REVIEWS/COMPTES RENDUS

REVIEW ESSAY: MACDONALD ROYAL COMMISSION REPORT

Report of the Royal Commission on the Economic Union and Development Projects for Canada. Ottawa: Minister of Supply and Services, 1985; 3 volumes (xxii + 385; 827; 669 pages); $45.00.

The Macdonald Royal Commission took three years and spent roughly $21 million. In addition to the three volumes of the main *Report*, there are 72 volumes of background research. This review will cover only the main *Report*, which is not entirely satisfactory because many of the assumptions and assertions of the *Report* rely upon the research papers. Nonetheless, even this restricted material leaves the reviewer with a prodigious task, given the 1900 pages that it covers.

The major economic recommendations of the *Report* concern free trade and labour market adjustment. Both can be described, by the *Report's* own admission, as a "leap of faith". In fact, the two may well be only one basic recommendation: free trade. Given the inability of the Commissioners to specify who will benefit from free trade and the definite structural changes that it will require, the recommendations for changing unemployment insurance and social programs appear to be the stick and the carrot to reduce the natural resistance to the inevitable changes the free trade policy would require.

This policy is not simply a straw being grasped, although the *Report* implies as much when it confesses that "given Canada's increasingly isolated position in the international economy at large, it is difficult, in any case, to conceive of a genuinely effective alternative trade policy" (I:350). The free trade recommendation and its concomitant restructuring of the Canadian economy and polity is based on a set of assumptions, on a belief in the conventions that pass as wisdom among a powerful minority of economists. To understand the *Report*, its recommendations, and its fundamental weakness, this review outlines the basic assumptions and their links with various policies. The assumptions are then analyzed for inconsistencies, with each other

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and with some of the observations in the *Report*. The final sections deal with the Commission's regional analysis and suggest an alternative to their approach.

The Assumptions

While the *Report* claims to espouse no single ideology (I:xxi), the basic assumptions are very much neoclassical economics. The private marketplace is assumed to be efficient and to serve the public interest, to act as a perfectly competitive market. Despite references to unemployment, the underlying analysis of the *Report* assumes full employment. This assumption often is not explicit, but certainly implicit if much of the analysis is to make any sense.

A lesser set of assumptions includes the importance of economies of scale, of productivity growth, and of research and development. Economies of scale are accepted as generating efficiency and therefore necessary if a firm, industry, or country is to compete in the international sphere. The *Report* notes (I:245; II:186) that Canada is the only major industrial nation that does not have unrestricted access to a market of at least 100 million. Other assumptions are that productivity growth is absolutely crucial, that technology is the way to achieve it, and that technological change is a function of research and development expenditures. The *Report* has an awe-struck, "gee whiz" view of technology and appears to assume that the giants are efficient because of their economies of scale in production and R&D.

The *full employment assumption* is central to the entire report. Of course, the *Report* recognizes the existence of high unemployment in Canada and around the world. Some small part of this unemployment is, however, considered cyclical and therefore temporary. The bulk of Canada's unemployment, 6.5 to 8 percent the *Report* claims (II:587; III:159), is the modern form of frictional unemployment, "variously called the 'natural', 'normal' or 'full employment' rate, or more neutrally, the 'non-accelerating inflation rate of unemployment' (NAIRU)" (II:276). The *Report* has accepted the rationale that structural rigidities in the labour market, including "generous" payment levels for unemployment insurance and "high" minimum wages (although neither would support a family of four at the poverty line) have pushed the NAIRU progressively higher since the 1950s. Thus the *Report* claims that since 1945 "Canada has experienced relatively high employment" (II:270), despite the fact that we have had unemployment rates below 4 percent for only three of the last thirty years!

If it is assumed that the economy is generally operating at full employment, then the Commission is correct in claiming that we can increase our welfare only by productivity growth or by increased and

freer trade. Productivity growth expands our capacity to produce with our fully employed resources. Greater trade allows specialization, and the gains from trade are greater consumption, not greater employment. Nor is the latter even a concern if the economy is at full employment. Thus the argument for free trade cannot be the popular one, that "the gains from trade are the gains from jobs" [3]. The *Report* correctly warns that trade will create different jobs, in the Commission's view primarily among the 20 percent of Canadians employed in manufacturing.

The argument for free trade must assume that each country is on its own distinct production possibilities curve. If we have unemployment, if we are inside our production frontier, we do not need greater productivity or trade to improve our well-being; we need policies to create full employment, to move us out to the production frontier. With unemployment, the cost of utilizing unemployed labour is negligible and the opportunity cost of increasing the output of any good is theoretically zero. Since the comparative advantage logic of free trade is based on differences in opportunity cost, it is a full employment logic.

Similarly, the *Report's* view of the need for and efficiency of international capital markets rests on the assumption of full employment. The unrestricted flow of financial capital is necessary so that areas of the world with full employment can increase investment (or consumption) by access to another area's surplus of financial and real savings. If the equality of savings and investment is to be more than an *ex post* truism, its significance is in the constraints imposed by a full employment economy. Such an economy cannot have more investment unless there is more savings, releasing output from consumers and making it available for investors. Such real transfers are not confined to national borders if finance capital is free to flow internationally. Thus, to make the international financial system virtually sacrosanct, the *Report* (II:330) assumes that the countries who benefit from inflows of foreign capital must be experiencing full employment.

The assumption of full employment might explain some of the tax proposals of the Commissioners. They suggest that we shift away from personal income taxes to consumption taxes (II:206, 384) because they feel that income taxes, particularly on wealth income, discourage savings. Again, they must be assuming a fully employed economy, in which to have investment for productivity growth requires that we discourage consumption. While the *Report* recognizes that our tax system is regressive (II:563) and that tax provisions are "perverse", aiding primarily the wealthy (II:548, 782), the promotion of a regressive consumption tax could be justified only by the additional assumption that the growth stimulated by increased investment will redistribute income

to the poor. Why else would it be in Canada's interest to have heavier taxation on the poor and less on the rich? Nonetheless, the *Report's* data show that since 1951 growth has left the poor with no increase in their share of income (II:565). Apparently, future growth will be different.

