



SECOND WIND

In Conversation With Lloyd Walker and Robert Metz

{It's two thumbs up again for the **Reform Party** in Election'97, say **Freedom Party's Lloyd Walker** and **Robert Metz**.

Robert Metz is a founding member and president of Freedom Party. Lloyd Walker is Freedom Party's leader. Their first conversation about the Reform Party, titled **The Winds of Reform**, was recorded on October 4, 1993 and was published during that same month in Consent 19. The following conversation, transcribed verbatim, was recorded on Tuesday April 22, 1997, a day after their personal meeting with Reform Party leader **Preston Manning** in Toronto, and six days before the federal election call for Election'97. The meeting was arranged through their association with the **Montgomery Tavern Society** and was attended by a dozen other society members. Watch for details in the next issue of **Freedom Flyer**.}

Walker: I was really impressed with Manning yesterday.

Metz: As was I.

Walker: After listening to Manning, and seeing what I've seen from the Reform Party, it's certain they've got my vote.

Metz: But do they have your SUPPORT yet? The last time we talked about this in 1993, you said they have your 'vote' but not your 'support'. So are we still at that status, or do you have a different view on Reform this time around?

Walker: Well I guess you're asking me if I'm going to put a Reform sign on my lawn.

Metz: I guess. Yes, that's one way of demonstrating support.

Walker: A sign to me is very personal. What it says is "I ENDORSE this party. That's what a sign means. Do I endorse the Reform Party? No. The only party I'm comfortable with putting a sign on my lawn for is Freedom Party. No question. There are too many things 'missing' from Reform's platform, and some things I find disturbing about them, although there's no question that they're the best of the bunch.

Metz: Well, I would agree with that, but I would have to challenge your idea that you can't SUPPORT them. I mean, by 'supporting' a party, are you implying that you have to agree with every single policy of that party, because you would be placing Freedom Party in that same position with our potential supporters...

Walker: No, I don't say 'everything'. I think that there are big enough holes in the Reform platform and in their stands that concern me enough. It would be as if I put a sign on my lawn advertising McDonalds and what I mean it so say is 'No I don't eat everything at McDonalds, I only eat their breakfasts', for instance. My position requires clarification. I couldn't endorse Reform without some sort of qualification.

Metz: So you're saying that there's not enough to the Reform Party to say that you're a supporter. I would say that I CAN support the Reform Party, because I think that there's enough to their platform that is supportable, even though I might agree with you on some of the negatives. But I have to admit that even a lot of my 'negatives', after our meeting with Manning, were no longer 'negatives' but big question marks, with the blanks yet to be filled in. I refer specifically to Reform's stand on official bilingualism in Quebec, where Manning has said that they would give the jurisdiction of languages more to the provinces, EXCEPT where that jurisdiction may violate personal liberties. Now of course, we never pushed Manning on the point, and we didn't really ask how far Reform would go if a provincial government actually violated personal liberties in its pursuit of language laws. Whether Manning would go so far as to place at risk the so-called 'unity' of the country over an issue like that is something that has been left with a question mark.

Walker: That's true, but I'll step back from that. Reform views bilingualism as fundamentally an economic issue. They lump bilingualism in with economic issues. 'We can't afford this', 'We're going to have it only where it's justifiable'. I assume that always means where it's financially justifiable. To Reform, bilingualism is not an issue of principle or personal choice.

Metz: That's an interesting observation...

Walker: It's just another economic issue. Multiculturalism. It's an economic issue. It's about government FUNDING multicultural groups.

Metz: It's interesting that you've zeroed in on that, because again, I see it as an open question that I have with Manning. He quite openly admitted that when it came to the subject of liberties, the Reform Party was very much into the economic sphere of those liberties. However, he did hint at possibly addressing the lack of liberty that exists on the personal sphere, in particular during our meeting, when he addressed the lack of freedom of speech on campuses.

Walker: That was something that I did notice. Manning did make the statement that Reform was strong on economic liberty, and I agree.

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To those who consent, no injustice is done

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That's the entire plus to their platform. Actually, I shouldn't say that. It's one of the two pluses I recognize, the other being their refusal to grant Quebec a 'distinct society' status. But although Manning said it's awful that you can't speak out on campus, I didn't hear anything from him that said anything regarding civil liberties, and what Reform would do about it. Probably the main thing that disturbs me is that they can take an idea, as Manning said, 'principle before policy', and fail to use it. If they have principles for economic liberty, and if they can apply them to come up with good policies on their economic issues, why can't they take that next step and apply those same principles of liberty to civil issues? And I'm not saying that Freedom Party holds some kind of monopoly on being able to do it; I simply think Reform's unwilling to do it because it takes a lot more guts and I don't think they've got the courage to do it.

Metz: Or perhaps the timing is wrong, wouldn't you say? Maybe Canadians aren't ready for that step in a political party. Maybe these aren't the issues that are foremost in Canadians' minds. I think most Canadians are concerned with the agenda that's been presented to them by the Liberals primarily, and that's the thing to which Manning has to respond. Certainly, civil liberties always seem to get brushed under the carpet during every election. It's not even an issue that is generally discussed.

Walker: Yes, but it is important to me.

Metz: Of course. But that doesn't change

the fact that it's a sensitive issue because it touches upon the personal rather than the social, which is mostly economic. However, do you see anything in the Reform platform that precludes them possibly going in that direction?

Walker: Absolutely. They have already shut the door so they can't go in that direction.

Metz: I'm not certain I understand what you're getting at.

Walker: Reformers have already stated that they're going to do whatever the public tells them to do. They'll hold public referenda or hearings on the 'big issues'. Well, when you get into the 'big issues', you're talking of course about things like capital punishment, freedom of speech, abortion, and drug laws, all those politically sensitive issues. By doing so, they've slammed the door on civil liberties. They've said that the majority is going to rule. That is what I find very disturbing.

Metz: Yes, but then again, it depends upon one's interpretation of majority rule and majority politics. Both you and I know, Lloyd, that in practice, no matter what a politician says in terms of letting the people decide, that's not really what happens. In practice, politicians get elected and basically do what they want to do. They have to do something

pretty bad before the public will object.

Walker: But they're saying that they are a different thing from that. They're saying that they ARE going to do this. That's what one of Reform's selling points is. Grassroots. Bottom-up. That's their selling point, that they ARE going to do this. I think we have to take them at face value, and assume that they mean what they say.

