculation, in criminal activity, as in others, must be a probability calculation since the yields and costs are not certain. The important consequence of this is that a given penalty for a crime has greater weight as a deterrent the more certain it is that the perpetrator of it will pay the penalty. Between the commission of a crime and the payment of a penalty lie a number of probabilities that are usually somewhat less than one hundred per cent: there is the probability of being caught; the probability of being charged and brought to trial, if caught; the probability of being convicted, if tried; and the probabilities of sentences of various sorts, if convicted. These probabilities being conditional, they are multiplicative, and the effect is that any given penalty has a lower, and perhaps a much lower "certainty equivalent." Thus if the probabilities of being caught, tried, and convicted are each fifty per cent, the rational evaluation of an expected penalty of one year in jail accords it a certainty equivalent cost of a little over one month. (In addition the cost must be discounted since it is removed

in time.) Reasoning generally upon such lines, Bentham concluded that the severity of penalties could be reduced, if the probabilities of apprehension, charge, and conviction could be increased. This reasoning was a powerful factor in the reform of the English Criminal Law in the nineteenth century. In Bentham's time there were more than two hundred crimes on the statute books which carried the death penalty; by the later nineteenth century these were reduced to a half-dozen.

If one argues upon such lines, it is apparent that the most effective way of making sure that the cost of a crime will exceed its yield for the rational criminal is to arrest everyone against whom there is any evidence or presumption of any sort, and summarily execute them all. This approach, or an approximation of it, is not unknown in human history, but it offends most people's sense of justice under the criterion of "desert." If, instead, society attempts conscientiously to apply penalties only to those who are guilty "beyond reasonable doubt" the costs of operating the system of police and courts will increase (and the amount of crime will increase also, since the probabilities cannot be made one hundred per cent). If, in addition, capital punishment is regarded as an unjust penalty for most (or all) crimes and incarceration is used instead, the sums that have to be spent by the government in administering the penalties will be much greater. If, instead of taking the "criminal is rational" approach to crime, one views criminals as sick persons who must be placed in "corrective institutions" rather than "penitentiaries," the charge on public funds will be larger still since, if conscientiously applied, such an approach requires much more costly physical facilities and personnel.

The protection of people from non-criminal externalities by the civil law is much less of a charge upon the public purse since the offender is made liable for all, or a substantial part of, the court costs. A feature of the civil law has been recently added to the criminal justice system in some places by the practice of paying compensation to victims of criminal acts, from public funds. This responds to criteria of justice that are widely held (primarily "fair exchange" and "expectation") and also reflects the view that the government has failed in its responsibilities by not preventing the occurrence of the crime. The operation of the system of justice is not, at present, one of the large items in the list of government expenditures, but if the effort to increase the probabilities facing rational criminals, to supply proper treatment for irrational ones, and to compensate the victims of crime, grow appreciably, this could become a major item in the governmental budget. Such efforts may well be desirable; indeed, I would confidently predict that they will be increased since they respond directly to widely-held conceptions of justice, but it would be a mistake to believe that they can be undertaken without devoting larger amounts of productive resources to them.

The negative externalities that are covered by ordinary criminal and civil law are not by any means the only actions in which what one person does harms others. Their distinctive characteristic is that those harmed are easily identifiable. Economists and others have recently devoted increasing attention to such externalities that are more general in nature, a clear example of which is

environmental pollution. If one specific person, or other legal entity, impairs the water or air used by another specific person it requires no more than a clear definition of property rights to bring about the optimal degree of control of such acts,¹ but when the damage is done by many, and/or experienced by many, this solution becomes more difficult, and more difficult still if some of those construed to be harmed belong to future generations. The growth of scientific knowledge has increased our awareness of externalities of this sort, and the rise of general standards of economic welfare have led to increased valuation of environmental quality. Governments have responded by increased intervention in this area. It is now a rapidly growing activity of government and there can be little doubt that it will grow still further. If intervention is carried out by the enactment of regulations, only a small part of its weight will be reflected in the budgetary accounts, and those who read such accounts as a true index on the role of government will suffer from an accounting illusion. On the other hand, if, as many economists suggest, the government attacks such externalities by imposing taxes on polluters, it may even make a "net profit" on the operation, but to regard this as sanctioning the policy would merely be another form of accounting illusion. However it is done, the effort to control negative externalities that are general in nature involves increasing the extent to which the hand of government interferes with the activities of private persons and institutions in the use that is made of production resources.

¹ This is the well-known "Coase theorem". See Ronald H. Coase, "The Problem of Social Cost," Journal of Law and Economics, October 1960.

This discussion does not of course exhaust the list of important negative externalities but it perhaps suffices to make the point that governments, responding to public awareness of them, the economic analysis of the phenomena, and increased scientific knowledge about them, have, in recent years especially, devoted increasing attention to them.

B. Positive Externality Policies

Under this heading, which refers to actions of government which force people to do some things for the positive benefit of others, the most important items are the public provision or subsidization of education and various programmes such as poverty amelioration, health insurance and old-age pensions which may be generally designated as "social security" policies. It may seem to be a somewhat strange locution to describe these as "externalities" but I do so for two reasons: (a) because requiring a person to pay taxes, the proceeds of which are used to benefit someone else, differs from other actions which have positive external effects, such as being a pleasant and accommodating neighbour, only in that it is coerced by the state - an important, but at this level of analysis, not a taxonomic distinction; and (b) such activities of government are frequently supported on the ground that, while education and social security primarily benefit the specific recipients, others share the benefits of living in a society that is generally more just.

If a government lays an obligation upon parents to provide a certain number of years of schooling for their children, the extent of its intervention in private affairs is much greater than is disclosed by the public accounts, since these include only the expenditures

made in policing such laws. Similar effects result from the enactment of laws against juvenile employment or minimum wage laws since these, albeit less directly, increase the amount of schooling that parents provide for their children by reducing the alternative uses of their time. No society, however, so far as I know, has ever depended exclusively on such methods as devices to increase the amount of schooling. Education has usually been supported by private charitable contributions and/or by the use of public funds, which transfers the use of income not only within families but between them.

Public support of education has been one of the fastest growing categories of public expenditure, especially at provincial and local levels of government, in recent years. Part of this is due simply to the changing demographic structure of the population, resulting from the period of high birth rates and immigration, and this is now beginning to taper off. But it is also due to a notable increase in the quality of the physical facilities used in schooling, which once used to be spartan; a great increase in the compensation of educational personnel, which used to be such that even the Spartans would have deplored it; and an extension of public support to post-secondary education, which used to be supported almost solely from private funds. These sources of increase in public expenditures for education are unlikely to decline much and will probably continue to increase somewhat in per-student terms. Education, once a small part of total government expenditures, is now a substantial item and is likely to remain so. The public may have lost some of its

enthusiasm for the virtues of universal education at high levels, but the appeal of the principle of equality of opportunity is such that we are unlikely to experience any significant reversal of these policies. Nevertheless, there is likely to be growing complaint that the money is ill-spent, since some students, and not only ones suffering from dyslexia, will emerge from a dozen years of schooling illiterate, and universities, if they continue to fulfil their primary responsibilities, will produce many graduates who are not trained for any specific vocation.