It might also be argued that full employment is implicit in the Commissioners' consistent concern with efficiency - in production, in taxation, in financial markets, in regulation. If there were not full employment, then the high levels of unemployment and underutilization of plant capacity would be a glaring example of inefficiency. Getting the unemployed back to work, producing to meet more needs, clearly would be the priority, for both the economic and social gains involved, at little real cost. Since relatively little is made of the large and permanent losses resulting from unemployment, the *Report* must be assuming full employment.

The *second major assumption* of the *Report* is that the private market economy works well, or could work well if government interference were reduced. While the Commissioners recognize the lack of competition in some areas, they apparently feel that it is not serious. Oligopoly does not seem to represent a serious compromise with their assumption of perfectly competitive market behaviour. Even oil is said to be "freely marketed" (II:482). The *Report* assumes nearly absolute mobility of financial capital, although concern is expressed about provincial attempts to create regional pools of capital to be used for social ends. Labour is assumed to be highly mobile, with the major impediments arising from the distortions caused by government policies with respect to social assistance, unemployment insurance, and minimum wages. Similarly, product markets are assumed competitive, except where distorted by marketing boards which control supply and price. Provincial barriers to product flows are noted, but not considered to be serious.

This faith in the basic competitiveness of the marketplace leads the Commissioners to recommend less government interference in the affairs of business and changing our social programs to "remove disincentives"; that is, to force the unemployed back to work. Thus the major emphases are on affecting the supply of labour and on deregulation. The *Report* calls for a Code of Economic Conduct, not for the oligopolists, but for the provinces!

Related to this acceptance of oligopolies is the Commissioners' belief in the existence of significant economies of scale which can only be achieved in a large market. The Commissioners suggest the increases in corporate concentration in Canada since 1975 will increase efficiency (II:218) and even benefit labour (I:348). By moving to free trade, our corporations will be able to achieve economies of scale while

subject to the "dynamic competition" of the international markets. The latter will apparently protect Canadians as consumers and workers who are confronted by increased corporate power.

Finally, the Commissioners' belief in technology and R&D leads them to deviate from their laissez-faire stance. They assume that R&D expenditures are responsible for technological change, despite the evidence that the major breakthroughs still come from isolated, inventive individuals, not from the R&D labs of the multinationals. The *Report* recommends the continuation of grants and subsidies to private R&D, ignoring the question of why Canada, with some of the most generous government support for private R&D, has the lowest level of R&D activities in the OECD countries (II:98). With their faith in the private sector, they see no reason for the government to constrain or to control the use of government subsidized research and development. "Of course, technology developed with the assistance of a subsidy or a tax measure is the exclusive property of the firm involved" (II:103).

The Inconsistencies

The Macdonald Commission is inconsistent in its logic, and its analysis contradicts its own data. For instance, to argue that Canadian firms are not currently able to achieve economies of scale is to imply that our economy is not competitive. In competitive markets, each firm is forced by competition to seek the scale of plant which generates the lowest possible average cost. If economies of scale exist, each firm will be forced to achieve them. To argue that firms are not realizing these economies is to argue that the firms are oligopolists, which means their profit maximizing level of output is lower, and their costs higher, than they would be if forced to operate at a socially efficient output. Under these market conditions, the obvious policy is not deregulation. To defend their deregulation position, the Commissioners fall back on the assumption that free trade and international competition will replace governmet regulation in forcing the oligopolies to be efficient. Yet they note (I:161) that there may be entry barriers to international markets.

The Macdonald Commission recognizes that the free trade position requires "competitive forces at work in international trade and the effective operation of the price system" (I:226). Nonetheless, its assumptions about economies of scale suggest that markets may not be competitive and therefore the anticipated beneficial terms of trade need not result. In addition, with 80 percent of the multinational coporations' exports and imports in Canada non-arms-length (I:243), can we

be sure that trade reflects comparative advantage, or it is determined by the inter-sibling trade rules of the multinational parent?

More basically, the comparative advantage of theory is not the comparative advantage of modern practice. Corporate investment decisions are based on subsidies and concessions negotiated with governments, not "solely on factor costs or market opportunities" (I:242). This "negotiated" comparative advantage means that corporations use their global reach to locate where they can extract the most concessions, not where they can extract resources most efficiently. It is not simply a "reinterpretation" of comparative advantage. It is an undermining of the assumptions of the theory. The location decisions of the multinationals are determined by their comparative strength over governments, not by economic efficiency. Corporate profit is maximized, not output and welfare. At best, it is self-delusion to claim that the benefits of trade are those of economic theory and that we can improve welfare by free trade in an international system which is anything but competitive.

Can the Commission then fall back on the jobs argument, that free trade will expand exports and employment? They seem to (I:239, 241), but that would be admitting to the existence of unemployment and remove another assumption inherent to the free trade logic. It is true that exports can create more jobs, but the unemployed could create more goods to meet domestic needs, not the needs of the foreigners who consume our increased exports. And the U.S. will also be expecting to increase its exports to Canada to reduce its huge merchandise account deficit. The net employment effect will depend on the relative labour intensity of the imports and exports. If free trade means more resource intensive exports for Canada, it also means fewer jobs. Jobs is neither a theoretical nor a practical justification for free trade.

But the Commissioners believe we have full employment, although occasionally they concede that unemployment is involuntary, serious, and long-term. The acceptance of the NAIRU seems to be based on its growing academic support; the Commissioners cite first "some", later "a majority" (II:280), and finally "most" (II:363) economists as believing in the NAIRU. Even if this were true, the Commission's analysis is inadequate. Why has the NAIRU generally been higher in North America than elsewhere, including Scandinavia and Germany with much stronger social security programs? If the NAIRU rose so quickly in the 1970s, might it have dropped after prolonged unemployment? Can the NAIRU be simply a function of labour supply distortions? Can there be no contributions to it from the oligopolistic market structures that prevail in Canada? Have the Commissioners not wondered about the market behaviour of industries, such as pulp and paper, which publicly call for firms to practise "price discipline" when confronted by falling demand, suggesting that shut-downs are better than falling prices? Do the Commissioners not suspect a correlation between the rising NAIRU and the growth in the interest component of Net National Income from 1.8 percent in 1947 to 10.6 percent in 1982?

