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Discussion

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Discussion After the Speeches of R.K. Morris and Michael Hart

QUESTION: *Professor King*: Does the European Community give us a guidepost in the layout of this road map that you have given us?

ANSWER: *Mr. Hart*: I think in some ways the European Community is ahead of us, and in some ways it is not. We talked about that earlier, focusing on its willingness to build supranational institutions to enforce its rules. I know Jonathan Fried tried to make the case that you can achieve the same kind of integration without supranational institutions underpinning cooperative efforts. I am more likely to agree with Gary Horlick than with John. That is, supranational institutions such as the European Court or the Commission, made it possible for the Europeans to achieve the level of integration that they have. I think that one lesson from Europe is that there has to be a willingness to put those kinds of institutions in place. Perhaps not exactly the same as the European model, but we have to move in that direction.

Secondly, there has also been a lot of talk about the European social charter as an example for cooperative efforts in North America. First of all, the European social charter is not nearly as robust a document as those who refer to it in North America think it is. There is a lot less to the social charter than meets the eye. It is full of platitudes, most of which cannot be enforced. But when bringing the social charter forward, the Europeans put a lot of money behind it in order to help the countries who were the main targets of the charter (the southern European countries) reach a higher stage of development.

The second thing, therefore, is that we need money to make these kinds of things work. That is why I think the developing countries have been so critical of the call for negotiation about social issues. The problem with environmental and labor issues and other social choice kind of issues is that there is not a similar kind of commitment on the part of the United States and other countries to put that kind of money at the disposal of developing countries in order to help them reach the stage where they actually can support these much higher levels of social policy.

So, both in terms of institutions and in terms of the need to put some money behind their policies, the Europeans have done some important trail blazing.

QUESTION: *Professor King*: Do you think a group of nations has to chart this course to make it workable?

ANSWER: *Mr. Hart*: I do not think that this kind of thing can be done at a multilateral level immediately. I think this is the kind of thing that we have to learn by doing at a lower level, among a smaller

group of nations. Under the NAFTA I think there are two very important precedents for a much more robust international economic regime: the labor and environmental side agreements.

This is a process that will take many years, but that does not bother me. The post-war trade regime negotiated in 1947-1948 was built on a hundred years of experimentation in negotiating, starting with the Cobden-Chevalier treaty between Britain and France in 1860. The 1947-1948 GATT negotiations were not based on something that was invented right after the second world war. Rather, the ideas developed in the 1930s and implemented in the 1940s were based on years of experimentation before that.

COMMENT: *Mr. Brown*: In the first place, I quite admired the countries in terms of their own national policies challenge and the policy plays, but I have not quite admired what the countries have done internationally. I would like to challenge you very directly on your comment on government-to-government deficit and tax revenue.

You did point out that the government's revenues around the world were less robust than we had thought and that corporations in particular were paying a lower share of total government revenue. Well, the reason that most countries were paying a lower share of corporate tax is that total government revenues have gone sky high. The reason why corporations are paying lower total revenue to the government is, that corporate profits as a percentage of GDP have gone down while taxes as a percentage of GDP have gone up. In Canada, corporate profits were over 12% of GDP just after World War II. In the last recession in Canada, they fell to below 4% of GDP. There is simply no way the corporate profits, which now run at 6% to 8% of GDP, are going to make a great contribution when social programs together with government spending are eating up 50% of the product of the economy.

What has to be faced is the lack of robustness in the government revenue because large corporations are earning relatively less and small corporations and small businesses are earning relatively more. Even if total business profits remained the same, the smaller company is going to pay less taxes. And what has to be faced is that the self-employed will pay even less tax on the same income. And it is harder to push a truly comprehensive tax base in the personal sector.

If you want to go too far in this area, you have to deal directly with personal distributions: "Johnny pays Paula and Harry. . ." That now makes everything more complex.

COMMENT: *Mr. Hart*: I agree with you that governments can no longer count on corporate taxes. Increasing personal income taxes are a solution, but there is a tremendous amount of resistance to that. Governments are in a very difficult political bind as they see their ability to collect taxes go down while calls upon the public purse continue to in-

crease. There is a growing gap between what governments take in and what governments are expected to pay out. There is no easy solution to closing that gap.

I do not think that finding all kinds of other ways to tax corporations is the answer because that will not work for the reasons that you indicate. Additionally, it is now easier for corporations to organize their activities in such a way as to avoid excessively high tax jurisdictions. Most tax jurisdictions know that; therefore, because they want to attract employment-creating investments, they will not do that. Even if they wanted to, they cannot in order to continue to make their economy a reliable place to invest. As a result, governments face a real crunch. They cannot seem to close the gap. And one of the reasons they cannot seem to close the gap is because globalization is increasing pressure on the social safety net as economies adjust to these new realities.