There has also been a considerable growth of public support of research activities, especially in the social and natural sciences which, like education, are expected to yield positive externalities. A large part of these activities are integrally linked with educational institutions but there are other research bodies such as the National Research Council and the Economic Council of Canada which are agencies of government, and there are numerous private individuals and firms who obtain income by doing research that is supported from public funds. As with education, enthusiasm for this kind of governmental expenditure has cooled somewhat of late, but I think it is unlikely that we shall see a significant reduction in this item; more probably it will increase, since the doing of research requires increasingly more expensive technologies.

By far the largest item under this heading, however, is social security programmes. Societies have always looked after their unfortunate members to some degree, by the support of the extended family and through the operation of agencies supported by private

charitable contributions. To some extent, the shift of these functions to the governmental sector does not involve diversion of productive resources to these purposes from others (a large proportion of the population of Ontario, for example, was covered by private health insurance schemes before the government took over the business) but it does involve an increase in the proportion of economic activities that come under the direct control of the state. The shift to the public sector has however been accompanied by a very great increase in the total amount of productive resources devoted to it. Part of this is due to the probable fact that the income-elasticity of demand for such public services is high. As people's incomes rise there probably occurs a significant increase in their desire to devote income to the support of unfortunates. This would result in an increase in the amount of voluntary contributions to charity if the activity were so organized. When it becomes a governmental function the "contributor" is assured that others are required to contribute also (perhaps to a greater extent than himself) and this acts as a further stimulus to demand such services.

It is very difficult for a government to adopt, or maintain, low standards for the provision of social security. Most people regard their own incomes, whatever they may be, as little more than that which is required to meet "basic needs" and, with respect to health services especially, there is hardly anyone who would argue, publicly, that less than the best is good enough for those who receive those services from state-operated or supported institutions. The justice criteria of need and equality act as powerful forces upon

any government that is responsive to public opinion to expand the scope of coverage and to increase the quality of its social security programmes.

An additional reason why public expenditure on such programmes has grown is that it is nearly impossible to confine their benefits to the needy. When support is intra-family in organization it is fairly easy to discriminate between those who are truly in need and those who are not (and it is also possible to involve the justice criterion of "desert" if one wishes). When the Salvation Army operates a soup kitchen it is unlikely that much of the soup will go to the non-needy. But it has proved, so far, beyond the ingenuity of public administration to devise social security programmes that are capable of effective discrimination between those in need and those not. When a government tries to do this by formal rules it invariably fails, and when it tries to do so by placing discretionary power in the hands of administrators in an effort to copy the discriminating methods of private charity, it sets up a host of bureaucrats who are not only costly, but easily become petty tyrants who wield their power over those whose economic difficulties are too great to permit them to do anything but submit. In such an order the meek do not inherit the earth; the professional bureaucrat inherits the meek. This drives the state to the adoption of comprehensive, non-discriminatory programmes, and policies that were originally aimed at producing positive externalities become policies of collective consumption. Old age pensions, health insurance, etc. are provided for the rich and the poor and those in between; a large

share of the benefits go to the non-needy and the system as a whole may become regressive in its income-distributional effects; and, when these programmes lead to, or are accompanied by, the elimination of private arrangements for the supply of similar services, the relatively affluent argue strongly for improvement in their quality to a point that equals, or even exceeds, that which they would have privately purchased. The size of the governmental sector grows.

A measure of the degree of concern that this problem has generated is that one today finds people who are quite conservative in political philosophy arguing that the whole system of social security should be replaced by the state giving everybody untied money grants, recovering as much as it can from the affluent through the income tax, and not concerning itself to make much distinction otherwise between needy and non-needy. This is a viewpoint that would have been regarded as highly liberal, even radical, a short generation ago.

C. Paternalistic Policies

This category of governmental activities is, as I have already indicated, intended to encompass those in which the power of the state is used so as to change what people do in order to benefit those persons themselves. Such efforts raise very difficult philosophical problems, especially in a society in which the government is recognized to be composed of persons who are not much different from others. Some social philosophers would argue that government policies of this sort are inherently improper. Defenders of them are tempted to claim that none of them are truly paternalistic, all

being aimed at actions which have positive or negative externalities. It is indeed, difficult to find any policies that are so purely and plainly paternalistic that no argument can be made for them on other grounds. Even in the seat-belt case, one can argue, for example, that a person who exposes himself to danger of injury which could be avoided also exposes others to a greater risk of having to pay for his medical services and maintenance, should he be injured; and in the abortion case one can argue that the fetus or even the zygote has rights separable from those of its host. Little ingenuity would be required to render this category of governmental policies empty, but I retain it because it is not necessary for a policy to be purely paternalistic for that to be its main or effective motive, and if we are to understand the growth of government it is necessary to take account of policies of this type. They are not negligible in scope or magnitude.

The variety of paternalistic types of legislation is very great, embracing such things as the requirement that seat belts be used in automobiles and helmets on motor cycles and that life-jackets be available on boats; the prohibition of the use or possession of certain drugs; the heavy taxation of certain commodities such as tobacco and alcohol products in order to discourage their use; the prohibition of prostitution; the prohibition of sale and possession of pornographic publications; regulation of toys and clothing to assure certain safety requirements; building codes of certain sorts; "factory legislation," as it used to be called, dealing with health and safety conditions in places of employment; maximum hours of work

legislation; minimum wage legislation; obligatory contributions to workmen's compensation, unemployment insurance, health insurance and old age pensions for self-protection; etc. Also, there is a considerable range of weight in the degree of coercion which is employed in such policies, the mildest being such things as the requirement that cigarette smokers be informed that smoking poses a health hazard, the strongest making it a criminal offence to engage in certain acts or to possess certain substances. In between are such policies as the prohibition of the offer for sale of certain commodities. These appear to be constraints upon producers, but since they prevent consumers from spending their income as they would wish, they constrain them as well.

It would make a neat and simple story if one could say that, in paternalistic policies, the state acts as a benevolent parent does, replacing one's view of what is best for one's own welfare by that of those who possess superior moral or utilitarian judgment. If that were all there was to it, a democratic society would exhibit few actions of government that are paternalistic in nature. There can be no doubt that some of these policies result from big brotherism on the part of those who directly hold the levers of governmental power in their hands. But most of them spring from broader-based demands by members of the general public, not excluding those who are themselves constrained by the policies.