Even if one shares the conviction that the NAIRU can be lowered by sweeping changes in unemployment insurance and social programs, is it worth it? If the 1971 unemployment insurance changes were responsible for an increase in unemployment of one to two percentage points (II:305) and the 1979 changes lowered the NAIRU by half a percentage point (II:590), and since some of the longer job searches increase the stability and efficiency of the labour market (II:592), the drastic changes in unemployment insurance proposed in the *Report* might bring only another half percentage point drop in unemployment rates. Is the social cost to all of the unemployed worth the push given to 5 percent of them? Should we not worry about the other 95 percent and develop policies to deal with the non-labour sources of our costly, in economic and human terms, unemployment levels?

Practicalities

Even if we ignore the theoretical flaws in the *Report's* recommendation for free trade with the U.S., there are very practical problems. Can we expect to negotiate "free and secure" access to the U.S. market, at any price? Free access perhaps, because we are not really negotiating over much. The Tokyo-round negotiations mean that 80 percent of our goods will enter the U.S. free of tariffs by 1987 (I:311) and another 15 percent will face tariffs of 5 percent or less. The range of goods to be negotiated is therefore relatively small. The *Report* sees the 5 percent tariffs as high enough to restrict some of our exports that have only a slight comparative advantage. They fail to note, however, that our high interest rates, designed to support the exchange rate, are putting our exports at an even greater disadvantage.

It should be possible to negotiate the removal of remaining tariffs, but it is not nearly so likely that we will get the U.S. to forgo their non-tariff barriers (NTBs). These NTBs are much more difficult to deal with, since they are often justified on health or other non-economic grounds. Frequently, they are introduced to protect specific interests, and the *Report* notes that U.S. trade policy is very much the hostage of special interests (I:302). Even if the NTBs were removed, it is unlikely that the U.S. would give up its countervailing and safeguard provisions or turn their administration over to a joint board. Thus the sectors which face tougher Canadian competition are likely to employ

the variety of tactics currently at their disposal and Canadian business would be faced with most of the problems they now encounter with NTBs. If Canadian business did restructure with the negotiated free access to the U.S. market, they might quickly discover that access was far from secure, however great the godwill on either side.

There is also the nagging doubt about how free the agreement would be. The *Report* acknowledges that the trade liberalization of the GATT has been distorted to meet the interests of the powerful (I:283ff.), especially the United States. The U.S. has used its power to force its view that the social objectives of nations should not interfere with the functioning of the free [=private] marketplace (I:246). If the U.S. can impose its will in the international forum for free trade, how much more leverage will it exercise on Canada's negotiators? Will we really get free trade and at what cost?

The U.S. side will argue that our social programs, tax policies, and regional subsidies are unfair intrusions into the marketplace. They might claim that medicare is an indirect subsidy. But will they accept (will we even have the sense to argue) that their less stringent pollution or occupational health and safety standards are a form of subsidy and should be brought into line with ours? If not, our firms will argue that our laws make them uncompetitive and the pressure will be on Canadian governments to lower our standards.

The Commissioners also identify the costs to our sovereignty in foreign affairs, but somehow feel that the greater pressures will make us stronger in resisting. Given the record of Canadian government over cruise missiles, and so forth, this seems uncomfortably naïve. The costs of a "successful" but not secure set of negotiations are therefore likely to be very high economically, socially, and politically. We may well have to give up many of those things which make Canada different from the United States.

If we negotiate free and secure access, will our tariff-protected management be able to compete in the new environment? The Commissioners assume competent and independent managers. Given the high degree of foreign ownership in Canada, it is not at all clear that Canadian management will be able to flex its muscles. It may be constrained by head office, which set up its Canadian operations to serve the tariff-insulated Canadian market. Even if it has the persmission, does Canadian management have the will to act? The *Report* suggests that bad management can be found in mining (II:475) and in forestry (II:449), two of the major resource industries. One might also infer lazy management in Canada, since the arrangements negotiated with the European Community for greater access for Canadian exports "have not caught the imagination of the private sector" (I:250). Can we count on our managers to rise to the challenge?

There are other problems. Would free and secure access generate the economies of scale in production that the Commissioners assume necessary to make us competitive? International markets are dominated by a few large companies. In some industries, Canadian firms may not be allowed into external markets or may simply be folded into existing international cartels. Since these arrangements are not altruistic, the foreign firms will require a quid pro quo from the Canadian entrants, possibly a share of the formerly protected Canadian market. Therefore free trade may neither expand the size of Canadian production nor increase international competition here.

If the costs are high and the economic benefits uncertain, will free trade provide a net benefit to Canada? The Commission ultimately falls back on a psychological appeal to our nationhood: "Until these barriers are gone, the exhilaration that can come from a true sense of maturity will remain beyond our nation's reach" (I:354)! Which is like arguing that you have not proved your manhood until you have gambolled naked in the snow while the rest of the world remains securely bundled. One risks the point in making it.

Regional Disparities

And what of regional disparities in all of this? They are treated as a political problem, relegated to Volume Three, the Institutional Context. This perhaps reflects the lack of a theoretical consensus on regional disparities and the Commission's unwillingness or inability to develop a satisfactory analysis (III:198). Instead, their regional policies reflect their basic assumptions of competitive markets, mobile factors and products, and distortions in labour markets because of social policies.

Since the Commissioners assume competitive markets and the mobility of factors and outputs, the "explanation for differential earnings lies in worker productivity . . . in output per employee." This, in turn, is related to, "lower capital-to-labour ratios, . . . fewer years of education, slower adoption of new technology, poorer management, fewer and smaller urban centres, and greater distance from important markets." But the *Report* correctly states that "to note these associations, however, is not to explain them" (III:203). With no theory, they can only describe.

But even this description is not particularly useful. Capital/labour ratios are an indication, not an explanation, of regional differences [1]. Moreover, the *Report* seems to be ignoring the fact that capital/labour ratios are high in low wage regions [2:82-83]. While these data are contradictory to the neoclassical theory of regional markets, they are consistent with the Commission's own observations about monop-

sonistic labour markets (II:454) in the Atlantic Provinces. If two regions were identical except one's labour market was monopsonistic and the other competitive, we would have permanently lower wages in the monopsonistic market and a higher capital/labour ratio there.

