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Planning for
Prosperity
A blueprint for
economic recovery
in Canada

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Executive Summary

Most economists view Canada, like the industrialized world, as being in the midst of a serious economic recession. For Canada, the recession started during the fourth quarter of 2008, and is expected to last at least through the first half of this year. Our country's constant-dollar exports, domestic business investment and consumer durables spending are all expected to decline during this period.

Consequently there are calls from many quarters for the federal government to undertake an aggressive fiscal stimulus program. In turn federal government has already indicated that it will increase government spending by a fairly large amount. However, we consider such thinking misplaced. We call for a much smaller fiscal stimulus, whereby the strongest anti-recessionary measures would come through expansionary Bank of Canada policy. We make the following points:

1. Expansionary monetary policy: We endorse the strong measures so far undertaken by the Bank of Canada. On December 9, the Bank cut its overnight interest rate target by three-fourths of a percent, to 1 ½ percent. And, as we describe in this paper, the Bank – over a four-month period – bought up \$32-billion in risky, short-term purchase-and-resale agreements (PRAs) from member banks. To finance this, the Bank has accepted an unusually large increase of \$24-billion in federal government deposits. These actions represent a strong effort by the Bank and our federal government to improve Canadian bank liquidity.

2. Modest expansionary fiscal policy: Expansionary monetary policy should help keep the value of the Canadian dollar low, and this should help stimulate exports. We, however, support only a modest expansionary fiscal policy. We encourage the Department of Finance Canada to grant a temporary, one-year investment tax credit, worth \$5-billion, and available for all businesses. Businesses could apply for cash advances once agreement-to-purchases are made. Second, we support a speed-up in government investment infrastructure, where \$2-billion is moved up into the 2009/10 fiscal year from future years.

3. Regular monthly government press conferences: We support joint, monthly press conferences, run by senior government officials, giving updates on (1) the state of the economic recession, and (2) government efforts to fight the recession. Since, as we show in this paper, that the federal Department of Finance Canada and the Bank of Canada have cooperated in the extraordinary PRA purchases, we see it in the country's interest for the two agencies to cooperate to inform the public about current economic recession. Our suggestion may seem unusual, but the troubled times call for continued reassurance from government officials.

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A blueprint for economic recovery in Canada

I. Introductory Review of Events to Date

The world economy is stumbling into a clear recession, one which Canada is unable to avoid. The federal government tabled its Fiscal Update 2008 on November 27 in order to (1) give Canadians an understanding of the recession's implications for federal revenues and spending, and (2) give Canadians a view of what actions the federal government plans to take to help soften the severity of the oncoming downturn. Since then, the outcry for stronger fiscal stimulus for Canada's economy has led to extreme political change.

Federal Finance Minister Jim Flaherty's Fiscal Update tabled a plan to balance the budget over the next two years, emphasizing careful government cost-cutting and efficiencies. Declining tax revenues (given an expected drop in corporate incomes), means government cost-cutting is necessary to balance the budget.

The Economic Statement does include fiscal plans to stimulate the economy. But these plans were neither highlighted nor emphasized by the Finance Minister. Seeking a stronger stimulus package and a reversal of proposals to end public funding to political parties, the opposition parties revolted. After the government promised to withdraw its proposal to cut funding to political parties, the three-party Coalition concentrated its attacks, demanding a stronger stimulus.

A series of historic events have culminated in the ascendance of Liberal Party Deputy Leader Michael Ignatieff to the leadership of the Liberal Party. Seen as more moderate than his predecessor, Ignatieff has stated that he is willing to negotiate with the Conservatives over stimulus measures in the forthcoming January 26 Budget. The Conservative government as of this writing is conducting a national consultation exercise about appropriate budget measures to fight the 2009 recession.

Our paper takes up Finance Minister Jim Flaherty's offer for advice for his January 27, 2009 Budget. The next section describes our view of the oncoming economic recession. The third section outlines our proposals for government policies to fight the recession. The final section summarizes our paper.

