

# The Evolution of Modern Liberalism

## Chapter

# 6

### KEY SKILLS

Evaluating the logic of assumptions underlying a position

### KEY CONCEPTS

Analyzing the evolution of modern liberalism

### Key Terms

Consumerism  
Income disparity  
Inflation  
Monopoly  
Social programs  
Trickle-down economics  
Welfare state

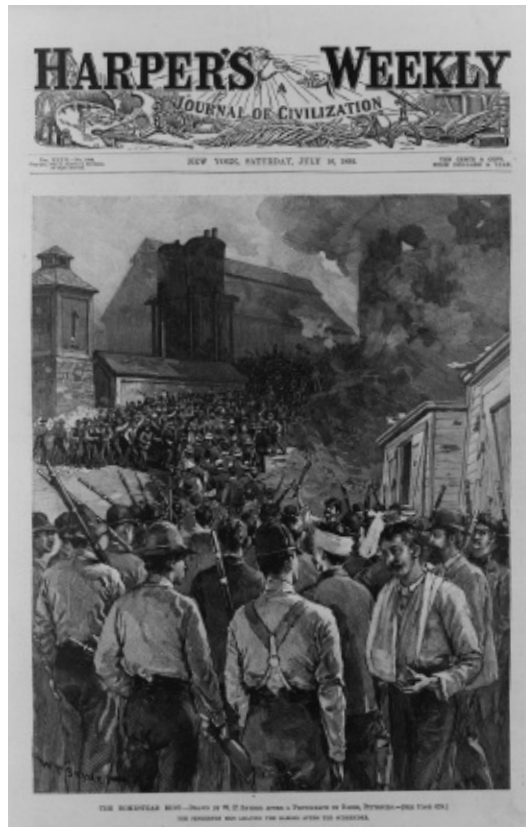


Figure 6-1

A magazine cover depicting the violence of the Homestead Strike (1882). The failure of the strike was the beginning of a long decline for the steelworkers' union. Carnegie steel plants would employ only non-union workers for the next 40 years.

Henry Clay Frick was the late-19th-century's quintessential robber baron—that is, a businessperson who employs hardnosed and sometimes questionable tactics in the free market to amass great personal wealth. A millionaire who made his money supplying coke to the steel plants of Andrew Carnegie, Frick was known for his ruthless business practices.

*In response to declining prices of rolled-steel products in the early 1890s, Henry Clay Frick, general manager of the Homestead plant owned by Andrew Carnegie, took a series of bold but miscalculated steps to protect the bottom line. In June 1892, he slashed wages, evicted workers from their company houses, stopped negotiating with union leaders, and threatened to bring in the Pinkertons—a detective agency for hire that amounted to a private army of thugs. When workers called a strike, Frick called on the Pinkertons. On July 6, in the middle of the night, 300 Pinkertons crammed onto barges were towed ten miles up the Monongahela River to Homestead.*

*Armed workers were waiting on the river bank. At dawn, a pitched battle broke out. After twelve relentless hours, three Pinkertons and seven strikers lay dead.*

—Source: Website of the PBS series **American Experience**, “Emma Goldman” episode, “People & Events: Henry Clay Frick (1849–1919)”, March 2004.

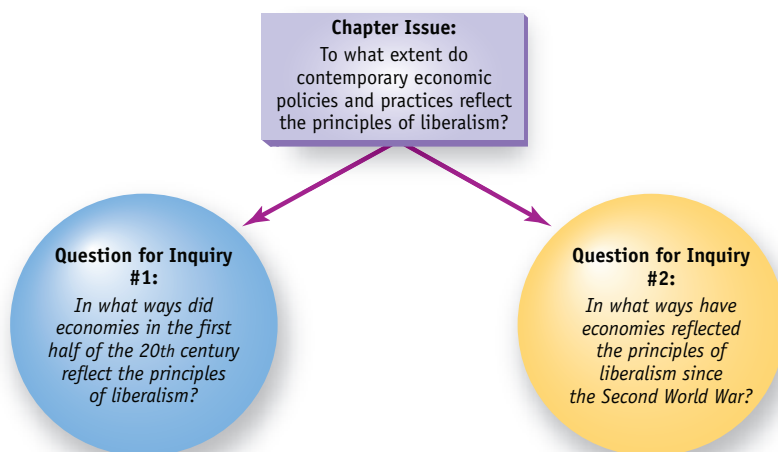
[http://www.pbs.org/wgbh/amex/goldman/peopleevents/p\\_frick.html](http://www.pbs.org/wgbh/amex/goldman/peopleevents/p_frick.html)

In retaliation for these actions, anarchist Alexander Berkman tried to assassinate Frick two weeks later. Frick survived the attack, and the strike at the Homestead plant collapsed, due in part to the negative publicity generated by the assassination attempt.

## Chapter Issue

The economic conditions that made possible the immense fortunes of Frick and other robber barons like him were largely due to the adoption of the principles of economic liberalism in the United States, Canada, Great Britain, and other industrialized countries near the beginning of the 20th century. These economic developments eventually had dramatic impacts on many areas of the world; but because these principles of economic liberalism first arose in Great Britain and North America, this chapter focuses on economic changes in these countries, especially in the United States and Canada.

But the ideology referred to as liberalism has undergone numerous modifications in the last century, so many changes in fact that what we now call modern liberalism might be unfamiliar to Frick. In this chapter you will explore how various historical events and competing ideologies influenced the development of liberalism in the 20th century, and how liberalism then impacted the societies in which it took hold. This exploration will provide you with the background to respond to the Chapter Issue: *To what extent do contemporary economic policies and practices reflect the principles of liberalism?*



◀ Figure 6-2

# Economics and the Principles of Liberalism in North America

## Question for Inquiry

- In what ways did economies in the first half of the 20th century reflect the principles of liberalism?

## PAUSE AND REFLECT

Create a visual organizer to record ideas about some of the people mentioned in this section. To what extent and how were the principles of liberalism reflected in their words or deeds? Which people were positively or adversely affected by the actions of each person?

While men such as Henry Clay Frick, Andrew Carnegie, and John D. Rockefeller (founder and major shareholder of Standard Oil) were amassing huge fortunes in the American economy, conditions were slow to improve for the working class. In 1906, American journalist Upton Sinclair published *The Jungle*, an exposé of the living and working conditions of employees in the meat-packing plants of Chicago. More than a critique of the meat-packing industry, Sinclair's book gives a good idea of what life was like for members of the urban working class in America, especially for newly arrived immigrants.

Sinclair's book opens with a description of the wedding of two recent Lithuanian immigrants and the thoughts of the hosts as they wonder how they will pay for the event:

*Most fearful they are to contemplate, the expenses of this entertainment. They will certainly be over two hundred dollars and maybe three hundred; and three hundred dollars is more than the year's income of many a person in this room. There are able-bodied men here who work from early morning until late at night, in ice-cold cellars with a quarter of an inch of water on the floor—men who for six or seven months in the year never see the sunlight from Sunday afternoon till the next Sunday morning—and who cannot earn three hundred dollars in a year. There are little children here, scarce in their teens, who can hardly see the top of the work benches—whose parents have lied to get them their places—and who do not make the half of three hundred dollars a year, and perhaps not even the third of it...*

—Upton Sinclair, *The Jungle*, Chapter 1, 1906.

<http://www.gutenberg.org/files/140/140-h/140-h.htm>

Later in the book, the newlyweds, Jurgis and Ona, take a walk to examine their new neighbourhood:

*...there were no pavements—there were mountains and valleys and rivers, gullies and ditches, and great hollows full of stinking green water. In these pools the children played, and rolled about in the mud of the streets; here and there one noticed them digging in it, after trophies which they had stumbled on. One wondered about this, as also about the swarms of flies which hung about the scene, literally blackening the air, and the*

*strange, fetid odor which assailed one's nostrils, a ghastly odor, of all the dead things of the universe. It impelled the visitor to questions and then the residents would explain, quietly, that all this was "made" land, and that it had been "made" by using it as a dumping ground for the city garbage. After a few years the unpleasant effect of this would pass away, it was said; but meantime, in hot weather—and especially when it rained—the flies were apt to be annoying. Was it not unhealthful? the stranger would ask, and the residents would answer, "Perhaps; but there is no telling."*

—Upton Sinclair, *The Jungle*, Chapter 2, 1906.

<http://www.gutenberg.org/files/140/140-h/140-h.htm>

Sinclair's descriptions of the conditions inside the meat-packing plants caused a public outcry, and prompted American president Theodore Roosevelt to introduce the Meat Inspection Act (1906) and the Pure Food and Drug Act (1906). Roosevelt was responding to some of the effects of liberal principles on turn-of-the-century American society. These reforms, however, addressed food safety concerns; the living and working conditions of the employees in the plants were not affected.

## Roosevelt's Progressivism

As you read in Chapter 4, Theodore Roosevelt introduced several reforms during his presidency to give middle-class Americans a "square deal." Part of this square deal involved preventing large companies from abusing their control over the marketplace. One of the companies Roosevelt's government investigated was the Standard Oil Company. In 1906, the United States Bureau of Corporations reported the following:

*Almost everywhere the rates from the shipping points used exclusively, or almost exclusively, by the Standard [Oil Company] are relatively lower than the rates from the shipping points of its competitors. Rates have been made low to let the Standard into markets, or they have been made high to keep its competitors out of markets. Trifling differences in distances are made an excuse for large differences in rates favorable to the Standard Oil Company, while large differences in distances are ignored where they are against the Standard...Different methods are used in different places and under different conditions, but the net result is that from Maine to California the general arrangement of open rates on petroleum oil is such as to give the Standard an unreasonable advantage over its competitors.*

—Eliot Jones, *The Trust Problem in the United States*  
(New York: Macmillan, 1921), p. 75.

Roosevelt's administration used the Elkins Act (1903) and the Hepburn Act (1906) to stop railroads from offering preferential treatment to some of their corporate customers, such as Standard Oil.

## Taft and the Sherman Anti-Trust Act

Roosevelt's successor was William Howard Taft, who served as president from 1909 to 1913. Taft pursued several of the progressive initiatives started by Roosevelt, such as breaking up trusts—that is, large business conglomerates that exerted **monopolies**.

The Sherman Anti-Trust Act was a piece of legislation that had been introduced in the United States in 1890 to prevent collusion and monopolies between competing companies in an industry. It was not intended to prevent a single company from dominating a market in a “monopoly by merit,” but to prevent anti-competitive behaviour among companies. The Act prevented a business entity (such as a trust) from owning two or more competing companies. For example, competing oil companies could not be owned by the same parent company.