The Commissioners' inability to recognize the implications of the monopsonistic labour markets in the poorer regions of Canada leads them to recommend precisely the wrong labour policies. In a monopsonistic labour market the wage is less than the marginal product of labour. Moving labour from a low wage monopsonistic market to a higher wage competitive market can mean that there is a net loss to society from migration. The marginal product of labour in the low wage region may be above the wage in the high wage region; that is, above the marginal product of labour there. Although the migrant gains the difference in the wages by moving, total output falls by the difference in the marginal product of labour in the two regions. In that event, minimum wages need not be considered "unrealistic" (III:213) nor would policies to stimulate migration to the high wage region promote increased efficiency, since workers would be moving from the region where their marginal product was higher. The Commission's policies of removing the regionally biased unemployment insurance provisions make sense if the high unemployment regions have competitive labour markets. Under the conditions actually experienced there, such a policy not only creates disastrous human consequences but inefficiency as well.

The Macdonald Royal Commission *Report* sticks to its assumption of competitive markets, with policies to enhance labour mobility through changes in unemployment insurance, minimum wages, and labour force training. Consistent with their market logic and the imperatives of free trade negotiations, they recommend an end to federal regional subsidies to corporations and suggest the funds be diverted to provincial governments. They also recommend increased co-ordination between provinces and the federal government in economic and social policies. The Commission suggests institutional reforms to increase regional sensitivity at the federal level; for instance, an elected Senate with representation favouring the economic and geographic peripheries.

Post Mortem

In the final analysis, the Macdonald Royal Commission has been a costly failure. The expense is not just the millions spent on the report but the time that has been lost while the economy continues to limp along. The Commissioners have failed to expand the academic debate or to hear the public concerns. They have locked themselves into the

assumptions and policies responsible for the problems the Commission was established to deal with. They have maintained the fears and priorities used to justify the contractionary policies of the last decade. Fighting inflation has priority over dealing with unemployment, since those who believe in a NAIRU "will not tolerate the inflation that would accompany" an expansionary policy to reduce unemployment (II:280). The *Report* even implies that exchange rate protection might take priority over unemployment (II:269), because they have introduced a new monster into the economists' hall of infamy - a "free fall" in the exchange rate (I:320)!

The slaves of their assumptions and priorities, the Commissioners are not free to contrast their descriptions of the real world with their models. They cite the theoretical proposition that international capital mobility will increase efficiency in a competitive world. They recognize that the world is not competitive, and that the mobility of capital limits our monetary (II:297) and our fiscal (I:202; II:384) policies, yet they reject the possibility of controls over capital flows. Their assumptions are strangling them, yet they "sing in their chains like the sea" [apologies to Dylan Thomas].

Had they broken free of their conventions, the Commissioners might have used their own evidence to form a different view. They recognize that real interest rates are excessive (I:139; II:329), that they drive up the exchange rate (II:296), and that this exchange rate effect stimulates our imports and cuts down our exports (II:302). They worry about low private expenditures, consumption and investment, and about high government expenditures. They do admit that government spending is necessary to offset the fall in private spending, but they fear the rising government debt. Apparently because of fears of inflation, of violating an implicit international trust which the major traders ignore, and of interfering in the private market, the Commissioners fail to relate all these factors.

Interest rates are high because of the rigid monetarism being followed in the United States, where they refuse to expand the money supply to finance their military-driven deficit. Thus they inflict high interest rates on themselves. The inflow of foreign funds attracted by the high interest drives up the U.S. exchange rate and causes the current account deficit. This leads to protectionist measures in the U.S. and to the Canadian call for free trade.

In Canada, the sanctity of the international "integration of capital markets" (I:139; II:329) and the fear of inflation lead to a policy of trying to maintain our dollar at some desired level vis-à-vis the U.S. dollar. To do this, interest rates in Canada must also be excessive, so that we too attract foreign funds. But these funds require future ser-

vicing, which puts additional downward pressures on our dollar and requires still greater efforts to prop it up.

The real effects of this policy are devastating. The exchange rate effects of high interest cut our current account surplus and harm our export and import-competing industries. The high interest rates cut consumption and investment expenditures directly. They also were a major factor in the jump in the government deficit as they drove up internal debt servicing costs, now the largest single component of the federal budget. The high interest rates therefore put pressure on governments to cut back expenditures in order to cut the deficit. Employment and services drop still further. Thus high interest rates, the result of our unwillingness to control capital flows in our own interest, have depressed every component of aggregate demand and contributed massively to our unemployment.

An analysis of interest rates and how to regain control of monetary policy suggests at least one alternative to risky free trade negotiations. The obvious approach would be to lower interest rates, accept the exchange rate fall and short-term inflationary pressures it would entail, and revel in the expansion of the economy. While a falling exchange rate would be inflationary, the falling interest rates would put downward pressure on inflation through their effects on mortgage rates and on government and corporate debt-servicing expenses. In addition, falling interest rates would create one of the Commission's necessary conditions for real investment, helping firms to "rebuild their balance sheets" (II:86). An interest equalization tax and other control measures would not only limit the exchange rate fall but would also generate revenues to help lower the deficit. Such an interest policy is not only consistent with the facts presented by the Commissioners, but could be implemented immediately, without time-consuming and uncertain negotiations.

That is not to suggest that there is nothing good in the *Macdonald Royal Commission Report*. There are good things. The *Report* advocates a tough and intelligent stand on the environment, calling for polluters to be responsible for their damage. It recognizes the need to shift the financial base of municipalites away from the regressive property tax. But the major recommendations, all related to the push for free trade with the United States, are balanced precariously on the weak foundation of the assumptions.

One final comment, on the layout of the report. Topics are scattered throughout the three volumes, and particular subjects are difficult to identify from the table of contents at the beginning of each volume. An interesting example is the set of dissenting statements

listed as "Supplementary Statements". They are found at the end of Volume Three and are worth reading first.

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L'Entreprise multinationale et l'État. Un exemple du couple fascination-répulsion. Bernard Bonin. Montréal, Éditions Études vivantes, 1984; 292 pages.