Metz: But how can you be certain, when Reform talks about grassroots and bottom-up, that what they really mean is that they simply want to get the CONSENT of

people to act on certain issues? I noticed in Manning's discussion on the appointment of judges, for example, that he was talking about presenting those appointments to the public for approval, through some sort of democratic process. Do you have an objection to that process?

Walker: No, I don't have any objections there, but I guess what I do have an objection to is presenting to the public a motion to approve, for example, whether or not you can use marijuana, or whether or not someone can have an abortion. It's when you get into the civil liberties, where my real concern lies. And I'll back that up with some examples. Look at the way they went with handling the Ringma situation. They were as uncomfortable as could be with the idea of freedom of speech within their own party. They didn't know how to handle what was said. Another thing. Look at Reform's discomfort with being associated with a group like APEC (Association for the Preservation of English in Canada), which is headed by Ron Leitch.

Metz: Now that's certainly something that bothered me. For me personally, this is still an unresolved issue which I'd like to get to the bottom of, in terms of understanding the differences between APEC and Reform. Hopefully, Ron Leitch will enlighten us on some of that when he speaks to Freedom Party in June after the election. For now, I regard it as another open issue. I think that the conflict Manning faces with a guy like Ron Leitch may have less to do with the Reform Party than it does with the public. Consider their respective positions. Ron Leitch, as an independent agent, has definitely got the upper hand on the issue of official bilingualism. Let's face it, he's

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"In matters of conscience, the law of the majority has no place." - Mahatma Gandhi

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right. But his mission is to get from point A to Z, whereas the Reform Party seems to just want to take a step from A to B or C, recognizing that any association --- publicly --- between Reform and APEC would be viewed negatively by a great percentage of the public that must vote for them. So rather than...

Walker: ...But isn't it disturbing that so many people who helped Reform get started and set up in Ontario are from APEC?

Metz: Yes, and I think that it's very sad that this has to happen, but the blame lies with Canada's unrepresentative process of democracy, not the Reform Party per se, for that sad state of affairs. I think what we need in this country is a process of democracy that better represents the individual, which as you and I already know, through Freedom Party's endorsement of the Single Transferrable Vote (STV), is something that would go a long way in that direction. By the way, the STV is something that has actually been entertained by a few Reform candidates as well, and I saw that as a very positive step, although it's not part of Reform's platform this time around.

Walker: I can't take away from Reform that there are a great many positives.

Metz: Yes, let's get into the positives. We can talk about where we disagree with Reform on certain ends and means, and where we have a lot of question marks, but this election is imminent. A lot of people think that this election is the most important election that Canadians have faced since Confederation, and again, like it or not, Canadians are in a situation where they have been reduced to voting for the lesser of a given number of evils. What I would suggest is that Reform is not even in the 'evil' category. It's actually in a 'good' category, although there aren't any other viable federal comparisons to place beside them.

Walker: Now you've hit on something: the 'lesser of evils' thing. I guess my decision isn't between whether I vote Reform or PC, Liberal, or NDP. My decision is whether I vote Reform or decline my vote.

Metz: Exactly!

Walker: If you compare Reform to the other parties, Reform comes out well on top. The problem is that when you're using the

other parties as a scale, you set your sights very low.

Metz: I agree. But from my feeling yesterday, regarding Manning as an individual, I am once again impressed as I was in 1993, in terms of how he conducts himself. I believe that Reform has, to a great degree, brought a level of integrity and respectability back to the political arena.

Walker: He's brought a degree of maturity back to it.

Metz: Maturity, yes. He has also exposed the immaturity of the other parties, whose hysterical reactions to Reform's down-to-earth honest advocacy tells us a lot about what motivates them. There's a little more class to the average Reform Party candidate than there is with candidates of other parties. The fact is that Reform does have a much more open door policy, regardless of how much of this might be lip service, to the grass roots.

Walker: Yes. On those issues, and I

"If you compare Reform to the other parties, Reform comes out well on top. The problem is that when you're using the other parties as a scale, you set your sights very low."

realize I've criticized Reform on civil liberties and those kinds of issues, but the one thing you have to remember is that it makes them NO WORSE than the other three parties. I don't know if I'd call it a 'tie', because I find their policy of doing 'whatever the public says' to be the wishy-washy sort of thing we'd expect from the Liberals.

Metz: I think we'd agree that the strength of the Reform Party is definitely on the economic scale, and that the personal is left on the back burner where it may burn right up and never become part of Reform policy. But let's face it, on the personal level, the other parties are definite negatives. They don't even believe in leaving such issues with the public. They're just negative and restrictive all the way. So even there, the Reform Party comes ahead. Going beyond the economic to the subject of principles, I was very pleased to



hear Manning suggest that Reform supports a property rights protection clause in the constitution...

Walker: Yes, he said that, but he also said that Reform is NOT going to do anything about constitution issues because the public 'is tired' of hearing about it. So although he told us that, I don't see anything happening on that front.

Metz: I don't think Manning meant that Reform would not do anything about it, ever; I think he meant that Reform was not planning to address constitutional issues during this six-week period of an election.

Walker: I can see that, but his defence that the public are sick of hearing about it is pretty weak because quite frankly, a lot of the public is pretty sick about hearing about deficit reductions too...

Metz: ...Well, I can't argue with you there...

Walker: ...no matter how important it is. And I guess that's it. They have to address is what's important to them.

Metz: Economically, it's interesting as well what's separated Manning from the approach that the provincial Conservatives have taken on taxes, for example. He suggested that Reform was NOT going to push any sort of tax relief, and that whatever tax relief was going to be in a Reform budget would be down the road after surpluses were created from cuts in spending.

Walker: That's right.

(SECOND WIND, cont'd on back cover...)

"Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." - Thomas Macaulay

DRUGS SHOULD BE LEGALIZED

-Ray Monteith

{A retired *Conrail* conductor, **Ray Monteith** is president of **Freedom Party's** Elgin riding association, and has been **Fp's** candidate for that riding during the last three provincial elections. Now 76 years of age, Ray and his late wife, Doris, were foster parents to 175 children over a period of twenty years.}

This is a challenge to our police departments and politicians to stand up and tell the truth about drug laws. Our laws are not solving any drug problems, but they are helping to create a police state. We are wasting billions of dollars fighting a losing battle, and losing our freedoms in the process.