Even if we do adjust to these new realities, however, we will then have another problem. We now face a very different attitude towards investment by global corporations. It was not that long ago, 20 years ago or so, that in virtually every developing country there were restrictions placed upon investment, suggesting that governments were ambivalent about the benefits of foreign investment. Today, I do not think there is a country left in the world that will not lick the boots of almost any corporation in order to get that corporation to invest in its jurisdiction. As a result, we have a tremendous amount of competition for foreign investment. It is all those kinds of pressures that are pushing the need for more harmonization to avoid a race to the bottom.

QUESTION: *Mr. Grady:* I want to try an idea, and I do not expect that I have an answer. I took an Economics Degree from Queens which was a public spirit institution when Keynes was a big name. I read the general theory when I was there and so forth. I have been thinking about it lately, and I think Keynes was right in his era in identifying the problem in economics of under-utilization of resources. It seems he has fallen out of fashion a bit, but the problem that he identified is still there and even more so. And today we have a recession; we have had a couple of recessions since 1982.

Now, we are coming out of the recession, but we still have high unemployment. And frankly, it is terrifying. I am partly terrified because I have a child in that age group and I can see that neither he nor any of his friends, who are all very decent young Canadians, are having an easy time getting work. And I can also see that on the social safety net side, a lot of people cannot cope with this economy and they have got to be dealt with. And the current policy is to downsize, downgrade, download.

I would like to hear the hypothesis that it is completely wrong. It is not going to work. Instead of less government spending, we have to have more government spending, for two reasons: First, we have people

who cannot cope with the intricacy of the economy for whatever reasons — health, social reasons — they do not fit. Secondly as Keynes diagnosed, it is just so complicated putting capital and labor and resources together that the odds are high that you are not going to get the right mix. So you have sort of a permanent level of unemployment and it is getting worse. Which way are you advocating as a solution to that, especially considering that we now have more players at a bigger table?

We have got to be able to have governments run chronic deficits and run deficits that increase in amount every year. We have got to be able to do that without having run-away nations. I do not know if it is possible. I think that it is going to have to be possible or we cannot run the modern world.

And if you have any thoughts on that, I would be interested to hear them.

ANSWER: *Mr. Hart:* As I said at the beginning, we are in a period of tremendous flux and change. If I had all the answers, do you think I would be speaking here in Cleveland tonight? I would be busy investing and making a real buck out of it. These are very difficult issues.

Let me go back to Keynes for a minute. Keynes's writings in the 1930s responded to the depression, to a period of huge economic dislocation. Unemployment was at levels that we cannot even begin to appreciate today. There was 25% to 30% unemployment in most of the European and North American countries. Today, unemployment is at about 11% in Canada and most of Europe, and it is about 6% or 7% in the United States. To Keynes, the answer to the depression lay in creating demand and the only way of creating demand was by governments priming the economy and thus putting people back to work. He argued that governments ought to be prepared to go into hock in order to create that demand and then, during periods of prosperity, put money into the bank to use later. In other words, governments should pursue counter-cyclical policies. That works if you have a relatively closed economy. But how can you use counter-cyclical measures when the government of Canada, for example, is borrowing heavily all over the world and goods can be purchased from any supplier anywhere in the world? It is not creating demand in Canada, it is creating demand everywhere. In open economies, Keynes's counter-cyclical budget-making does not work. Thus, what we need is a new general theory that takes into account the changes that have taken place in the economy, particularly its globalization, and then try to find new ways to deal with these kinds of issues.

Keynes's response to the problems of the 1930s was perfectly rational. It may even have worked for a while, but it created structural rigidities that now make it difficult to adjust to the new realities. Un-

ions offer a good example. The Keynesian consensus of the 1950s and 1960s made it possible for them to pursue a high-wage strategy and participate in a booming industrial economy. That industrial economy has now broken down, in part as a result of today's open economy. Unions insist, however, that we must stick with the realities of the past.

I too have a child in that age range. She is in law school so that she can learn something that will help her start a career. College was not enough. All her friends are either continuing to go to school or doing work totally unrelated to their undergraduate degrees. For example, she has a friend who has a wonderful history degree but is now decorating cakes. Another has a philosophy degree and is busy delivering newspapers. Yes, there is a real problem.

I asked Katherine Braid about this problem yesterday, and she told me that based on the statistics, the economy is looking up. CP Rail's shipments are up. I then asked: "Are you hiring anybody? Do you know anybody who is hiring?" Sure there is economic activity, but it is not leading to new hiring. Today, we have a very different situation than we have ever faced before. And I think we need to realize that. We need to accept that we need some bold and innovative thinking about how to address these issues.

My contribution is to do some bold thinking that takes into account the reality of a global economy, of a truly internationalized economy. And within that truly internationalized economy, we have governments which have assumed responsibilities that they are no longer capable of discharging. Those are two kinds of disconnects that need to be brought together in a new theory, hopefully a theory that will lead to a better international set of rights and obligations attuned to the new global reality.