A few examples will serve to develop this point sufficiently for the purposes of this paper. Why would a person demand that the government make regulations concerning the health and safety conditions of places of employment? Why does he not, instead, exercise

his freedom of choice between employers, taking such factors into account along with others? First, because it is difficult, perhaps impossible, for a person to know the kind and degree of hazards he faces from such conditions and so, one of the assumptions of the theory of optimality under competition - perfect knowledge - is not fulfilled. If this were all, one could argue that the proper role of the government is restricted to providing such information, as it does in the cigarette smoking case, leaving people free to choose, or leaving it to "the market" as economists say. But markets may be imperfect in other respects as well and there is little reason to believe or, at least, workers do in fact not believe, that the forces of competition will bring about a satisfactory degree of safety or a sufficient variety of it to permit the exercise of meaningful individual choice. So people do not feel that their freedom as employees is much constrained by such regulations and, even if they did, they would very likely rate the gains in welfare higher. But just as it is difficult for a government to provide medical services that are less than the best, as noted above, so is it difficult for it to accept health and safety standards in employment that are less than those which are technically possible. Once embarked on the road of "factory legislation" the state goes too far, and instead of having a less than optimal degree of health and safety in employment, the society has it to excess, with the role of the government enlarged.

Why not permit heroin to be offered for sale, with a warning affixed to the packages as with cigarettes? One has a feeling that

the cases are not comparable but it is not plain why. I think the answer is simply that the degree of addiction is much greater in the case of heroin, and the consequences more severe. A tobacco smoker does not become so devoted to the product that it dominates his existence and creates a craving so strong that he will commit serious crimes against the persons and property of others to satisfy it; and smoking does not render one incapable of performing the functions of normal life. The argument that I have made above against Plato's use of the paradox of freedom could be invoked in the case of heroin use. If freedom to change one's mind is absolute, then one cannot be left free to become a heroin addict for the same reasons that one cannot be allowed to enslave oneself to another, and a democracy cannot legitimately transform itself into a tyranny. These are good arguments, but dangerous ones, which, in the case of addictive products, is well shown by the problem of alcohol. Many people drink without becoming alcoholics, but assuredly, some do. If alcohol were effectively prohibited there would be no alcoholics, and this type of human degradation would be unknown. Persuaded of the merits of this argument the United States Government attempted to prohibit the sale and consumption of alcohol a half-century ago, and other governments have attempted to control it by less stringent measures such as licensing laws. The American effort failed in its objective and was abandoned, but during its operation it gave rise to organized crime and provided it with a source of funds that enabled it to become almost another government, with great capacity for coercive power. The lesson is that it is not a compelling argument for governmental intervention of paternalistic sort to show what terrible things

people may do to themselves if left free; it is also necessary to consider whether the policy can work, and to try to foresee the indirect consequences it may have.

(A few parenthetic remarks about the use of taxation as a device for regulating the consumption of unhealthful products is in order in this discussion of the growth of government. When commodities exist that are consumed with feelings of guilt, the government can exercise power concerning them without risk of much public displeasure, even if most citizens are users. When, in addition, such commodities have low price-elasticities of demand, as tobacco and alcohol products do, they become such attractive objects of taxation that ministers of finance can resist them as sources of revenue with about as much fortitude as an alcoholic can abandon the bottle. What may have started as a paternalistic policy of controlling consumption quickly develops into a fiscal opportunity to enlarge the functions of government in other directions.)

With respect to consumers goods that do not have addiction properties but which may be dangerous or unhealthful there is perhaps a stronger argument that the government should do no more than provide information, as in the case, for example, of dangerous toys and flammable clothing. But there has been a strong demand by the public that the state should wield a heavier hand in this area. In part this is due to the fact that many products are complex and the dangers they present mysterious to the layman even when stated. People ask that the state protect them from these dangers rather than merely inform them, and it is difficult for a politician to lecture his

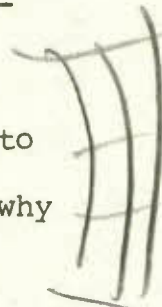
constituents, even if he believed so, that the cost in freedom may be too great. So, the state has grown in the category of paternalistic legislation, and the current "consumers' movement" suggests that it will grow further. It may be that the aggregate of such governmental intervention is greater than anyone desires, including those who have demanded intervention in particular cases. One group wants the presence of government in the citizens' bedrooms but not necessarily elsewhere, another wants it in the automobiles, another in the clothes closets, another at the breakfast table, another in the factory, etc., etc., the effect being that government as parent is everywhere, which no one wants. This is a problem we will encounter again in the following section.

D. Collective Goods Policies

In the discussion of the growth of government up to this point I have focused mainly on the activity of the state as a regulator of private activity and as a redistributor of income. In addition, the state is an important provider of goods and services, using productive resources to produce certain outputs which are either offered for sale to the general public or made available without specific charge. Canadian governments are engaged in the production of transportation facilities of various types, electricity, oil and gas, atomic energy, education, protection, judicial and adjudication services, recreational and cultural facilities, etc.

This is a very heterogenous collection of activities. Many of them are explicable as state functions only in specific historical terms; for example, if one wishes to know why the Government

of Canada is in the business of transporting passengers by air (which, incidentally, the United States Government is not) one would have to examine the particular conditions under which Trans-Canada Airlines, the predecessor of Air Canada, was established, the arguments then made, the motives and intentions of the promoters, etc., and trace these factors down to the present. And, one would have to do the same for Ontario Hydro and many many other organizations. A full examination of the growth of modern government would necessitate such detailed histories because, with respect to such enterprises, there are no general principles which explain why they are in the orbit of government rather than in the private sector of the economy. Telephone services, for example, have many of the same technical characteristics as electric power and, indeed, there is less opportunity, on technical grounds, for competition in telephone communication than in the provision of electricity, yet the telephone industry is mainly private and the electric power industry is mainly public. The growth of governmental activity in such areas is not unimportant, and it may well be one of the fastest growing functions of the state, but it is impossible to survey this in the scope of this paper, and I must pass it by with no more than the remark that it is a large omission. It would be easy to say that the state enters such areas because politicians and bureaucrats cannot resist the tendency to play entrepreneur and businessman any more than they can resist the temptation to play big brother, as an explanation of paternalistic activities. Or, also, it would be easy to say that it is due to the growth of socialist political ideologies and ascribe it to the influence of Karl Marx or Sidney Webb.



The trouble with such explanations is that they are too easy, and while I would not dismiss them altogether as factors that have influenced the development of the state in this direction in the past, and even less so in predicting the probable future of state action, I do not think that they have had, so far, more than a minor influence in Canada. Accordingly, while conscious of the magnitude of this omission, I will go on to discuss the development of governmental activities in that part of the area of the production of goods and services which can be examined in general terms. There are two major cases of this sort: the production of goods and services which are inherently public in nature because they must be collectively consumed; and the production of goods and services which for technical and/or economic reasons, cannot be privately supplied under conditions of competition. The latter case will be discussed in the next section.

If one Canadian would like to devote three per cent of his income to the provision of national defence and another would like to devote four per cent, this can be accommodated by the tax system, but they cannot, by wishing to do so, consume different amounts of defence, as they could do with shirts and shoes. The nature of this commodity is that if provided for one it is provided for all in the same quantity and quality. The same is true of most of the services produced by the Department of External Affairs, the Department of Finance, the Bank of Canada, the Department of Justice, the Prime Minister's Office, etc. At the provincial and local levels of government also there are many activities that are of this nature, ranging from street cleaning to the services of Royal Commissions.