In 1911, President Taft and the US Supreme Court used the Sherman Anti-Trust Act to force the Standard Oil Company to break up into 34 smaller, independent companies. While it was the economic principles of classical liberalism that allowed the Standard Oil Company to grow to such a position of market dominance, this position eventually led it to undermine other classical liberal principles such as competition. Similar cases in other industries led to a period of reform in North America that saw greater government regulation of commerce.

The Sherman Anti-Trust Act was also used to prevent some organized labour activities, thus weakening unions, although this was not the original intent of the legislation. This situation was later remedied when the Clayton Act (1914) was passed, further strengthening most provisions of the Sherman legislation, while making labour unions and agricultural organizations exempt from such legislation. Thus, boycotts, strikes, picketing, and collective bargaining remained legal as long as they were peaceful.

These reforms limited to some extent the classical liberal freedoms and principles of the marketplace. At the same time, the reforms prevented certain powerful entities in society from abusing the rights and freedoms of less influential organizations and individuals.

## Alphonse Desjardins and Credit Unions

Around the same time that workers in the late 19th and early 20th centuries were forming labour unions to counteract the power of big business, the first credit unions were formed in North America. Credit unions started as small financial institutions owned by their members; profits are used to offer members better lending rates or lower fees. They began as an alternative to traditional commercial banks, which would often not service smaller communities or provide loans to borrowers with little collateral or no credit history.



The first credit union in North America was the *Caisse d'épargne Desjardins*, founded by Alphonse Desjardins and his wife Dorimène Roy Desjardins in Lévis, Québec, in 1900. Alphonse Desjardins had spent three years researching the operations of credit unions in Europe before founding his own. Desjardins went on to found credit unions, or *caisses populaires*, in other Québec communities. By the time of his death in 1920, there were 187 credit unions in Québec—150 of which he had personally founded—with 30 000 members and \$6 million in assets. Today the Desjardins Group is the largest association of credit unions in North America.

Credit unions would later become popular among farmers on the prairies in the 1930s because they were more willing to provide financing than traditional banks. While the group ownership and profit-sharing operation of credit unions went against classical liberal principles, they provided access to financial services to a wider range of individuals than traditional banks did.

## The Roaring Twenties

In 1925, American writer John Dos Passos published *Manhattan Transfer*, a sprawling, highly acclaimed novel filled with character studies of ordinary people who inhabited the new America of the 1920s.

In one passage that reflects the impact of liberal principles on America, two sailors in the French navy talk about America as their ship approaches New York. Emile tells Congo that he plans to desert the navy and become an American citizen when they land:

*"The consul will just have you shipped back."*

*"He wont catch me."*

*"And your military service?"*

*"To hell with it. And with France for that matter."*

*"You want to make yourself an American citizen?"*

*"Why not? A man has a right to choose his country."*

...

*"I want to get somewhere in the world, that's what I mean. Europe's rotten and stinking. In America a fellow can get ahead. Birth dont matter, education dont matter. It's all getting ahead."*

...

*"And they dont have any military service?"*

*Why should they? Its the coin they're after. They dont want to fight people; they want to do business with them."*

—Source: John Dos Passos, *Manhattan Transfer*  
(Boston: Houghton Mifflin, 1925), p. 21.

Through these characters, Dos Passos describes the United States as Americans and Europeans perceived it in the 1920s: a country focused

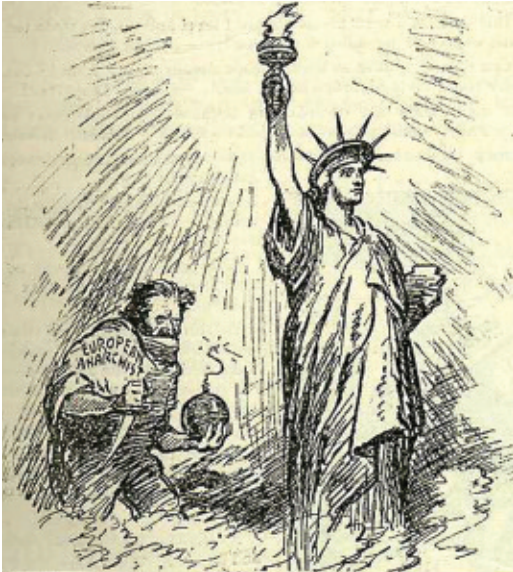


Figure 6-3 ▲

This editorial cartoon, published in *The Commercial Appeal*, a Memphis, Tennessee, newspaper in 1919, shows a European anarchist about to attack the Statue of Liberty.

on economic prosperity eager to distance itself from political upheaval in other parts of the world. This perception also included an ideal of equality, but it was an equality of opportunity, rather than circumstance: everyone would have a chance at attaining prosperity, but only those who deserved it (through hard work) would achieve it.

## The First Red Scare

The groundwork of the American political climate of the 1920s was prepared by a period known as the “First Red Scare” (1917–1920). The term *red scare* refers to a public fear of communism, the colour red being associated with the Bolshevik Red Army of the Russian Revolution.

Left-wing groups such as the Socialist Party of America and the Industrial Workers of the World were strongly opposed to American involvement in the First World War. The American government’s Committee on Public Information sought to rally public support for the war effort by circulating anti-German propaganda and disrupting the activities of anti-war groups. The Russian Revolution fuelled public fears of a similar communist uprising in the United States, while inspiring those with leftist political ideologies. Several large labour strikes in Seattle, Cleveland, Pittsburgh, and other cities in 1919 and 1920 contributed to the public perception that support for socialism and communism in America was growing. A series of bombings by anarchists of mostly Italian heritage—including one on Wall Street that killed 38 people—further stirred public sentiment against radical political movements and immigrants. All these circumstances produced an atmosphere of political conservatism and xenophobia in the United States.

## Political Conservatism: Harding and Coolidge

It was in the atmosphere of the First Red Scare and memories of the recent First World War that conservative Republican candidate Warren G. Harding became president of the United States in 1921. He was elected by the widest margin of any president in American history. Harding campaigned on a platform that promised a “return to normalcy.” The three central ideas of this platform were

- isolationism—a retreat from involvement in other countries’ affairs, especially European countries
- nativism—the promotion of policies that favour the existing dominant culture in a country and reduce immigration
- a reduction of government involvement in the lives of citizens

With the Revenue Act of 1921, Harding reduced income taxes, and repealed the excess profits tax that had been applied to corporations

during the First World War. The Harding administration also passed the Emergency Quota Act (1921), which reduced immigration by approximately 75 per cent. The number of immigrants admitted from any given country was limited to 3 per cent of the number of citizens of that country who were residing in the United States in 1910—thus, Harding’s government attempted to preserve the existing ethnic composition of American society. He also tried to protect American business and agriculture from foreign competition with the Fordney-McCumber Tariff (1922).

When Harding died while still in office in 1923, his vice-president, Calvin Coolidge, assumed the presidency, and won the 1924 presidential election with a comfortable majority. Coolidge favoured similar policies to those of Harding and was a strong advocate of commercial enterprise.

*After all, the chief business of the American people is business. They are profoundly concerned with buying, selling, investing and prospering in the world.*

—**Calvin Coolidge, address to the American Society of Newspaper Editors, 1925.**

*Coolidge and [Secretary of the Treasury Andrew] Mellon generally adopted a laissez-faire stance toward the economy; they neither subsidized farmers, businessmen, and investors nor harmed or impeded them. The president’s non-interventionist posture reflected his abiding respect for producers of every kind. Coolidge believed “civilization and profits go hand in hand” and remarked once that “The man who builds a factory builds a temple, the man who works there worships there and to each is due not scorn and blame but reverence and praise.”*

—**Richard M. Salsman, “What Made the Roaring ’20s Roar.” *The Intellectual Activist* 18, 6 (June, 2004).**

<http://www.intellectualactivist.com/php-bin/news/showArticle.php?id=884>

Coolidge’s laissez-faire stance is reflected in the classical liberal economic policies of his administration. Personal income taxes were further reduced with the Revenue Act of 1924 and reduced again with the Revenue Act of 1928. In addition, Coolidge twice vetoed legislation passed by Congress that would have allowed the government to subsidize American farmers by buying surplus crops and selling them at lower prices in foreign markets.

During Coolidge’s term, the American government also continued the nativism and isolationism of the Harding administration. The Immigration Act (1924) further reduced immigration by limiting the number of citizens admissible from any country to 2 per cent of the number of citizens of that country who were residing in the United States in 1890. The Act also banned immigration from Asia entirely.



### PAUSE AND REFLECT

**How are tax reduction and reduced agricultural subsidies a reflection of classical liberal economic principles?**



## Economic Prosperity and Consumerism

After the First World War, North America experienced a brief recession as the booming war-time economy came to an end. This recession ended quickly as factories switched to the production of consumer goods, and the economy continued to grow until 1929. The gross domestic product of the United States increased from \$73.6 billion in 1921 to \$103.6 billion in 1929. Industrialists such as Henry Ford, founder of the Ford Motor Company, helped spur the economic boom by pioneering techniques such as mass production (using assembly lines and mechanization to produce large volumes of a product at a cheaper price). Ford also used the practices of welfare capitalism (which you read about in Chapter 4); he advocated a minimum wage and a 40-hour workweek in his factories. Ford's motivation was financial, however; he reasoned that if his employees were happier, they would work more efficiently. He also believed that paying them better wages would allow them to buy the products they produced, thus increasing sales. These and other advances in manufacturing (such as the electrification of factories) made a variety of products cheaper, and consumer spending—or **consumerism**—increased dramatically over the course of the decade.

In 1918, for example, 300 000 motor vehicles were registered in Canada. By 1929, this figure had risen to 1.9 million. Similarly, fewer than one in three families in the United States owned a car in 1920; by the end of the decade, four out of five families owned one. The advent of radio and film made mass marketing a powerful influence, thus fuelling consumer spending. The continued spread of technologies such as the telephone and home refrigeration also encouraged consumerism.

## Changing Social Values

As the North American free-market economy expanded and rapidly modernized, major social changes occurred. In 1920, women in the United States obtained the right to vote, as Canadian women had, for federal elections, in 1918. There were also greater numbers of women in the workforce. In the United States, Native Americans were granted citizenship by the Indian Citizenship Act (1924). The North American population became more urbanized. For the first time, more people lived in cities than in rural areas.

