

**The Master-Servant Relationship:  
Social Democracy and the Market**

Lars Osberg  
Department of Economics  
Dalhousie University

May 24, 2001

To be presented at conference on “The Future of Social Democracy in Canada”, Institute for the Study of Canada, McGill University, Montreal, Quebec, May 25, 2001

Social Democrats in Canada have a major opportunity. At a time when cheerleaders for the corporate agenda clutter the political landscape, social democrats are the only ones who say that:

(1) Market forces should serve social ends;

(2) Individual freedom, effective democracy and a meaningful sense of community all require the actual implementation of the basic human rights of all Canadians - and these rights are social and economic, as well as political and legal, in nature;

(3) Delivery of basic individual human rights, and the maintenance of local community, requires local democratic control of the institutional and legal framework of market processes.

Social democrats are not hostile to “the market”, but they are not subservient either. My own attitude can be summarized in a saying which I first heard in Norway:

“The market can be a good servant, but it’s a bad master”.

I take the “good servant” part of this saying to be the idea that the market mechanism can sometimes be a useful way of facilitating the decentralization of economic decision making. Under some circumstances, this produces an efficient allocation of the scarce resources which are required to achieve social ends. Historically, movements for social democracy never aimed at totally supplanting market forces (e.g. the Regina Manifesto of the CCF did not advocate the collectivization of agriculture), and this distinguished social democrats from others on the left of the political spectrum. There have been times when this “softness” on the market exposed social democrats to criticism from the left.

However, in today's environment in Canada it is a distinguishing, and highly desirable, trait of social democrats that they have always recognized the limitations of the market. As the Norwegian saying implies, the "bad master" part of the market is its moral and social blindness - combined with a tendency to excess. The market process is a mechanism which must be controlled if it is to produce desirable results. However, the hopeful part is that because markets always function within a given legal and institutional framework, political action can change the outcomes markets produce. Although one cannot expect the market process itself to provide a self-correction if society establishes an undesirable framework, the political process determines that framework.

To take the environment as an example, if businesses can pollute without cost, a competitive marketplace will more or less force firms to not spend money on pollution abatement. If they do, their production costs will be higher than their competitors, which implies lower profits and a risk of being driven out of business. However, if society decides that all companies must pay a tax on pollutants emitted, spending that benefits the environment will not put a company at a competitive disadvantage. The same firms will now have a financial incentive to invest in pollution abatement technology in order to avoid the tax, to an extent that depends on the size of the tax.

The issue, therefore, is not whether "the market" is bad for "the environment" - rather it is whether and how society establishes a framework for market decision making that produces desirable social results. If a society wants to reduce pollution, it can use the market mechanism to achieve this, by changing the legal framework and the economic incentives that firms and individuals face - but the prerequisite is a political decision. In deciding how to efficiently meet social and environmental

objectives, it will sometimes be convenient to use market based mechanisms. However, left to itself there is nothing particularly desirable about the outcomes which market processes will produce.

The moral blindness of the market mechanism enables it to adapt to any number of legal regimes, and it is just not true to say that freer markets in economic life will necessarily generate greater social and political freedom. When, for example, slavery was legal, profit maximizing capitalists efficiently supplied their customers with human merchandise, and sophisticated international markets in slave labour evolved. Political action was required to abolish this sort of market transaction - and abolition of the slave trade was (and is) undeniably a restriction on international commerce. The social choice to have a slave free society is now taken for granted, but nobody should forget that this choice was not always seen as obvious and political action was required to make it a reality.

Moral blindness, combined with a tendency to excess, makes a master that can get worse with time. The market is a mechanism with strong feedback tendencies, in which those who have done well in the past get the resources to do even better in the future. The result is often both inefficient and inequitable. If we were to leave education to the market, for example, it is clear that some parents would not be able to pay for their children's education and some would not want to pay, even if they could. Left to itself, a market based "solution" would mean that some unlucky children grow up illiterate, and therefore have, as adults, even less resources available to finance the education of their own children. The cycle of cumulative disadvantage then feeds on itself, generating lower average incomes and increasing inequality over time. Historically, the argument for a system of high quality public education was only partly driven by the ideal of equality of opportunity. Support for public

schooling has always been partly based on a pragmatic and practical concern that talent not be wasted - as it would be in a purely market based system. Similarly, Canadian society is both more efficient and more equitable because we have made the political decision to provide health care through the public sector. There are advantages to using markets to provide some of the inputs to health care (e.g. using private sector contractors to build hospitals), but markets are a bad way to organize decision making about health care itself.

