

A Bumper Sticker for Post-boom Canada

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“Please Lord, send another boom. We promise we won’t piss it away next time.” The bumper sticker that appeared in Alberta in the mid-1980s soon became famous throughout the country.

And not just for its pungent wording. Albertans were on the front line of the crash when the National Energy Program and the 1982 recession ended the 1970s oil boom. But the economic hangover afflicted all of Canada even into the 1990s. Now that another boom has come and gone, it is natural to wonder if, once again, the country has flushed an opportunity away.

Happily, the answer is no. Or, more accurately, not yet. The world economic slump has hammered commodity prices, and the resource boom has turned to bust. But Canadians have avoided – and with smart choices, can keep avoiding – the mistakes that sent so much potential wealth down the toilet a generation ago.

One obvious lesson from the rise and fall of natural-resource prices the last time round was that booms come and go. A second one was that Canada would have fallen less far, and rebounded much faster, if governments had not bet that the high would last forever. Especially in Ottawa, policymakers hitched myriad expensive policy wagons to the shooting star of a small number of cyclically exposed businesses. That, not private-sector profligacy, was what set the stage for years of underinvestment and sluggish growth afterwards.

Notwithstanding the bumper sticker, Canada’s investment rate – the share of output Canadians devoted to new capital – shows no irresponsible dissipation of national wealth during the boom of the 1970s. Between the oil-price spikes of 1972-73 and 1979-80, we consumed just over 75 cents of every dollar of goods and services we produced. That left almost 25 cents of every dollar of output for investment in new housing, plant, equipment and infrastructure. Roughly three-quarters of output went to consumption; almost one-quarter to investment – scarcely different from the 1960s, a decade of healthy increases in Canadian living standards.

Look deeper, and the notion of a consumption bender by Canada’s private sector gets even less support. Households spent only 54 cents of every dollar of output from 1972 to 1980, less than the 58 cents that was typical before the boom. What kept national consumption above 75 cents per dollar of production, despite higher private saving? Growing government – more transfer payments to households, businesses and regions getting no direct benefit from the boom, more government workers, more rent, supplies, and everything else governments use – financed increasingly by borrowing.

Then, and critically, Ottawa reacted to its swelling budget deficit by doubling its revenue bet on energy prices. The impact of the National Energy Program on the oil industry, followed by a world recession, put Canada on the fiscal course that sent the opportunity the resource boom had created down the drain.

From the recession of the early 1980s to its counterpart a decade later, Canadian governments borrowed and borrowed, turning tens of billions of dollars of private saving into consumption every year. We consumed more of what we produced than we had in the 1960s and 1970s: by the early 1990s, consumption was running well above 80 cents per dollar of output. For its part, investment sagged as government borrowing drove interest rates up and mounting interest payments pushed taxes up. Less than 20 cents of every dollar produced went to new construction and equipment in the early 1980s, and barely 18 cents of every dollar a decade later. Canada's stock of fixed capital grew more slowly during that period than at any time since World War II. And with the amount of plant, equipment and infrastructure available to the average worker barely rising, the period all the way through to the mid-1990s was a lousy one for growth in productivity and living standards.

The turning point – the change that stanchd this trickling away of potential wealth – was the switch from government deficits to surpluses after 1995. Since then, governments have consumed only 19 cents of every dollar Canadians produced, and total national consumption has absorbed the same share of production that prevailed in the 1960s and 1970s.

By 2007, investment was again approaching one-quarter of output. Canadians did not piddle away the recent boom. Our stock of housing, plant and equipment grew faster between 2005 and 2007 than during any two years since the mid-1970s.

So it is too early, despite the slump, to print a twenty-first century edition of the old bumper sticker. Canada went into this downturn in a stronger fiscal position than it did in the 1980s. Weaker resource prices do not, by themselves, condemn us to chronic deficits.

Whether we flush more potential wealth away at this point is up to us. South of the border, the fiscal sluices are wide open, and the promise of rising living standards after the slump is slipping away. In Canada, governments have committed to restore surpluses with the recovery. If they do, we will keep building our national wealth in the years ahead, and we will have more than regretful bumper stickers to remind us of the boom.