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Full Employment in a Conserving Society:

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Mainstream economics has no satisfactory solutions to our major problems of high unemployment, inflation, government debt, resource depletion and environmental damage. Any action to reduce one or more of these problems, within our existing economic framework, simply aggravates the others. In typical Canadian style we have settled for a compromise between all the problems, leaving a large proportion of our people in a state of poverty and despair. There is a better solution.

## The 2-Stream Concept

For more than two hundred years economists have described the flow of money through the economy as a single circular stream. But since the mid-1920s, and increasingly in the past thirty years, economic activity has divided into two very different types: one involving the production and distribution of goods and services; the other concerned with the trading of already-existing assets. Most of the latter activity is obviously inflationary, since its very purpose is the purchase of assets at a low price, and their resale at a higher price, with no corresponding addition to the quantity of assets.

Let's hypothesize two concentric streams of money. The first stream consists of claims on goods and services (including capital goods and government services) in process of production and distribution. The second stream comprises claims on that portion of already-existing assets currently being traded. (Note that all the rest of the assets are simply represented by figures on balance sheets recording their ownership and book value; that is, they are not monetized.)

As the money in the production stream passes from hand to hand in exchange for raw materials, labor, services, finished goods, and round the circle again, profits are made and some high salaries are paid out, even during a depression. Thus with each circulation the ownership of the claims becomes less homogeneous; the money tends to form into clumps, like butter forming in a churn, while the rest of the stream thins out. Let's call this clumping and thinning the "buttermilk effect". As the circulation continues, the firms that have made profits, and individuals who have drawn large incomes, look around for the most profitable place to put their excess cash. They have a lot of choices: putting it back into the production stream; buying up assets such as real estate, other companies, sports clubs, art, etc.; buying claims on assets (stocks); loaning it (mortgages, bonds, Treasury Bills, etc.); investing in foreign enterprises; gambling on futures or foreign currency; and so on. If they don't see a strong continuing demand in the production sector (such as a housing boom or a military build-up) they're

not likely to put it back into the production stream because their profits have thinned out with the remainder of the stream, and as a result demand is already starting to slow down. Usually they'll put a substantial proportion of it into buying up existing assets. Thus the money is taken out of the thinned-out production stream, and diverted into the assets stream where it competes for limited assets and thus drives up assets prices. The inflation of assets prices then drags up prices in the production sector as new owners try to recover the inflated costs of their assets purchases.

Of course profits are made and high incomes realized in the assets sector as well as the production sector. In the U.S., profits and incomes in assets speculation and 'flipping' were phenomenal in the 1980's; personal incomes of over five million a year were not uncommon. Some of this excess cash undoubtedly went into production of new assets such as real estate developments, but much of it went back into more assets speculation, thus driving the price of assets still higher.

We should also note that not everyone makes profits in assets speculation; those who have paid too much for their assets and can't recover the high costs take a loss, and many of them go bankrupt. But this has only a temporary effect on assets inflation; assets prices have risen much further, if irregularly, than consumer goods prices in the past half century.

Traditionally, inflation has been described as "too much money chasing too few goods." This idea didn't seem very logical when there were lots of unsold goods around during inflationary periods, but it makes a lot more sense in light of the 2-stream theory, because assets such as Van Goghs and desirable sites for strip malls are always in short supply. We'll just change one word; inflation is the result of too much money chasing too few assets.

To recapitulate: at the present time, the principal cause of inflation is the bidding up of assets prices by individuals and firms with excess cash, and the consequent dragging up of production sector prices as new owners try to recover the inflated prices they paid for production assets; the principal cause of unemployment is the diversion of money from the production stream into the assets stream, leaving insufficient money in the production stream to maintain the previous level of production and consumption.

The 2-stream theory provides a logical explanation for the simultaneous occurrence of inflation and stagnation (stagflation). It is a better description of what is actually happening in the marketplace than the present one. We can now look at its consequences for public policy.

If a central government wants to stop inflation, it must tax away the profits and high incomes which are the source of inflation. But since banks, insurance companies, and other institutions consolidate small savings, and either loan the consolidated funds or purchase assets directly, the central government will also

have to use other dis-incentives such as increased capital gains taxes to prevent assets speculation. In addition, controls will be required to prevent the use of foreign capital to buy up assets. We should also note that sales taxes such as the GST, which are added to the cost of goods, are themselves inflationary; the only appropriate taxes to control inflation are taxes on personal and corporate incomes, and on capital gains.