While greater equality was achieved in some aspects of North American life, there were also many enduring examples of inequality. Following the industrial expansion of the late 19th and early 20th centuries, there was already a noticeable **income disparity**, or difference in earnings, between the rich and the poor. In 1917, for example, the wealthiest 10 per cent of the population of the United States earned



### PAUSE AND REFLECT

**How do the developments of economic prosperity, mass production, mass marketing, and consumerism reflect the principles of liberalism? How might this affect attitudes in society?**

40 per cent of all the income in the country. During the 1920s, this disparity increased dramatically: by 1928, the wealthiest 10 per cent were earning 49 per cent of the total income. (Source: Emmanuel Saez, “Striking It Richer: The Evolution of Top Incomes in the United States.” *Pathways Magazine*, Stanford Center for the Study of Poverty and Inequality [Winter, 2008]: pp. 6–7.)

Anti-immigration sentiment and racial discrimination were bolstered by books such as Madison Grant’s *The Passing of the Great Race* (1916) and Lothrop Stoddard’s *The Rising Tide of Color Against White-World Supremacy* (1920), which claimed that the “Northern European” character of American society was being threatened by non-European races. The changes to immigration laws in the United States (as noted earlier in this chapter) and Canada during the 1920s reflected this thinking.

## The 1930s and the Great Depression

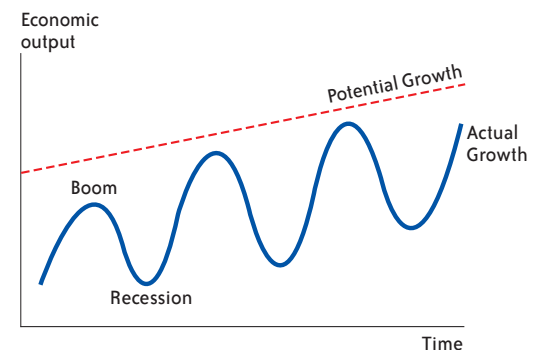
*I tried to get a job all over town;  
Seven hundred places they turned me down.  
They told me six weeks I could get relief,  
But I ain’t got a bite to eat.*

—“Ashes To Ashes, Dust To Dust” written by Woody Guthrie and Hans-Eckardt Wenzel © Copyright Secured  
**WOODY GUTHRIE PUBLICATIONS (BMI) ADMINISTERED BY BUG MUSIC. ALL RIGHTS RESERVED. USED BY PERMISSION**

*The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.*

—Source: Franklin D. Roosevelt, Inaugural Address, March 4, 1933, published in Samuel Rosenman, ed., *The Public Papers of Franklin D. Roosevelt, Volume 2, “The Year of Crisis, 1933”* (New York: Random House, 1938), pp. 11–16. **History Matters.**  
<http://historymatters.gmu.edu/d/5057/>

Following the extended period of prosperity of the 1920s, the world economy suffered the extreme recession now known as the Great Depression. Most economists see booms (periods of economic growth such as the growth in the 1920s) and recessions as normal parts of the free market business cycle. Because of various circumstances, however, the recession of the 1930s was extremely severe. This period would have a long-lasting influence on liberal democratic governments. It led to a growth in government involvement in economies that continues in many forms to this day.



**Figure 6-4** ▲

The business cycle refers to the periods of expansion and contraction that free market economies tend to experience, with a single cycle of expansion and subsequent contraction taking place over a period of several years. Many economists argue that this is an unavoidable phenomenon. Some economists, such as John Maynard Keynes (about whom you read in Chapter 4), have argued that the effects of the contractions (or recessions) can be moderated (or reduced, or lessened) through government intervention in the economy.



Figure 6-5 ▲

Thousands of people lost their savings in bank runs during the 1930s. Excessive depositor panic can create a bank run even on a financially stable bank.

## The Stock Market Crash of 1929

During the prosperity of the 1920s, the stock prices of successful companies rose. Many people began borrowing money to invest in the stock market on the assumption that prices would continue to rise. These investments further inflated stock prices. When prices on the New York Stock Exchange finally stopped rising in October 1929, people began selling their stocks to take profits before prices dropped further. This profit-taking led prices to drop further, and more investors began selling their stocks. Panic selling caused prices to fall even more quickly. By November 13, the Dow Jones Industrial Average (a measure of the stock prices of the 30 largest publicly owned companies in the United States) had dropped by 48 per cent.

## The Aftermath

After the crash, investors who had borrowed money to buy stocks found themselves with large debts and worthless investments. Many consumers in the 1920s had also purchased goods such as automobiles and appliances on credit, creating a high level of debt throughout the economy. Fearing a wider economic downturn after the crash, banks began calling in loans, and many people who had overextended their credit went bankrupt. The crash also caused many people who still had savings to become worried about the security of their deposits in the banks, and this caused several **bank runs**: a situation in which too many depositors try to withdraw their savings from a financial institution, causing it to go bankrupt. A bank run can also force businesses that have borrowed money from the bank to go into bankruptcy.

Some economists also believe that industry and agriculture had become too productive in the 1920s, leading to a glut of products on the market, and a corresponding fall in prices. Marriner S. Eccles, the chairman of the American Federal Reserve from 1934 to 1948, felt this glut was caused in part by an unequal distribution of the profits of the boom.

*As mass production has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth—not of existing wealth, but of wealth as it is currently produced—to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery. Instead of achieving that kind of distribution, a giant suction pump had by 1929–30 drawn into a few hands an increasing portion of currently produced wealth. This served them as capital accumulations. But by taking purchasing power out of the hands of mass consumers, the savers denied to themselves the kind of*

*effective demand for their products that would justify a reinvestment of their capital accumulations in new plants.*

—Marriner S. Eccles, *Beckoning Frontiers*  
(New York: Alfred A. Knopf, 1951), p. 76.

This is similar to Henry Ford's reasoning for paying his workers high wages. Such arguments would soon be used to justify more government involvement in the economy. In addition, the United States introduced new tariffs in 1930 in an attempt to encourage domestic consumption of American goods; this prompted retaliatory tariffs from other countries, including Canada, and caused some European countries, such as France and Germany, to consume more domestically produced goods, rather than importing them. The result was that international trade slowed down substantially, further hurting economies around the world, and especially those in North America.

These events led to numerous business failures in the early 1930s. In addition, a general loss of confidence in the North American economy caused consumers who still had money to spend less, thus slowing the economy further. By 1933, the unemployment rate in the United States was 25 per cent, and incomes were on average 54 per cent of what they had been in 1929. Figures in Canada were similar. To further exacerbate the situation, North American farmers on the prairies were hit by the Dust Bowl, a series of droughts in the first half of the decade that, after many years of poor farming techniques, destroyed crops and led many people to abandon their farms entirely.

The Great Depression had an impact around the world. In Great Britain, the Depression was known as the Great Slump. France felt the Depression starting around 1931, but not as profoundly as other countries because it was more economically self-sufficient than, for example, Germany. In Germany, the Weimar Republic was hit hard by the Depression and American loans to help the post-First World War economy stopped. As you read in the previous chapter, Germany swung toward political **extremism** during the Depression.

### **Social Effects of the Depression**

The harsh realities of the Depression affected people with low incomes the most, and as the economic crisis continued, they became more numerous. Frustrated with the conditions brought on by the collapse of the capitalist economic system, more people in the United States and Canada began to support political organizations with collectivist ideologies. In Canada, the Co-operative Commonwealth Federation (CCF) was founded in Calgary in 1932 with mixed economic policies such as public ownership of industries and financial institutions.

Unemployment and poverty also led to greater social unrest. Strikes and protests became more common. The On-to-Ottawa Trek and subsequent Regina Riot were two of Canada's better-known incidents. In the early years of the Depression, the Conservative government of Richard Bedford Bennett set up relief camps for unemployed single men. The men were given food and shelter and would work for a small wage on public projects such as building roads. Many workers in the camps, however, felt the pay and conditions were inadequate, and in 1935 a strike was organized in which 1600 workers left their camps and gathered in Vancouver. After two months of protesting, the group decided to take their demands to Ottawa and climbed aboard train boxcars for the ride across the country. They called their journey the On-to-Ottawa Trek.

As the trains stopped in cities across Western Canada, more relief camp workers joined the trek. Finally, Prime Minister Bennett agreed to meet with a delegation of eight representatives in Ottawa if the rest of the protesters would agree to remain in Regina. The meeting in Ottawa between the delegation and the prime minister went badly, however, and the representatives returned to Regina. Bennett then ordered the RCMP to disperse the protesters, and the Regina Riot ensued. One police officer died and hundreds of people were injured. Bennett's handling of the situation was negatively perceived by many members of the general public. It is believed that the Regina Riot was one of the reasons for the Conservatives' defeat in the 1935 federal election.

The Great Depression and its effects would cause a greater number of people in North America to question the wisdom of the prevailing classical liberal economic system. While some reforms had been undertaken since the unregulated free markets of the 19th century, many North Americans came to believe that government should take on a greater role in the economy to prevent such extreme fluctuations and provide citizens with more economic stability. This signalled a significant shift away from classical liberal thinking toward a mixed economy and a more modern understanding of liberalism.

### ***Roosevelt's New Deal***

Franklin D. Roosevelt became president of the United States in March 1933 and offered what he called a **New Deal** for Americans. Roosevelt's policies were influenced in part by the theories of British economist John Maynard Keynes. As you read in Chapter 4, Keynes advocated for a more significant role for government in the regulation of the economy. He felt that in times of prosperity, government should control **inflation** with measures such as raising taxes, using a central bank to raise interest rates, and decreasing government spending. In recessionary times, such as the 1930s, Keynes argued that governments



should stimulate the economy by lowering interest rates and taxes and increasing government spending.

Roosevelt's New Deal was a series of programs that focused on relief, reform, and recovery—specifically relief to the unemployed, reform to the economy, and recovery from the Depression. The first wave of programs focused on short-term efforts for all groups in American society. In his inaugural speech, Roosevelt said the following:

*Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our national resources.*

— Franklin D. Roosevelt, Inaugural Address, March 4, 1933, in Samuel Rosenman, ed., *The Public Papers of Franklin D. Roosevelt, Volume 2, "The Year of Crisis, 1933"* (New York: Random House, 1938), pp. 11–16. History Matters.