Our conclusion is that the November Economic Statement was given short shrift in the national media and by opposition parties. The Statement contains a cogent description of Canada's macroeconomic difficulties and reviews and re-states current federal economic policies – much of which are good and must be maintained. However, the Statement suffers in three regards. First, the Statement's view of current economic conditions has been shown, given recent data and updated forecasts, to be too optimistic. Second, the Statement mixes longer-term economic development policies (e.g. the Advantage Canada agenda) with short-term anti-recession policies. We feel that the two sets of policies must be kept separate – albeit both are important.

Third, the Statement does not highlight anti-recessionary policies that are being undertaken by the Bank of Canada. Although it is true that the Bank of Canada is ostensibly an independent body that conducts monetary policy independent of the Department of Finance Canada, the Department of Finance still should “market”, or at least explain to the public, the idea that Department of Finance (fiscal) measures are taken in concert with the Bank of Canada’s (monetary) policies. Indeed, the current and proposed fiscal and monetary policies should have been stressed at the beginning of the November Economics Statement. This approach should be adopted for the upcoming January Budget.

II. Canada's Short-Term Economic Outlook

The November Economic Statement, in describing Canada's troubling short-run outlook, starts out well. In the "introduction" chapter, the Statement notes that weakness in our economy stems from three distinct sources: (1) the tightening of domestic credit markets, (2) the economic recession in the United States, and (3) the global downturn in commodity markets (page 8). The Statement discusses each phenomenon in detail in later pages, and each is well known – so I will briefly summarize the causes of the recession here.

A. The recession in the United States and the world.

Essentially, the world recession is a reaction to the build up of asset bubbles, not only in the United States, but world wide. From 2004 to 2007, the "housing bubble" in the United States grew too quickly, as a result of over-speculation in housing, the institution of sub-prime mortgages, and overbuilding by housing developers. Stock market prices boomed. During this period there was increased market speculation using a number of highly-leveraged investment vehicles: derivatives, hedge-funds, regular mutual funds, and the like. The United States economy (and Canada's) grew past capacity, triggering sharp increases in commodity prices. Strong surges in asset prices lead to over-consumption and under-saving – since people see the sharp appreciation in asset prices as a form of "saving". Whereas media attention has focussed on difficulties in the United States, much of the above has taken place in other developed countries – especially in Great Britain, mainland Europe and elsewhere.

The process of asset crashes works in reverse of the above. Whereas there was "irrational exuberance" (as one writer put it) during major asset bubble, there is irrational panic once the asset bubble bursts. Over-speculation in the U.S. housing market has led to a sharp, steady drop in house prices. The peculiarities of sub-prime mortgages has led to personal bankruptcies and families walking away from highly-leveraged homes. This led to severe price drops in over-valued mortgage assets. Undercapitalized banks and other financial institutions have begun to fail. There is a domino effect here. If and when financial institutions fail – their now worthless assets diminish the value of balance sheets of economic agents who own stocks in such failing institutions.

The panic has led banks (and households) to move into cash assets. The Libor bank rates (the rate at which banks lend to each other) had risen dramatically – causing a shortage of available investment funds – but recent data has shown that this rate has fallen from its October/November peaks. During the worst of this crisis, there was a shortage of funds to operate normal business dealings.

Currently, there is a continuing sharp decline in real personal wealth – through declines in housing prices, stock prices, and other financial assets. Whereas in an asset bubble people over-consume and under-save, the reverse takes place during a crash in asset prices. People save additional amounts, to replenish lost wealth. People also undertake precautionary savings, given the fear of becoming unemployed (or, in the case of small business owners, the fear of lost income if they face declining incomes). Increasing savings mean a postponement of durable goods consumption (automobiles and the like), and postponement of luxury spending like vacations and eating out.