I want you to know that I am totally against the use of drugs; I'm even afraid to take the drugs my doctor prescribes. I have never used drugs for any of my 76 years. I never drink coffee or tea because caffeine is an addictive drug. My advice to parents: refrain even from giving your children coffee because coffee and cigarettes go together hand in hand, as you are well aware.

A doctor on TV recently told smokers who want to quit that "You better give up your bad habit of drinking coffee, and drink fruit juices instead, or you probably will never make it. One of my patients had to have two cups of coffee before he could get out of bed. He took a thermos to bed. The more you smoke, the more coffee you drink, and the more nervous and irritable you become. Caffeine is like a penny behind the fuse. It is as bad as many other drugs."

So, does this mean that we should treat caffeine drinkers and cigarette smokers in the same way we treat users of illegal drugs? No. In fact, we shouldn't be treating users of illegal drugs the way we do now.

One quarter of all Canadians have used illegal drugs, says David Suzuki on an episode of *The Nature of Things* entitled "Dealing With Drugs - New Options". On that program, Suzuki presented evidence that there is a better approach to the drug problem than prohibition laws, namely, a concept called 'Harm Reduction'.

It's time we became practical and humane. By treating drug abuse as a health and welfare issue rather than as a crime, I believe we could end the so-called war on drugs.

To our politicians out there, I challenge you to look at David's show and smell the roses. Stop supporting the police state. Don't be led around like sheep. Stand tall in the name of freedom.

We must never forget that Canada is supposed to be a free society. We have a Charter of Rights and Freedoms. For that reason alone, Canadians should have the right to use drugs legally, whether you and I like it or not.

"This is a challenge to our police departments and politicians to stand up and tell the truth about drug laws. Drugs are here to stay; let's quit thinking it's all going to go away."

I don't approve of drug use, just like you, but then again, do you believe in freedom or not?

There are many situations in Canada, most noticeably during labour strikes, where the police seem willing to look the other way when some law has been broken. But not when it

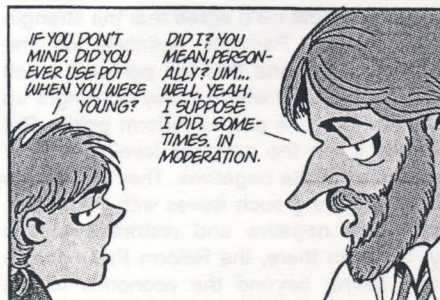
comes to drugs. How come? How can we ever change our laws if our politicians and police don't want to change them?

Reform is not always easy. Take a close look at China. Deng, who just recently passed away, transformed China, BUT his political authoritarianism led to the Tiananmen Square massacre. All because he had too much authority. Young demonstrators simply wanted change.

We Canadians were in shock over this. "Why did the military follow his orders?", we asked ourselves. But one question we were afraid to ask was "Would our military and police act like this in Canada if they were told to?"

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DOONESBURY BY GARRY TRUDEAU



"Society exists for the benefit of its members, not the members for the benefit of society." - Herbert Spencer

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Right now, many Canadians are demonstrating their right to grow, sell, and use drugs. To you in authority, are you acting like Deng simply because you HAVE the authority? Where's the logic in preferring to make criminals out of drug users?

This isn't about drugs. It's about YOU.

Mr. Allen Rock, are you any better than Deng when it comes to using your authority like you do? The youth of China broke the law they wanted changed and so they were slaughtered for doing so. Many Canadians are also breaking the law when they use drugs. They are trying to tell you that they want drugs legalized but you are too stubborn to listen, so you charge them and throw some in jail.

It's immoral what China did, and it's equally immoral what our drug laws are doing to drug users.

Our laws should be changed, but our politicians haven't got guts enough to change them. All because we Canadians have been so brainwashed into believing that prohibition is the right way to go. But it definitely is not.

In the United States, 1 1/2 million Americans are behind bars. The cost of this is over \$20 billion a year, and drugs are more available and cheaper than ever before. A study in Quebec found that teens steal for drugs. Today it's your house; tomorrow mine. Drugs in Vancouver are very popular and very available. For those who get addicted, poverty and homelessness often walk together. So much for drug prohibition.

Drugs are here to stay; let's quit thinking it's all going to go away. Wake up you guys! Drug laws are like adding fuel to the fire, and in many cases they start the fire. Our police can never stop the use of drugs, so let's stop kidding ourselves that they have drugs under control.

Canadians should be free individuals as long as they respect the rights of others. The people we elect seem to think it's their job to tell us how we should live, and use their authority to punish those who choose to live a life style that they do not agree with.



Drugs aren't the problem; there are causes behind drug use and abuse. David Suzuki says that there are three main reasons people use drugs: (1) as a source of relaxation and pleasure, (2) as a means of masking pain and/or loss, and for a small minority (3) a desperate daily need.

It's immoral for our police and judges to fill up our jails and clog our courtrooms with people who simply choose to use drugs within their lifestyles. We are only making drug lords richer and more powerful, and we are not helping the few who need the help most.

Drugs should be legalized.

If drugs were legal, we would have less crime and fewer break-ins; we would be much safer in our homes.

Our drug laws are neither practical nor humane. Drugs are here whether we like it or not and are here to stay. It's time Canadians all stood tall and told the police and politicians to butt out of our private lives.

Although I am certain that he was not speaking about drug laws at the time, president Truman once said: "If we do nothing to protect the freedoms of individuals with whom we may not always agree, we endanger our own." It is unfortunate that the American government does not put this principle into practice when it comes to drug laws. As a result, the rest of the world has been forced to tow the American drug policy line, Canada included.

We boast about our Charter of Rights and Freedoms, yet we treat drug users like criminals. We criticize the way China treated its youth, but are we much better?

I wonder.