<http://historymatters.gmu.edu/d/5057/>

As well, the banking system was stabilized. The Federal Deposit Insurance Corporation was created in 1933 to insure individual bank deposits.

The second wave of New Deal programs involved essentially redistributing power among businesses, consumers, farmers, and workers. The programs were numerous and far-reaching. Unions were encouraged. The Securities and Exchange Commission (or the SEC, which regulates publicly traded stocks), large-scale public works projects, and a strong social safety net were part of the legacy. The Agricultural Adjustment Act (1933) reduced farm crop and livestock outputs, and thus effectively raised farm prices. Works Progress Administration projects paid people in the arts to act, paint, sculpt, write, and more. The Social Security system was set up to provide financial assistance to people who were elderly and disabled; it continues today, as does the SEC.

Roosevelt's New Deal was an unprecedented, bold response to a crisis. His response was noteworthy in two distinct ways:

- It extended government involvement and intervention in the economy farther than it had ever gone before in the United States and represented an acceptance of government having a very direct role in the economy. The New Deal was an economic response to the inherent instability and the resulting social pain and upheaval of natural market forces. New Dealers felt that government has a responsibility to soften the jagged edges of the market cycles while still preserving the essential freedoms required in the market. There was a perceived need for governments to protect people from the abuses of uncontrolled capitalism.



Figure 6-6 ▲

One of the many back-to-work programs was the Civilian Conservation Corps (CCC). The CCC had young men from unemployed families work in rural areas for \$30 per month on such projects as building roads, creating state and national parks, fighting forest fires, or planting trees. The young men pictured here are clearing rocks from a truck trail in Snoqualmie National Forest, Washington, in 1933.

Workers lived in camps, wore uniforms, and were required to send \$25 per month home to their families. Most of the men who joined had not finished high school, had had no regular work before, and were malnourished prior to life in the camp. How did the CCC balance the principle of economic freedom against other rights and freedoms? In the circumstances, would you have volunteered to join the CCC?



### PAUSE AND REFLECT

**How did some of the changes in North American societies during the Great Depression contribute to an evolution of liberalism?**



Figure 6-7 ▲

The Tennessee Valley Authority was one of the biggest programs. It involved modernizing a large area, including damming the Tennessee River for electricity. The Fontana Dam seen here opened in 1945 and is 146 metres tall.

- The meaning of “people who matter” broadened. The New Deal showed an understanding that liberal principles apply to more than the rights and freedoms of industrialists; they also apply to the average citizen who needs protection from the vagaries of the market. This is what we mean by the shift from classical liberalism to modern liberalism.

Roosevelt clarified this shift in the understanding of whose interests needed consideration in his “Forgotten Man” speech, among others:

*These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power, for plans...that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid.*

— Franklin D. Roosevelt, “The Forgotten Man”  
(radio address), April 7, 1932. **New Deal Network.**

<http://newdeal.feri.org/speeches/1932c.htm>

Roosevelt himself had been born into a family of wealth and privilege, but he was brought up to believe that wealth brought with it a responsibility to those less fortunate. In the Great Depression, which had over 25 per cent unemployment, there were many “forgotten” men, women, and children.

### **Government Responses to the Depression in Canada**

Initially, the Canadian government did not intervene in the troubled economy to the same extent as the Roosevelt administration in the United States. Conservative prime minister Bennett was elected in 1930 on a platform that included make-work projects to provide relief for the unemployed. Bennett’s government did establish relief camps, but soon cut government spending, believing that laissez-faire policies would eventually lead the economy out of the crisis. One notable exception to these policies was the creation of Canada’s central bank, the Bank of Canada, which took over control of the country’s money supply, and began to use interest rates as a means of regulating the economy. Bennett also tried to quell the protests of left-wing groups and used a controversial section of the Criminal Code of Canada to disrupt Communist Party activities in Canada.

Seeing that the economy was not recovering, in 1935 Bennett tried to introduce programs similar to those of Roosevelt’s New Deal; however, most of the legislation Bennett introduced, such as the Employment and Social Insurance Act, was later struck down by the courts. Bennett subsequently lost the 1935 election to William Lyon Mackenzie King.

#### **PAUSE AND REFLECT**

**In what ways did Roosevelt’s New Deal reject or reflect the principles of liberalism?**

Under Mackenzie King's administration, government became much more involved in the Canadian economy and created many public institutions and **social programs** characteristic of the modern welfare state and a modern **mixed economy**. One of the most important individuals involved in this period of government expansion was C.D. Howe. During the course of his political career, Howe became known to the public as "Minister of Everything." At various times, he served as Minister of Transport, Minister of Munitions and Supply, Minister of Reconstruction, Minister of Trade and Commerce, and Minister of Defence Production. Some of Howe's achievements include the following:

- using unemployed workers in the 1930s to build airstrips across the country, which would soon be used in the rapidly expanding aviation industry
- establishing Trans-Canada Airlines as a Crown corporation in 1937 (it later became Air Canada)
- creating the National Harbours Board, thus centralizing the administration of Canada's ports
- reforming the Canadian National Railway, which was heavily in debt
- helping to create the Canadian Broadcasting Corporation (CBC) in 1936

Perhaps Howe's most important contribution, however, was his work as Minister of Munitions and Supply during the Second World War. Under Howe's direction, the government established 28 Crown corporations to produce goods needed for the war effort. Approximately 80 per cent of this production was exported to other Allied countries. Not only did this contribute to the Allied success in the war, but it also helped the Canadian economy. In the first few years of the war, employment in the manufacturing sector in Canada increased by 50 per cent.

Other public institutions and social programs created during this period include the following:

- the Bank of Canada became a Crown corporation (1938)
- the National Film Board (1939)
- the Unemployment Insurance Act (1940), which created insurance for the unemployed as well as programs to help them find work
- family allowances (1944)
- the National Housing Act (1944) and the Central Housing and Mortgage Corporation (1946), which created public housing programs for low-income families and provided mortgage loan insurance

Interventionist policies were also initiated in the 1936–1939 provincial government of Québec premier Maurice Duplessis, who began

a farm credit program, a commission to oversee fair wages, and a benefit program for destitute mothers and visually impaired people. Duplessis also tried to suppress communist activities in Québec by passing the Padlock Law (1937), which allowed the government to padlock any building used for communist meetings or activities for a year.

## Explore the Issues

### Concept Review

- 1 Create a chart with three columns. In the first column, list the examples of classical liberal principles and practices covered in this section. In the second column, list the examples of modern liberal principles and practices. In the third column, list the reasons for any specific shift in principles.

### Concept Application

- 2 Think about the principles of individualism and collectivism that you considered in Chapter 2. As you consider influences of these principles, determine who benefited and who did not benefit through the

changes brought about by the application of liberal principles. How did changes in government policies in North America reflect shifting attitudes toward principles of individualism and collectivism? How did these principles influence modern liberalism in the first half of the 20th century?

- 3 Compare government responses to the Great Depression with a government response to a more recent economic crisis in North America. How have governments changed their approaches to economic crises, if at all?

## SKILL PATH

### Analyzing Government Communications to Determine Perspective

As an Albertan and a Canadian, you experience the implications of market forces, government policy, and government practice; however, you can also take an active role in your community: you can vote in elections (or will soon be able to), you can speak out, and you can “vote” with your dollars in the economy. Whether your goal is to inform yourself, to explore an issue in-depth to develop an opinion, or to take action, you can hone the skill of examining communications to determine perspective and “read between the lines.”

**Your Task:** Using Roosevelt’s New Deal era as an example, examine an excerpt of a presidential speech and “read between the lines” for the perspective and the purpose of the communication. Based on your understanding of the context of the communication, examine the message for its underlying beliefs, values, and purpose, and determine how the message is crafted to achieve that purpose. For example, consider how the subject is framed, what words and phrases were chosen, what words were not used, what emotions the text evokes, and the result of all these choices. The Questions to Guide You will help you review the example and apply the Skill Path to other examples in and beyond this chapter.



On September 8, 1933, Franklin D. Roosevelt delivered the following impromptu speech at the 1933 Conference on Mobilization for Human Needs. This was early in the period of the New Deal.

*I have been somewhat occupied during the past forty-eight hours with human needs in other parts of the world, outside of our own country—occupied in the hope that the United States would not have to act outside of its own quarters, in the hope that another Republic will be able to solve its own difficulties just as we are seeking to solve our difficulties. And, so, I have no set speech to deliver to you today.*

*I want to talk to you very simply and very briefly in regard to what might be called “The Whole of the Picture.” You are not the whole of the picture and neither am I, but the Nation is. Our task, I think, is to complete the whole of the picture and not leave any unfinished portion thereof.*

*As you know, the many Governments in the United States: the Federal Government, the forty-eight State Governments, and the tens of thousands of local Governments are doing their best to meet what has been in many ways one of the most serious crises in history. On the whole, they have done well. The Federal Government cannot, by any means, accomplish the task alone. The Government has, during these past months, entered into many fields of human endeavor that it has never participated in before.*

*I believe we Americans do not wish to see a permanent extension of purely Government operations carried to the extent of relieving us of our individual responsibilities as citizens, and it is with that thought in mind that very early in this Administration we laid down in regard to one portion of this great picture a somewhat simple rule.*

*When we came to the problem of meeting the emergency of human needs, we did not rush blindly in and say, “The Government will take care of it.” We approached it from the other angle first. We said to the people of this country, “When you come to the problem of relief, you*

*face the individual family, the individual man, woman and child who lives in a particular locality and the first objective and the first necessity are that the citizens of that community, through the churches, the community chest, the social and charitable organizations of the community, are going to be expected to do their share to their utmost extent first.”*

—Franklin D. Roosevelt, speech at the  
Conference on Mobilization for Human Needs,  
September 8, 1933. New Deal Network.

<http://newdeal.feri.org/texts/69.htm>

### Questions to Guide You

1. What is the source of the communication? For example, is it a transcription of a political speech, an official web page, a poster?
2. What is the context? When was the communication made and in what circumstances?
3. Who is the author or speaker? What point of view does this person have on the subject?
4. What is the content? What are the main points? How would you summarize the message?
5. Who is the intended audience for the communication?
6. What is the purpose? What does the speaker or author want the audience to understand or do as a result of this communication?
7. How is the message crafted for this purpose? What keywords and phrases are used and with what impact? What does the speaker or author choose not to say?

