

time all sorts of policies for increasing the propensity to consume," including "the redistribution of incomes or otherwise."

As Keynes advocated a less unequal distribution of income as an essential policy for restoring the health of capitalism, Mr. Pearson interpreted the welfare system he helped build in Canada as an essential improvement in the free enterprise system. In a speech in December 1966, Mr. Pearson said: "Sound and responsible social welfare measures do not tear down but rather build up our national wealth and our strength." Such measures were not the result of high moral intentions, or the work of impractical do-gooders or "revolutionaries plotting to destroy the free enterprise system." They serve "the most practical of national interests because, responsibly put into force, they add to the strength of our economic base and to the stability of our country."

The point was not to tear down free enterprise, but to build under it "a secure foundation for a good life for all Canadians — a foundation which will serve not as a resting place. . . but as a launching platform for greater personal achievement. . . With basic security provided, personal enterprise is freer than ever to carry individuals as much further as their own capacities and efforts will take them."

Income protection

Mr. Trudeau, since coming to power, has carried Mr. Pearson's argument further. He has advocated the use of the social welfare system to provide a secure minimum of income protection for individuals without employment income — usually temporarily — because of the operation of the free market system. His first government experimented with voluntary wages and prices guidelines. They fell short of complete success. Since then Mr. Trudeau's approach to economic management has been to use demand manipulation policies, largely according to the Keynesian pattern, and a variety of other policies to minimize income inequalities up to a basic level. In this Mr. Trudeau has been as much in tune as Mr. Pearson with Keynesian economics.

(The idea of government providing an income cushion for the unemployed was supported by the well-known economics professor, Harry Johnson, in testimony before a committee of the Canadian Senate in May 1971. Johnson, a native Canadian then commuting between lectures at both the London School of Economics and the University of Chicago, suggested too much stress is still put on the unemployment rate and not enough on the income security for the individual in today's society. Prof. Johnson said: "I would put more stress on the social security aspect and also on labour market mobility policies, better employment exchanges, assisted (worker) migration from one place to another" — all ideas already incorporated in Canada's social welfare system by then, along with a variety of others including a legislated minimum level of wages and working

hours. Worker income could be guaranteed through employment or a cushion if employment fluctuated, he said. Rather than depend only on our skills at walking "the tightrope" of monetary-fiscal fine tuning, he added, "we might put a net underneath so that if a guy falls off, he does not bash his brains out on the circus floor. . . . A little investment in nets might make life a lot easier.")

Keynes did not dispute the classic theory of the free market economy; he disputed the circumstances in which it applies. Left to itself, without government intervention to manipulate demand and output, the free market economy was not self-correcting. It could reach an equilibrium of demand and supply well below full employment and output. Only in a condition of full employment — which Keynes identified with maximum output — did the classic theory of a self-regulating free market come into play.

But as long as government did intervene to ensure an aggregate output corresponding to full employment, Keynes argued, "then there is no objection to be raised against the classical analysis of the manner in which self-interest will determine what in particular is produced, in what proportion the factors of production will be combined to produce it, and how the final product will be distributed between them." Or put in more current terms, perhaps: as long as government manages the macro-economics effectively, the market place can be left to manage the micro-economics. Keynes advocated his theory as a supplement to, not a replacement of, the old classic free enterprise theory. His purpose, he wrote, was "to indicate the nature of the environment which the free play of economic forces requires, if it is to realize the full potentialities of production."

In Canada, as Mr. Pearson noted, that "environment" for full potential output now includes a social welfare foundation — or, if preferred, Prof. Harry Johnson's "net" — under the combined balancing act of demand fine-tuning and market competition. If the relativities of earnings in Canada have changed little more than in other countries, the basic income available to the average individual has risen substantially, both from employment and social welfare.

Mr. Pearson's argument that reinforcement of individual incomes through the social welfare system also reinforces demand may be compared to Keynes' advocacy of income redistribution to stimulate full employment — and along with it maximum output and prosperity. If Mr. Pearson's argument holds, then in addition to capital investment and consumer spending, which Keynes identified as the two pillars supporting demand in his day, what may be considered almost a third pillar has now been constructed under demand in the Canadian economy and others providing social welfare. It is the income redistribution pillar provided by the social welfare system.

By the time Mr. Trudeau became

Prime Minister, the issue in Canada as elsewhere in the Western world was no longer whether the Keynesian prosperity tap worked or how to turn it on. The issue was how to manage the affluence that flowed from it. And underlying this was another issue, fraught with political delicacy and critical importance to the management of an affluent economy: what is the most beneficial definition of full employment?

Inflation problem

Less than two months after Mr. Trudeau's first majority election victory, in June 1968, consumer prices in Canada registered their tenth consecutive monthly increase — the sharpest in years. At the same time the unemployment rate was higher than usual — and still rising. A White Paper on the inflation problem, issued in December of that year, pointed out that this combination of rising prices and declining employment was part of a new pattern of experience, in Canada and elsewhere in the Western world. In summarizing the issue now confronting Canadian policymakers, the paper summarized the challenge that still faces Western government: "The problem confronting Canada is how to restore and maintain price stability without sacrificing economic growth and employment and without inhibiting basic freedom."

It is the last phrase which has preoccupied Mr. Trudeau most when he has discussed compulsory controls. His fundamental worry, aside from his expressed belief that compulsory controls simply haven't ever done the job intended, is similar to an objection about them expressed by the British Commons Expenditure Committee last August. Won't they lead inexorably toward a more authoritarian society and ultimately to loss of freedom itself?

During an exchange with students in April 1971, Mr. Trudeau drew a frightening picture of "the alternative to an economy which adjusts freely."

To have full employment on a constant basis, he said, "you would need to have a dictatorial government." It would not only tell industries to keep operating regardless of profits, it would tell workers to keep working at stipulated wages, so that their products could be sold at low prices on world markets. "You would need a government which is able not only to fix the prices, but fix salaries, fix incomes and direct how much everyone will gain in the economy." His preference was "to let the market forces adjust for us." This would bring hardships to some people temporarily, but these could be offset by generous government social welfare measures.

What is full employment?

During a television interview in May 1971, he questioned the realism of maintaining that a certain percentage of unemployment in the labour force was an accurate definition of full employment. At that time, it was still generally considered that three per cent of the labour force