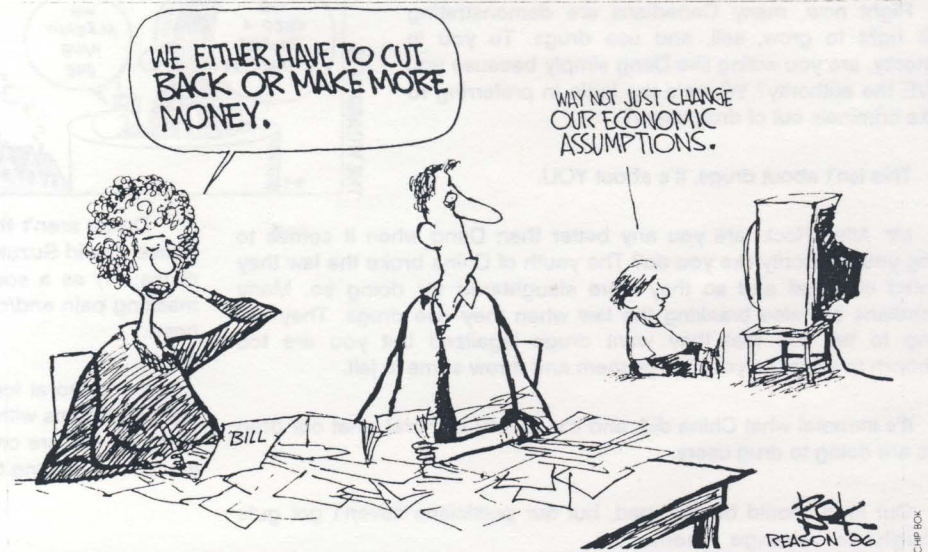
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"You don't make the poor richer by making the rich poorer." - Winston Churchill

The Economics Department...

{Dr. Walter Block, formerly senior economist with the **Fraser Institute** in Vancouver, is professor of economics at **College of the Holy Cross** in Worcester Massachusetts. The following three essays, exclusive to **Consent**, were co-authored by Dr. Block and his students. Additional articles by professor Block's students, on a wide variety of subjects, have been published in other periodicals, including **The Freeman**, **The Chalcedon Report**, **Nomos**, **The Review of Austrian Economics**, **The Free Market**, **The Journal of Commerce**, **Agorist Quarterly**, **Indiana Policy Review**, **Intercollegiate Review**, **Center for World Capitalism Backgrounder**, **Glendale Law Review**, **The Voluntarist**, **Dollars and Sense**, and **Discourse**. **Consent 26** also features an essay by one of Dr. Block's students.}



THE BLESSINGS OF SAVING UNDER FREE ENTERPRISE

-Mark Callen and Professor Walter Block

Under a free enterprise system, the free choices of individuals determine whether they will save and in what form they will save. Through this saving, capital formation takes place which allows for the creation of new and better aids to production. Economic progress necessitates that societies be willing to encourage and accept technical and social change.

However, government intervention usually hinders this progress through ineffective and inefficient policies, such as an uneconomic tax system, artificial "cheap-money" policies, and useless employment programs which eat away at a nation's private savings. If free enterprise is liberated from these burdensome government policies, it can lead us to a brighter future through increased savings and the formation of capital --- both powerful instruments for the improvement of human welfare.

The key to economic development is capital accumulation. The means of attaining this end is the proper use of savings. When put into productive investment opportunities, savings allow for better quality machinery. As more habits of productive investment spread

among the population, the more readily the supply of savings tends to increase⁶. Why? Increases in the quantity and improvements in the quality of existing capital due to investment reduce the costs of production. This reduction in cost results in more enterprises demanding to borrow because the profits will exceed the price of machinery. Increased savings naturally lower interest rates because of the greater supply of savings available for investment.

Reducing costs of production also raises real incomes of consumers by supplying them with more and better goods for the same money⁶. It increases the real wages of labour as well, because the new capital increases their productive power. Thus, increased saving benefits both producer and consumer, employer and employee.

Unfortunately, capital formation does not run this smoothly, due to the improper use of savings by government. The tendency of government to use the income tax as a means of redistributing national income causes a shortage of savings. Liberal cries for a heavier tax rate on larger incomes in favour of the

recipients of smaller incomes only ends up hurting everyone in the long run.

The fact that the government continues to intensify the tax burden shows its lack of economic foresight. Imposing the heaviest taxes on the income classes which save the greatest percentages of their earnings can only result in a shortage of overall savings. This decrease will raise the interest rate, making it more costly for businesses to borrow.

The resulting decline in investment means that business must continue to use inefficient machinery, which causes costs of production to rise. Increases in product prices follow. Thus, decreased savings due to the federal income tax hurts everyone: producer and consumer, employer and employee.

It would be far more effective under a free enterprise system to leave funds in the hands of the earning individuals who will save and supply them for investments.

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"You have no rights if there are no rules." - Dr. Laura Schlessinger

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When liberals demand that the government do something "productive" with savings, the end result is very unproductive. They demand that the government spend money on projects, even if they are useless, in order to provide employment. What liberals fail to realize is that these savings are not idle funds serving no purpose: these savings are lent out and invested⁵.

The fact is this: government conducts so many large handout programs that tax revenues cannot pay for them all².

What happens next? The government borrows investable funds otherwise available to businesses. This

reduces the amount of savings available for investment, making it more costly to borrow. A higher interest rate results from this "crowding out" due to government spending of the people's savings. While these "useless" government programs may provide employment for certain groups of individuals in the short run, the long run effects on the total economy are devastating.

Saving is essentially the demand for future income, and interest may be considered as the price of future income in terms of present income⁴. The government's attempts to keep interest rates low, in order to make it profitable for industries to borrow, once again illustrates the liberal influence. These artificial "cheap-money" policies will only create economic distortions by increasing demand and reducing supply. With a low rate of interests, not as many people will want to supply their savings. It reduces the accumulation of capital. That "economic growth", which "progressives" profess to be so eager to promote, slows down increases in productivity⁵.

Adam Smith recognized the importance of saving:

"By diminishing the funds (savings) destined for the employment of productive labour, he necessarily diminishes, so far as it depends upon him, the quantity of that labour which adds a value to the subject upon which it is bestowed, and, consequently the value of the annual produce of the land and labour of the whole country, the real wealth and revenue of its inhabitants¹."

Saving is the key that starts capital's engine. National progress is dependent on

capital formation, but this relies on the availability of savings to finance it. When the government adopts "cheap-money" policies as a means to bolster investment, not only does both investment and saving decline, but so too does national productivity.

Under a free enterprise system, capital formation takes place because of effective demand. Individuals desire to acquire capital goods because of the future return they are expected to yield. The decrease in costs of production resulting from productive investment in capital benefits everyone: greater value for the landowner, increases in real wages for labour, along with more and better goods available to consumers for the same amount of

money. For these reasons, the objective of economic policy should be the attainment of highly productive employment. The best way to do this, of course, is for the state to do absolutely nothing --- except define and protect private property rights.

