Chrystia Freeland discusses the economy with Larry Summers, former US treasury secretary and economic adviser to President Barack Obama, at the Liberal policy convention in Montreal on February 20. LPC photo, Radey Barrack

Not Good Enough: Crisis Aversion as Economic Policy

Chrystia Freeland

Canada became the envy of the world after the 2008 financial catastrophe because we had been smart enough to avoid a banking crisis and therefore were better able to weather the economic meltdown. But deeper, structural problems in our economy are now surfacing, especially in relation to just under half of Canadians who consider themselves middle class. The first step toward serious recovery is to recognize that we face a profound problem—and one that balancing the budget alone won't fix. The lack of that recognition is the most glaring absence in the 2014 budget.

There's one important takeaway from the 2014 budget—the Conservative government has no big ideas for the Canadian economy, and it doesn't believe we need them. This is a budget of tweaks at the margin, spiced with a few treats designed to help in the 2015 election. That's why Andrew Coyne, one of our country's smartest small 'c' conservatives, dismissed the budget as being entirely about small-bore politics and devoid of broader vision.

"A government that was of a mind to do big things, especially big conservative things, could find ample room

within the existing spending and revenue envelopes," Coyne argues. "If Jim Flaherty has not done these things, it is not because he can't, but because he won't."

Coyne is right. There's a reason this government feels it is okay to keep Canadian economic policy in neutral. After years of assuring Canadians that we have the best economy in the world, Canada's leaders seem to have come to believe their own rhetoric. You hear these assertions in the House of Commons every day. Here was the prime minister speaking on February 5: "Canadians and economic experts around the world, including the OECD and the IMF, recognize that Canada has gone through the recession and come out of the recession with among the strongest growth and employment rates and records in the developed world."

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This is a flattering story for all Canadians. How nice to think that we own the podium not only when it comes to curling, free-style skiing and hockey, but also in economic performance. And the government isn't above playing to this medal-counting national pride.

When challenged in question period about Canada's relative economic performance, Finance Minister Jim Flaherty last month suggested the question itself was unpatriotic: "It is disappointing to hear the opposition cheering against Canada's economic performance."

The problem is that the talking point about Canada's global out-performance doesn't square with the real lives of middle class Canadians. Median family incomes are stagnating, rising just 14 per cent, after adjusting for inflation, over the past three decades. Unemployment is 7 per cent, and youth unemployment a daunting 13.9 per cent. Growth is anemic—just 1.7 per cent last year, lower than it was in 2012.

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The government has already lowered its target for this year from its own fall forecast. The OECD predicts that by next year, Canada's economic growth will be below-average, just 16th out of a peer group of 30 countries. Canadians are getting by in this weak economy by borrowing—the average Canadian now owes $1.64 for every dollar she earns, a consumer debt bubble as big as the one that was inflated in the United States before the financial crisis, and hugely contributed to it.

So what's happening? How can our economy be the best in the world, while our middle class is being squeezed and our growth is beginning to seriously lag the rest of the developed world? The main cause of this cognitive dissonance is the financial crisis. In the 1990s and the beginning of the 21st century, Canadian leaders wisely chose to buck the global trend of banking deregulation. Thanks to those decisions, in 2008 Canada became an international economic superstar—the only G7 country that didn't need to bail out its financial sector.

Dodging that economic bullet gave Canada a tremendous boost relative to its peers over the past six years. But, as Larry Summers, former economic adviser to the Obama White House, and former secretary of the treasury said at the Liberal Party convention in February, avoiding financial crises, while a very good thing, is not an adequate economic agenda for a country. And, in our case, our comparative might in the wake of the crisis has masked our deeper, structural economic problems.

We've been an example of Erasmus's great line that in the land of the blind, the one-eyed man is king; we've mistaken the fact that we didn't endure a domestic financial crisis for actual economic strength. Now that the countries that did suffer from the financial crisis are finally healing, our own underlying weaknesses—and our failure to address them—are becoming more starkly apparent.

What we are discovering—as manifest in weak growth and employment and high consumer debt—is that the Canadian economy is suffering from three big structural problems. Two are particularly Canadian, one is confronting all of the developed world—and none of them was an urgent concern of our minimalist 2014 budget.

The big, global problem is stagnant middle class wages and feeble middle class job creation, especially of full-time positions. This is a long-term trend and it is happening, with varying degrees of acuteness, in all of the industrialized world. The combined forces of the technology revolution and globalization are hollowing out middle class jobs, driving down the wages in those that remain and making them less secure.

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For anyone who believes a prosperous middle class is the bedrock not just of our economy but of our democracy, this structural shift is our urgent and essential challenge. No one, anywhere in the world, has come up with the definitive solution. But the first step to shoring up our middle class is to recognize that we face a deep and profound problem—and one that balancing the bud-

get alone won't fix. The lack of that recognition is the most glaring absence in the 2014 budget.

Our two other big economic problems are specific to us. One is weak productivity and export competitiveness. As the IMF pointed out in its February report on the Canadian economy, "Canada's exports have barely recovered from the Great Recession and are well below the levels reached after earlier recessions." The IMF attributes this weakness in part to "low productivity growth".

What's particularly worrying about the IMF's assessment is its observation that over the past few years, even as we have been congratulating ourselves on avoiding the financial crisis, our export capacity has been eroding. As the IMF warns: "On the domestic front, the long period of low productivity growth and strong Canadian dollar may have left a deeper dent in Canada's exports potential (especially in the traditional manufacturing base), limiting the economy's ability to benefit from the projected strengthening in external demand." Again, these are big structural problems, and we need an ambitious economic agenda, not just tweaking at the margins, to address them.

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Our final major challenge is securing export markets, and the infrastructure to reach them, for our natural resources. This isn't chiefly a job for the budget—it is a matter of foreign and environmental and energy policy. But it is such a bedrock for our economy, and an area in which we are failing, that it is important to note. For too long, our implicit assumption has been that the world needed our resources so much that we needn't bother complying with, or even being fully aware of, international concerns about how they are extracted. That was morally wrong -- protecting the environment is an obligation and a concern for Canadians, not just Californians.

But it was worse than a crime, it was a mistake. Our energy arrogance has put us at risk of losing our international social license to export our resources. We are even, as I know from campaigning in my own riding of Toronto Centre, losing the support of many Canadians. This is a grave economic danger, and it is one which is entirely self-inflicted. Only a sincere and long-term commitment to becoming the world's most environmentally friendly producer of natural resources can solve this problem and that is a challenge we cannot take up soon enough.

Our two other big economic problems are massive and structural. There are no simple or quick solutions. But here's one thing we know for certain—these are problems we can't fix if we don't try. And today, we aren't even trying. P

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