

# Paleolithic economics – time for a new stone age.

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In early August, I was asked by CBC Radio to comment on the Province's recent settlement with ALCAN over the cancellation of the Kemano Project.

"Did the Province cut a good deal with ALCAN?" the Almanac host asked. Perhaps. Unfortunately, we can't really assess it. Under the final deal with the Province, ALCAN's future power costs are "formula driven." Taking into account such diverse future factors as the price of aluminum on the London Metal Exchange, the merits of the deal are impossible to assess beyond noting that the last such resource pricing agreement — the Rothery Formula, governing the price which forestry companies pay the Crown for timber cut on public lands — cost us plenty in terms of the softwood lumber countervail action. What we saved in economic activity (subsidizing the forest industry with cheap wood in order to create jobs) we later paid for in trade harassment costs (what subsidies give they can also take away...).

The point is the Province made a determination that a public policy "good" — in this case, fish in the Nechako — was worth preserving and paying for from the public purse. And so they did.

It is ironic that ALCAN —operating in one community and offering 40 firm jobs and faint promise of 2,000 more down the road — can cut a deal with Clark for a relatively large (12.5%) chunk of the Columbia Treaty downstream benefits while the far more legitimate (from a public policy standpoint) priority of supporting the sustainability of B.C.'s farm communities (20,000 families creating 70,000 jobs across the Province) has, *to this point, fallen on deaf ears.*

Ironic because arguably it is B.C.'s farmers who have paid the dearest price under the Columbia Treaty — not only did the Treaty flood high capability land in the Kootenays but (more significantly) it also created, in new upstream storage capacity, the ability to completely eliminate the risk of August/September drought in the 1 million acre downstream Columbia Basin Project. Not surprisingly, cropping patterns switched dramatically from wheat and beets to apples and spuds; crops which for the past decade have been dumped into B.C. to the extreme disruption of local markets.

As I was driving back through the Okanagan after the ALCAN interview, I switched on the CBC and listened to the next guest, a planner from UBC, speak on Cascadia as callers discussed the pros and cons of "sleeping with the elephant" (the call-in question was "should we try to be better friends with our American neighbours?").

Of course, the issue is not whether we are friends with the Americans or not. Nor it is one of respect. Nor diplomatic protocols. It's not about a hard border or a soft border or an open border. We have trouble grappling with the issue because we are describing it very imprecisely.

The issue is about the physics of capital. Much as water will move across a given surface in response to principles which are immutable, so too does capital move across a given opportunity and regulatory topography in an entirely predictable way.

Capital, spread out evenly across society, is beneficial: it irrigates/nurtures a strong middle class. But like water, capital tends to run to itself. As it collects in large, swollen rivers, it changes from a beneficial to a destructive force, often leaving large, arid regions of no growth in its wake.

The role of the state is simple: to ensure that flows of capital, as they move through our society/economy in response to a moving and ever changing topography of opportunity and regulation, do not distort (subjugate, put at risk) those medium term benefits which citizens have empowered the state to deliver. Sometimes this means "backing up" capital behind small, run of the

river dams (regulatory policies) which slow it down sufficiently to feed the small tributaries of economic growth and a vibrant middle class.

Predictably, when Canada tried to do this (remember, we were constituted as an enterprise/intervention state — we could have gotten this very right), our politicians instead grabbed these fine policy tools calibrated to target the medium term and aimed them at the short term to win goodies/votes. Predictably too, they shot themselves (and, I fear, regulation as a policy option) in the (ahem, this *is* a family column) foot.

And so we remain bogged down in Paleolithic economics. And even if we could somehow get this message across (e.g. redefine for the State its role and purpose), we are almost doing so some 30 years too late.

(I believe, if we were to analyze it, we would find that it was in the 60's that capital's interest in stepping outside the boundaries of nations to escape the jurisdiction of federal anti-trust statutes became self-evident and self-fulfilling.)

The point isn't that there is good capital and bad capital. There is simply capital. Traditional economics doesn't understand it very well (we're still at the level of tying keys to clouds...). And so instead — surprise, surprise, how Canadian — we get trade issues all bollixed up with whether we're a good or bad neighbour. And whether the Americans will like us in the end...