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Doing A Bennett

The B.C. restraint program is being widely touted as a model but a more consensual strategy, such as Australia's, might be more effective

In concluding his budget speech on February 20, 1984 the Honourable Hugh Curtis, Minister of Finance in the government of British Columbia, observed that "...we can find satisfaction in knowing that we have taken steps which others still have ahead of them. We have been the pioneers and can now watch others follow."

In this, Mr. Curtis was picking up a theme which had been sounded in Victoria a week earlier, in the Speech from the Throne, which declared "My government is providing leadership in restraint to governments across Canada." Two weeks after the budget speech, columnist Richard Gwyn speculated that "One of the safest of all political bets to take is that whoever wins the next (federal) election will *do a Bennett*."

The important accomplishment of the B.C. government in demonstrating that determined politicians, operating with conviction, can move—and even turn around—the massive machinery of a bureaucratic public service cannot be denied. Nor can the persuasive arguments for restraint in expenditures as well as in wage claims.

The achievement of the B.C. government—coming out of an election—in swinging from a 12 percent nominal increase in government expenditures last fiscal year to an estimated 6 percent reduction this fiscal year contrasts impressively with the failure of the federal government—going into an election—to contain expenditure increases to less than 10 percent, even though inflation rates are forecast to be around half that figure.

Nevertheless, one can only hope that both Mr. Curtis and Mr. Gwyn are proved wrong. This article outlines, in very abbreviated form, reasons why the B.C. restraint program should be considered, despite its evident popular appeal and apparent

logic, the wrong model to follow.

The argument is outlined in four sections:

- i) The restraint program advanced by the budget is dictated not by economic or technical necessity, but by conscious and discretionary choice.
- ii) The rationale for that choice is not (yet) the dismantling of the major coalitions creating economic and social rigidities, but rather more traditional "supply-side" Reaganomics.
- iii) The strategy adopted to implement that choice violates some reasonable ground rules governing the exercise of power by a majority party in a parliamentary democracy.
- iv) The consequence is likely to be an avoidable intensification of social tensions and economic conflict.

Of course the argument is nothing like so clear-cut and simple as this summary implies. In the present turbulent economic environment, with broad political participation of increasingly active social groups, no one can be certain as to where the right course really lies. No one should quarrel with a duly-elected government for making ideological choices and pursuing its own political program, reflecting the interests of its own supporters. The government of British Columbia enjoys a decisive legislative majority and has a responsibility to govern decisively in a way designed to meet the challenge of extremely difficult and rapidly changing circumstances.

How best to do that is a matter which rests on judgements which politicians and voters must all make for themselves. Precisely because the B.C. government's restraint program is forcefully set out, commands considerable support, and can be implemented without significant debate or delay, it requires thoughtful examination. If it is to serve as a model for other jurisdictions, its premises must be questioned, and the empirical and

philosophical base on which it rests must be tested. One can properly criticize a government for not making clear the real nature of the choices being made, and not taking adequately into account the longer-term consequences of their decisions.

This article, therefore, is not to deny that there is a rationale underlying the B.C. program, nor to suggest that no case can be made for it. It attempts, rather, to outline that case and identify the judgements on which that case rests. It contests those judgements. But it also recognizes that they are judgements, not theorems, and that the politicians who have put together the B.C. program also accept the responsibility to put their case in due course to all the people.

NECESSITY AND VIRTUE

The first point is very simple. One must contest the attempt to cast ideological choices as inevitable technical or economic necessities. To suggest, as the Premier and other Ministers in B.C. are doing, that "we have no choice" in the introduction of restraint is misleading. What is going on at the moment is a quite fundamental choice as to the proper role and responsibilities of the state, and the nature of the mechanisms necessary (or not) to bring the pursuit of self-interest into harmony with collective interests and community survival.

For most large and complex organizations, "ability to pay" is in the eye of the beholder. There are of course limits to the patience of taxpayers, just as there are for lenders, shareholders, and creditors. But "helping a viable firm over a bad patch" is not unlike mandating a sound government to run a budget deficit, and taking on government debt to construct a forestry school is a far safer investment than private borrowing to steer the allocation of the community's resources

toward development of video games. "What we can afford" on current services is not set in stone from past history.

Nowhere is the extreme subjectivity of this concept better illustrated than in the February 20 Budget Speech itself. That speech argues against the possibility of raising revenues to meet expenditure commitments, and suggests that "fiscal balance should be pursued wherever possible through limiting expenditure rather than increasing taxes." Yet in the end it does introduce a significant income tax surcharge, under the label of a Health Care Maintenance Tax, and offers the possibility that other user charges in the health care system might be switched over to some form of family-based income tax, administered by the federal government.