As people become unemployed, the increased precautionary saving (from fear of becoming unemployed) turns to reduced consumption, given the lack of a regular wage. Some of reduced real gross domestic product (GDP) forecast (as discussed below) comes from this source.

B. The Department of Finance Canada's over-optimistic outlook for Canada's economy.

The art of economic forecasting is uncertain at best. In its Budget and Economic Statements, the Department of Finance Canada relies on a consensus of private economic forecasters. Some of these forecasters use complex econometric computers models (DRI, Infometrica, the Conference Board of Canada), whereas others use back-of-the-envelope guesswork (the economic departments of major banks). These forecasters borrow projections of the economies of other countries from other forecasters and, as the latter forecasts change, so does the consensus outlook for Canada.

Consequently, as negative information has continued to pour in, the basic economic outlook from the November 2008 Economic Statement now appears too optimistic. The Statement expects real Gross Domestic Product to increase by .6 percent in 2008, and increase by .3 percent in 2009 (page 12). These numbers say that, at the end of November 2008, Finance Canada did not expect a recession for 2009. The Statement is on firmer ground in suggesting that nominal GDP will decline in 2009 – given the weakness in energy and other commodity prices.

Compare this with the rather pessimistic scenario published by the TD Securities Group (TD Economics: *TD Quarterly Economic Forecast*, December 10, 2008). This forecasting organization sees the United States economy shrinking by a full 2 percent, and the Canadian economy by 2 percent – a far more pessimistic view than that of Finance Canada. And TD Securities foresees Canada's nominal GDP declining by a rather severe 3.2 percent. These numbers suggest a severe recession – and imply serious job losses with an accompanying rise in unemployment.

III. Proposals for Government to Counteract the 2009 Recession

Economists believe that governments can work to minimize economic recessions. Governments cannot be expected to fully eliminate recessions (or economic booms). As discussed, the prior asset bubble and the ensuing asset burst means that Canada, like the world at large, will suffer economic hardship. In this section, we argue three points:

- That, for Canada, monetary policy is more effective than fiscal policy;
- That fiscal policy should be used sparingly, and should involve only a large investment tax credit and increased spending in small-scale infrastructure projects; and
- That the Bank of Canada and the Department of Finance Canada should issue periodic joint press conferences to advise the public concerning monetary and fiscal developments.

Each of the above will be discussed in turn.

A. For Canada, monetary policy is superior to fiscal policy.

To mitigate the severity of the oncoming 2009 economic recession, activist monetary by the Bank of Canada is more effective than fiscal policy by the Department of Finance Canada. This is for two reasons: (1) for smaller countries with open economies, monetary policy tends to work better than fiscal policy, and (2) the current world economic crisis started as a financial crisis, so central banks must (and are) intervening to provide more liquidity to banks. I discuss each in turn.

First, economists argue that, for smaller countries such as Canada – countries which are relatively more open to international trade and capital flows – monetary policy is more effective in stimulating the economy in a recession than fiscal policy. This idea was first proposed by Canadian-born economist Robert Mundell, for which he won the Nobel Prize in Economics in 1999. This idea is that, under floating exchange rates, under monetary policy, as a central bank expands the money supply and reduces short-term interest rates, capital flows out, and the exchange rate falls, and net exports (exports minus imports) rises. But fiscal policy stimulus (whereby the federal government borrows to pay for spending or tax cuts) means that, as the federal government borrows, interest rates rise, and as capital flows into the country, the exchange rate rises. Hence exports fall, and cuts any fiscal stimulus that would take place from increased investment and consumption spending.

But there are complications to the above. While it is true that Canada's financial sector (see below) is in better shape than elsewhere, the financial crisis in our country has negatively affected domestic spending. And the financial crisis worldwide means that capital flows may not operate as neatly as described above. So some fiscal stimulus is necessary – provided deficit considerations can be minimized.