Chargé d'en faire un compte rendu, j'avais emporté *L'Entreprise multinationale et l'État*, de Bernard Bonin, comme lecture de vacances. Erreur ! L'ambiance était mal choisie : il m'en est resté une certaine impression de lourdeur... Pourtant, l'auteur n'y est pour rien : il spécifie bien clairement, dans sa préface, qu'il s'agit d'un « ouvrage de référence qui fait état de nombreux travaux, en langue française et en langue anglaise, et qui devrait [...] inciter et [...] aider à explorer davantage le sujet ».

Le livre est divisé en quatre parties. La première comprend trois chapitres. Le chapitre premier est consacré à la mise en place de la terminologie : on y circonscrit le concept d'entreprise multinationale, en même temps qu'on y définit les notions qui lui sont reliées, tout en établissant les distinctions qui s'imposent (investissement direct, holding international, organisation ethnocentrique, polycentrique ou géocentrique, etc.). Ce sont les chapitres 2 et 3, complémentaires, qui présentent réellement les données du problème. Le chapitre 2 retrace l'évolution de l'investissement direct international depuis le début du siècle : cinq pays (États-Unis, Canada, Grande-Bretagne, France et Japon) sont étudiés, à la fois comme pays investisseurs et comme pays d'accueil. Le chapitre 3 fait ressortir la structure des investissements directs et les caractéristiques de la multinationalité, à l'aide de données portant sur les dernières décennies.

La seconde partie du livre, qui comprend les chapitres 4 à 7, concerne la nature de l'entreprise multinationale. Les chapitres 4 et 5 ont une orientation plutôt théorique. Le premier examine le rôle de l'entreprise moderne, multinationale ou non, à la lumière de la théorie de l'internalisation des transactions (théorie associée aux noms de Coase et Williamson, en particulier). Quant au chapitre 5, il passe en revue les diverses explications théoriques de l'investissement direct à l'étranger, jusqu'à l'approche éclectique que l'auteur, comme la majorité des économistes, choisit de privilégier. Sans être théorique à proprement parler, le chapitre 6 cherche à dégager certaines généralisations concernant le processus microéconomique de multinationalisation, tel qu'il se déroule au sein de l'entreprise; l'auteur puise à plusieurs sources, notamment chez l'historienne Mira Wilkins et dans des ouvrages de management (études empiriques ou manuels); il cherche aussi à détecter des différences de comportement entre les multinationales américaines, européennes et japonaises, pour voir si l'origine de l'entreprise et sa taille, de même que la taille de son pays d'origine, peuvent avoir une influence. Le dernier chapitre de cette seconde partie traite de l'organisation de l'entreprise multinationale : on y passe en revue les grandes questions que pose la gestion internationale et l'éventail de solutions possibles.

Ce n'est qu'à la troisième partie du livre (chapitres 8 à 10) qu'on aborde le sujet annoncé par le titre de l'ouvrage : les relations entre les gouvernements et l'entreprise multinationale. L'auteur passe en revue les bénéfices et les coûts que peuvent apporter les multinationales, d'abord du point de vue du pays d'origine, puis de celui du pays d'accueil. Il fait ainsi ressortir les causes d'harmonie et les sources de tensions qui font de la multinationale et de l'État ce « couple fascination-répulsion ». La troisième partie, faite de considérations plutôt générales, sert donc de toile de fond à la quatrième partie, plus concrète.

Cette dernière partie du livre dresse un tableau d'ensemble des politiques à travers le monde. D'abord, le chapitre 11 fait le lien avec la troisième partie en brossant un portrait des réactions de différents segments de l'opinion face à la montée des multinationales; l'auteur consacre une attention particulière aux attitudes des syndicats. C'est au chapitre 12 que se trouve la revue des politiques nationales; ce chapitre présente une vue d'ensemble, suivie de l'examen de 16 pays représentatifs de l'éventail des réactions des États nationaux. Le chapitre 13, enfin, rend compte des discussions sur la réglementation internationale des entreprises multinationales.

Comme le montre ce résumé, le livre de Bernard Bonin touche donc à la plupart des questions d'analyse et de politique économiques qui se posent à propos de l'entreprise multinationale. Le nombre de titres cités est impressionnant. Et sans être proprement encyclopédique, le plan de l'ouvrage permet de s'y retrouver aisément. On peut donc dire que l'auteur a bien réussi dans son projet d'offrir au public un ouvrage de référence sur le sujet. Connaissant la persévérance monacale qu'exige pareille entreprise, on doit l'en féliciter. En outre, le livre est écrit dans un français clair et, compte tenu de la nature du sujet, assez élégant : c'est une qualité qu'il faut souligner en ces temps où, hélas, la correction de la langue ne va pas de soi !

Mais qui trop embrasse, mal étreint. Certains chapitres en effet m'ont semblé s'étendre trop longuement sur des généralités. C'est le cas des chapitres 7, 8 et 10, du chapitre 9 (sauf pour « L'accès à des marchés étrangers » et pour la conclusion sur les désinvestissements), et de plusieurs passages du chapitre 6. La troisième partie du livre (chapitres 8 à 10), notamment, laisse l'impression d'un long catalogue des arguments pour et contre les multinationales.

Il faut reconnaître toutefois que l'auteur n'avait pas la tâche facile. D'ailleurs ce qu'il écrit lui-même en conclusion du chapitre 8 pourrait s'appliquer à une grande partie des questions qu'on soulève à propos des multinationales : « L'image qui peut se dégager [des analyses] est complexe, peu claire. On est souvent forcé de faire reposer l'analyse sur des hypothèses de départ très fragiles [...]. En tout cas, le moins qu'on puisse dire est que la cause n'est pas suffisamment claire pour être entendue sans appel » (p. 156). Dans ces conditions, il est extrêmement difficile de faire une synthèse intellectuellement honnête qui n'ait pas l'air vidée de substance; que peut-on dire d'autre, en effet, au-delà de : il peut arriver ceci, ou il peut arriver cela mais les études empiriques n'ont pas permis de trancher la question.