The budget, moreover, elects to commit future resource revenues in a non-discretionary way to the reduction of existing direct and guaranteed debt. The means by which this is accomplished represents an effective technical implementation of a political priority. But that commitment to debt reduction as a first (or perhaps second, after health care expenditures) claim on revenues is an ideological imperative, not an economic necessity. The degree of expenditure restraint which flows from that commitment is, to the same extent, a political choice.

More generally, the swing in the budget toward a surplus position is substantial, and discretionary. It is probably in excess of \$1 billion, from an estimated \$1.3 billion deficit in 1983-84 to under \$300 million in 1984-85, after recognizing the retirement of the B.C. Rail debt as a reduction in liabilities, not a current expenditure. From the point of view of traditional stabilization policy, such a dramatic swing in budget balance at an early stage of a tentative and fragile recovery might in fact be considered a risky decision, and certainly not one forced on us by underlying economic considerations.

Some observers argue, further, that the budget deficit as measured by the B.C. government substantially overstates the "true" deficit on the provincial government's transactions, and that more comprehensive measures would show the B.C. budget as already in surplus. A recent paper by Professor Gideon Rosenbluth and William Schworm of U.B.C. ("Does

British Columbia Need Fiscal Restraint," Paper No. P-84-2, February 1984) uses broader Statistics Canada measures of government budget balance to support this argument.

In essence then, the case is that B.C. is far from having the highest fraction of provincial product passing through the public sector, and far from having the highest rates of taxation, personal or otherwise, in western industrialized countries. Its budget is not in substantial deficit and its debt outstanding, and associated debt service burden, are not overwhelming. If it is decided nevertheless to limit public expenditures—as well it might be—this decision cannot be attributed to any suggestion that economic circumstances leave no alternative.

PROGRAM RATIONALE

There are those who find the rationale and justification for Mr. Bennett's program in the literature on "government overload" and Mancur Olson's thesis (set out in his book, *The Rise and Decline of Nations*, published by Yale University Press in 1982) which calls for decisive action to smash "distributional coalitions" which inhibit economic adjustment.

More accurately, Olson describes the analytical considerations underlying phenomena earlier identified by Daniel Bell, observing that a growing variety of special interest groups have disproportionate power to organize for collective action in ways that reduce economic efficiency, as conventionally measured, and hence aggregate (measured) income. It is his followers who conclude that the solution to this problem must be to "smash" these distributional coalitions and "break" expectations of entitlements to services or protections provided by the state.

This reading, while attractive, does not seem altogether consistent with the priorities revealed in the B.C. restraint program or the expenditure patterns revealed in the budget.

The Speech from the Throne, for example, contains repeated reference to commitments which extend, rather than limit, the role of the state. These include "innovative vehicles for stimulating investment in job creating activities in large and small business"; spearheading "an expanded trade program targeted at the major developed and developing countries"; "programs that assist British Colum-

bia companies to attend trade fairs, undertake market development trips, upgrade their products or processes and sponsor visits by foreign buyers"; financial contributions to the Asia Pacific Foundation in order "to maximize our trade with the fastest growing region of the world"; undertaking Expo 86 "to demonstrate that British Columbia is a good place to invest"; and recognition of development of north east coal as "a brilliant testimonial to productivity and private and public sector cooperation."

Presumably such a testimonial stands as one model of desirable, even though massive, government intervention and government subsidy. While closing down a variety of services aimed at consumers, tenants, human rights groups, and other interests, the government promises in the February 13 Speech from the Throne that "The small business sector...will continue to be assisted through a variety of information, advisory and advocacy services...."

One would be much more impressed by the government's determination to dismantle rent-seeking distributional coalitions if there were not continued support for dairy products marketing boards in the budget, substantial explicit and hidden subsidies to B.C. wine producers, and over a million dollars more budgeted next year than this for the Motor Carrier Commission.

It seems clear, therefore, that the rationale for the government's program is not primarily in the drive to small government and limited intervention *per se*. It is much more, it seems, in the argument that economic growth is the paramount social goal, and that other social goals (either with respect to provision of social services or more general distributional concerns) must be pursued through market mechanisms, through participation in production, through the medium of accelerated economic growth spontaneously generated in the business sector.

Government might be large, and intervene largely, in this setting. But the purpose of such intervention would be to service the market, to improve its functioning by removing impediments like unions or administrative tribunals, and to promote smooth adaptation by free exchange in unconstrained markets.