Attempts to do anything more, such as subsidizing firms expected to be productive in the future, are doomed to failure. Other things equal, the marketplace has one advantage over government in picking future winners: whenever a private investor guesses wrong, he loses his own personal funds. The government bureaucrat loses money too --- that of the taxpayers, not his own. This "weeding out" process for market participants assures that, in the long run, the successful remaining firms will allocate resources better than the public sector.

State attempts to increase employment through handout programs cannot improve national welfare unless accompanied by high-level production. This cannot occur without capital formation. The development of new and better machinery insures high level productivity of labour in the future. However, there can be no capital formation without savings.

The government, in the hopes of raising the national standard of living, takes these savings away through an uneconomic tax system and useless employment programs. The opposite occurs because the government

fails to realize that the national standard of living depends not on the total number of men who can be kept in employment, but on the GOODS they are able to produce.

The lack of savings due to government intervention causes a smaller quantity and a lower quality production of goods because of reductions in capital formation. Entrepreneurs and businesses are forced to continue using older and less efficient machinery because the amount of savings available for productive investment has been foolishly wasted by government.

Unemployment naturally follows because businesses can no longer afford to keep as many workers due to the rising costs of production. Government 'full employment' policies accomplish nothing. They simply provide employment for one sector of the economy, while taking it away from another --- not to mention the harmful effects on the entire economy. If full production and employment are attained by governmental policies which do not encourage or allow high levels of savings, then high levels of capital formation is impossible.

Thanks to saving, total annual production can increase every year. The saving used year after year will increase the quantity, or improve the quality, of existing machinery and so increase the nation's output of goods⁵. These annual increases in Gross Domestic Product

cannot take place without investment. Investment cannot take place without savings. Both are dependent on each other for contributing to economic progress. Insufficiency of one will lead to reductions in the other.

For example, when the government dips into the pool of loanable funds (savings) in order to finance the deficit, it hurts firms by raising the price of borrowing due to the dearth of savings. As interest rates rise, firms invest less, resulting in a lower gross domestic product.

This "crowding out" of investment hurts people because of slowdowns in economic growth. The inability of firms to invest causes reductions in productivity due to less capital formation. As mentioned earlier, the resulting increase in costs of production leads to rises

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"The key to economic development is capital accumulation."

"Unfortunately, capital formation does not run smoothly, due to the improper use of savings by government."

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in unemployment and prices of consumer goods --- both harmful to the economy and the public.

The savings of individuals holding deposits in banks are the source of funds for the loans that banks make. When left untouched by government, these funds allow an individual or firm to invest in future capital that is expected to yield even greater social and monetary benefits in the future. The ability to borrow or lend permits investment to be undertaken at the most efficient place and time³. The flexibility and adaptability of a free enterprise system fosters these investment opportunities. Intervention hinders them.

When businesses do not know what the government is going to do next, uncertainty is created. This uncertainty causes a downward spiral within the economic sphere. Profits do not get reinvested. Firms and individuals allow

their cash balances to accumulate in their banks⁵. Thus, a lack of productive investment exists. Free enterprise allows firms and individuals to accomplish three things: to choose what needs to get done, to gather the funds necessary for a specific goal, and to implement a course of action --- all without fear of government intervention.

Failure to recognize the positive aspects of saving has been a major reason for the ineptitude of governmental policies. What is saved on consumers' goods is spent on capital goods⁵.

Under a free enterprise system, individuals determine whether they will save and in what form they will save. Yet, this freedom of choice is often taken away from them by the government. When large portions of savings are snatched away from personal incomes, less money is available for saving, causing the wheels of economic growth to halt.

To form capital, society must save. The result of this saving is an improvement in national productivity which benefits all socio-economic classes. Freedom from wasteful governmental policies is the key to continuing this economic development. When controlled by the free choices of individuals, savings put the wheels of economic progress through capital formation in motion.

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BOTTOM RUNG

-Elizabeth Larson and Professor Walter Block

Ever since President Clinton mentioned raising the **minimum wage** in February 1995, minimum wage has been widely discussed in the media. A new study conducted by two Princeton economists, David Card and Alan Krueger, has promoted much advocacy of an increased minimum wage.

This tendency runs counter to years of economic research indicating that a minimum wage law does far more harm than good. The Card-Krueger study is now being used as a political tool in the battle between liberals and conservatives over minimum wage. Though the results of this study have been hailed as a new advance in economics, it has been proven to be invalid because of poor research methods. Unfortunately, the flawed study has been highly publicized, so the public is more confused about the minimum wage issue than ever. The actual effects of a minimum wage law are: increased unemployment, the perpetuation of racism, recessions and higher prices, and lowered high-school enrolment.

The now infamous Card-Krueger study that provoked the latest round of discussion of this controversial issue was a comparison of fast-food restaurant employment in Pennsylvania, a state with an unchanging minimum wage, and New Jersey, which had just raised its minimum wage. The results of the study showed that employment in New Jersey increased. Although the study defies even the

most elementary understanding of economics, it was published very quickly in the *American Economic Review*, a respected economic journal. Even though later research using superior information found the Princeton study to be wrong, the invalid study is still being discussed as relevant.

The politics of the minimum wage issue often stand in the way of sound economic judgment. Endorsement or rejection of such laws often falls along political party lines. After President Clinton first mentioned raising the minimum wage, Bruce Josten, US Chamber Senior Vice President said of the move that, "this proposed increase is nothing more than a job-killing and economically indefensible payoff to big labour" (McClenahan, 33).

This statement is plausible; union bosses favour minimum wage laws because they help the union cause. Minimum wage makes hiring unskilled workers unprofitable, so employers are more likely to hire skilled union workers in an effort to "get their money's worth" out of their new employee. Because the union workers are now more attractive to employers, they are more likely to have their demands met.

A minimum wage law tends to act not as a wage floor but as a ladder with the bottom rungs broken.

Basic economic theory states that a worker's wages will naturally tend to equal his or her marginal productivity. This concept only makes sense, because a worker will not labour for less than he or she is worth to an employer. And by the same token, an employer will not hire a worker for any wage higher than the amount he or she can produce. Thus, a minimum wage law causes these workers whose skills are worth less than the minimum wage to become unemployed.