If a person feels that he does not benefit from or does not want one or other of these services he will receive them just the same, and if we allow everyone who said that he did not want them to escape paying, there would be little funds available to provide them. Every cottager is acquainted with the phenomenon of the person who says that he does not want to repair the access road but there is no way of excluding him from enjoying the benefits of the repairs made by others. This is the "free rider" problem, which applies though not always in such a pure and unambiguous way, to goods that are collective in nature. In the cottage road case, the force of social pressure in small groups often suffices to keep the number of free riders down, but when the group exceeds a very small size (perhaps no more than twenty or so) one finds that the road deteriorates beyond everyone's preference and the cottagers plead with the township to take it once, asking, in effect, that they be coerced into paying taxes for its upkeep.

It has been suggested that modern life is characterized by an increasing quantity of goods that are collective in nature and/or that there is a high income-elasticity of demand for such goods, so the quantity of them desired grows more than proportionately as income rises. I do not know of any empirical evidence on this, but it is not implausible and, if so, accounts for some of the increase in the share of productive resources which goes through governmental hands. (The current "environmental movement" has acted as a substantial spur to governmental action of this type.) One should note that while the problem calls for collective goods to be financed by taxation it does not require that they be actually

produced by governmental agencies. The construction and repair of roads and streets is usually contracted out to private firms, but national defence is usually (but not wholly) carried out by employees of the state. This distinction is of consequence since the role of government is considerably larger when the state produces such services directly than when it purchases them in a market by the mechanism of auction or competitive bidding. I do not know what the general trend of practice is in this regard.

The argument that can be made unambiguously with respect to collective goods has sometimes been extended to areas where the same technical conditions do not apply. Recreational areas, for example, could be privately provided since it is possible to charge for their use, but there is a strong public demand for the state to provide them and objection to the levying of full-cost charges when it does so. This attitude extends to limited access roadways, postal services, and a number of other things, and there seems currently to be more demand that the government increase the scope of its activities in producing such services than that it divest itself of those it already performs, so perhaps the aggregate of them is growing. Public demand for this extension of the role of the state springs from four sources: (a) The reliance of the state on income and income- or wealth-related taxes means that, even if these taxes were proportional or mildly regressive, services provided from public funds or subsidized by them cost the (relatively) rich more than the poor for an equal volume of use. This distributional effect is partially or wholly, or perhaps more than wholly, offset by the tendency of higher income persons to make greater use of many of

these services than low income persons do. There is also a common illusion that the corporation income tax is paid by "corporations" as entities, and little awareness that most of it is passed on to consumers. So, in effect, many people feel that they can get a partially "free ride" if some of the things they want are financed by taxation. (b) Many of these services, if private, would be monopolies or near-monopolies, and many people feel that it would be better to have them operated by the state for this reason. This will be discussed a bit further in the next section. (c) There is the view that the "commercialization" of modern life is excessive; that the free-access characteristics of true collective goods should be extended to others that can technically be private. Evidence of how widely-held this view might be is that a striking characteristic of almost all utopian literature is the large area that is conceived to be occupied in such ideal societies by the free goods sector. It is not confined to utopians and socialists either; Henry C. Simons, founder of the "Chicago School" of economists, which is commonly considered to occupy the political far right-wing of the profession, was a strong advocate of the enlargement of the free goods sector. (For whatever it may be worth, I think that there is some merit in this argument. I, for one would not like to see Algonquin Park turned into a profit-maximizing enterprise.) (d) Finally, there are two arguments which derive from egalitarian criteria of justice described in the preceding chapter: (i) To the extent that the distribution of the tax burden among persons is more income-progressive than the distribution of use of a good or service, some redistribution of real income is accomplished by financing it through

taxation rather than by market prices. Accordingly, one can argue the merits of the extension of government on egalitarian grounds, independently of whether one expects oneself to be a net beneficiary or not. (ii) Just as it seems not only technically necessary, but just, that all citizens are equally protected by the armed services, it seems to some persons also just that some other goods, which are not technically collective, be provided in the same quality and quantity for all. This argument has been applied most strongly to education, but it is not confined to this. When this view carries the day and a uniform service is provided by the state, it comes under pressure from those who, if the service were private, would have purchased more of it and better, to increase the quality and quantity of these services, thus tending to result in standards that are in excess of those demanded by the average person.

In summary the argument for the public financing of collective goods is a strong one; the argument for the state production of such services as well as this financing is also strong in some areas; the demand for collective goods is probably growing; the collective goods argument has been extended beyond the range of the problem to which it technically applies.

E. Monopoly Policies

This has been very extensively discussed in the economic and other literatures, so I will only make some very brief comments upon it.

Monopoly (or near-monopoly) is easily perceived to work against all three of the "primary social goods" I have described as fundamental constituents of a good society. It works against welfare

because, as textbooks in elementary economics show, monopoly leads to misallocation of a society's productive resources; it works against justice (according to the criterion of desert, and probably also the criterion of equality) by creating higher than competitive incomes for those who own the favoured assets; it works against freedom by reducing the range of choice. One does not need to have an anti-business sentiment or an anti-private enterprise political ideology to be hostile to monopoly. Adam Smith argued in the eighteenth century that private monopolies were largely the creation of government. If this were the whole story, the combatting of monopoly would be consistent with reducing the economic role of the state. In Canada it is certainly part of the story, since monopolization of the Canadian market is to an appreciable degree promoted by tariff policy, but it is only part. Without government's assistance there would still be a tendency for monopolies to develop in some sectors of the economy on account of technical economies of large scale and the pecuniary advantages of market control. So although the combatting of monopoly calls upon the state to cease doing some things, it requires it to start doing, or increase its doing of, others. I do not know what the net balance of governmental intervention would be if one moved to an optimal anti-monopoly policy, supposing that there is one.

Positive anti-monopoly policies are of different sorts, such as action to break them up into smaller enterprises by legislation or litigation; the establishment of public regulatory bodies; the creation of competing public enterprises; and the taking over

of the industry by the state. These devices have been differentially favoured by different countries and, by now, we have a great deal of empirical experience concerning them. This has, however, not led to clear conclusions as to the merits of different policies and the debate over them continues with undiminished intensity. I do not want to enter that debate here. So far as the trend of policy is concerned, however, I think there is a tendency, in Canada, to resort to government ownership as a solution. This is the most interventionist of the various approaches and it raises the question of why it should be favoured. The main reason is that, at present, the principal focus on the monopoly problem is through the eye of justice as a primary social good. There is inadequate reason to believe that a government monopoly will achieve a greater degree of efficiency in the allocation of resources than a private one does, and there is even less reason to think that the freedom of people as either producers or consumers will be enlarged if the state takes over a monopoly or near-monopoly industry, but state enterprises do not usually make profits and, if they do, the funds are, at least potentially, part of general public revenues, so the income distribution effects of monopoly may be modified in what most people regard as a desirable direction.

