Economic Dependence Breeds Unemployment

With more than 6 per cent of a labour force of about 8,500,000 unemployed, Canada is facing probably the worst unemployment crisis in its history. The question that immediately comes to mind is why?

We are told that by selling over 50% of our resources to the U.S. we are creating employment. We are told that all expansions on the part of North American corporations create more employment. Therefore, at a time when corporate profit margins are increasing, and non-resident construction in Canada has increased from $1.5 billion in 1961 to $2.5 billion in 1968, why do we have over 650,000 unemployed Canadians? Why, when we can afford to use tax dollars to offer grants and guarantee loans that amount to anywhere from 70% to 85% of the cost of building American subsidiaries like the P.A. and Meadow Lake pulp mills, do we have this much unemployment? When we can afford to build mountains in the prairies, why do we have unemployment?

The answer to these questions is that it is because these things are happening that we have unemployment.

Most American subsedearies are capital intensive and rely heavily on automation. They are part of an integrated complex controlled by the pricing and output policies of their larger American head offices. Because the subsidiaries produce for only a portion of this market, and are not allowed to compete with the parent company, Canadian plants may operate at less than 50% capacity. Thus, after plants are built and their production is established, they will require few Canadian workers to operate them and they will operate at the lowest possible overhead costs.

5,000 Canadians may be employed at one time in the establishment of a section of our natural gas industry, but once the pipelines are built and the pump houses established, only 250-500 Canadians might be required to operate the transfer of the resource south.

Oil refineries may decide that they would be more efficient to centralize their operations by closing down three or four smaller refineries in favour of a larger, more automated plant. This, like Gulf's closure at Moose Jaw, could mean over 100 people unemployed for every closed refinery. Canadians, however, have no control over such decisions.

In other words, American subsidiaries are planned to produce in accord with an overall scheme. Canada's role in this scheme is to provide a cheap source of safe raw materials and a significant number of consumers for American goods. Consequently, American subsidiaries will employ as few people as they possibly can, without destroying consumer power, in industries that could employ three times as many people if they were progressively integrated and controlled by all Canadians.

If such ownership did exist, it would provide sufficient investment capital to start new industries, and create more employment. At present, however, such capital flows to the U.S., and is not used to encourage the growth of an independent Canadian industrial base.

Thus, we are deprived of the ability and the capital we need to create enough industry to employ all the Canadians who wish to work.

Therefore, our dependence on American corpoate planning makes us vulberable to economic fluctuations over which we have no control. They may dictate cutbacks in employees of American subsidiaries, but there is nothing we can do about it.

These fluctuations, coupled with corporate pricing and output policies are what cause the inflation in Canada. Increased profit demands, corporate expansion policies, price manipulations, market controls, advertising and promotion costs, etc. are what cause inflation. Corporate capitalism is inflationary by definition, and organized labour does nothing but provide it with another excuse to raise prices and a scapegoat once it does.

The government responds by increasing taxes, decreasing government expenditure and raising interest rates, etc. This creates unemployment and pulls money out of circulation--that is, it pulls money out of citizen's pockets. The increased unemployment also helps scare organized labour by demonstrating to them that their jobs are sacred and they should not do anything to jeopardize them.

Corporations are willing to pay the price of higher taxes because they are paying less in wages, and because they see it as a fair fee for the government stepping in to correct a situation which they created. After all, stability is better than chaos, and the guy who can't afford it is the only guy who gets hurt.

In summary, then, unemployment is a necessary product of the present system. It is a result of our vulnerability to American pricing and output policies, and similar policies on thepart of Canadian corporations. It is the result of the degree of American ownership of our economy, and of government anti-inflation policy.

Therefore, the system creates unemployment as a by-product of its fight against inflation. However, the system also creates the inflation. The problem is that we are caught in a vicious cycle perpetuated by a vicious system.

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Canadian economy non-competitive

demands for high wages in order to get employment at all. So the market, left to itself, will tend to narrow the gap between high-wage and low-wage jobs, until some day the gap had disappeared, and all is well.

A similar mechanism in the competitive model acts to equalize and hold down profits; for high-profit industries attract new investment, which expands production, and so brings down prices and profits along with them.

The theory of equalization through competition was -- and -- is ingenious. But things do not seem to be working out that way.

If Canada's economy really worked on a competitive basis, and if free competition did tend to even out inequalities in wages, then wages would be a lot more even than they are now. But Canada's economy is doing a lousy job for low-wage workers. Either Canada does not have free competition doesn't do what it's supposed to, or both. In any case, the competitive model doesn't fit the facts.

But the competitive model still swings a lot of weight with many government policy makers; and these policy makers, furthermore act as if the model represented reality. The model itself, then, plays a role in the Canadian economy, by influencing government decision. It's worth a closer look.