**Source: Mike Denos and Roland Case, Teaching about Historical Thinking, eds. Peter Seixas and Penny Clark (Vancouver: University of British Columbia, 2006).**



# The Ebb and Flow of Economic Liberalism Since the Second World War

## Question for Inquiry

- In what ways have economies reflected the principles of liberalism since the Second World War?

## The Postwar Consensus

In 1942, Sir William Beveridge presented a report to the British Parliament entitled “Social Insurance and Allied Services.” In his report, Beveridge recommended that the role of the state be expanded to provide members of society with more security.

*Now, when the war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolutions, not for patching...*

*...organisation of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness.*

*...social security must be achieved by co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family...*

—Sir William Beveridge,

“Social Insurance and Allied Services,”

November 1942. Socialist Health Association.

<http://www.sochealth.co.uk/history/beveridge.htm>



Figure 6-8 ▲

Construction of the St. Lawrence Seaway began in 1954 and was completed in 1959. The Canadian government paid for approximately two-thirds of the \$470 million cost of the project, and the American government paid the remainder.

In 1948, the Labour Party government adopted several of Beveridge’s recommendations and created the National Insurance Act, the National Assistance Act, and the National Health Service Act. This period in British politics, from the end of the First World War until the end of the 1970s, became known as the *postwar consensus* because, despite their political differences, successive governments of the collectivist Labour Party and the individualist Conservative Party maintained the programs that made up the new British welfare state. Not only did countries like Britain, Canada, and the United States implement changes in the role of the state at this time, but a general growth of the principles of liberalism occurred internationally through contacts

related to trade, international cooperation, foreign aid, and other programs. The ebb and flow of economic liberalism was in evidence around the world. Many Western democracies followed suit, providing substantial publicly-funded “social safety net” programs such as employment insurance, assistance for people who are elderly, child care, and universal health care.

## The Postwar Economy in Canada

As in Britain, most Canadian governments in the three decades following the Second World War created or strengthened social programs. Building on legislation and initiatives passed prior to and during the war, such as Unemployment Insurance and Family Allowances, postwar Canadian governments started several programs characteristic of a welfare state, such as the following:

- the provision of universal health care—Public health care was established in Canada through the Hospital Insurance and Diagnostic Act (1957) and the Medical Care Act (1966).
- the Canada Pension Plan (CPP, 1966)—The CPP, along with Old Age Security, makes up Canada’s public retirement income system.
- the Foreign Investment Review Agency (FIRA, 1974)—FIRA was created in the face of concerns over foreign control of Canadian industries with the mandate of screening foreign takeovers of Canadian businesses and the creation of new companies in Canada by foreign investors. The agency was sometimes criticized because it rarely prevented foreign investment in Canadian businesses despite its mandate. In 1984, the name of the agency was changed to Investment Canada, and its mandate was changed to promoting foreign investment in the Canadian economy.
- the Canadian Radio and Television Commission (CRTC, 1968)—The CRTC was established to oversee all aspects of broadcasting in Canada, including licensing, content, and ownership. In 1976, the commission was also given jurisdiction over the telecommunications industry in Canada, at which time its name became the Canadian Radio-television and Telecommunications Commission.
- Atomic Energy of Canada Limited (AECL, 1952)—AECL was created by the federal government to research and develop peaceful uses for nuclear energy. AECL created and markets the CANDU reactor, which is used in nuclear power plants in countries around the world.

In Québec, the provincial Duplessis government undertook ambitious public works projects in the postwar period. Having established its own

 **PAUSE AND REFLECT**

**Is it possible to arrive at a general statement or rule that reflects the relationship between economic crises and economic ideologies?**

provincial income-tax program, the Québec government used the funds to expand infrastructure. Duplessis built hydroelectric projects, extended electrification throughout rural Québec, and constructed highways, schools, universities, and hospitals. His government also introduced the country's highest minimum wage and created home ownership assistance acts.

At the same time, Duplessis was a strong opponent of organized labour, and often used provincial police to break up strikers' picket lines. His questionable tactics in dealing with disputes eventually led to the adoption of new provincial labour laws. His anti-communist Padlock Law (1937) was struck down by the Supreme Court of Canada in 1957.

While Duplessis's government was heavily involved in the economy, it was not a strong supporter of most social programs, as it preferred lower taxes. Only after Duplessis's passing, during the Quiet Revolution of the 1960s, would Québec see a strengthening of social programs characteristic of the modern welfare state.

### **Economic Crises of the 1970s**

The 1970s were a difficult period for governments in several liberal democracies. In 1971, the United States withdrew from the Bretton Woods Agreement, which had used the gold standard to set the exchange rates for the currencies of most of the world's industrialized countries since 1945. Soon after, most other countries followed suit, and as world currencies were allowed to freely float on world markets, a period of inflation ensued, slowing economic activity.

Further compounding these problems, Egypt and Syria attacked Israel in 1973, triggering the fourth Arab-Israeli war. In response to American and Western European support of Israel during the conflict, the oil monopoly known as OPEC (Organization of the Petroleum Exporting Countries) imposed a five-month oil embargo on the United States and the Netherlands (among other countries). OPEC also reduced its production of oil. Because of this, the price of oil quadrupled, causing gas shortages and rationing in the United States. This had a double effect of making goods more expensive, thus causing a rise in the rate of inflation, and causing the economy to slow down. When a recession and high inflation occur at the same time, it is known as **stagflation**.

The phenomenon of stagflation also affected the British economy. The economic situation in Britain was so serious that even Prime Minister James Callaghan, whose Labour Party had been responsible for many of the innovations that led to the British welfare state, no longer supported using government spending to help the economy. In 1976, as the British government was forced to borrow US\$3.9 billion from the International Monetary Fund, Callaghan said the following in a speech at a Labour Party conference:

Rate of Inflation (%)

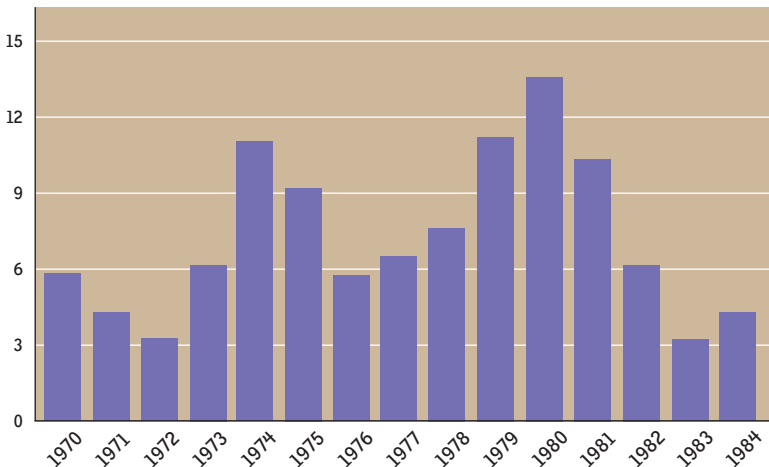


Figure 6-9

Inflation in the United States rose dramatically during the 1970s and early 1980s.

*For too long, perhaps ever since the War, we postponed facing up to fundamental choices and fundamental changes in our society and in our economy... We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists, and that insofar as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment... We will fail—and I say this to those who have been pressing about public expenditure—if we think we can buy our way out by printing “confetti money” to pay ourselves more than we produce.*

—James Callaghan, speech at a Labour Party conference, quoted in Michael Starks, *Not for Profit, Not for Sale*, (New Brunswick, NJ: Transaction Books, Rutgers University, 1992) p. 10.

Because of the phenomenon of stagflation, governments in many Western countries found that, while the cost of maintaining the programs of a welfare state was rising due to inflation, the economic slowdown meant that governments collected less tax revenue. This situation would lead to a shift in economic thinking in many countries in the 1970s and 1980s.

## Monetarism: Friedman and Hayek

It can be argued that the shift toward classical liberal laissez-faire economics in the form of monetarism—a shift that began in the 1970s—is another swing of an economic pendulum which alternates between interventionism and the free-market economy, reflecting a return to the principles of liberalism. This particular pendulum swing lasted well into the 2000s, and was also promoted in Canada by such

figures as premiers Ralph Klein of Alberta and Mike Harris of Ontario, and Prime Minister Stephen Harper. During his time in office, each attempted to undo the interventionist policies of previous governments.

Monetarist theory holds that control of a country's money supply is the best means to encourage economic growth and limit unemployment and inflation. The money supply is controlled through the regulation of interest rates. The economist most closely associated with monetarism is Milton Friedman.

Friedman believed that inflation was primarily the result of an excess supply of money produced by central banks. He argued that when the money supply was increased, consumer spending would also increase, causing demand to rise, and thus inflation to increase (as happened in Germany in the early 1920s). Friedman felt that the amount of money issued by the central bank should be linked to economic indicators such as the rate of inflation.

Another influential economist during this period was Friedrich Hayek. Hayek had been a critic of collectivist thinking since before the Second World War, but his views were not widely popular because of the prevalence of Keynesian economic theory. This began to change in the 1960s and 1970s, and Hayek's theories gradually became more widely accepted.

Hayek believed that, in order for a collectivist society to function, government would have to maintain an extremely high level of control over society. He also felt that excessive government control of economic aspects of life would inevitably lead to government interfering in aspects of citizens' social lives, which he felt was a danger to the liberty of the individual. Hayek also argued that it would be impossible in a centrally planned (that is, collectivist) economy for the central planners to have sufficient information to make rational decisions: although they controlled supply, they could never have enough information about demand (especially in a society the size of modern countries) to make appropriate decisions. Hayek's ideas would have a strong influence on British Conservative prime minister Margaret Thatcher.

Both Friedman and Hayek, like Adam Smith before them, believed that the price system, or the free market, was the only way to balance supply and demand in the economy while maintaining individual liberty.

*From my point of view, we in the United States have gone overboard in respect to the extent of regulation and detailed control of labor standards, industry, and the like. It's bad for us...I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible.*

—Milton Friedman, 2006, in John Hawkins  
“An Interview with Milton Friedman.” Right Wing News.  
<http://www.rightwingnews.com/interviews/friedman.php>



The gradual acceptance of monetarism, and the ideas of Friedman and Hayek, was in part a reaction to the inability of governments to deal with the stagflation period of the early 1970s.



## Monetarism versus Keynesian Economics

The adoption of monetarism by Great Britain, the United States, and others reflects a swing of the pendulum back to classical liberal principles and away from the interventionist practices of Keynesian economics. The intervention of governments during and after the Depression and the Second World War had established a modified market or a mixed economy—the intervention side of the pendulum swing—but the advice offered by Keynes had been only partially accepted by governments.