The fundamental adjustment to be

achieved by this government program is the lowering of the structure of real wages, in order to extend and spread employment. (It is not clear whether the wage structure can be brought down far enough to prevent the north east coal development from breaking the companies involved. But if the significant transfer to the Japanese consumer does not come from the B.C. wage earner, it will surely come from the B.C. taxpayer.)

This is a supply side argument, looking to the government not to manage or stimulate demand, but to sharpen incentives and improve economic adjustment. It is not at all an untenable economic policy prescription, but it does not bring about restraint in government's role, or reduction of government intervention sustaining rent-seeking coalitions. Nor has there been much debate of it in terms not of an attempt to roll back uniformly the reach of government, but rather to shift sharply the balance of power in the community, back to those whose influence rests on property and away from those whose influence rests more on organization and ideas. The impact of this shift in power and priorities on the effectiveness of government programs in dealing with longer-term social concerns has also not figured largely in the analysis to date.

GROUND RULES

Apart from the argument that no nearby war or revolution is sufficiently imminent to bring about the necessary reduction in social rigidities and increase in economic flexibility, supporters of the B.C. government's program have sometimes suggested two sorts of explanation or justification for its apparent selective severity.

The first is the ancient political adage "to the victors go the spoils." Beyond simply "jobs for the boys," it is argued that the small business and development-oriented groups who supported the government in the last election won with a sufficiently big margin to enable them to pursue not only their own economic program and philosophy but their own interests.

The second is the even more ancient observation that "who live by the sword die by the sword"—those who erred in campaigning or voting against the winner have to expect that representation or promotion of their

*"we have been given
a decisive mandate
by the voters"*

shrift in the winning government.

Some observers have interpreted measures such as contracting out activities in social services or in the criminal justice system, or encouraging the development of competition within the school system, as serving both purposes at once. While reducing the measured size of the public service, such actions have the further virtue of shifting expenditure towards selected private suppliers, likely to be government supporters, and away from public servants and professional groups such as teachers and social workers, which are seen by the government as having engaged improperly and inappropriately in extensive partisan political activity during the last campaign and beyond.

Around Nelson, B.C., for example, where the government has closed the only university-degree-granting institution outside the metropolitan centres of Vancouver and Victoria, and has closed or reduced also regional offices of provincial government departments, the defeated Social Credit candidate is quoted as explaining that "if you go against your employer for long enough, something is bound to happen" in the way of punishment.

It is of course an axiom of Canadian political life that, if a constituency wants government money flowing inside its boundaries, it had better pick the winning side. Recent newspaper stories show federal cabinet ministers such as Messrs. Munro and Axworthy making no bones about the fact that their ridings have the highest federal expenditures per capita solely because of the wisdom of the electorate in picking winners; by implication, the costs of backing the wrong horse would be severe.

But carrying the notion of warranted largesse further, into significant

shifts in the basic structure and orientation of policies and programs on the strength of a small shift in a very small margin of a popular vote seems more questionable. In B.C., the problem may in large part stem from the absence of any effective legislative presence which might either mandate or moderate the impact of a far-reaching and decisive program, aiming at a structural break, and springing from the politics of conviction.

In a paper entitled "Government by Discussion" presented to the Australian Institute of Public Administration in 1981, the British politician Norman St. John-Stevas suggests that "Parliament's function has been...among other things...to impose what I may call parliamentary manners on the whole political system" and to ensure that "the political system enjoys legitimacy, a concept essential for government by consent." He cites Walter Bagehot, referring to the critics of Parliament who *sigh for a time when England might again be ruled, as it once was, by a Cromwell—that is, when an eager, absolute man might do exactly what other eager men wished, and see it immediately. All these invectives are perpetual and many-sided.... And they are all distinct admissions that a policy of discussion is the greatest hindrance to the inherited mistake of human nature, to the desire to act promptly, which in a simple age is so excellent, but which in a later and more complex time leads to so much evil.*

But still more basic is the nature of the government's mandate in a setting as polarized as is B.C. today. When the government says "we have been given a decisive mandate by the voters" to carry out this program, and redistribute the national product, what does it mean? In one of the early documents reflecting the famous "Chicago Credo" relating to economic behaviour, Professor W.A. Orton of the University of Chicago suggests part of an answer to this ancient question.

The key word in this statement is of course the 'we'—'how we should distribute the national product.' Who are 'we' and just what is our mandate? 'We' are a government to whom, for the time being, is delegated by a narrow margin of the popular vote the authority of the state. 'We' have pro tanto permission to legislate the above lines, subject to retrospective electoral confirmation. But there are underlying factors—

historical, psychological spiritual—that a wise government will bear in mind, for they are the ultimate determinants of social norms and social structure. They are not immutable; but they do not and cannot change as rapidly as do governments and programs. Too great a disparity between the rates of change produces underlying strain, with curious and sometimes dangerous effects. The understanding of these deeper factors is therefore not less important to practical politics than that of the current problems any government has to face. It was this common understanding between leaders of rival parties that gave British politics its extraordinary stability from Burke to Asquith.