À mon avis, la stratégie de présentation suivie par Bonin l'a laissé entre deux chaises. Assis sur la première « chaise », il eût abrégé radicalement l'examen des questions non résolues. Sur la seconde, il eût donné plus de chair à son texte en faisant sur certaines questions une revue systématique de la littérature : confrontation des résultats, comparaison des méthodes et jugement critique. À l'égard de cette seconde option, il semble qu'il ait déjà accompli une grande partie de la recherche bibliographique, comme en témoigne le grand nombre de travaux cités. Il faut néanmoins reconnaître que le travail qui resterait à faire demeure très lourd. En outre, cette stratégie de présentation eût orienté le livre vers un public plus spécialisé. (Mais une autre possibilité que l'auteur aurait pu exploiter consisterait à enrichir le texte d'exemples concrets tirés de monographies ou même d'enquêtes journalistiques, pour illustrer les possibilités théoriques qui sont évoquées.)

Mais les commentaires qui précèdent ne devraient pas faire oublier l'utilité de l'ensemble de l'ouvrage. Il faut signaler en particulier le grand intérêt des chapitres 2, 3 et 12. Dans les chapitres 2 et 3, l'auteur a su regrouper des données de sources diverses pour tracer un

portrait clair et vivant du phénomène étudié. (Il faut cependant mentionner que les en-têtes de certains tableaux portent à confusion : au tableau 20, p. 40, par exemple, le mot « parts » est mal employé; au tableau 7, p. 27, le libellé de la dernière colonne rend incompréhensible la présence de valeurs négatives.) Au chapitre 12 encore, Bonin parvient à guider le lecteur à travers une forêt de politiques nationales aux multiples facettes.

Il y a un dernier reproche qui s'adresse, non pas à l'auteur, mais à l'éditeur : l'absence de bibliographie. C'est une lacune difficilement acceptable dans un ouvrage « de référence », une lacune que corrige bien imparfaitement l'index des auteurs. Les références complètes ne sont pas toujours données en bas de page, et on a des *id.* et des *op. cit.* à qui mieux mieux. Par exemple, pour trouver le titre de l'ouvrage cité à la note 23 de la page 156, il faut remonter à la note 12 de la page 147. À l'ère des appareils de traitement de texte, il est inadmissible que l'on conserve ces méthodes moyenâgeuses, qui avaient pour but de ménager le plomb de la linotype ! Mis à part cette agaçante pratique, l'éditeur a fait du bon travail : typographie lisible, texte bien aéré, tableaux clairs.

En somme, il faut remercier Bernard Bonin de nous avoir donné cet ouvrage de référence en français. Et s'il est vrai que *L'Entreprise multinationale et l'État* n'est pas un bon choix comme lecture de vacances, ce livre devrait néanmoins se trouver à portée de la main de tous ceux qui ont un intérêt suivi pour ce phénomène.

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Le Choc démographique. Georges Mathews. Montréal, Boréal Express, 1984; 204 pages.

Les pays occidentaux ont connu une forte baisse de leur fécondité au cours des vingt dernières années. L'indice synthétique est passé partout ou presque sous le seuil de remplacement des générations (2,1 enfants par femme). Bien loin d'échapper à cette tendance de fond, le Québec a connu la réduction la plus forte. En quinze ans, de 1957 à 1972, la fécondité a diminué de plus de la moitié (passant de 4,1 enfants par femme à 1,8). Par la suite et jusqu'en 1979, le niveau de la fécondité a peu varié, se situant entre 1,7 et 1,8. Un nouveau mouvement à la baisse se dessine au cours des années suivantes : la fécondité diminue à moins de 1,5 en 1983.

S'ajoutent à cette baisse de la fécondité, depuis 1966, des pertes migratoires importantes au titre des échanges interprovinciaux. Et elles ne sont pas compensées par les gains que procure la migration

internationale. Il en est résulté une réduction du rythme de croissance de la population. Si les tendances en matière de fécondité et de migration devaient se maintenir, la population commencera à décliner dans quinze ou vingt ans. L'échéance pourrait toutefois être retardée d'une quinzaine d'années si la fécondité et le solde migratoire connaissaient un redressement significatif.

Il ne s'agit donc plus de s'interroger sur les avantages et les inconvénients d'une population croissante par rapport à une population stationnaire. La persistance des comportements démographiques actuels conduit à un déclin de plus en plus accusé de la population dès l'aube du XXIe siècle. Les termes du débat ont changé. La croissance de la population ne sera bientôt plus à la portée de la société québécoise. Faut-il se borner à s'adapter à une population décroissante ou convient-il de s'efforcer de redresser la situation pour se rapprocher de l'état stationnaire ? C'est l'alternative qu'examine Georges Mathews, économiste à l'Institut national de la recherche scientifique, dans son essai sur l'avenir de la population du Québec.

Rares sont les membres de la classe politique québécoise qui n'ont pas manifesté au cours des quinze dernières années une préoccupation, voire une inquiétude, à l'égard de la baisse de la fécondité. La question démographique n'a pourtant jamais occupé l'avant-scène du débat politique en raison de la concurrence que lui faisaient dans l'opinion publique les questions linguistique et nationale. S'il y a eu pléthore d'entrepreneurs en changements linguistiques et constitutionnels, les chercheurs et les intellectuels ont eu beaucoup de réticences à enfourcher le cheval de bataille nataliste. Hésitant entre l'attitude néo-malthusienne des démographes américains et l'attitude nataliste des ténors de la démographie française, les démographes québécois se sont cantonnés dans les études scientifiques. Le style neutre dans lequel ils livrent les résultats de leurs travaux favorise le dialogue en gommant les différences idéologiques. Seul un non-démographe pouvait tirer parti de cette lacune sur le marché des idées pour illustrer la nécessité d'un politique résolument nataliste.

Il ne suffit pas de présenter avec modération et nuances les arguments favorables à une idée pour convaincre les tièdes. Il faut aussi grossir le trait, choisir les arguments capables d'emporter l'adhésion, escamoter les incertitudes, convertir des raisonnements plausibles en certitudes et déformer quelque peu les positions des adversaires réels ou présumés. Mathews se conforme aux règles de l'essai-plaidoyer. Rédigé dans un style alerte et élégant, l'ouvrage expose simplement les principales tendances qui caractérisent l'évolution de la population québécoise, les situe dans un contexte plus large en mobilisant une vaste information sur la situation démographique des pays développés,

présente une critique vigoureuse et souvent juste de quelques idées reçues, se permet même de révoquer en doute l'une des idées motrices de la doctrine nataliste en France (le fardeau des retraites), propose des mesures susceptibles de redresser la fécondité et en chiffre le coût.