Once we have accepted the idea that inflation (except for price rises caused by genuine shortages) can be controlled by appropriate taxes, we can also see that the federal government can inject money into the production stream to employ people needing work, without causing inflation, provided that it is taxed away again. This makes it possible to employ all our unemployed people, and to pay for their employment by simply issuing cheques on the Bank of Canada. But it can't be taxed away from the people to whom it has just been paid because they need it for living expenses, and they're already at the low end of the income scale; it has to be taxed away wherever it clumps up in profits and high incomes. There is no necessity for equivalence between the amount injected and the amount taxed away; we would expect the production stream to be wider after employing everyone who needs employment; consumption, production, and the volume of money in the stream would all increase to some extent. But the only increase in inflationary pressure would come from additional profits resulting from the increased consumption.

This brings us to another concept; in the 2-stream context, the purpose of taxation is not to raise revenue, but to control inflation. The federal government has no need of revenue in the traditional sense. It can pay for all its expenditures by simply issuing cheques on the Bank of Canada, which doesn't even have to maintain balances. It can control the resulting inflationary pressures by taxing away all the excess cash that is the source of inflation. The tax program would need maximum flexibility so that adjustments could be made as soon as Statistics Canada detects any evidence of inflation or deflation.

Since the federal government has no need of revenue, it also has no need to borrow. It can simply create money to employ people, then take it away again, or as much of it as is required to maintain price stability.

The 2-stream theory thus provides the conceptual framework for full employment, price stability, and elimination of the national debt.

## **The Communal Lesson**

Unemployment is unknown in Israeli kibbutzim and Canadian Hutter-ite colonies, irrespective of economic conditions around them. Members are employed wherever they are needed, in accordance with priorities established by committees or in general meetings.

No matter what they get for their products, these communities employ all their available labor, because all members understand that the labor of every person is needed to maintain or improve the living standard of the community. In busy periods even the very elderly and the schoolchildren help, while in slack periods members take their annual holidays.

The community may lose money on a particular product, owing to weather, market conditions, or other factors, but this has no effect on employment.

All members share equally whether the community makes a loss on its production. Complete equality in work, in incomes, and in decision-making ties the community together.

How can the two-stream concept described above, and the kibbutz-Hutterite method of separating employment and profitability, be utilized in our national economic management?

## **Solutions; Unemployment, Inflation, and National Debt**

The federal government could offer the following proposal to the provinces: “You will employ all your employable people who need work, at whatever work needs doing (environmental restoration, for example). The municipal councils, with provincial and federal input when desired, will decide on priorities. Local wage rates will apply. The federal government will pay all bills by simply issuing cheques. To prevent inflation we will take money out of circulation wherever inflationary pressures appear or pools of money accumulate. To this end, taxes will increase sharply on all capital gains, on business takeovers, and on speculative transactions of all kinds. Corporate and individual income taxes will steepen sharply so that no individual will have a net annual income larger than, say, \$75,000. Restrictions will be placed on transfers of money to other countries. Low-interest loans will be available to the production sector and for individual housing.”

Thus by a few simple changes in legislation, and some major changes in our thinking, we can accomplish nationally what the kibbutzim and Hutterite colonies have accomplished on a small scale.

## **The Environmental Dimension**

The programs outlined above solve our worst economic problems, and provide a partial solution to the environmental/economic conflict, since they enable us to maintain full employment even when production is restricted or regulated to reduce resource exploitation and pollution. Moreover, some of the available labor can be employed in environmental restoration.

## Competition: The Villain

However, we haven't yet begun to deal with the basic source of most of our environmental problems; i.e., our competitive economic system which forces producers of every kind into exploitive production methods in order to stay in business. The results are everywhere: clear-cutting of forests, large-scale chemical farming, battery production of poultry and livestock, strip mining, dumping of toxic wastes into the nearest stream which will carry them elsewhere, replacement of natural materials with cheaper but polluting petro-chemical derivatives, massive advertising and packaging which wastes resources, throw-away products, and so on.

To stop this exploitation of the environment we have to change the system which makes it necessary.

## Stabilizing the Domestic Economy

Numerous researchers have shown that cooperation is more effective than competition in a wide range of activities including sports, scientific research, arts, education, and economic production.

We have a mechanism for cooperation in farm marketing boards and the quota system. Some farmers are opposed to these, but the majority favor them. This system could be extended to include much more of our production. The boards would assign quotas, ensure that environmental standards are met, buy the products at prices that would give the producers a fair living, and sell to producers and retailers. If there is a loss on, say, perishable fruits or vegetables which must be sold below cost to clear the market, the loss would be absorbed in the overall operations of the board. In any case, the community benefits from the low prices.

The quota system is now used extensively in taxicab licensing. to ensure that everyone in the business has a chance to make a reasonable living. It is also used in various professions and trades. The system could be extended to other services and to retailing, as part of a major effort to replace competition with cooperation.

Besides changing our system of production, we need to reverse some of the damage already done. For example, all large farms, presently machine-operated, fertilized with chemicals, and sprayed with insecticides, can be converted to organic mixed farms. Highly-polluting beef feed lots and pig and poultry farms can be eliminated, with all animal production being allotted to the organic mixed farms where the animal wastes can be used beneficially on the land instead of being another source of pollution.