It is perhaps the absence of any such mutual respect and common appreciation of government's role which accounts for part of the problem with both the nature and the acceptance of the B.C. government's present program.

What is interesting about Orton's book (*The Economic Role of the State*, University of Chicago Press) in this context is that it was written in 1948, and reflected a concern with an apparent swing toward, rather than away from, a greater government role in social questions. But presumably the ground rules he refers to remain the same.

CONSEQUENCES

The B.C. government's strategy of restraint is to attack economic rigidities and barriers to adjustment by strengthening "management rights" within and outside the public service; by weakening the ability of groups to organize and bargain collectively, either directly with employers or indirectly through political processes; and by strengthening the powers of employers and property owners to manage and dispose of their assets as they wish. It is predictable that such a strategy will generate turmoil and conflict. It is equally predictable that the flexibility to reallocate resources toward greater opportunities for trade and profit will be improved.

But whether overall efficiency, and long term returns to investment—which depend on morale, motivation, commitment, and social organization as well as on machinery—will really be increased seems less clear. An emphasis on management rights offset by an emphasis on a grudging work to rule does little for greater output; an emphasis on property rights balanced

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by an enhanced willingness to appeal to litigation, agitation, and social protest does little for greater dynamism and momentum in the economy. Is efficiency, broadly interpreted, really promoted by the restraint program?

One source of misunderstanding can be pinpointed quite accurately. The key is on page 3 of the budget speech;

any suggestion that more government spending can raise the long-term growth rate of the economy should be recognized as misguided...it may marginally increase total economic activity; but more often there will be a loss of efficiency resulting in a reduction in the size of the economy.

Because of this unexamined conviction that somehow business is "efficient" and government is not "efficient," cabinet ministers in B.C. are led to deny three decades of statistical work demonstrating quite persuasively that what can raise the long-term growth rate of the economy is precisely expenditures by government: investment in an informed and highly qualified population; expenditures in research and development; agricultural extension programs; surveys and mapping; dissemination of knowledge and new techniques; conservation; reforestation; improved health standards through eradication of disease and the conditions that breed disease; improved water supplies and better sanitation.

Such expenditures can of course also liberate the human spirit, broaden the opportunities for individual development, growth, and choice; extend freedom in the broadest sense. But if such benefits are considered too personal to count for anything, expenditures of the type mentioned above probably can still be justified simply in terms of their impact on the long-term rate of growth—indeed, on the most direct of "payback period" or rate of return calculations. But because these benefits cannot easily be captured as returns to individual

property holders, they apparently do not exist for the B.C. government. Or at least they are not recognized in the budget speech setting out the reasoning underlying the restraint program.

The closing of David Thompson University Centre in Nelson, for example, eliminates some activities which appear to have a high cost in terms of budget dollars per course credit. But it transfers those costs onto the shoulders of students in remote centres who now must pay personally the costs of education in the metropolitan centres and of transportation to get there.

It may be appropriate for all university students to pay a higher proportion of the costs of investment in a post-secondary education. But to load the highest costs onto the poorest students from the most remote centres seems like perverse public policy. Measured in full cost terms, not just budget dollars, efficiency seems more likely to go down rather than up as a result of this expenditure cut. And measuring in a way which reflects the opportunity costs represented in all the human potential unrealized in all the students in remote regions who are altogether deterred by this decision from pursuing any post secondary education, the gain in efficiency seems much more dubious indeed.

Similarly, the closing of motor vehicle inspection stations may represent a false economy. The budget savings and correspondingly reduced taxes are undeniable. But so also are the costs of accidents not prevented through regular inspections and the associated maintenance. The costs of prevention are thus lifted from taxpaying firms and individuals, but the costs of accidents are transferred to randomly selected people.

Rational people pursuing the most efficient use of society's resources might well decide that a preventive approach is worthwhile, that an investment on improved safety yields high returns, and that the most effi-

cient way to organize the activity would take advantage of specialized inspection facilities in the public sector, the efficiencies that come with the pooling and spreading of risks, and the power of the state to compel participation in order to ensure that your neglect of vehicle maintenance does not put my family at risk. There are hidden compliance costs of course; there is also a loss of freedom in the exercise of the coercive power of the state to force compliance. But it is not, on its face, inefficient to mount these activities within the public sector. Indeed, studies previously undertaken within the Insurance Corporation of B.C. and representations by the B.C. Automobile Association both suggest that the activity strongly promotes economic efficiency.