Les trois premiers chapitres sont consacrés à l'analyse des mouvements récents de la fécondité. S'il fut un moment vers la fin des années 1960 et au début des années 1970 où les démographes ont hésité à conclure que les générations nées après la Seconde Guerre mondiale n'allaient pas se remplacer, les résultats de leurs travaux sont fort clairs depuis une dizaine d'années [1:53], contrairement à ce que prétend Mathews. Il semble du reste mal comprendre le langage dont font usage les démographes pour décrire les mouvements de la fécondité. Quand ils indiquent que près de la moitié de la baisse de la fécondité entre 1957 et 1972 est imputable à un effet de calendrier, cela ne signifie nullement que l'indice du moment en fin de période sous-estime d'autant la descendance des générations en train de se constituer. On a pu montrer, sans attendre ses analyses, qu'au cours des années 1970 et au début des années 1980, le mouvement des indices du moment reflète bien l'évolution des descendances finales [2]. En fait, la distorsion imputable à un changement de calendrier porte essentiellement sur les indices des années 1950 et du début des années 1960. Les générations qui ont mis leurs enfants au monde durant cette période ont *toutes* eu, finalement, des descendances inférieures au niveau des indices observés au cours de ces années. Quoi qu'il en soit, on lira avec profit l'intéressante critique que fait Mathews de la prééminence accordée par beaucoup de démographes à la perspective longitudinale.

S'il pouvait y avoir un débat sur l'interprétation des indices de fécondité jusqu'en 1975 ou 1976, il n'y en a guère eu par la suite, tous se ralliant à la même analyse. Pour l'avenir, là encore les points de vue ont pu varier, mais ils se situent dans un couloir plus étroit depuis 1983. Mathews tient pour plausible à moyen terme, en l'absence de mesures natalistes vigoureuses, une fécondité de l'ordre de 1,5 enfant par femme. On ne peut le chicaner là-dessus, sauf qu'il fait montre à ce propos d'un manque de cohérence. Il prétend en effet que le premier et le deuxième enfants viennent encore facilement, mais que le troisième est maintenant en voie de disparition. Cette analyse valait jusqu'en 1979, quand la fécondité se situait encore entre 1,7 et 1,8. Lorsque la fécondité diminue jusqu'à 1,5, c'est qu'une fraction plus forte des couples décident de n'avoir pas d'enfant ou de n'en avoir qu'un. La pente à remonter est plus raide qu'il ne le croit. Pour retrouver le seuil de remplacement des générations, il faudra tout à la fois que se redresse la fécondité des deux premiers rangs et qu'augmente de manière importante la fécondité de rang trois. Cela suppose

un changement radical dans les normes sociales relatives à la fécondité. À 1,5 enfant par femme, seulement 15 % à 20 % des femmes ont trois enfants ou plus, tandis qu'à 2,1 cette proportion doit se situer entre 40 % et 50 %.

Faut-il à tout prix redresser la fécondité ou convient-il en cette matière d'adopter une attitude de laisser-faire ? Mathews s'en tient là-dessus à l'essentiel; il n'épuise pas la liste des arguments natalistes auxquels Sauvy, Chaunu et leurs émules ont eu recours en France. Il s'abstient de parler de « collapsus » démographique ou d'évoquer le « suicide de l'homme blanc ». Au Québec, les lois linguistiques de la dernière décennie ont assuré la prépondérance des francophones. Cela tient surtout à un phénomène non souhaité, du moins explicitement : les fortes pertes migratoires de la population anglophone. Mais ces lois ne sont pas des panacées. Un argument démopolitique classique est mis de l'avant par Mathews : la baisse de poids démographique du Québec de même que des francophones dans l'ensemble canadien. Mais même un redressement appréciable de la fécondité ne pourrait renverser cette tendance lourde, sauf à imaginer des scénarios, touchant les mouvements migratoires, qui mettraient en danger le maintien de la proportion des francophones au Québec.

On s'attend dès lors qu'il renforce sa doctrine par une panoplie d'arguments relatifs au surcroît de dépenses sociales que provoque le vieillissement démographique, en particulier en matière de santé. Il s'en tient à une réflexion lucide et pénétrante sur les régimes de retraite et en conclut que la hausse des prélèvements sur le revenu des actifs sera tout à fait tolérable, à condition toutefois que la productivité progresse d'ici 2020 d'au moins un pour cent par année. Mais cette maigre croissance économique sera-t-elle possible dans un contexte de déclin démographique ? Tirant parti des nombreux arguments que Sauvy a développés dans ses ouvrages et en y ajoutant à l'occasion des réflexions originales, Mathews répond sans beaucoup d'hésitation par la négative. C'est là le coeur de son essai. C'est aussi la partie la plus fragile, car on connaît fort mal les relations générales entre l'économie et la démographie. On dispose certes de nombreuses théories, mais elles ont rarement subi l'épreuve des faits. Pourquoi faudrait-il dans ces conditions accorder plus de crédit aux théories populationnistes qu'aux théories malthusiennes ?

Toute politique nataliste comporte un double pari : qu'il est possible de pousser à la hausse la fécondité par des mesures socialement acceptables et que moins de décroissance, voire une croissance légère, est favorable à l'amélioration du bien-être de la population. Mathews présente sur ces deux questions controversées un dossier un peu par-

tial certes, mais clair et bien étoffé. Il gagne à être lu, médité et débattu.

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The Geography of Public Finance. R. J. Bennett. London: Methuen University Paperbacks, 1983; 498 pages; $29.95.

Bennett begins this work by stating that the geographical analysis of public finance is concerned with the spatial pattern of revenue raising, the spatial pattern of public expenditure, and the spatial balance between revenue and expenditure. Following a comprehensive overview of the theoretical and practical linkages between geography (in its general rather than disciplinary sense) and public finance, Bennett examines revenue and expenditure issues from the perspectives, first, of individual fiscal jurisdictions, and then of intergovernmental fiscal relations. Sections and subsections are well-ordered, and the author consistently provides generous and useful cross references. Thus, although the book is lengthy, it is surprisingly easy to follow.