To implement these changes, many more people will be required in agriculture, and fewer will be needed in advertising, packaging, sales, and various other activities characteristic of the competitive society. In any case, extensive occupational changes will be required to convert from our present exploitive production scene to a sustainable one.

In planning these changes, we could encourage the establishment of cooperatives and kibbutzim because of their demonstrated social benefits, resource saving, and environmental care. An example might be the establishment of a kibbutz to manage a block of forest. Preferably it would have enough agricultural land to be reasonably self-supporting in food. The rest of its needs would be met by exchanging for forest products. It should produce just enough surplus to pay its fair share of general social costs. Its main objective would be the perpetual care of its block of forest with associated flora and fauna.

## **Stabilizing External Trade**

If we have to get rid of internal competition in order to protect our environment, we obviously have to protect it from external competition as well. If we permit imported goods to compete with the products of our quota system, we will quickly lose a large part of our production base, and become simply a poor raw materials supplier, highly vulnerable to the instability of the international market-place. So the free trade agreement with the U.S., and our membership in GATT, must be cancelled and replaced by an import control system supporting our overall objectives of full employment and sustainability.

Some things can't be produced in Canada at all (citrus fruits, bananas, tea, coffee, cotton, for example), and many other things can only be produced at very high cost. These we must import. But we can produce a large range of goods at a cost only slightly higher than the cost of imported goods. These we should produce domestically because of the numerous benefits of diversified production (economic spin-off effects, greater community stability, more individual opportunities to acquire a wider range of knowledge and skills and to find agreeable work, less need to exploit and export scarce resources to pay for imports that we can produce ourselves, and so on).

Of the various methods of controlling imports, bilateral agreements are the best because both imports and exports can be specified, prices can be negotiated until both parties are satisfied, no one is discriminated against, the environmental consequences can be accurately assessed, unnecessary goods and services can easily be kept out, and both parties are satisfied, no one is discriminated against, the environmental consequences can be accurately assessed, unnecessary goods and services can easily be kept out, and both parties have assured markets which help to stabilize production.

The following industrial and trading strategy would support our objectives:

1. We would analyze import information for the past several years to identify all the imported items that we could produce ourselves at a cost within say 20
2. The federal government would then contract with Canadian producers for production and phased delivery of all identified items to Regional Marketing Boards established throughout the country.
3. Producers would be paid by federal government cheque drawn on the Bank of Canada. Foreign suppliers would be warned, when domestic production contracts are signed, that imports would be cut off at a specified date.
4. Regional Boards would take orders from wholesalers and retailers, arrange deliveries from producers to buyers, and accept payment.
5. The federal government would analyze export data for several years and, in consultation with suppliers, would draw up lists of items, with approximate quantities and costs, that could be produced for export each year.
6. The federal government would then arrange bilateral agreements with foreign governments to exchange specified quantities of goods and services at mutually agreeable prices for a specified number of years. Canadian negotiators would of course try to get the best possible terms of trade, but if it were necessary to sell certain goods or services below the cost of production, in order to pay for needed imports, the federal government would make up the loss to the producer. Poor terms of trade would show up as an overall reduction in the Canadian standard of living. An objective of these negotiations would be to arrange contracts for as long a time-period as possible with a view to improving the stability of producers and communities in both countries. Competition would thus be replaced by cooperation in our external trading.
7. A residue of trade would be permitted outside the bilateral agreements, mainly for the benefit of returning travellers and catalog shoppers, and would be subject to tariffs.

## **Foreign Investment**

Foreign investment was needed in Canada when we had little surplus capital of our own, but we no longer need it, and the profits and interest are a continual drain on our economy. We should liquidate all foreign investment as quickly as possible.

On the other side, Canadian investment abroad should be strictly regulated since it affects our balance of payments as well as our internal operations. In



practice, since our tax program will remove a large part of profits and high incomes, there will be little money available for investment abroad.

Here are some of the benefits of the foregoing programs:

1. Unemployment would be eliminated;
2. inflation would be eliminated;
3. the national debt would be eliminated;
4. the Unemployment Insurance program, a large bureaucracy, would be eliminated;
5. welfare programs would be reduced;
6. public resentment at having to support some people who are avoiding work would be eliminated;
7. income differentials, which have increased in the past twenty-five years, would be reduced;
8. environmental damage and resource exploitation would be reduced;
9. public morale would improve with everyone working;
10. crime, particularly juvenile crime, would be reduced since all employable youths would be working or taking training;
11. municipalities could improve their service to the public at no extra cost;
12. business failures would be reduced, and community stability improved;
13. the diversification of production would provide a better choice of jobs.

This is an impressive list of benefits. The cost overall would be a small reduction in living standards, perhaps 5

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