QUESTION: *Mr. Doh*: I am going to take a step back here and look at the whole theme of this conference which is sovereignty. And I think one of the issues that has been pointed out in all of the sessions is, Who is "us"? What is a "nation-state"? And is that definition of a nation-state and the people of the nation relevant in the international economy?

It seems to me that your presentation this evening, both Mr. Hart and Mr. Morris, came to us with a perspective of their own national government in this globalized economy. But I would like to ask each of them, Who is us? Who are you? Is it relevant to define our economic interest by our national and cultural interests, or do we need to take another step in another direction to this? Let us think more broadly, and think about our economic interests, and not get so caught up in our national identity. I realize this is very philosophical, very broad, but I would like to hear from each of you on this issue.

ANSWER: *Mr. Morris*: I did try to think in broad terms, and hoped to convey that, because this sort of free paragon market defi-

ciency development identified where a government comes in. It is only the government who takes its responsibility. And I do not care whether it is the government of China, the United States, Mexico, or Japan. I do not care which one takes the responsibility for advancing the economic interests of the geographically-located community which has political relationships. That is in a sense why I want to put that emphasis there. So the government does matter a great deal. If it does not matter, you may have gotten to the global economy, but we are not at that stage, and I do not see it coming soon, when national identities have disappeared.

In talking about the wording that Michael was searching for, in particular, his reference to structural unemployment, which for me improbably behests a little more protection here or there to solve that problem, and protection does not address it. We still have to deal with the problem.

What about the market? In other words, what you are dealing with is a largely saturated market for lots of types of products in say, North America and a tremendous new demand in China. You may have to ship some production. That is what I meant by governments with some regulation compelling firms to buy markets at the expense of efficiency for the sake of development.

Now, because you have this really important question, "Who is 'us?'" I would like to give a little part of an answer. On U.S. investment policy, for example, I would simply make an observation. Our governments seem to have incredible difficulty — I am now speaking of the U.S. Government in defining "Who is 'us?'" — when they wish to reward the United States. Perhaps that is because if you are giving out subsidies, everybody else wants one. And so they confuse the question.

We are in America, we are Americans. But when the goal of government is, for example, the *Foreign Corrupt Practice Act*, export controls compliance with interboycott, Canada does not raise its hand and say, please treat us as Americans for purposes of the *Foreign Corrupt Practice Act* which forbids bribery abroad. If they wish to bribe abroad, they just will not let it through the United States and they will not be caught by U.S. law.

What I am saying is, America is sort of funny. We have basic standards for defining "Who is 'us,?'" when we wish to control and punish. The only time we have difficulty figuring out "Who is 'us,?'" is when we wish to reward. But that is perhaps a subject for a different debate.

ANSWER: *Mr. Hart*: I think that one of the most profound questions of our age is "Who is us?" And I think Robert Reich's book on it is fascinating. I think his descriptive analysis of the economy we now live in is very compelling. I think his book is very persuasive until he comes to prescriptions. His description is first class. His prescriptions, I

think, fall very flat. That is because we have not yet reached a stage where we can come up with very clear prescriptions for these kinds of problems.

“Who is us?” His idea is that you should base it on the people that live and work in a country, rather than the people who employ us, because the people who employ us are faceless and can move all over the place. He describes a faceless global economy made up of one favored and two unfavored classes. The favored class is made up of what Reich calls symbolic analysts, that is the people who have the kind of intellectual capacity to make it anywhere in the world because they are in the vanguard of the knowledge industries. The rest of us, those of us who make things and provide services, are stuck where we are. He indicates that the symbolic analysts are in a rising boat. The rest of us are in sinking boats. That is the frustration our kids face. They see themselves getting into sinking boats. Very few are getting into the rising boat.

Governments need to face this very difficult problem with new kinds of policies, because governments are now expected to solve these kinds of problems. Problems of dislocation flowing from profound changes are not new, but when these kinds of problems arose a hundred or two hundred years ago, they were considered personal or community problems. They were not government problems, because governments had not assumed the kinds of responsibilities we now take for granted. Today people look to governments for solutions or blame them for the problem.

Today, governments are expected to design and implement policies that will solve every social problem. In today's global economy, I wonder if that is still a realistic expectation. Are national governments now capable of solving such problems or have we reached the stage in the evolution of the global economy where more problems need to be solved at the international level?

In my view, I think we have. I believe that the nation-state as we now conceive it will not be here a generation or two from now. What we now have is the reality of a global economy in which there are a number of regional economies, and within these regional economies, there are local economies. What is missing is national economies. Those are the realities, but governance continues to be organized at the national level, an increasingly artificial national level. I do not think that this artificial national level will survive.

I think here there is another lesson that we can learn from the Europeans. They have been experimenting with the concept of subsidiarity. They are re-organizing governance on the basis of what needs to be done at what level. What issues need to be regulated at the local

level? What issues need to be regulated at the regional level? And what are global issues that need to be regulated at the global level? I think that is the kind of bold thinking that we need on this side of the Atlantic as well.