Keynes argued that, during recessions, governments should increase the money supply to alleviate the economic downturn and avoid a lasting depression. However, Keynes also maintained that during times of economic prosperity and inflation, governments should cut back on program spending, raise taxes, and raise interest rates, in order to cool off the inflationary economy and offset the government's debt. Some would argue that liberal democratic governments readily accepted Keynes' advice to spend money during hard times, but did not implement his ideas to cut spending during prosperous times because they would be unpopular with voters. This resulted in the massive government debts and stagflation of the 1970s.

While monetarists argue that Keynesian economics were unsustainable in the long term, Keynes' defenders assert that his theories are workable when properly put into practice.

Figure 6-10 ▲

Economist Milton Friedman influenced both British prime minister Margaret Thatcher and American president Ronald Reagan in the 1980s. He followed in the tradition of Adam Smith and felt that government spending and regulation had gone too far.



Figure 6-11 ▲

One key aspect of Reagan's administration was its response to labour. In August 1981, American air traffic controllers were striking and threatening to shut down the airlines. The workers complained about dangerous levels of stress and greater work demands; the issues on the table were wages, hours, and retirement benefits. Reagan was uncompromising; he announced that the strike was illegal and all the striking workers were fired. According to US Attorney General Edwin Meese, Reagan felt it was the "only thing he could do under the law." Source: "The Reagan Years: The air-traffic controllers strike." CNN.com, <http://www.cnn.com/SPECIALS/2001/reagan.years/whitehouse/airtraffic.html>, 2001.

## Reaganomics

Ronald Reagan became president of the United States in 1981. At the time, supporters of Friedman and Hayek argued that stagflation was partly the result of huge national deficits from government spending.

*[Friedman] believed history "got off on the wrong track" when politicians began listening to John Maynard Keynes, intellectual architect of the New Deal and the modern welfare state. The market crash of 1929 had created an overwhelming consensus that laissez-faire had failed and that governments need to intervene in the economy to redistribute wealth and regulate corporations. During those dark days of laissez-faire, when Communism conquered the East, the welfare state was embraced by the West... [Friedman wrote,] "The major error, in my opinion... was to believe that it is possible to do good with other people's money."*

—Excerpted from *The Shock Doctrine: The Rise of Disaster Capitalism* by Naomi Klein, pp. 20–21. Copyright © 2007 Naomi Klein. Reprinted by permission of Knopf Canada.

Reagan was greatly influenced by Friedman's theories. While President Richard Nixon's administration in the 1970s had tried to combat stagflation by setting wage and price controls, Reagan wanted less government involvement and embarked on what was later called **Reaganomics**.

Reagan became president at a time of high unemployment and high inflation. His administration's response included reduced income and business taxes, reduced regulation (controls on business), and increased government spending on the military. These policies are known as supply-side economics, or **trickle-down economics**. Supporters of this perspective maintain that by lowering tax rates, especially among those who are most likely to invest capital (that is, the wealthy), economic growth will be encouraged through increased investment. It was argued that the benefits of increased private investment and government defence spending would "trickle down" through the economy to the working class.

Economic data would not seem to support this theory, however: between 1972 and 1977, the wealthiest 10 per cent of the population of the United States was earning about 33 per cent of all the income in the country. With the advent of trickle-down economics, by 1987 the wealthiest 10 per cent were earning about 41 per cent of the country's total income. (Source: Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States." *Pathways Magazine*, Stanford Center for the Study of Poverty and Inequality [Winter, 2008]: pp. 6–7.)

	Date of Election	Spending*	Deficit (-) or Surplus*	Public Debt*
<b>Carter administration</b>	1977	409.2	-53.7	549.1
	1978	458.7	-59.2	607.1
	1979	504.0	-40.7	640.3
	1980	590.9	-73.8	711.9
<b>Reagan administration</b>	1981	678.2	-79.0	789.4
	1982	745.7	-128.0	924.6
	1983	808.4	-207.8	1137.3
	1984	851.9	-185.4	1307.0
	1985	946.4	-212.3	1507.6
	1986	990.4	-221.2	1740.6
	1987	1004.1	-149.7	1889.8
	1988	1064.5	-155.2	2051.6

\*all figures in billions of US dollars

Source: Adapted from "Revenues, Outlays, Deficits, Surpluses, and Debt Held by the Public, 1968 to 2007, in Billions of Dollars." United States Congressional Budget Office, <http://www.cbo.gov/budget/data/historical.shtml>.

## Britain's Thatcherism

Like Ronald Reagan in the United States, Britain's Conservative prime minister Margaret Thatcher (1979–1990), tried to reduce government involvement in the economy and increase economic freedom and entrepreneurship in keeping with classical liberal principles. Under Thatcher, Britain sold much of its social housing in a program that encouraged those who rented council flats (that is, government-owned homes) to buy them. The Thatcher administration also privatized many utility companies, including British Telecom, which had been publicly owned since the 1940s.

Like Reagan, Thatcher took a hard line with labour unions. A coal miners' strike stretched from 1984 to 1985 and, as Naomi Klein describes it, "Thatcher unleashed the full force of the state on the strikers, including, in one single confrontation, 8000 truncheon-wielding riot police, many on horseback, to storm a plant picket line, leading to over 700 injuries." (Source: Naomi Klein, *The Shock Doctrine*, p. 164). In the end, 966 workers were fired and the strike's defeat was a huge symbolic loss to the union movement in Great Britain.

Figure 6-12

The Reagan administration argued for less government involvement in the economy; however, government spending and debt rose during the 1980s. This was largely due to military spending. Reagan spent more money on military buildup than any previous president; however, increased government spending in the 1980s was somewhat contrary to the path suggested by Friedman and Hayek.



Figure 6-13

In reference to the coal miners' strike and Britain's war with Argentina over the Falkland Islands, Prime Minister Thatcher said, "We had to fight the enemy without in the Falklands. We always have to be aware of the enemy within, which is much more difficult to fight and more dangerous to liberty." What values are suggested by describing a labour union as the enemy? Source: "Enemies within: Thatcher and the unions." BBC News, [http://news.bbc.co.uk/1/hi/uk\\_politics/3067563.stm](http://news.bbc.co.uk/1/hi/uk_politics/3067563.stm), March 5, 2004.)

## Blair's Third Way

In contrast to Thatcher and John Major, who followed her briefly as prime minister, Labour Party prime minister Tony Blair ran in 1997 on a platform of a “Third Way”: neither the familiar Conservative approach, nor the “old Labour Party” approach that focused on trade unions, public ownership, a strong welfare state, government intervention, and redistribution of wealth. The Third Way was seen as a shift to a more moderate platform that would adopt some Thatcherite and free-market policies, while maintaining some social programs—a new form of mixed economy. It would be a compromise between the Keynesian economics of the postwar period and the more recent monetarism. It was an attempt at balancing the individualist values of monetarism with the collectivist values of social justice.

In the first years of Blair's administration, his approach to the Third Way was described by the BBC as follows:

*Put at its most basic the Third Way is something different and distinct from liberal capitalism with its unswerving belief in the merits of the free market and democratic socialism with its demand management and obsession with the state. The Third Way is in favour of growth, entrepreneurship, enterprise and wealth creation but it is also in favour of greater social justice and it sees the state playing a major role in bringing this about. So in the words of one of its gurus Anthony Giddens of the LSE [London School of Economics] the Third Way rejects top down socialism as it rejects traditional neo liberalism.*

—Source: “UK Politics: What is the Third Way?”  
BBC News, September 27, 1999.

[http://news.bbc.co.uk/2/hi/uk\\_news/politics/458626.stm](http://news.bbc.co.uk/2/hi/uk_news/politics/458626.stm)

During Blair's leadership, the government increased public spending on health care and education from Thatcher's days, and introduced a national minimum wage. At the same time, Blair introduced tuition fees for post-secondary education, which had formerly been free for all students. Since Blair's government, all universities (except one private university) provide undergraduate education for a low tuition fee in the form of a loan that is repayable after graduation when the graduate reaches a certain income level; students from the lowest-income backgrounds have free tuition.

### ***The Netherlands' Polder Model, Kenya's Harambee, and Chad***

Other countries have adopted similar compromise approaches that try to find a middle ground between laissez-faire economics and socialist interventionism. Some, such as Britain, refer to the approach as the



“third way” or “middle way” between the right and left sides of the economic spectrum. Most of these compromise solutions to economic extremes are not yet clearly defined and can be thought of as works in progress: “One supporter writing to *The Independent* claimed it was a form of benevolent pragmatism—a philosophy that asked of each policy—is it good, does it work?” (Source: “UK Politics: What is the Third Way?” BBC News, [http://news.bbc.co.uk/2/hi/uk\\_news/politics/458626.stm](http://news.bbc.co.uk/2/hi/uk_news/politics/458626.stm), September 27, 1999.)

The Netherlands has a unique system that plays a significant role in its economy. The system, called the Polder Model, was developed in the early 1980s, after a long period of decline in the Dutch economy. The Polder Model involves employers, unions, and government representatives working together to make decisions, and it helps avoid strikes, thus stabilizing the economy. It also has parallels in the political system:

*The national identity is reflected in countless advisory and consultative bodies. Each issue where there is a remote danger of disagreement has its own forum in which all interested parties are represented, whether it be [its] traffic issues, defence matters or education affairs.*

—Mark Kranenburg,  
**“The political branch of the polder model.”**  
**NRC Handelsblad, July 1, 1999.**

<http://www.nrc.nl/W2/Lab/Profiel/Netherlands/politics.html>

In the wake of devastation resulting from a variety of factors, including colonial occupation, Kenya developed a policy centred on *harambee*—a Bantu word that means literally “let us all pull together.” Susan Njeri Chieni says that this term “embodies ideas of mutual assistance, joint effort, mutual social responsibility, and community self-reliance”—and is similar to the concepts of *ujamaa* in Tanzania and *humanism* in Zambia. She also says the following:

*It is therefore an informal development strategy of the people, by the people (with assistance from external sources, including the government) for the people...Harambee is not new but a traditional principle which existed in every traditional society in Kenya. Each society had self-help or co-operative work groups by which groups of women on the one hand and men on the other organized common work parties, for example to cultivate or build houses for each other, clear bushes, harvesting, etc. The security and prosperity of the group was therefore dependent upon persons being mindful of each other's welfare.*

—Susan Njeri Chieni, **“The Harambee Movement in Kenya: The Role Played by Kenyans and the Government in the Provision of Education and other Social Services.”** E.G. West Centre.