According to the free-market theory, if for any reason there is a real difference in wages within the economy, three things will happen: capital will shift around, workers will change their jobs, and there will be adjustments in the techniques of production.

The workers, in theory, will jettison their low-paying jobs and go after the high-paying ones, perhaps after a bit of training or some other form of occupational up-grading; so employers in industries that pay low wages will find themselves without workers. In order to get workers, those employers raise their wages (likely passing the costs along to the consumer by jacking up prices), or they automate part or all of their production lines in order to get more productivity out of fewer employees. Employers in industries that pay high wages, on the other hand, discover that workers are jamming their personnel offices, and they can afford to bring their wages down - or at least to hold the line on increases. So wages in the long run will tend to even out.

The movement of capital in the competitive model is roughly the same. Physical capital, like plants and equipment, is more or less fixed in one spot. But financial capital is not. Savings - that is, money for investment - will tend to go to industries that look as though they are going to pay off; and industries that pay low wages tend to look that much better in terms of potential profit. So the capital is pulled into low-wage industries, which use the money to expand their production. That expansion means that more workers are needed, and some of them will have to be attracted from other industries; so wages have to be raised. But high-wage industries, where wages are squeezing profits, look less attractive to the money men. Eventually they will not be able to expand further, will not require many more workers than they already have, and will grant smaller raises in pay. The movement of capital, then, like the movement of labour, should tend to even out differences in wages.

Profits, in the competitive model, are treated in the same way; in theory, the movement of capital should also work to equalize profits, the earning of capital. Industries with high profits attract the captial, expand production, and therefore make more of whatever it is they are making. The new abundance of their products drives the price of those products down, and the profits in the industry along with it. Competition, then, is supposed to keep the profiteers in line.

Technology can be fitted into the competitive model as well. For employers will tend to avoid using high-priced skilled workers if they can get the same result more cheaply with unskilled workers and a little machinery. So demand for highly skilled labour will slacken off, and demand for unskilled or semi-skilled labour will pick up; wages for the highly skilled worker will decline, and wages for the un- or semi-skilled worker will rise.

There are a few adjustments to be made within the broad outlines of the competitive model to account for the fact that not all economic decisions are made exclusively on the basis of the dollar.

Working conditions, for example, are important; some workers will accept significantly lower wages if their places of work are pleasant; if they find their work satisfying; if it is secure, or prestigious, or offers a chance of promotion. And, similarly, jobs that are dangerous, unpleasant, monotonous, insecure or offer no chance of promotion may have to pay more. (Capital, of course, will tend to avoid risky investments in the same way that workers avoid risky jobs; so the promise of a premium on profits from risky ventures is necessary to finance those ventures in the first place.)

At the same time, since not all workers are interchangeable, employers will prefer some workers to others, and pay more money for their services. Trained workers can ask more in wages than workers who have to be trained. Workers with innate abilities applicable to certain jobs are more likely to get those jobs. (A man applying for a job as a football tackle, for example, who has both played football before and stands six-foot-four, will be preferred to a man who has not, and does not.) If everybody has roughly the same access to training, the wage differentials between trained and untrained workers will about equal the amount it costs a worker to get his training, which is generally not steep if averaged over a worker's lifetime. This should work itself out so that premiums for training, which opens up fairly pleasant jobs, are offset by premiums that must be paid to workers for sticking at crummy jobs in crummy conditions.

And finally, in the theoretical free-competition economy, profits are held down to the general level of wages. If they are not, workers will either go into business for themselves, or at least save enough to invest in high-profit enterprises. Capital will become more plentiful, and profits will decline in relation to wages.

"The competitive model is a theory of immense elegance: it is internally consistent; it leaves no economic factor unconsidered; and it is easy to understand. There is only one thing wrong with it, and that is that it does not work."

For if the competitive model - in the stripped-down version presented here, or in the one with all the options provided by its adherents - did bear any relation to reality, the structure of wages and profits in Canada would be a lot more equitable than it is; and, furthermore, it would be heading visibly towards complete equality for all. In fact, the wages paid in the Canadian economy are quite unequal, and there is no evidence to show that this inequality is decreasing. None of the mechanisms that are described in the competitive model seem to operate as they are supposed to; for example, the crummiest jobs in the Canadian economy, which should be paying high wages in order to attract workers at all, are in fact offering the crummiest wages.

Some of the reasons for these inequalities are to be found in the "skill mix" in various industries - that is, the number of highly skilled workers in relation to unskilled workers in any one line of work. High-wage industries usually have higher concentrations of highly skilled workers than low-wage ones. But differences in skill mix do not tell the whole story; for workers with equivalent skills are still paid worse in generally low-wage industries than in high-wage ones. In other words, if you're in the wrong industry, it doesn't much matter how many skills you have - your wages will be lower than if you switched to

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