Second, unlike previous recessions, the present recession started as a financial phenomenon. The Bank of Canada, as we discuss below, is undertaking active policy to increase the liquidity of its member banks ("direct-clearing banks" – to use the jargon of the Bank of Canada). Indeed, since the monetary base has not increased during the last critical months, we suggest that the Bank's primary focus has been to support Canada's big banks.

This can be seen in the accompanying table. The table shows changes in the Bank of Canada's assets and liabilities from July 30, 2008 to November 30, 2008 – a critical period during the current world financial crisis. As can be seen from the table, the Bank of Canada's assets/liabilities totals grew by a whopping \$24.4-billion. Note that the Bank recorded net *sales* of \$10.8 -billion in Treasury Bills – this when one would expect net *purchases* of Government of Canada securities in a time of presumptive expansionary monetary policy.

Note from the table, however, that the Bank of Canada undertook a net \$31.9-billion in “purchase and resale agreements” (PRAs), with its member banks¹. PRAs are agreements whereby the Bank of Canada buys, for a short period of time (usually 28 days) illiquid assets from member banks, whereby the Bank has the right to sell them back to the banks after a short period of time. The Bank has the right to keep the assets for a longer period of time, should it so wish. In the jargon of Bank economists, such agreements “increase liquidity for member banks”. What this means is the Bank of Canada is buying high-risk assets (i.e., assets of possibly dubious value in the financial crisis), injecting cash into the banking system. But notice from the chart that, on the Bank's liability side, the Bank added a huge \$25-billion in Government of Canada deposits. This was done to achieve only a modest increase in currency outstanding (\$900-million). And, as seen from the table, money supply (M1+) increased by a small 1 percent over this period.

The recent Bank of Canada dealings was discussed in a little-noticed speech by Deputy Director Pierre Duguay:

Consistent with the G-7 Plan of Action, the Bank of Canada has acted swiftly to ensure that adequate liquidity is available to institutions within our borders. Our actions have been significant. We have moved aggressively by expanding the Bank of Canada's provision of term purchase and resale agreements (PRAs) to a total of \$34-billion. Term PRAs provide liquidity to key market participants for terms up to three months against a wide range of securities. Further, we have widened the range of assets we accept, and extended the range of counterparts with whom we will transact...

I should point out that none of these liquidity measures are inflationary because they involve sales of government debt either from the Bank's portfolio or from new issuance rather than an increase in the money supply. The substitution of risk-free government securities for less liquid assets on the balance sheets of core financial institutions acts as a kind of lubricant to the machinery of banking. In return, these core institutions are expected to pass on the extra liquidity through other market participants and, ultimately, to the real economy.

(Speech given to the Pictou County Chamber of Commerce, November 27, 2008.)

In addition to the above, the Bank of Canada aggressively lowered the overnight rate target by three-fourths of a percentage point, to 1 ½ percent. This aggressive move has as yet not been

¹ The large increase in PRA dealings has been little noticed in the media. A quick internet search revealed that the media reported a \$2-billion PRA purchase in January, 2008 (as shown in the Bank's July 30, 2008 balance sheet), and another \$4-billion in September, 2008. But roughly \$26-billion remains largely unreported.

translated to lower short-term loan rates for businesses and consumers, causing Bank of Canada Governor Mark Carney, in a recent speech, to urge the banks to lower rates.

From Mr. Duguay's remarks, we see that the Bank of Canada is concerned first with possible inflation. We find this concern unrealistic. If anything, our economy, along with the world economy, faces deflationary pressures from (1) the oncoming recession and (2) the sharp declines in energy and other commodity prices. In such an environment, there is room for a modest increase in our monetary base. The decrease in interest rates may take some time to translate into increased spending by businesses and consumers, given that both may be taking extra precautions during the recession. It is for this reason why activist (but modest) fiscal policy is necessary (see below).

To summarize, we support the Bank of Canada's action to increase member banks' liquidity, and to decrease the bank rate. However, we encourage a further expansion in the money supply, since short-term inflationary pressures are non-existent. We also support the Bank undertaking a greater role in explaining its policy to the public (see our remarks below).