<http://www.ncl.ac.uk/egwest/countries/kenya.html>



**Figure 6-14** ▲

The model name comes from the country's *polder*, an interdependent system of dikes that prevent flooding in the Netherlands, much of which is below sea level.





Figure 6-15 ▲

Why would the World Bank impose conditions on Chad's Parliament in order to provide the loan for oil development?

Principles that underlie harambee include the following:

- The product should benefit the public rather than just one individual.
- Projects should maximize the use of local resources that would otherwise be unused or too expensive.

Schools, medical centres, roads, and more have been developed with harambee.

Chad has major oil reserves. Rather than allowing a multinational business to invest in the country and tap these resources (but also create opportunities for local employment and related businesses), Chad and the World Bank “began experimenting with a potentially pathbreaking model...The World Bank agreed to step in and loan the government money to partner with a multinational consortium—led by ExxonMobil—to get the oil flowing. But it also put in place certain conditions. Chad’s parliament had to pass a law guaranteeing that 80 percent of the oil revenues would be spent on health, education, and rural infrastructure...” (Source: Fareed Zakaria, *The Future of Freedom* [New York: W.W. Norton, 2004], p. 157.)

### PAUSE AND REFLECT

**In this example, what is the level of government involvement? What might be the long-term outcomes of this approach? In what ways does this example represent a middle ground between laissez-faire economics and social justice?**

## Economic Practices and the Principles of Liberalism

Keeping in mind the historical development of liberalism and its expression in economic policy, let's look at a comparison of two different economic systems and how they function.

Sweden and the United States both follow the principles of economic liberalism. However, these countries are clearly different in their economic practices. As you read the article by Lief Utne in this section, think about how economic practices and policies can reflect liberal principles. Consider why such obvious differences occur in these countries.

### *Sweden and the United States*

Countries such as the United States have argued that liberal goals are most effectively achieved by limiting government intervention. In these societies, government provides only the most basic social support while governing over semi-private education and health care systems. For them, the drive to create or produce or acquire wealth arises from self-interest and the need to compete. During times of extreme economic upheaval, these governments may favour more economic intervention, as was the case with Roosevelt's government during the Great Depression of the 1930s.

Other countries such as Canada and Sweden have tended to favour more government intervention in the economy and the lives of citizens. Supporters of this mix argue that economic and social inequality tends to undermine liberalism, as citizens fall prey to fluctuations in the business cycle. Governments that favour this model maintain higher levels of intervention and taxation, but still encourage private property and industry (for example, about 90 per cent of Sweden's industrial output is produced by private companies). Depending on the status of the economy, they believe that liberal growth can take place only with some degree of economic self-reliance and that too much government regulation will impede economic incentive and private entrepreneurs. Such countries are following a compromise model similar to the Third Way approach described earlier.

What does that mean in the daily lives of citizens? Here's one answer from an American writer, Leif Utne, who wrote the following article comparing economic implications of life in the United States and Sweden from his personal point of view. How does your experience as a Canadian compare?



### PAUSE AND REFLECT

**How do the Polder Model, *harambee* and the economic choices in Sweden compare with your own experience? What beliefs about the individual and the community do they reflect? Which example, if any, would you want to transfer to Canada?**

## Life Is a Smorgasbord

*You can't always get what you want—but in Sweden, you just might find you get what you need.*

by Leif Utne

So, will you two ever move here?" That was the question on everyone's mind when my wife, Cilla, and I visited her family in Sweden last Christmas.

"Yes. Probably. Someday," we answered.

Cilla and I met while studying in Chile, one week shy of graduation. We spent much of the next eight months traveling together around Cuba, Brazil, and Scandinavia before coming to live in Minneapolis. We've always assumed that someday we'd live in Sweden for a while.

I've always admired the strong communitarian ethic that is the basis of Sweden's political system. A decade of tough economic times has forced the government to begin dismantling some parts of the country's fabled welfare state, but most of Sweden's social democratic policies remain firmly in place: nearly free university education, universal health care, strong unemployment benefits, and my favorite, a minimum of five weeks vacation for all full-time workers. The chance to live in a society truly dedicated to promoting economic democracy and social justice is one of the great attractions Sweden holds for me. By the time we came home, however, Cilla found herself feeling far less excited by the idea of moving back to Sweden than she had been before.

"After a month in Sweden, you'd feel like you were in prison," she warned me.

Don't get me wrong. Cilla loves her homeland. But she is not a typical Swede. "From the time I was little, my mother always predicted that I'd leave Sweden one day," she tells me. "She said that Sweden was too small for me."

What is it about Sweden that would make Cilla feel claustrophobic, and attract me so strongly? There are many differences between my homeland and hers, but the biggest centers on issues of freedom and choice.

Swedes tend to exercise their freedom of choice in different ways than Americans, emphasizing quality over quantity or diversity. For example, Sweden produces only two kinds of cars, but they're the ultra-reliable Saab and Volvo. Every bathroom in Sweden, it seems, has one of

two toilets, water-conserving low-flush models made by Ifö or Gustafsberg, in white or off-white. Few people have cable TV, but the five broadcast networks are known for their high-quality programming. The national liquor monopoly, known affectionately as "The System," is only open till 6 p.m. on weekdays and 2 p.m. on Saturday, but its wine selection is second to none. I mean that literally. The System is the world's single largest wine buyer, and is therefore able to negotiate excellent deals on great wines. Plus, all the clerks have extensive training and are very knowledgeable about wine. And if the bottle you want is out of stock at the local store, they'll find it in another store and have it for you the next day. Cilla lived in London for a short time in the early '90s and says that "there was a liquor store on every corner, but you couldn't find a decent bottle of wine." Despite their grumbling about the limited hours and high liquor taxes, Swedes are proud of The System. Waiting in line at The System on a Friday afternoon is a shared national ritual.

At home, Cilla and I talk about things like this all the time. We both love to travel, speak several languages, and find almost nothing more interesting than exploring cultural differences. In Cilla's case it's a vocation as well as an avocation—she's a professional cross-culturalist who advises executives who are moving from one country to another. So what is it, I asked my resident cross-cultural expert, that makes American and Swedish attitudes toward choice so very different?

Freedom in Sweden, says Cilla, is not only—not even primarily—about economic choices. It's more focused on other factors—the efficiency, beauty, or reliability of goods, the quality of life. Freedom means having leisure time to spend with family and friends, the opportunity to learn and travel. The Swedish idea of choice is to express your individuality in ways that are not tied to your wallet. Although a Swedish grocery store may only carry four brands of soap, Swedes have far more political choices than we do: seven different political parties hold seats in

Parliament in a country of only 9 million.

Like most Scandinavian and continental European nations, Sweden is a far more relationship-oriented society than the United States. Cilla cites Dutch social scientist Geert Hofstede, one of the 20th century's most prominent researchers on intercultural communication, who notes that in a relationship-oriented society, individuals seek affirmation from the group before doing anything and actively avoid standing out from the crowd. This attitude—like the welfare state itself—is consistent with the high value Swedes put on freeing the individual from hardship and discomfort. But it brings consequences that might make Americans snicker, or feel frustrated. An older Swedish woman once told me that the Bosnian refugee family that had recently moved into her apartment building were good people because “they follow the laundry room rules.” That was high praise in a culture where every apartment building has a scrupulously clean laundry room with strict rules for reserving a time to do your wash.

The United States, on the other hand, is individualistic in the extreme. Identity in this country, Cilla explains, begins with the individual's sense of self rather than membership in any group. Personal choices in America are about exercising your capacity for individual expression

and creativity. Cilla was surprised at how much culture shock she felt moving here. It was a bit like the scene from *Moscow on the Hudson*, a 1984 movie about a Russian saxophonist who defects to the United States. One day he goes into a supermarket to buy coffee, and finds dozens and dozens of varieties. His head begins to spin, he hyperventilates, and ends up in the hospital. After five years in the United States, Cilla's come to terms with American life. It's “the little life,” that she enjoys most about this country—owning a single-family house and a car, access to a wide variety of international foods, music. Yet she's conflicted, too. “When I step back, I realize that it's all dependent on this huge, unsustainable apparatus that pollutes the environment and exploits the developing world.”

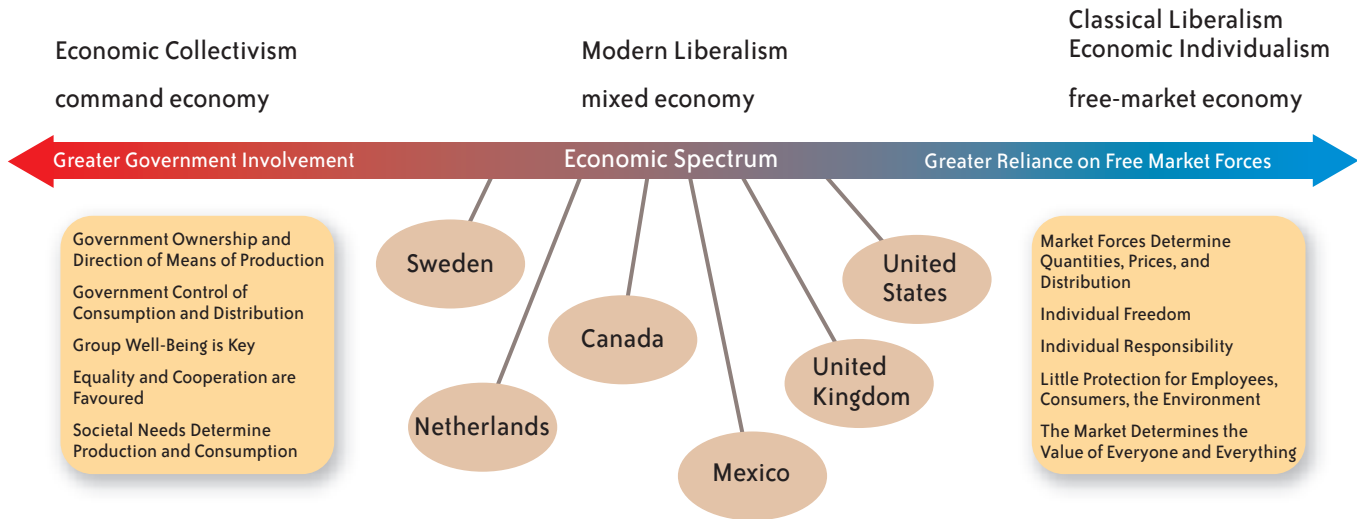
So—will Cilla and I ever move to Sweden? Yes, someday. I'm certain of it. I want to know what it's like to live in a place where freedom has a different meaning than a wealth of choices. And, paradoxically, I feel very fortunate that Cilla and I have that choice.