The quality of scholarship in this book is always high. All sections are extremely well referenced (the less enthusiastic student might find this thoroughness to be excessive at times!) and major points are supported with a wide range of detailed and well-developed examples. The latter are drawn primarily from the United States and the United Kingdom, but Canada, Australia and several Western European countries also receive some attention. As indicated by these national sources of examples, Bennett's focus is upon western industrial economies. Some commentators might lament the omission of comparisons between revenue and expenditure incidence in the west with that prevalent in planned or third world economies, but it is difficult to see how this could be usefully achieved in a single volume without sacrificing the necessary development of arguments. Indeed, Bennett should be applauded for his efforts to go beyond his home context. All too often, purportedly general texts authored in the United Kingdom boil down to a review of British conditions encased in a veneer of international comparisons.

I would strongly recommend this book to anyone interested in the regional/spatial implications of fiscal policy. Indeed, some of the regional externalities of national fiscal retrenchment discussed by Bennett have become painfully apparent in Canada, and elsewhere, during the 1980s. In this context, this book would be valuable compulsory reading for politicians and public servants involved with fiscal policy. Despite its vintage, this book remains a very useful senior undergraduate text and a splendid one for graduate students. The degree of mathematization is modest and should not constitute a problem at these levels. The attractiveness of the book as a text is enhanced greatly by the detailed presentation of examples (accompanied by numerous high quality tables and figures) and by the potential for the instructor to extract individual sections from the whole without greatly compromising their appreciation by the student reader.

It is likely that, as the examples used become less relevant to contemporary developments, a new treatment of key *spatial* public finance issues will emerge, perhaps once again authored by Bennett. Nevertheless, the theoretical and conceptual content of this volume will continue to be useful.

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Housing Policies and Economic Power: The Political Economy of Owner Occupation. Michael Ball. London: Methuen, 1983; 424 pages; $12.95.

This is really two books: a scholarly, often insightful one on the owner-occupied housing industry; and a Marxist tract. As the writer of a tract, Michael Ball dismisses economists who criticize the tax deductibility of mortgage interest for owner-occupiers as "consumption-oriented". He regards the effects of inflation, money and general credit conditions on housing as marginal, while virtually all other economists regard them as crucial. Instead, he mounts a Marxist attack on the whole "structure of housing provision", by which he largely means the building and land development industry.

The motivation for this attack is what Ball sees as signs of a housing crisis in Britain. One of the signs, according to Ball, is the recent

low rate of housebuilding. But housebuilding typically fluctuates greatly, because new houses are a very small proportion of the existing stock and demand is very sensitive to credit conditions. Depressed housebuilding in the short run is entirely consistent with secular improvements in housing conditions. A cyclical downturn is not a crisis. Ball's other sign of crisis is at first sight more impressive. His data show that the average cost of a new house, *in constant dollars* in 1981, was about twice what it was in 1953-5 (p. 5). But it is likely that this largely reflects improved quality, in view of the fact that the ratio of the average price of all houses (which one would expect to be a much better indicator of the price of a house of constant quality) to average earnings was considerably *lower* in 1982 than it was in 1956 (p. 315).

Given Ball's analytical framework, it is not surprising that he sees as major problems for the homeownership sector land speculation and the nature of the building industry - especially the effect on the development process of the attempt by builders to maximize the capital gains from land held in inventory. From this assessment of the nature of the problems comes his program for reform. He proposes that land and the building industry be nationalized, and he is dubious about the merits of compensation. He firmly rejects market mechanisms and believes that cost minimization or profit maximization should not be the aim of nationalized industry. Contrary to standard economic doctrine, he does not believe these lead to efficiency; and he believes that they would not allow social justice to be achieved. He says that firms must be accountable to the final product users, to those planning the built environment, and to the workforce, but he is silent about accountability to the taxpayers who own the firm.

Those who reject Ball's Marxism will nonetheless find this book rewarding reading. He gives a detailed account of the building and land development industries, with much reference to individual firms. This shows that over 1972-8 the market share of the largest firms increased at the expense of middle-sized firms. The largest firms have the financial strength to undertake major land development projects and Ball sees capital gains in land as the major source of profit for builder-developers.

Ball presents evidence to show that builders shift towards building large houses in booms, shifting back to small houses during slumps. He relates this pattern to the economics of housing finance: a given percentage rise in house prices will yield a much greater percentage increase in owner-occupiers' equity, helping them to "move up". The large downpayment accumulated in this way for a better house makes possible a low monthly mortgage payment whose burden is lightened, in any case, by the deductibility of mortgage interest. Ball's very interesting data show that in 1980, a year of large price increases, the average house price for purchasers who were continuing owners was 65 percent greater than the average house price for first-time buyers; but the comparable number was only 34 percent a decade earlier, when house prices barely increased at all. This is evidence that in booms there is demand pressure from existing owners, the lucky beneficiaries of capital gains, and this pressure hurts the prospective owners. Contrary to Ball, however, the answer to the problem does not lie in nationalizing the building industry so that it will respond less to fundamental economic forces, but rather in changing the tax system and credit conditions so that economic incentives are changed.

This book contains interesting analyses of many other aspects of housing; most are enriched with many nicely chosen tables and charts. Included are: a detailed historical analysis of planning - provocatively entitled "The demise of planning control" - contending that planning has served the interests of speculative housebuilders rather than the general good; an extensive discussion of the activities of building societies; a socioeconomic analysis of owner-occupiers, contrasting them with the tenants of council housing - leading to the well-supported point that "throughout the 1970s council housing has increasingly become a welfare net, the residual housing tenure." There is, however, exceedingly little reference to the rent control and draconian landlord-tenant laws which largely destroyed the private rental market, left many households with little effective alternative to owner-occupation, and thus contributed powerfully to the rise of owner-occupation.

In sum, this book provides rewarding reading for those who wish to be provoked by an intelligent Marxist and also for those who merely wish to learn a lot about British housing.

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