B. Fiscal stimulus should be small scale.

We remarked above that, for small high-trade economies like Canada, monetary policy works better to counter-act recessions than does fiscal policy. But this overall rule neglects the tricky problem of dynamics. For this rule to hold and in order to stimulate exports, the value of the Canadian dollar must decline. Given that the United States is Canada's main trading partner – and exports to the United States are forecast to fall by 5 percent or more in 2009 (this, after falling during 2008), it is clear that Canada's 2009 recession stems mainly (but not exclusively) from a fall in exports.

We argue above that Canada's financial illiquidity crisis threatens private business investment, and consumer durable expenditures. We quote from the TD Securities Group forecast cited above:

...there is evidence that the domestic economy is in harm's way. Investment in machinery and equipment has already contracted in each of the past two quarters. Consumer spending has slowed dramatically, from an average quarterly pace of 5.3 percent last year to only 1.7 percent this year (i.e., 2008 – ed). Going forward, we expect these downward trends to become more pronounced as cautious behaviour permeates employment, investment and consumer spending
(pp. 3-4).

So we argue for a small fiscal stimulus to help boost investment spending, noting that there can be little to be done to affect exports. Before we present our small fiscal package, we want to discuss what the government should *not* do. We oppose giving government assistance to specified industries in trouble, including Canada's automobile industry. As some writers have articulated, it is better for the Big-Three North American auto makers to go into an ordered bankruptcy protection, to allow them to restructure. Restructuring would allow these vehicle-makers to undertake needed reforms (new car design, labour-union give-backs), reforms not presently underway. Indeed, once the Canadian car-makers demanded assistance, other industries (forestry, mining) have demanded similar aid. To give industry-specific assistance would be for the government to reward economic inefficiency.

Second, we want, in designing our fiscal package, to minimize the danger of a possible “structural federal deficit”. A structural federal deficit is one that languishes on, once an economic recovery is well underway. For the purposes of this paper, we can assume that Canada’s economic recession should last about one year, throughout 2009. So we should plan for a deficit for the 2009/10 fiscal year, and perhaps a small deficit in 2010/11. For the following years the federal government should, as an important goal, undertake at least balanced budgets. To plan otherwise would be irresponsible.

We note that there has been a plethora of recent fiscal-stimulus advice in the national media. Our package selects two of the better-thought-out proposals. Note that our two proposals are for the 2009/10 fiscal year only:

1. *Universal investment tax credit.* For all commercial sectors, corporate and unincorporated, allow a certain percentage of taxes due to be written-off for new investment (non-residential construction plus machinery and equipment). This past year, the federal government collected about \$40-billion in corporate taxes, from about \$220-billion in pre-tax profits. Note that total business investment was around \$200-billion. Consequently, if the business sector could immediately write-off all investment, up to federal tax due, they would not pay any taxes at all – a non-starter in terms of budgetary and political considerations. So there must be a cap on the total investment tax credit, at about \$5-billion. This translates roughly into a 12.5 percent tax credit on new investment. Note that depreciation allowances in future years would be reduced accordingly.

Note that the above proposal would broaden the special provision of the current federal investment tax credit. Finn Poschmann writes (concerning the current investment tax credit):

This credit is available only in the Atlantic Region, including the Gaspé, and applies to investment spending on buildings, machinery and equipment, in the farming, fishing, logging, mining, oil and gas, and manufacturing and processing businesses. The credit is partially refundable for Canadian participants, typically small businesses.

(“Two Fiscal Fixes”, *National Post*, December 19, 2008, FP. 11)

We also suggest, if practicable, that the Canada Revenue Agency issue tax credit cheques to businesses as the investment is being made. For example, once a contract is signed for a building construction project, the business would apply for, and immediately receive, the refundable tax credit. The reason for this is that, in the current credit crisis, businesses – especially businesses who are temporarily losing money – might be short of available cash. Given that retained earnings are low in a recession, and that external finance capital is difficult to obtain, immediate tax credit payments would help in a recession.