For example, if a worker earns \$1.75 an hour before a minimum wage law mandating \$2.00 an hour is instituted, and the employer cannot afford the increase in his wage cost, he would have to be laid off once the minimum wage law takes effect. It is obvious from this simplified example that a minimum wage law has actually lowered this worker's earnings by \$1.75. Even for those who claim that \$1.75 is not a living wage, it is a much higher wage than the \$0 earned when this worker is unemployed.

Economists believe that the President's proposal to raise the minimum wage to \$5.00 an hour may cut 40,000 to 100,000 jobs (Kramer, 27). If employers are forced to pay a higher price for low-skilled labour than they would without a minimum wage law, they will naturally hire the most productive low-skilled

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"Love consists not in gazing at each other, but in looking outward in the same direction." - Saying

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workers. Though the low-skilled workers who are less productive would be more likely to be hired without a minimum wage law, they are the workers who are most often fired because of such a law.

Those groups most likely to lose their jobs after such legislation is passed are low-skilled workers, minorities, teenagers, and high school dropouts. When most people consider raising the minimum wage, they believe that doing so will help the lower class. What such laws actually do, however, is take jobs away from the least productive workers, giving them to more productive unskilled workers.

For any number of reasons, an employer may perceive that one worker is less of a "hiring risk" than another, and hire the less risky worker for the job.

Determining this risk is a guessing game at best, and when employers cannot rely on wages and overall profit in determining whom to hire, they are free to consider other factors. Often, whether or not an unskilled worker is hired comes down to the biases of the employer (Zycher, 44).

Minimum wage also has a negative effect on society because it perpetuates racism. Without market interferences like minimum wage, racism lowers the wages of blacks and other minorities. Because minority labour is then available more cheaply than that of whites, employers seeking to maximize profits prefer to hire minority workers. In this way, the motive of profit naturally eliminates racism, and eventually the once-lower wages of minorities will rise.

Racism in hiring practices exists today because interferences in the market cause the bias of employers to become a factor in hiring practices, when only profit motive should be considered.

A minimum wage law has also been shown to raise prices and to trigger recessions. Rob Shapiro, who was recruited by Secretary of Labor Robert Reich, says of employers, "they pass (the wage hikes) on in the form of higher prices which are regressive because they're borne equally by all. Thus, the vast majority of the 39 million poor Americans who won't benefit from a raise will be worse off, while a few get more pay" (Kramer, Time, 27).

Minimum wage has also been linked to times of economic recession. University of Ohio economists Richard Vedder and Lowell Gallaway have connected the 1990-91 economic recession to rising minimum wage.

Minimum wage laws may have even played a role in worsening the Great Depression. When the National Industrial Recovery Act (NIRA) first instituted a minimum wage law, unemployment stopped declining. When the NIRA was later found to be unconstitutional and the minimum wage law was repealed, joblessness decreased sharply (Du Pont, 72-73).

Minimum wage has a long history of causing unforeseen economic problems despite the good intentions behind such laws.

Another negative aspect to the minimum wage law is often neglected in the face of the seemingly larger problems of unemployment and recession. Teenagers are often harmed in two ways by an increase in the minimum wage. Not only do such increases result in young people losing their jobs, but they often drop out of high school to work. When teenagers can earn an increased amount of money doing unskilled labour, they are far more likely to leave school and find a job. Because they can earn a greater amount of money than their productivity is worth, they have little incentive to stay in school and acquire more skills. With a high minimum wage, teenagers can earn money in low skilled jobs when they would otherwise be in high school.

Some people claim that even in the face of the overwhelming evidence proving that increasing minimum wage has harmful effects upon the economy, such increases are worthwhile because they help the "poor." Such an argument reflects an ignorance of who actually receives minimum wage.

Statistics indicate that most workers on minimum wage are not 'poor' at all. The Current Population Survey of the Census Bureau found that in 1993, of the workers on minimum wage, 42.2% were children living with their parents, 20.2% were single people with no children, and 12.9% were married women whose husbands worked. In contrast, a mere 4.7% were single parents (Donlan, 59). These numbers do not fit what most people think of as the "typical minimum wage worker."

Minimum wage earners may be senior citizens trying to stay active, teenagers from wealthy or well-off families, or the second wage-earner in a family. A surprising fact that very few people realize about families earning minimum wage is that the income of 60% of these families falls within the middle income distribution or even higher (Zycher 47). And the income of around 80% of families earning the minimum wage is above the "poverty line," now defined at \$15,627 (US) a year for a family of four (Kramer, 27).

Thus, any consideration of raising the minimum wage would not only be economically incorrect, but would not even accomplish its proclaimed goal of "helping the poor." The co-author of the poorly-conducted Princeton study, David Card, claims that "the Economics 101 model of the labour market doesn't apply here" (McNamee, 36). But if such a model does not apply here, where does it apply? Basing clearly economic decisions on anything but economics defies logic. One of the basic tenets of economics is that minimum wage is more harmful than helpful, so the minimum wage should not be raised. {END}

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"My reading of history convinces me that most bad government results from too much government." - Thomas Jefferson

THE EVILS OF RENT CONTROL

-Gene McDonough and Professor Walter Block

Rent control remains one of the most controversial economic issues today. It is a policy almost universally in effect throughout major American cities. Yet, it hurts tenants, landlords, and the housing supply.

Landlords lose money because they can not charge market value for their apartments. Therefore, fewer people will invest their money in residential rental construction. Also, many landlords do not have the money or the economic incentive to make repairs in their buildings, due to the adversarial relationship created between tenant and landlord.

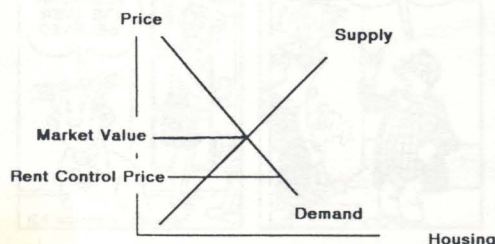
Rent control also creates an artificially high demand for housing, making it very difficult to find an apartment. This interferes with labour mobility and hence GDP growth.

Workers will be more reluctant to give up their apartments, since they are not assured of finding a new one. This makes the economy a lot less efficient. Rent control also benefits the wealthy because their apartments are usually free of controls. Only the poor, it is widely thought, need the "protection" afforded by this law. As a result, residential investment money is funnelled into luxury dwellings, driving down the rents paid by the rich².