Some countries have gone much farther than Canada has in extending the orbit of state enterprise. This in part springs from anti-monopoly policies based on the justice principle but it also has strong roots in the desire to reduce the political power of large private business enterprises, and to accomplish more efficient use of production resources by the development of comprehensive state

economic planning. To conduct such planning it is not necessary that producing enterprises be state-owned, but most proponents of planning would view it as convenient, if not essential, that they be; and if they are already monopolized, the argument that they should be taken over entirely by the state acquires more force. If Canada embarks on a policy of comprehensive state economic planning, perhaps persuaded to this by Galbraith's argument that the degree of monopoly is such that the economy is already governed by planning rather than by markets anyway, we can anticipate a quantum leap in the economic role of the state.

F. Some More General Considerations

So far in this chapter, I have tried to obtain some insight into the main factors responsible for the increasing role of government by discussing governmental policies as differentiated into five fairly distinct types. There are some factors however, which cannot be so classified since they are more general. I want now to give some brief consideration to some of the more important of these:

(i) the economic growth-elasticity of government revenues; (ii) the economic growth-elasticity of government expenditures; (iii) the imperfect linkage of revenues and expenditures; and (iv) the bias of voting procedures.

(i) When the state obtains a large part of its revenues from taxes that are based on the money measurement of income and wealth, as Canadian governments do, real economic growth and inflation both tend to increase the size of the tax base, and public revenues increase if tax rates are kept constant. This population growth and increases in productivity (assuming that the latter results in

higher incomes rather than lower prices) produce automatic increases in public revenues and the state has larger resources at its command without having to do anything explicit that might raise the ire of voters. Inflation of money values produces a like affect, though not so much as formerly in Canada since the federal government linked the income tax schedule to the price index. The principle of "easy come, easy go" applies at least as much to government as to private persons, and the easiest type of "go" seems to be to increase expenditure. There is always clamour for more and better public services, and it is more pointed politically than the demand for tax reduction, so a government with growth-elastic revenues will likely increase the scope of its activities. This factor applies a fortiori to a government which obtains a large part of its revenues, as the Canadian federal government does, from taxes that are levied at progressive rates.

(ii) The demand for some (perhaps many) governmental services is income-elastic in many people's preferences and, with these demands, the activities of the state will increase with growth, especially if they are easy to finance as a consequence of the factors outlines in (i) above. There is another element at work also which tends to increase the cost of a given quantity of governmental services, when economic growth is the result of improvements in productivity. Economists call this the "Baumol effect" after William Baumol of Princeton University who first drew strong attention to it a few years ago. Let us take, to illustrate, the case of governmental expenditures on the teacher-compensation costs

of education. Suppose that the ratio of teachers to students is kept fixed and the economy experiences an increase in productivity in other industries. That productivity increase will tend to raise wage rates in these other industries and, if the schools are to retain their teachers and/or compensate them at rates which maintain their relative economic status, the wage rates of teachers must be increased as well. The net effect of this is that the teacher wage costs per student increase, and they increase most rapidly in a period of economic growth. (This would not tend to occur if increased productivity were distributed by lower prices rather than by higher wages.)

It has been suggested that a large portion of governmental activities are labour-intensive, so that their wage-costs make up a large part of total costs, and that such activities do not experience as much improvement in per-man productivity as do private industries. If so, a given volume of quality of governmental services will cost more and more as economic growth takes place. If a government in such a position enjoys less growth-elasticity in its revenues than in its expenditures it will have to raise tax rates in order to provide the same services. In itself, this would tend to constrain the growth of the public sector, but the demand for public services being as great as it is, the more likely effect is to shift the financing, and perhaps the actual provision, of such services to the federal government, which enjoys a high growth-elasticity of revenues. The quantity and quality of public services may not be increased in the aggregate, but they tend to become more concentrated in the hands of the federal government. The more hard-

pressed governments, meanwhile, may find it advantageous to seek ways of carrying out their policies by regulation rather than expenditure, thus altering the mixture of the types of coercion which governments employ.

(iii) Almost a century ago, the great Swedish economist Knut Wicksell pointed out that the method by which public decisions are typically made tends to produce a growth bias, in that policies involving expenditure are usually not specifically linked to the need to finance them. He suggested, as a correction, that every specific proposal involving expenditure should present, as part of the same legislative package, the specific proposals for financing. If this were done, both legislators and voters would be better able to compare the costs and benefits of proposals. When this is not done, those who make decisions, and the general public too, can proceed under the happy illusion that state activities cost little, receiving the shock only on Budget Day, and that is a less differentiated form. Needless to say, Canadian governments have not followed Wicksell's suggestion and, on the contrary, take pains to argue, when a new proposal of state action is advanced, that it will not increase the aggregate expenditure of government. (The United States has recently moved a step in Wicksell's direction by establishing a budget office of Congress which is designed to counter the expenditure growth bias inherent in the American system of a sharp division of powers between executive and legislative branches.)

(iv) Even if we were to adopt Wicksell's suggestion altogether, there would be a growth bias in governmental functions,

under certain conditions. This can be illustrated by a hypothetical example of people voting directly on policy proposals. Suppose that we have three persons considering three proposals, deciding by majority rule whether or not to undertake them. In the following table, Smith, Jones, and Edwards are the three persons and the proposals are to build a wharf, a road, and/or a school. The numbers in the boxes indicate the value each person places on each proposal, or, the maximum amount each would be prepared to pay for it:

	Smith	Jones	Edwards
Wharf	\$50	\$50	
Road		\$50	\$50
School	\$50		\$50

Let us assume that majority approval of a project means that the cost of it will be shared equally among the three persons. Let us also assume that each project will cost, say, \$140. Clearly none of the projects is worth more than \$100 in the estimations of those voting, so none of them should be undertaken, but Smith and Jones will out-vote Edwards for the wharf; Jones and Edwards will out vote Smith for the road; and Smith and Edwards will out vote Jones for the school. The members of this little society will have voluntarily voted to tax themselves \$420 to provide services which are valued only at \$300. The key to this paradox lies in an implicit assumption that is built into the illustration, viz., that the distribution of benefits from each project is more concentrated than the distribution of taxes. This is not an unwarranted assumption in real life, and the illustration goes some distance in explaining why the same people

who complain about the burden of taxation, pressure the government to undertake more of the specific projects which they find valuable. This may be responsible for some of the growing disaffection with government, which is the subject of the next chapter.