But if social democrats can agree that the market must serve social ends, how should we describe those ends and how can we achieve them?

Social democrats have long realized that basic human rights for all citizens is a prerequisite for both meaningful democracy and effective personal freedom. At one level, this is very mainstream. Social democrats, however, go further than the support of formalities. The “Social” part of Social Democracy is the recognition that social and economic rights are a precondition for meaningful democracy and effective individual freedom.

Social Democrats recognize, for example, that if a right to privacy (Article 12 of the UN Universal Declaration of Human Rights of 1948) or freedom of movement and residence (Article 13) is not to be a hollow sham, individuals also need housing. A “freedom of residence” is meaningless for those who have no residence. The homeless have, in practical reality, no real privacy. Privacy requires control over a definable personal space, which, in a market economy, generally requires the ownership of property or the income with which to rent property. As the US courts have noted "One of the main rights attaching to property is the right to exclude others" and the homeless have no such property

rights. A legal "right to privacy", or a constitutional right to protection against unreasonable search and seizure is therefore meaningless, unless an individual actually also has rights to a definable personal space. If there is an enforceable "right to shelter"<sup>1</sup>, individuals may get such a space from the state, but in its absence they need to purchase ownership or leasehold rights to a personal space. The homeless do not have such a space.

Social Democrats therefore take seriously the UN Universal Declaration of Human Rights, which, for example, states:

Article 25(1): Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

As United Nations General Assembly Resolution 32/130 stated: "The full realization of civil and political rights, without the enjoyment of economic, cultural and social rights is impossible". In emphasizing that "All human rights and fundamental freedoms are indivisible and inter-dependent", the Resolution of 1977 drew on the conception of effective citizenship in a democratic community, and the rights which that requires. In voting for that resolution, and in signing other similar human rights treaties over the years, Canada has agreed that human rights are essentially interdependent in their application - but Canada has not delivered on that rhetoric.

The social democratic objective is full social citizenship and effective individual freedom in a

---

<sup>1</sup>Within Canada, despite Canada's signature on numerous Human Rights documents, there is no such enforceable right - despite the fact that international law obliges states to act to give effect to their treaty commitments.

democratic community - for all Canadians. Achieving that objective depends on political action which sets limits on the operation of market forces and which actually delivers basic political, legal, economic and social rights to all Canadians. What prevents such action?

If Canada were to become more effectively democratic, the power of current elites would be eroded. If Canada were to deliver on its promise of full citizenship, there would be costs. Reducing poverty and inequality and delivering on the economic and social rights of all Canadians might mean that the affluent pay slightly higher taxes. There is nothing at all new about the incentives which the rich and the powerful have to oppose the social democratic movement.

However, the institutional context is new. In the past, there was a clear political process by which decisions to set limits on the market could be made, or unmade. International trade treaties now propose a level of intervention in domestic decision making which goes far beyond the objective of ensuring tariff-free transit of goods across international borders. The irreversibility of these treaties, the insulation of their “administrative” decisions from democratic responsibility and their abstract ideal of a “level playing field” in all nations’ domestic regulation of the market reverse the presumption that the market should serve social ends. In the ongoing relationship between society and the market, the market is being promoted from servant to master.

A major priority for social democrats is, therefore, to limit the scope and democratize the administration of trade agreements. Canada always has been a trading nation and social democrats have always recognized that - the CCF agenda, for example, never advocated withdrawal from international trade. However, current proposals to extend international treaties to regulate trade in services or to

investment go far beyond traditional understandings of “free trade”. They would, in practice, grant far reaching rights to corporations with no counter balancing rights to individuals, no meaningful influence on the adjudication of corporate rights and no real possibility of future amendment. The “democratic” part of social democracy utterly rejects these limitations on the right of communities to control their own destinies. If democracy is to be meaningful, the governments which people choose have to be able to do more than just implement the decisions of international trade tribunals.

It is time to put the market in its proper place. Social democrats have a positive agenda that stresses basic human rights for all Canadians and democratic control of the destinies of our local communities. These priorities are mainstream Canadian. The challenge is to express them effectively.