Canada's Remarkable Economic Recovery

In its annual Index of Economic Freedom, the joint effort by the Heritage Foundation and the Wall Street Journal, Canada ranks 6th among the 179 countries of the world, ahead of the United States (9th), the United Kingdom (16th), Japan (20th) and Germany (23rd). Considering ten components of economic freedom (among them: Business Freedom, Fiscal Freedom and Government Spending), the report ranks countries on the degree to which "individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected by the state and unconstrained by the state."

The latest report from the Canadian Labour Force Survey illustrates the degree to which Canadians have benefited from the rebound from the global recession by exercising their freedom to work, with employment increasing by 215,000 from July, 2010 and 675,000 since the bottom of the recession in July, 2009. In a workforce of 17 million, this represents an improvement of 4 percent at a time when employment in the United States has remained flat over that same period. Unemployment in Canada is 7.2%, a full two percentage points lower than in the United States.

Moody's was positively euphoric when it announced it was continuing to rate Canada's sovereign debt as AAA, passing its annual checkup with flying colors. "We had a AAA rating on Canada throughout the crisis, and the rating record outlook remained stable all that time," said Steven Hess, Moody's lead analyst for the United States and Canada. Noted Eric Lam of Financial Post, "With the deficit peaking at 3.6% [United States is 10%] and debt still less than 40% [United States is 98%], Canada's federal finances and outlook for the next several years support…the AAA rating." Especially important in Moody's analysis is "fiscal balance and declining debt."

With Canada's close economic ties to the United States, and its long tradition of liberal politics, how has that country managed to escape the brunt of the continuing recession plaguing the US and Europe? Aren't all these countries tied together by the same economic umbilical cord? David Lee, writing for Mises.org explains that the liberal perception has long outlived reality. Canada's recession only lasted three quarters, making it the shortest and mildest among the countries to which Canada is often compared: France, Germany, Italy, Japan, the United Kingdom, and the United States. And its GDP only declined by 3.3% from the third quarter of 2008 to the third quarter 2009, while in the United States output fell by almost 4%. Since then, the Canadian economy has been on a tear, posting GDP gains of 3.9% in the first quarter of this year while the US has struggled just to stay positive. Says Lee, "By any conventional metric, Canada's economic performance can thus be demonstrated to have surpassed those of its peers during and subsequent to the recession."

The prime driver behind Canada's remarkable rebound is government *inaction*, says Lee. Instead of trying to "prime the pump" Keynesian-style, Canada did the common sense thing and let the recession run its course. This naturally outraged liberal economic advocates such as John McCallum who said in November of 2008 that “Whereas other countries like England, France and Japan are pouring tens of billions of dollars into stimulus, and China and the U.S. hundreds of billions, what does this government do? Nothing. All it does is cut.”

And that has been the prime motive of the Canadian government for at least the past ten years. As Lee explains,

> Under the joint leadership of Prime Minister Jean Chretien and Finance Minister Paul Martin, Canada underwent one of the most fiscally responsible periods in its history. Debt reduction was a goal that figured prominently throughout the ten years of the Chretien administration and in the subsequent two years of the finance minister’s administration. Taking power as Canada’s debt levels were hitting record levels, Martin made it clear from the start that the priorities of the government would be fixed squarely on *eliminating the deficit* and the record of the following decade leaves little doubt that this was a commitment that was delivered upon powerfully.

In fiscal year 1993-1994, Canada’s deficit hit $42 billion, but in four years the Chretien administration produced a surplus so large that tax cuts were implemented which further stimulated the economy. Says Lee:

> The whole of the fiscal turnaround in Canada…can be quite unambiguously attributed to cuts in government spending. Altogether, Chretien and Martin presided over more than $80 billion in surpluses and there is no doubt that this is the single most enduring feature of their legacy.

Canada’s behavior was exactly the opposite proposed by Keynesians and taken by governments so influenced by that ideology, with precisely opposite results. Instead of “spending ourselves rich” proposed by the Keynesians imbedded in the administrations of the United States and Canada’s other peer nations, Canada reduced government spending and thus stimulated the private capital market to invest and expand and grow. As Lee noted, “It is the specialty of economists to cause rational beings to forsake the self-evident in favor of absurdities…”

> We are now witnessing the failure of Keynesianism on a grander scale than has ever been experienced – never before has the impotence of Keynesian policy been demonstrated so comprehensively…the undoing of Keynesian economic theory is now complete and unequivocal, and one of the greatest frauds ever perpetrated on the public under the guise of economic science has finally been put to rest.

Photo: The Toronto Stock Exchange