As we state above, forecasters project a decline in constant-dollar investment spending in 2009. The above incentive would induce businesses to move some future investment spending up into the 2009/10 fiscal year.

2. *Increased federal support for physical infrastructure spending:* We support increasing federal support for physical infrastructure spending, for the 2009-10 year. In the recent federal government Economic Statement, it says:

In Budget 2007, the Government announced a 7-year \$33-billion plan to boost Canada's public infrastructure projects such as roads and highways, public transit, bridges, sewers and water systems.
(p. 37)

The government states that about \$6-billion in federal support is planned for 2009/10, an amount about twice that was spent in 2007/08. We suggest increasing this amount to about \$8-billion, by moving up amounts scheduled for 2011/12 and beyond.

We stress that the new money should be spent on small-scale projects, not grandiose schemes such as the proposed Windsor-to-Quebec City high-speed train, or the UBC-to-Vancouver elevated train, and the like. Such schemes may not pass cost-benefit tests. Moreover, they would face delays (e.g. feasibility/environmental studies) in moving from the drawing boards to the construction phase, such that by the time they were implemented, the economic recession would be over.

We also stress spending the new money on projects, large or small, where construction plans are already in place. We also stress projects which entail inter-provincial interests. An example could be converting the highway from Riviere-du-Loup to New Brunswick to four lanes to increase inter-provincial trade. Along these lines, the federal government could advance highway spending linking Canadian cities to destinations in the United States, to promote cross-country free trade.

As it is, the federal government approach in consulting with the provinces could lead to delays in infrastructure spending. We suggest direct federal government intervention, where possible, in lieu of negotiated federal-provincial spending agreements, to prevent unnecessary bureaucratic delays.

These are the two increased-spending initiatives we propose. Both would act to increase investment in our country during the next fiscal year. In total they represent a \$7-billion fiscal spending increase. Published reports indicate that, in the absence of any fiscal stimulus, the federal deficit would be in the range of \$8-billion to \$10-billion. So with our small stimulus package, we could see a deficit in the range of \$15-billion to \$17-billion.

Because of this, we would encourage modest cuts to federal spending (limits to wage increases, cuts to transfers to businesses and non-governmental organizations, the proposed limits to equalization payments), to try to reduce the above deficit forecast. We would encourage the government to set as a target a \$12-billion to \$14-billion deficit for the 2009/10 year.

Finally, as above noted, we encourage the federal government to avoid emergency bailouts of specific industries. We would also encourage the government to avoid other forms of fiscal stimulus, such as a temporary cut to the GST or personal income taxes (which would see such cuts saved or spent on imported goods), additional training of laid-off workers (where programs are already in place), and a relaxation of employment-insurance legislation (which would encourage workers to remain on unemployment dole). We also admit that, under our plan to stimulate investment only, discretionary consumer spending will decline in 2009. But over the past few years consumers have increased household debt (as a ratio to disposable income) to record levels. The federal government should avoid policies to artificially increase consumer debt.

C. Joint, regular Bank of Canada/Department of Finance Canada press conferences.

The Bank of Canada and the Department of Finance Canada should undertake regular, joint press conferences to update the public about the economic situation, and their respective monetary and fiscal policy measures to address the economic situation. We are fully aware of the independence of the Bank of Canada from official government economic policy. Our essay has briefly sketched Bank of Canada and Department of Finance policies over the past few months. We feel that the fiscal crisis and the emerging world recession is serious enough to warrant a strong response from both federal agencies.

This response should involve both the governor of the Bank, and the finance minister, holding monthly, joint press conferences once a month, preferably on the first of the month, or if the first falls on a weekend, then the previous Friday. If a joint press conference is deemed impossible – because of the stated independence of the Bank of Canada – then we would encourage two separate press conferences run consecutively. Note from the accompanying table that the Bank of Canada took in an astounding \$24-billion in additional federal deposits, so in truth the Bank and the federal government are working cooperatively.