—Leif Utne, “Life Is a Smorgasbord.”  
Reprinted with permission from Utne Reader  
(May-June 2003); [www. Utne.com](http://www.Utne.com),  
Copyright © 2003 Odgen Publications, Inc.

## Economic Liberalism Today

Great Britain, like other liberal democracies, has promoted economic freedom and free trade, and many entrepreneurs have enjoyed the freedom to do business globally. On a grand scale, this means that employers can move their businesses to wherever they find a suitable economic climate. For example, in 2003 the British company Norwich Union announced it would cut 2350 jobs in the United Kingdom and relocate them to India. From 2000 to 2003 “the number of [call centres in India] has risen from 50 to 800 as Western companies have sought to take advantage of cheaper operating costs—estimated to be about 30-40% lower than in the UK.” (Source: “Call centres ‘bad for India’.” BBC News, [http://news.bbc.co.uk/1/hi/world/south\\_asia/3292619.stm](http://news.bbc.co.uk/1/hi/world/south_asia/3292619.stm), December 11, 2003.)

In addition to the shock of job loss in Great Britain, there were criticisms within India:



**Figure 6-16**

Placing countries on a comparative scale is always an exercise in approximation and perspective. Many factors—traditions, politics, culture, environment, history, and so on—may play a role in the relative economic freedom experienced by people in a country. How a person places countries on the spectrum also depends on the person’s point of view and understanding of ideology. Thus, not everyone would agree on the placement of countries on the spectrum in this figure.

In addition, changes in governing parties often lead to changes in economic policy in liberal democracies. Canada, for example, could arguably be placed closer to the United Kingdom and the United States based on recent legislation proposed by the Conservative government. What do you think is the ideal position on the economic freedom-control spectrum?

*“[Workers] work extremely long hours badly paid, in extremely stressful conditions, and most have absolutely no opportunities for any kind of advancement in their careers,” Mr Bidwai told BBC World Service’s One Planet programme.*

*“It’s a dead end, it’s a complete cul-de-sac. It’s a perfect sweatshop scenario, except that you’re working with computers and electronic equipment rather than looms or whatever.”*

—Source: **“Call Centres ‘bad for India’” BBC News, December 11, 2003.**

[http://news.bbc.co.uk/2/hi/south\\_asia/3292619.stm](http://news.bbc.co.uk/2/hi/south_asia/3292619.stm)

### **Increasing Economic Freedom—Ukraine and Mexico**

How can a country that has previously favoured government control of the economy increase economic freedom? When Ukrainian president Leonid Kuchma and American president Bill Clinton met in 1994 (after the fall of the Soviet Union), they discussed how the former communist state could reform its economy by encouraging competition and privatizing.

Years later, in 2002, Ukraine was still reforming its economy to improve the business environment, and the International Centre for Policy Studies (ICPS) evaluated the country as follows: the country’s economic legislation became more predictable and addressed competition, foreign trade, taxation, and economic regulation in general. However, the ICPS warned, “Ukrainian authorities should pay more attention to the development of legislation on protecting competition and intellectual property rights.” (Source: “Economic legislation in Ukraine becomes more predictable” [ICPS newsletter, #91, December 25, 2000], p. 1: [http://www.icps.com.ua/doc/n1\\_eng\\_20001225\\_0091.pdf](http://www.icps.com.ua/doc/n1_eng_20001225_0091.pdf).)



Closer to home, Mexico joined in the North American Free Trade Agreement (NAFTA) with the United States and Canada to increase economic freedom and improve its economy. NAFTA was implemented in 1994. The following article describes its results as of 2002.

*The North American Free Trade Agreement, considered the centerpiece of the new Mexican philosophy, has generated a quarter trillion dollars in cross-border trade with the United States. The treaty helped turn a closed, inefficient economy dominated by state-owned companies into one that was flooded by foreign investment and driven by foreign competition.*

*But government statistics show that economic liberalization has done little to close the huge divide between the privileged few and the poor, and left the middle class worse off than before. Battered by a series of severe recessions, teachers and engineers, nurses and small-business men, all find themselves swinging above and below the poverty line with the rise and fall of the peso, interest rates and the unemployment rate.*

*According to a recent government report, in the year 2000 half the Mexican population lived on about \$4 a day, with scarcity shifting along with the population from rural regions to cities. Some 10 percent of Mexicans at the top of the income pyramid controlled close to 40 percent of the nation's wealth.*

*Meanwhile, the 35 percent of Mexico's population that lives in the middle—with average earnings of about \$1,000 a month—spirals slowly downward.*

*The economist Rogelio Ramirez de la O said that in the 1970's, when Mexico's population was 50 million people and the country had begun to enjoy the benefits of an oil boom, some 60 percent of Mexicans were middle and working class. Their numbers and buying power have declined "dramatically" since then, Mr. Ramirez said.*

*"The promises of economic modernization have not been fulfilled," he added, and Mexico's middle class "now has less buying power than a generation ago."...In an effort to reduce its external debt, the government simultaneously slashed spending for higher education, transportation and health care—all traditional pillars of middle-class life...*

*It is not a unique predicament in Latin America, a region that has long suffered some of the greatest inequalities of wealth in the world. However, it seems a sorry outcome for a nation that adopted the economic tenets of globalization as gospel. It is particularly bitter for the middle class, the very people who powered the rise of President Vicente Fox, whose election two years ago brought down the dictatorial 71-year regime of the Institutional Revolutionary Party.*

**—Ginger Thompson, "Free-Market Upheaval Grinds Mexico's Middle Class."**

**From *The New York Times*, September 3, 2002 © 2002 The New York Times. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of the Material without express written permission is prohibited.**

[www.nytimes.com](http://www.nytimes.com)



### PAUSE AND REFLECT

**Mexico joined NAFTA to open its economy and create economic opportunities. What other liberal principles did it have to consider? What was the impact of this choice for Mexico?**



Figure 6-17 ▲

The election of Barack Obama to the US presidency in November 2008 signaled for many a time when government ought to taking more control of the economy.

## Economic Liberalism and the Global Economy

Towards the end of 2008, two events in the United States seemed to signal a shift in government attitudes regarding liberalism. While the era of increased globalization during the 1990s and up to 2008 reflected a shift towards laissez-faire economic policies, the election of Barack Obama as President of the United States, and the turmoil in the global economy that began with the credit and mortgage crises in the United States in 2008, called these policies into question. The election of Barack Obama was met with an unusual outburst of relief, optimism, and expectancy in many countries. A general euphoria erupted. Change gave rise to hope that a better world was possible. There seemed to be a recognition that governments do indeed have an important role to play in furthering the principles of modern liberalism within their borders and also internationally. The economic meltdown at this time also called into question the wisdom of putting faith in the forces of the unregulated free market. Even conservative governments like those of the United States, France, and Canada in 2008 agreed that government involvement in the economy through the regulation of their national banking systems and the financial markets, and the bailout of important industries, was desirable. The ebb and flow of economic liberalism seems, at present, to be flowing towards the left—towards a greater role of governments in their economies and towards a more cooperative internationalism.

### Explore the Issues

#### Concept Review

- 1 a) Identify two principles of Keynesian economics, and give examples of their application by governments.  
b) Identify two principles of monetarism, and give examples of their application by governments.

#### Concept Application

- 2 Review the economic aspects of liberalism as you have explored them in the chapter and create a list of them. In a group, quickly brainstorm ways in which the local, Alberta, or federal government could implement policies that reflect each principle. Then, reflect on each brainstormed policy. Would you be willing to live with the implications of that economic policy? Why or why not?
- 3 After reviewing the chapter and conducting some additional research, compare the economic challenges faced by two countries: a modern communist state, such as China or Cuba, and one of India, Canada, or the United States. Consider in particular the countries' respective positions on government intervention in the economy, and how liberal principles are reflected in the economic policies and practices of these countries.
- 4 If you found yourself in the situation of Leif and Cilla, in which country would you choose to live, Sweden or the United States? Why? How is this choice related to the Chapter Issue, the Related Issue for Part 2, and the Key Issue for the course?



## Reflect and Analyze

In this chapter you have explored economic principles, policies, practices, and history in order to understand and reflect on the evolution of modern liberalism, and to develop an informed response to the Chapter Issue: *To what extent do contemporary economic policies and practices reflect the principles of liberalism?* This chapter brought together many threads from other chapters and built on your understanding of individualism and liberalism, how they are expressed in economics and politics, and your own beliefs and values. You have seen the expanding concept of the individual on which liberal economies should focus: the merchant, the capitalist entrepreneur, the industrialist, the “forgotten man,” or the ordinary citizen. This should further your understanding of the dynamic tension between classical liberalism and modern liberalism.

You have also considered how liberal democratic governments’ economic policies have changed over time. You have seen examples of economic policy oscillating between a more collectivist-oriented interventionism and individualist free-market economics in response to various historical events. These shifts demonstrate how interpretations of liberalism vary over time, with particular liberal principles taking precedence over others depending on these interpretations. Now you are ready to respond to the Chapter Issue, *To what extent do contemporary economic policies and practices reflect the principles of liberalism?*, and consider the Related Issue of Part 2, *To what extent is resistance to liberalism justified?*

### Respond to Ideas

- 1 Work with a group of three or four to examine recent actions or announcements of provincial or federal governments in Canada that relate to contemporary economic policies and practices. Analyze these examples, and place them on a continuum from classical liberalism to modern liberalism. Justify your placements and evaluate the viability and desirability of each of these examples from your point of view.

### Examine Political Speeches

- 2 Your teacher will provide you with several examples of speeches from various politicians. Using the Skill Path, examine the speeches and respond to the following questions:
  - a) Where would you place each of the speakers on a political spectrum?
  - b) Do their positions and policies overlap?
  - c) What is the relationship between liberalism and economics in their speeches? How do the speakers use liberalism, and their interpretation and application of it regarding economic policy, to respond to issues in society? What do these speakers seem to value most?
  - d) How would the politicians’ suggested economic policies affect individuals living in their constituencies?