The Growth of Anti-Government Sentiment

Societies have experienced in the past protracted periods that were characterized by widespread anti-government sentiment. The period during which the modern industrial economy developed, for example, in England during the late eighteenth-early nineteenth centuries, and in the United States in the latter half of the nineteenth century, witnessed the development of opinion of this sort. The quality and influence of this has often been exaggerated; neither Britain nor the United States, nor any other developed or developing society, has ever experienced a period in which laissez-faire reigned supreme, with the state confined, in its domestic activities, to the duty of controlling negative externalities, and otherwise providing a legal framework for the operation of private enterprise. The state of Adam Smith's day may have wielded as large an influence on the economy as the modern state does; the fact that it did so by regulation more than by fiscal devices serving to mislead those who interpret the governmental share of the Gross National Product as an adequate index of its influence. There is little doubt that Smith's view of an economy working, and working moreover quite well, through the operation of private activities, exercised a strong influence on public policy, and though the state did not diminish to the role of policeman, its scope was constrained, its policy objectives and instruments changed, and its powers redistributed among the levels of government.

Are we on the verge of another such era so far as Canada is concerned? It is too early to say, but there can be little doubt that there has been a striking rise in anti-governmental sentiment in recent years. This is shown not only by general

public opinion and the mass media, but by a notable shift in elite intellectual views. With only a few exceptions, the theme of contemporary social philosophy is anti-state, and politicians are beginning to find that the expression of such sentiments resonates well on the contemporary electorate. Are there clear reasons for this shift of sentiment and if so, what are they? In my own view, which admittedly is based more on intuition and casual observation than the kind of empirical evidence that social scientists place more confidence in, the reasons for this development are fairly clear. Even if one recognizes that the state is not the only source of coercion and that some of its power is employed to counter the coercive force of others, it nonetheless remains true that modern governments are extensively engaged in policies which narrow the orbit of individual freedom. Some people hold anti-state views because they believe that this orbit has become too small considered in itself, but I think that most people would be willing to give even more of it up if they believed that they were receiving greater benefits in return. If I have succeeded in persuading the reader that welfare, justice and freedom are the three "primary social goods," then perhaps I can persuade him also that this is not an arcane view, held only by intellectuals, but that, admittedly in a vague way, it constitutes the basis of popular opinion on social questions in a country like Canada. If the view is held that a particular governmental policy does not contribute much to general standards of welfare and/or justice, there will be dissatisfaction with the restrictions on personal freedom which it imposes. If this view extends to a large number of policies, there will be a general disaffection with government

as an institution. Rational men insist on seeing some point in their sacrifices in the form of benefits, either for themselves or for others. Witness what a large role of government and the extensive regulation of their lives Canadians were prepared to accept during the second world war. The contemporary development of anti-government sentiment has its root in the growth and spread of the view that what is achieved in respect of welfare and justice is insufficient to justify the reduction of freedom which the operations of the modern state entails. The rest of this chapter will be little more than an amplification of this theme.

The discussion could proceed from this point in very specific terms, examining one by one the various policies pursued by the different levels of Canadian government, determining the degree of success of each in achieving its intended objective, and evaluating the balance of effect on primary social goods which it produces. This is clearly impossible; it would amount, in effect, to an effort to replace virtually the whole literature of economics, and the other social sciences as well, by this one document. So far, I have kept the discussion on a much more general plane and I will continue to do so in this chapter, referring to specific policies only in order to clarify the argument by concrete illustration.

(Before proceeding, I should note that while my main thesis will be that governmental actions entail a loss of freedom which must be compensated for by adequate gains in welfare and/or justice to be acceptable, there is no logical or empirical necessity

that primary social goods be substitutional in this way. There is at least one case of major importance in which they all can be broadly complementary: the case of governmental action to combat unemployment. Unemployment entails large losses in welfare and, since the burden of its is distributed in a grossly unequal way, large losses in justice as well. The use of general fiscal and monetary policies to combat unemployment do not, however, entail much loss of personal freedom, if any; so there is, in this area, the possibility of obtaining pure social gains. That governments often choose to combat unemployment by other types of policies, which do entail losses of freedom, may be due entirely to their faulty economic understanding, but I think it may also be due in part to a tendency for them to undervalue freedom as a primary social good.)

What are the main difficulties of a general nature which limit the effectiveness of government in promoting justice and economic welfare and which lead, therefore, to public dissatisfaction?

The first of these to note is that governments are so constituted that it is difficult for them to make constructive use of their mistakes. The first principle of policy, in the public or private sphere, is that the effect of a policy is not determined by its intention. A government may intend to increase the economic welfare of the poor, for example, by passing minimum wage legislation; but if such legislation generates unemployment, as the evidence indicates it does, then it harms those it intends to help. In a business enterprise operating under competitive conditions (which need not be perfect), a serious mistake in policy must be quickly

ascertained and corrected if the firm is to survive. The angel of bankruptcy cannot be easily avoided, or for long, if such errors in business judgment persist. But a government survives or falls by the test of election, not by that of the balance sheet, and in meeting that test most politicians feel that it is unwise to admit that one has made mistakes. Policy failures, therefore, tend to persist. The politician may be correct in his appraisal of what stance will go down best with the electorate at the next election, but over the longer term the failures cumulate and the attention of the public is less easily diverted from them. Even a new government, formed from a party which has, in opposition, been critical of official policies, does not find it easy to wield the broom of reform. Along with the reigns of power, a new government also inherits the old bureaucracy, and administrators have as little interest in admitting that they made mistakes as politicians do.

Even policies which are effective in achieving what they were intended to do may become redundant - on account of their very successfulness, or for other reasons. But it is not easy to disband an administrative apparatus once established and it is even less easy to make savings in personnel. The state tends to become the great repository of "make-work" projects; the successfulness of some good policies releases a force which breeds bad ones, which are invented by those who see the yawning chasm of redundancy appearing for themselves or the bureau they have managed.

In the above two paragraphs I have talked about "successes" and "failures" of public policies, but there is a large range of governmental activities which cannot be judged by such categorical criteria. A government may set out to build a building, or provide a park, or clean the streets, or sustain an air force of a certain size, and it may well succeed in doing so, but this does not necessarily mean that the policy is successful in the sense of making efficient use of productive resources. In some of its activities the operations of a government may be compared with private sector activities of a similar sort. If a government builds an office building at costs per square foot that are comparable to private building there is at least prima facie evidence that it is operating efficiently. If a government offers its street cleaning contract for competitive bid to private enterprise there is similar evidence that the public are not paying too much for what they get. But there are no comparable tests of efficiency for the operations of the Department of External Affairs, the Economic Council of Canada, or many other state agencies and activities. A good government will attempt to promote efficiency standards in such activities as best it can by internal auditing and management control methods, but even a highly efficient government has no way of demonstrating clearly that it is so, and when a general mood of disaffection is abroad, it takes little more than the disclosure of a few outstanding cases of gross inefficiency to convince the general public that government in general is a house of ineptitude, or worse.