Finally, rent control leads to a greater amount of discrimination. Since landlords cannot choose their tenants based on ability to pay, they use other criteria, such as skin colour or religion, etc.

The first reason rent control is destructive is that it reduces incentives for landlords to build new dwellings or to improve their existing stock. Rent control places a ceiling on the prices which landlords can charge for their apartments. These ceilings are usually far below the market value for these units.

This phenomenon is represented by this graph:



Therefore, landlords lose money by renting out their apartments. Why would other landlords invest if they know they will lose money? "If a prospective entrant perceives that the rate of return that can be earned by using investment funds to provide rental units is low relative to what could be earned by investing in alternative markets, he will be eager not to supply additional rental units."¹

It is simply a matter of economics. No investor will place his money in something he knows will not give him an adequate return. "With the in-

crease in building costs, ...the old level of rents will not yield a profit."³ However, if the landlord was allowed to charge market prices, more accommodations would be built, given the lure of profits. With rent control, that possibility is vitiated.

Along these same lines, rent control reduces landlord incentives to improve or repair apartments. "Not only will (the landlords) have no economic incentive to do so; they may not even have the funds."³ Because they cannot charge market prices for their apartments, landlords often do not have the funds to make repairs, if they even have the incentive. Since they are taking a loss by renting out these controlled apartments, they often lack the necessary cash flow to make repairs. Even if they did have the means, they do not have the incentive.

Tenants cannot threaten to go to a cheaper apartment, because there are none. As there is no price competition between landlords, "the customer is always right" philosophy is nowhere in evidence. The landlord knows there will always be someone willing to take the apartment because at the controlled price, demand is much greater than the supply. This also prevents the tenant from moving because the odds of finding another apartment are slim.

Thus an adversarial relationship is created between the tenant and the landlord; the

tenant does not get repairs done promptly and the landlord does not have the funds or the incentive to do them.

Let it not be thought that strife is a necessary result of landlord tenant relations. It only seems this way due to heightened hostility in the residential area. But property owners also rent other types of accommodations to tenants: office suites, commercial space,

stores in shopping malls, subdivisions of factories, automobiles, etc. Since there are no rent controls in operation here, there is almost total amity. When

was the last time a municipality had to set up special courts to protect renters from the likes of Hertz or Avis? Yet landlord-tenant antagonism was so severe that New York City had to do just that.

Imagine a situation where there were price control for rentals, but not for apartments. Then, amiability would reign supreme in the latter case, but not the former. Firms would purchase new capital equipment in rental housing, and keep up in the maintenance and repair, but not in auto rentals. Welcome to the twilight zone.

Rent control also hinders labour movement, so necessary for an efficient economy. Since prices for apartments are set at a level where demand is much greater than supply, it is very difficult to find a new apartment.

"Since under rent control living accommodations of any type become difficult to get, individuals are very reluctant to give up the apartments they have unless they have an apartment ready to move to."¹ This is very unlikely to happen with such a high demand. Therefore, workers are reluctant to move to an area of the country where their skills are truly needed. Thus, the economy is inefficiently using its resources.

The original justification of rent control

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"Obstacles are things we see when we take our eyes off the goal." - Saying

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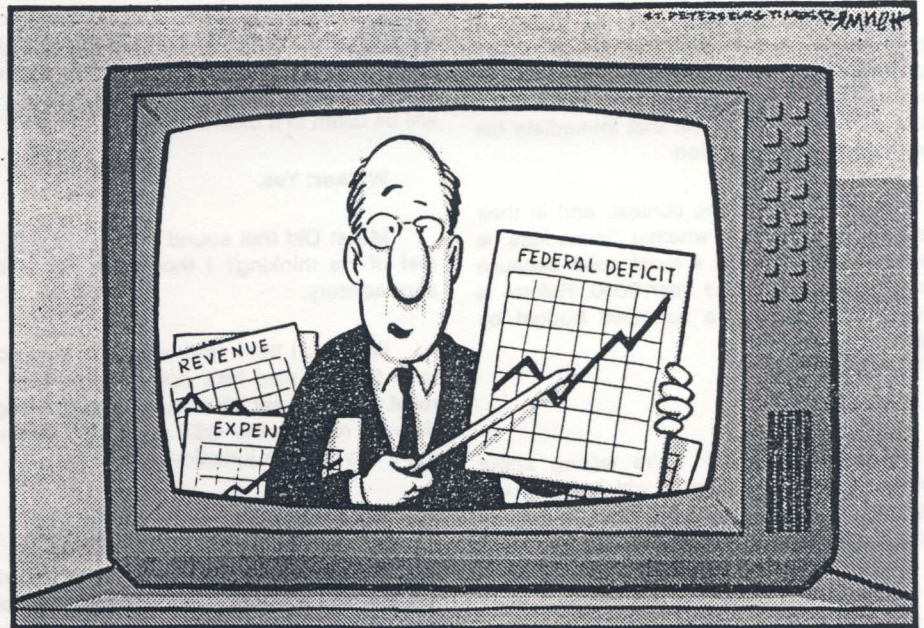
was to help the poor and prevent them from being ripped-off by greedy landlords. This fear is, of course, economic illiteracy. If landlords indeed "rip off" tenants, this means they earn high profits. But big returns are a magnet. If they exist, they would attract everyone and their uncle to bring more supply to the market. But this, in turn, will lower prices, ending any incipient tendency for "ripping off" or "over charging." (Even were this process, somehow, not to occur --- per impossible --- how can we know that rents are 'excessive'? All we know is that a rental contract is a voluntary agreement between buyer and seller, and that therefore both gain, at least in the ex ante sense.)

In actuality, the reverse has happened; it is the rich who often benefit from rent control. Since rent control is city-wide, and not based on tenant income, there is a cap on the apartments of the rich as well, saving them a lot of money. These are the people who need to save money the least, and they are being helped the most by rent control.

"In 1979 rent control in New York City seemed to do as much for the rich as for the poor. The mayor of New York, for example, lived in a rent controlled apartment at \$250 a month. The estimated fair market value...was \$400 to \$450. The president of the American Stock Exchange paid \$660 a month for an apartment with a fair market value of \$850 to \$1200."¹ These men, both of ample means, only have to pay half the market price for their apartments because of rent control. Thus a law designed to help the poor has instead helped the rich.

