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# FAST FACTS

January 10, 2008

## The Myth of Conservative Economics

*“The government can’t pick winners, but losers pick government.”* Former Canadian Deputy Industry Minister V. Peter Harder cited in The New York Times, August 28, 2001

This quote reflects an oft-repeated criticism of the role of the state in our society.

It has become conventional wisdom as conservative economic policy dominates the public discourse. In the interests of restoring balance, we need to compare the promise of conservative economic theory - which belittles all government activities that do not increase immediate corporate profits - with its results. As we will see, the results do not live up to the promises.

Conservatives argue that it is competition between profit-maximizing firms that creates innovation, not government. This myth neglects the fact that corporations will only undertake socially important research if the possibility of making a profit is high. Historically many of the most important inventions, from the internet to the jet engine to communication satellites, were developed by the state. The drug industry provides another example of private industry erroneously getting credit for innovation. The long patent protection for new drugs, and

resulting high prices, are almost exclusively justified by the research and development costs associated with developing new pharmaceuticals. Yet, according to the Canadian Health Coalition, 97 percent of the new drugs on the market offer no improvement on existing medications. In contrast, a US Joint Economic Committee of Congress reported that among the 21 drugs that had the most impact on therapeutic practice between 1965 and 1992, publicly-funded research was instrumental to the development of 16 of them (76%).

Conservative economic theory also claims that income redistribution by government interferes with the fair and efficient working of the labour market. An unimpeded market is fair - goes the theory - because workers’ wages are equivalent to their contribution to the value of production, and it is efficient because it induces workers to fill jobs that society values. Government redistribution interferes with the smooth running of the labour market; the minimum wage is a good example.

According to Milton Friedman, “Insofar as minimum wage laws have any effect at all, their effect is clearly to increase poverty” by decreasing the number of workers that firms are willing to hire. But evidence does not support this



**CCPA**  
CANADIAN CENTRE  
for POLICY ALTERNATIVES  
MANITOBA OFFICE

309 - 323 Portage Avenue  
Winnipeg, MB R3B 2C1  
T 204.927.3200 F 204.927.3201  
ccpamb@policyalternatives.ca  
www.policyalternatives.ca

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## *FAST FACTS continued ...*

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conclusion. Arguably the best study on the impacts of an increase in the minimum wage was done by David Card and Alan Krueger who found that “modest changes in the minimum wage have little systemic effect on employment”. Increasing the minimum wage would actually reduce poverty since the wage gains of those who remain employed would outweigh the losses of those few who may become unemployed.

Conservatives also claim that government regulatory oversight is unnecessary and inefficient. It is unnecessary because companies that have to safeguard their reputations will not make products that harm their workers or consumers. It is inefficient because the increased costs to firms outweigh the benefits to consumers. This logic has led to a decrease in regulatory activity in spite of the fact that economic history is filled with products - such as tobacco, lead and the Ford Pinto – that demonstrate the necessity of government oversight. As long as their profits outweighed their costs, firms knowingly killed their customers and lobbied governments to make it easier for them to do so. In case after case, it was not the competitive pressures of the market that increased product safety but government regulatory oversight.

For example, in the first half of the twentieth century, lead was seen as a useful material. It was used in paint, pipes, car batteries, as a gasoline additive, and even as a solder in food tins. Health problems were discovered as early 1908 when it was observed that workers in the lead industry were suffering unusually high incidences of severe illnesses and premature death. Despite what became overwhelming evidence about the adverse health consequences of lead, the industry fought a highly successful rearguard action in order to delay the passage of anti-lead regulations. The Lead Industry Association contested, at both the state and national level, each proposed limit on the use of lead, effectively delaying consumer and

worker safety regulations. The industry was so successful that it was not until 1971 that the federal government outlawed the use of lead in indoor paint. In other countries where no such regulation exists lead continues to find its way into consumer products.

Finally, the conservative economic focus on individual decisions and market solutions neglects what has truly influenced human health - economic and social conditions. The mainstream approach to medicine seeks health improvements by correcting for genes, germs and individual lifestyles associated with specific diseases. But this approach was not primarily responsible for the reduction in infectious diseases prevalent in the 19th century, and has not been very successful in alleviating cancer or heart disease, the two current biggest causes of death. Improving living standards from better sanitation and increased incomes caused the major decline in infectious diseases in the early years of the 20th century. Unfortunately, pollution from the production techniques that partly contributed to that increase in income are now the major causes of our current health problems. In 2001, Canadian industries reported the release of 18,455,237 kilograms of known carcinogens into our air, soil and water. The mainstream approach to medicine, expensive as it is, cannot but struggle to improve health outcomes as long as these social, economic and environmental causes of disease remain unaddressed.

It is time to separate conservative myth from economic reality. The current conservative policy environment has made our society less healthy, more dangerous, less stable, more unequal, less fair, and more inefficient.

*Robert Chernomas and Ian Hudson teach in the economics department at the University of Manitoba and are CCPA Research Associates. This fast fax is based on their book *Social Murder and Other Shortcomings of Conservative Economics*.*



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