So, if this argument is at all accurate, the attempt to shift community power back toward traditional economic interests may promote an apparently greater flexibility in economic adjustment, but not necessarily greater overall productivity, and not any greater effectiveness in the employment of the community's resources. The cost, at the same time, is some considerable strain on direct employment relationships and an unmeasurable impact on a sense of social harmony.

THE ALTERNATIVE

Most people in B.C. would agree that the B.C. government's restraint program was not persuasively marketed, at least initially. Even amongst the program's strongest supporters it is accepted that the undertaking was not well organized.

Indeed, the "public service downsizing" effort is close to a classic case in how not to carry out a "cutback management" assignment. The confused and demoralized organization left in its wake is neither a promising base on which to rebuild a semblance of efficiency nor any foundation for the *esprit* required for "excellent management." The costs should not be lost on any possible imitators.

But public opinion appears to reflect a paradox previously noted in attitudes toward government activities: people who report complete satisfaction in all their personal direct dealings with individual public offices or public servants nevertheless maintain a generally unfavourable opinion of the public service overall. Part of the

explanation for the rather puzzling support for "restraint" may be found in this general attitude. That is to say, a package of actions which might each be unacceptable on its own individual merits may nevertheless be widely accepted as a package precisely because it promises to roll back a vaguely threatening or troubling and widely resented "public sector" presence.

But more importantly, perhaps overwhelmingly, the explanation for the broad support accorded a general program with which all can see particular problems is the success of the argument that we have no choice. In the face of economic adversity, "restraint" is accepted as the only responsible course of action for a mature Northern people raised in a Puritan ethic and a Scotch Presbyterian financial community.

The viewpoint of this article is that the strategy dictated by economic necessity is not nearly so clear as all that, that the priorities revealed in the expenditure plan are highly discretionary, and that the attempt to achieve a dramatic change in the balance of power in the community violates some important ground rules for a majority government.

The spread of the example set by the B.C. government's restraint program would certainly give new and vivid meaning to the notions of conflicting claims, competing interests, the struggle for shares, and social Darwinism in Canada. That program does seem to treat people in the public service as means, not ends. And it does seem to foment resentment, foster conflict amongst social groups, and teach people to turn on one another in the struggle to preserve private disposable incomes.

It may be that in the highly polarized world that is B.C.'s political scene, no other course was possible if the goals of real wage adjustment and a stronger economy were to be realized. To try to "do it with tenderness" might have risked losing that brief moment (one fiscal year, really) when the adverse impact on expenditure growth of the previous campaign had already been absorbed, and the adverse impact on expenditure growth of the efforts to buy reelection in the next campaign had not yet begun.

Nobody argues that it would be an act of tenderness to amputate a limb gradually, bit-by-bit. Nobody denies that the technical task of the surgeon

would be jeopardized by too much emotional preoccupation with the possible human consequences of the work. But we can all argue against amputations without informed consent, and without some attempt to ease so far as possible the suffering of the victim. And above all we can argue against a system which so focusses on the surgeon's technical problem that it overlooks the patients as people, as ends in themselves.

Nevertheless, it might be that in B.C. only one strategy was feasible. That is a judgement which in the end must rest with the politician, and the people, not the academic observer. But I don't think it is altogether naive to argue that alternative strategies do exist which would have achieved the same goals at far less cost, even in British Columbia. In any less extreme setting, to accept the strategy adopted in B.C. would seem misguided and wrong.

In an earlier paper on this subject I referred to lines of T.S. Eliot, written during the social upheaval of the Great Depression of the 1930s.

When the Stranger says: 'What is the meaning of this city?

Do you huddle together because you love one another?'

What will you answer? 'We all dwell together

To make money from each other?' Or 'This is a community?'

As we attempt to appraise the B.C. government's response to the economic downturn of the 1970's, Eliot's question still stands.

To argue for the Swedish response—a socially cohesive adaptation to adverse changes in the external economic environment—probably would be naive in the very different Canadian setting. But the model for an alternative—a strategy of "talking down" expectations rather than "beating back" entitlement expenditures and undercutting the power of unions and administrative tribunals—is the route of "consultations and consensus" adopted by Prime Minister Bob Hawke of Australia, a jurisdiction not unlike B.C. in its tradition of militant unionism.

"Doing a Hawke" perhaps offers other jurisdictions in Canada a precedent at least as likely of success as "doing a Bennett." And many might find it far more worthy of support in terms of human and community values. ☐