Rent control also causes an increase in discrimination. Before rent control, a landlord could choose his tenant based on ability to pay. If he discriminated, he risked losing money by not being able to fill his apartments with tenants. Now, however, many more people have the ability to pay the lower rent, so the landlord can use another set of criteria without fear of profit loss. This can range from skin colour to religion to national origin to pet ownership.

"Because of rent control, landlords observe many applicants vying for each vacant unit; they can afford to be very picky about whom they rent their apartments to...(they) will tend to pick the applicant whose non economic characteristics --- e.g., race or religion --- are most appealing to him."¹ For example, before rent control, from 1939-1941, a Chicago newspaper ran 1,000 inches of apartment ads which precluded blacks. However, once rent control was enacted, this



'... Now remember ... Don't try this at home ... '

amount grew to 9,400 inches by the late 1940's.

If all of the evidence points to rent control harming the consumer rather than helping him, why are such laws still in effect? There are several reasons.

First, the 'benefits' of rent control are visibly obvious and immediate, while the costs are harder to see and more subtle. The tenant is not aware that fewer or no new buildings are being erected. He only sees that his rent is low and feels that without rent control it would be high. People also fear that rent would skyrocket if controls were ended, because it would take a year or two for a new supply to come on stream. The fear is that landlords would escalate rents, even though over time competition would set in and rents would go down to affordable levels.

This fear is unfounded, however, due to the 'undoubling effect'. Under rent control, tenants tend to occupy excessive space. (The law of demand states that the lower the rent, the more quantity will be purchased.)

Consider an old woman with a 12 room apartment whose husband has died and 8 children have grown up and moved away. Without rent control, this matriarch would have long since transferred to a smaller, cheaper 3 room apartment. But under this law, her present spacious accommodation may actually be cheaper than this alternative in a new uncontrolled building. Now rent control

ends, and this woman moves, in effect releasing an additional 9 rooms immediately, in one fell swoop. Thus, any tendency for rents to rise upon decontrol would tend to be ameliorated by this 'effect'.

Finally, politicians do not see the long run benefits of ending rent control. They only see what the voters see, and that is the short term 'harm' it would do. Rather than do something which may hurt some at first and help everyone later, politicians do only what will help win the next election. Rent control adjustment would take too long to help put them in office, therefore they do nothing about it.

Rent control is a harmful policy which must be ended. It limits the housing supply. It causes friction between tenants and landlords. It hinders worker mobility rendering the economy inefficient. It often benefits the rich more than the poor. It also exacerbates racial discrimination.

Politicians, however, will not touch rent controls because the benefits are short term (and visible), while the benefits of economic freedom are long term and more difficult to see.

(END)

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Metz: This may seem very sensible to a lot of people, but whether the Harris or the Manning plan is the most economically accurate remains to be seen. I think there's a lot of evidence to suggest that immediate tax cuts help in every direction.

Walker: But in one context, and in their defence on that one, whether 'immediate' is better or not is almost a moot point because we're talking about the year 2000. Reform is talking about having a balanced budget by 1999.

Metz: Yes.

Walker: So really we're talking about only a couple of years away, which in terms of the growth of the state and taxes is a mere drop in the bucket.

Metz: What did you think about Manning's idea to 'flatten' the tax rate? He told us that there was a great difficulty in that, and that Reform was going to try to go from about five different tax rates down to two levels.

Walker: I was pleased with that. I'd like to see them go all the way, but again, a step in the right direction deserves a pat on the back.

Metz: One thing that concerned me was when Manning suggested that the GST would disappear, but be INTEGRATED with our other taxes. In other words of course, the money's still going to be coming out of our pockets, but will be taken in a different way.

Walker: Yes.

Metz: Did that sound like it fit in with the rest of his thinking? I thought it was a little contradictory.

Walker: I think that what it comes down to is that he said he's not going to give tax relief until the year 2000, so what he's going to do is to rename the GST something else and put it into another jurisdiction.

Metz: It sounds like the Liberal plan.

Walker: The GST is hated as a consumption tax, so he's going to turn it into an income tax. To me, that's the old 'common sense shuffle'.

Metz: (laughs) Where else do you want to go with our comments on Reform?

Walker: We've talked about the analogy of the sign on my lawn. You may well ask yourself what would it take to get one there?

Metz: What? A sign?

Walker: Yes. I won't shut the door on putting one on my lawn. What it would take is a CANDIDATE who was strong on civil issues. If Reform had a candidate in my riding who was strong on civil liberties, and who I felt would stand up for that, I may well put a sign on my lawn. BUT, I think the odds of that... well you picture it. If I asked four questions to challenge a Reform candidate, I would ask a question about (1) controlling the Internet, (2) drug laws, (3) capital punishment, and (4) abortion. What do you think the chances are that I'm going to get four acceptable answers?

Metz: How about zero?

Walker: That's my big difficulty with the Reform Party.

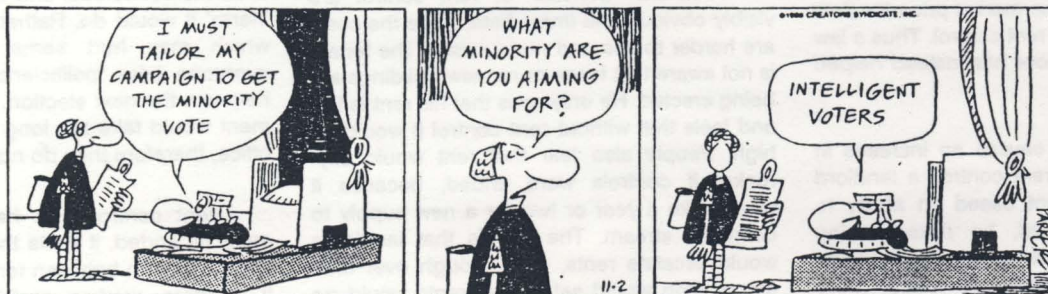
Metz: But what about the chances of Reform getting your vote?

Walker: 100%.

Metz: Same as me.

Walker: Let me put it this way: Reform is good enough to vote for, but does not entirely represent the ideal kind of government that I believe Canadians deserve. {END}

THE WIZARD OF ID BY BRANT PARKER and JOHNNY HART



CONSENT

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