These sources of public displeasure are sufficiently patent when applied to policies that are aimed comprehensively at promoting the general welfare or achieving widely accepted standards of justice. They become much more powerful if the public feels that governmental actions are aimed at promoting the welfare of a much more restricted sub-set of the citizenry, and more powerful still if that is composed largely of people who are already on the higher rungs of the socio-economic ladder. In the days of absolute monarchy, there was little illusion as to who were supposed to be the beneficiaries of state action. "Le roi soleil," Louis XIV of France, could say "L'etat, c'est moi" in full confidence that he was disclosing nothing that was previously hidden from general view. Since the eighteenth century, many governments have been greatly transformed in composition and structure, but can one say with complete confidence that the measure of a government is no longer indicated by the grandeur of Versailles or its modern equivalents? Or, to put the matter more plainly, do governments labour for the good of the people or for their own good? The early utilitarians felt that everyone, including those who govern, seeks his own welfare, and they attempted to devise structures of government which would make the welfare of governors dependent upon the general welfare. A large part of the theory of democracy stems from this perception. In recent years there has been a notable development of analytical approaches to the operations of government which are based on the early utilitarian principle that they are best understood in terms of the self-interest of those who govern. This tends to create some skepticism towards the pretensions of concern for the public interest that politicians and bureaucrats are wont to make but, in

itself, this would generate little disaffection with government, since the analysis is largely confined to the specialist orbit of social science. The general public has always maintained a considerable degree of skepticism towards the motives of politicians, but not nearly so much towards the professional administrators of the public service. When it becomes plain, however, that the employees of the state (or some non-negligible number of them) are rewarded by salaries well in excess of those obtainable by comparable persons in the private sector, or obtain pension rights and other fringe benefits that are clearly better than those elsewhere, it takes no sophistication in social analysis to begin asking pointed questions about whose benefit is being served by the operations of the "public service"? When common perceptions of a social problem and the scholarly work of social scientists point in the same direction (as they did dramatically, for example, in the great debate over the Corn Laws in the second quarter of the nineteenth century in England) the combined force may be very potent.

Such sources of disaffection with government do not depend entirely on the utilitarian view that governors seek their own welfare. Even when they promote that of others, but these others are a small sub-set of the general public and an already well-favoured one, strong grounds for disaffection are laid. Adam Smith's great critique of mercantilism rested on the belief that producers and merchants possess uncommon skills in bending the policies of the state to their own interests. This view survives today and it is not confined to those who hold a Marxist view of economic phenomena, nor does it rest upon simple anti-business

prejudices. The fact is, "mercantilism" or the orientation of economic policy to the welfare of specific producers rather than the general welfare of consumers, is alive and well in the twentieth century, and Adam Smith's critique of government continues to have point. If a government's agricultural policy is designed to benefit or in fact benefits, those who own farming enterprises, rather than to help feed the people (the two objectives not being necessarily harmonious); if a policy of "regional economic development" stunts the national development and gives most of its benefits even in the favoured region to those who have narrow producer interests and/or an already affluent; if a policy of promoting Canadianism by promoting Canadian culture is wholly aimed at protecting the interests of the producers and purveyors of cultural goods and services; if a policy of promoting health, benefits doctors more than the sick; if a policy of inflation control becomes, by intention or inadvertence, a policy of strengthening the bargaining power of those who already have strong institutional vehicles, in the form of business firms, and trade unions, for already advancing their producer interests; if housing policy benefits the construction industry more than it does those who desire better housing; if monopolistic industries are allowed to capture the regulatory agencies that were established to control them in the public interest; etc., etc.; then one might again ask whose interest is being served by such policies? If, as in Adam Smith's day, a growing list of particular instances persuades the general public that government is much more effective in promoting the welfare of the already-favoured few than the unorganized many, then the argument will be heard that the chief problem of government is that there is too much of it.

This source of disaffection becomes particularly powerful if people feel that the confined benefits of the government are distributed to the favoured few in clandestine ways. The outright bribing of those who are in position to provide governmental favours make dramatic impact when disclosed, and may even threaten a particular government, but I do not think their long-run influence on public opinion is as great as other cases in which the hand of the state is disclosed to act with concealed as well as selective skill. When it is realized that a tariff is a subsidy financed by a sales tax with neither the tax nor the subsidy appearing in the public accounts; when it is realized that a tax loophole is ready money for those who can command the expertise to find it, or that apparent general tax exemptions are far from general when the tax schedule is progressive; etc., then one commences to wonder not only whose interest the government serves, but whose it serves with a hidden hand. A government that is inefficient is, by common view, a bungler; one that discriminates in an unwise or inequalitarian way, is regarded as lending itself to the use of special interests; but one that is these two and devious besides, will surely come to be regarded as an incubus, from whose attentions the people ask nothing so much as release.

The factors discussed so far as sources of disaffection are ones which people cause to wonder whether they get good value for their money. Rational men ask such questions about any use of their income so it is not surprising that they should ask it with some intensity about the single largest expenditure they make, the share of their income that is garnered by the state. Even if

we could develop a "social welfare function" and employ it to assess the welfare and justice benefits of government and compare them with the cost of resources devoted to them, however, we would not have an adequate estimate of the burden of the state. A payment that is coerced (on pain of fine or imprisonment) has a greater weight than one that is voluntary, and it is a mistake to regard a tax as just like a price that one pays for privately marketed goods and services. For the services of the state, one is not free to decide whether to buy or not to buy, or to otherwise exercise one's individual preferences. So, the burden of taxes is higher than the resource costs of governmental activities and (taking into account that some of those activities are transfers of income) it is even higher than the aggregate of state revenues recorded in the public accounts. Moreover, not only are taxes coerced payments, but they are used, in part, to make expenditures which have the object of further constraining the freedom of the individual to do what he pleases.

It is not possible to render an account of the freedom costs of government. Some of its actions enlarge the scope of freedom by protecting people from the coercive power of non-governmental entities (and from dangers external to the nation-state); but, in any event, there is no measuring unit for freedom as there is for taxes, the value of productive resources, and other things. The only technical solutions of this accounting problem consist of valuing freedom at zero or infinity, procedures which are not absent from the literature of social philosophy. But such procedures lead only to doctrinal extremes, concluding that the

state may legitimately do virtually nothing but protect persons from the coercive force of others, or that it may legitimately do anything, whatever may be the reduction in freedom which is involved. A rational examination of this cannot focus on the fine points of a maximization theorem, but must confine attention to those actions and procedures of the state that are large in their freedom costs. Again, I can do little more in the scope of this paper than introduce this subject, and I will confine myself to some issues and examples that will serve to indicate the importance of the problem, and current trends.

Some social philosophers argue that the most important forms of coercion are those which are arbitrary, or discriminatory in an arbitrary fashion. One of the main arguments for the legislative processes of a democracy which are, admittedly, always time-consuming and often indecisive, is that they avoid the generation of law which rests upon the caprice of an individual or small group, especially when the discussion which takes place within the legislature are publically reported and give rise to further discussion outside it. Similarly, the courts, which interpret and apply the law, operate publically, and by this means and others, the whim and prejudice of those who have power is constrained. No one would argue that our legislative and judicial procedures are without blemish in this respect, but a much greater threat to personal freedom is created when the legislature delegates effective law-making and interpreting powers to administrative bodies. When the Parliament passes an Act which, instead of writing law, authorizes the executive to write it, and to administer what they write with full judicial powers, the door is opened to

the exercise of arbitrary power by the bureaucracy which, in a country which does not have a constitutionally entrenched Bill of Rights, is without remedy by orderly processes. Such enabling legislation, which simply gives the administrator power to make "such orders as may be necessary to ..." is very convenient for the administrator who, of course, always believes that he can be trusted to be conscientious and just in promoting the public good. But we have ample evidence of abuse of powers, and countries that do have an entrenched Bill of Rights show that administrators often exceed proper bounds even when they know that what they do may be declared to be unconstitutional.

The public does not have the same opportunity to scrutinize and debate the decisions of administrative bodies as those of legislatures and courts, and those who wield such powers are removed some distance from having to bear responsibility for their actions. The traditional principle of the "rule of law" states that all citizens of the nation, whether they are officers of the state or ordinary persons, are subject to the laws of the land, but this prevents only criminal activities (and it does not fully prevent even them); it places little weight on the administrator to assure that his power will be wielded in an open, fair, and reasonable way. The use of enabling legislation which confers wide discretionary powers to make general orders and to rule in particular cases, does not even assure that such powers will be employed as the legislature which passed the law originally intended, and it is even possible that they will be used to do things which the original legislators opposed.

When a citizen is constrained by the law he may be unhappy; he may even regard the law as unjust and feel aggrieved, but when he is prevented from doing what he wishes by the ruling of an administrator which he feels to be capricious, arbitrary, or discriminatory, lacking specific basis in law, he may well conclude that the state is an institution which uses his taxes to set tormentors upon him. Some will bear such perceived injustices meekly, but even they are ready to lend support to others who may feel that acts of protestation are called for in such circumstances. The "class struggle" of the orthodox Marxian sort may be little evident in a country like Canada but the division between those who have official power to compel and those who must obey, is ever-present in any organized society and if it is not to be a source of disaffection, and worse, the actions of the state must not only meet high standards of efficiency and fairness, but they must be seen to possess the legitimacy of law that is determined by proper procedures.

This potential source of disaffection devolves, of course from the fact that the state has sovereign power - that is, it has a monopoly of law-making. Such a monopoly is attenuated in a federal state, but if the only way in which a person can choose between different systems of law is to move home and household, there is not a great deal of choice. Even federalism, as commonly practical, does not much reduce this monopoly, and it may not be possible to reduce it a great deal by any extension of the federal principle that is feasible in a modern industrial society. However,

the law-making power is not the only monopoly wielded by the state and the same points I have made above with respect to the arbitrary power of the administrator of law, apply also to those who administer state enterprises when they are monopolized. An argument of some weight can be made for state as opposed to private monopolies, especially when the demand for their services is highly inelastic, and this argument can be based on considerations of freedom as well as efficiency; but no argument, on considerations of freedom, can be made for having a monopoly where it is not necessary. If there is a state monopoly where there could be competition, those who wish to use such services are exposed to the possibility of arbitrary treatment on a "take it or leave it" basis, against which there is no recourse except by political action. Needless to say, it is an annoyance if whenever one is dissatisfied with the performance of an enterprise one has to write to one's member of parliament, instead of simply taking one's business elsewhere. If a government does not weigh the freedom costs of creating a monopoly, even if it creates an efficient one, disaffection will be generated, simply because the differences in people's preferences cannot be as well met by a monopoly, public or private, as they can by the existence of alternative sources of supply.

One of the most potent weapons of the sovereign state is the power to exercise extraordinary (and even extra-legal) authority in a condition of a serious emergency. Such powers are necessary and it would be unwise to constrain the government by constitutional means to such a degree that it cannot act in such cases, however grave they may be. But it is also necessary

that emergency powers be reserved for cases that are beyond doubt by all but the most myopic members of the public. The use of such powers against Japanese Canadians in 1942 was unwarranted and was only recognized as such much too late to permit stoppage, or adequate remedy. The same is true of the suspension of Habeas Corpus and other elementary rights in the Gouzenko affair of (1945) and after the Cross/Laporte kidnapping in 1970. The recent use of emergency powers to establish authority over wages and prices does not say anything as clearly as that the term "emergency" has lost restrictive force. The Canadian public has not been so quiescent in this latter instance as they were in the other cases noted above. I do not believe, however much I would like to, that this stems from a salutary recognition of the dangers which lie in the abuse of emergency powers. Concerning inflation, the number of those who call upon the government to do "something decisive" greatly outnumbers those who insist that whatever the government does should be sound, and parsimonious in its expenditure of the people's liberty. The government is not solely to blame for the questionable use of emergency powers. When the general public is exceptionally apprehensive, convinced that the sky is falling, like Chicken Little they call upon the King. I am not arguing here that the abuse of emergency powers has been an important source of disaffection so much as regretting that it has not been so. One need not look very extensively beyond Canada's borders to observe the unhappy consequences of such abuses.

Finally, I wish to make the point that the exercise of state power can escalate by small steps into restrictions on

personal freedom. A government, persuaded of the effectiveness of seat belts in automobiles, requires that producers of automobiles offer them for sale as options; but people do not buy them, so legislation is passed making their installation (and payment for them) obligatory; but people do not use them even though installed, so it is made illegal to drive without doing so; people still do not use them in numbers which satisfy the government, so what next? Politicians and bureaucrats, as I have already noted, do not like to admit failure, and one way to avoid this is to blame the people, not the policy, and tighten the screw some more. The government may be led by such escalation to levels of coercion which it itself would have rejected as abhorrent only a short time before. The public, who might well have supported the mild beginnings, begins to wonder how their governors can allow such a small thing to grow into a great one.

Before ending this paper, I must, in order to avoid an interpretation by the reader which is not my intention, point out that this discussion is aimed at problems of modern government in general, not at any specific government in particular. If the misdirection of the power of the state and the disaffection it produces were the work of a particular government, a democratic society would have a ready remedy. But political partisans should not persuade themselves that the accusatorial finger which is evident in these pages is pointed away from themselves. Even political parties which make a special point of their devotion to the public interest and to the promotion of social justice, when in power display little capacity to improve the operations of the state. The solution to these great problems

does not lie in replacing one set of governors by another, nor do I agree with those who advocate a wholesale dismantling of the modern state. It would be unfortunate, in my view, if we were to attempt to reconstruct our social arrangements by a single-minded devotion to laissez-faire as a doctrinal truth. In the modern world, the state has important work to do, and its proper scope in the national economy is probably not greatly less than that which it now occupies in countries like Canada. The disaffection with government, if it grows to a clamour, will not lead to social improvement; but while it is still moderate, it might be an effective stimulus to reform that is more fundamental in order than any that has been undertaken since the development of industrial society and governments of the modern type. This is why I have directed my discussion of the growth of the state, and the growth of general displeasure with those who hold the levers of its power, to questions that are more basic than those which typically dominate the contemporary discussion of public policy.

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