As we have remarked above, the Bank of Canada has been reticent about telling Canadians about its ongoing policies. As we have shown in this paper, the Bank of Canada has traded \$32-billion in purchase and resale agreements (PRAs) – operations which form the bulk of its monetary attack against the fiscal crisis – yet these sales (and the \$24-billion increase in federal deposits) have been little discussed in the media. It is true that Finance Minister Jim Flaherty, after the political crisis broke the formation of the opposition Coalition and the prorogation of Parliament, has begun to discuss anti-recessionary measures with the public, both in the national media and in speeches across the country.

Yet clearly Canadians are worried about the oncoming economic recession. Regular press conferences that demonstrate the Bank and the Finance Department are working together to fight the recession would break new ground in government communications. Canadians deserve no less.

IV. Conclusion: Uncertainty and other Worries

This essay argues that the Government of Canada ought to attack the oncoming recession using strong expansionary monetary policy, and a more modest expansionary fiscal policy. We argue that Canadians ought to see the Bank of Canada and the Department of Finance Canada working together, through a visible, well-organized set of regular press conferences throughout 2009.

Yet there are uncertainties and risks with any government policy to fight the recession. First, as we suggested above, the federal government deficit, which we know will take place for certain in 2009/10, could turn into a longer-lasting, structural deficit in future years. This is why we argue for a temporary 2009/10 investment tax credit, and a phase down in infrastructure spending after 2010/11. We also argue for enhanced federal spending cuts after 2009/10 (as the economy recovers). We think it is important the federal government emphasize this last policy, in its program to eliminate the 2009/10 recession deficit. We stress that the federal government should announce a post-recession plan to aggressively balance the books – and this plan should receive as much government attention as the fiscal stimulus package announced to fight the recession.

Second, there is uncertainty as to when the 2009 recession will end which can only happen as world economies begin to recover. When will this take place? Nobody truly knows. Economic forecasting is clumsy at best, and the best forecasters have difficulty making predictions more than three or four quarters into the future. Consequently, both monetary and fiscal policy will have to adjust as to the timing of the future recovery. Our discussion is based on the recovery starting in the last quarter of 2009 or the first quarter of 2010.

Third, there is the (largely undiscussed) question of future inflation. World wide there are trillions of U.S.-equivalent dollars being pumped into national economies. The numbers stretch the imagination of any economist. Added to this, the state of economic science has as yet to develop a good theory about how inflations develop and worsen. Although we are in a deflationary period at present, one cannot predict if and when an inflationary period will take place. For Canada, if strong inflationary signals do take place at some time in the future, the Bank of Canada would have to adjust its counter-recession policies to this new danger.

To summarize, our view is that the predominant economic and political discourse, within the media and government, has been to advocate overly-strong fiscal policy, to pile up federal government spending hither and yon, whereby suggestions of \$20-billion to \$30-billion deficits have become commonplace. We disagree. We call for a much smaller fiscal stimulus package, because we feel that this is all that is needed to keep the effects of the recession manageable. But we call for a stronger, more activist monetary policy from the Bank of Canada. And we call for the Bank of Canada to do this in a more visible way.

Table: Bank of Canada Assets/Liabilities and Money Supply (\$billions)			
	July 30, 2008	November 30, 2008	four-month change
Bank Assets			
purchase/resale (PRAs)	1.7	33.6	+ 31.9
Treasury Bills	22.4	11.6	- 10.8
other securities	30.4	30.5	+ .1
other loans	0.0	3.2	+ 3.2
Total	54.5	78.9	+ 24.4
Bank Liabilities			
currency in circulation	50.5	51.4	+ .9
fed. govt. deposits	2.1	26.1	+ 24.0
other liabilities	1.7	1.2	- .5
Capital	.2	.2	0.0
Total	54.5	78.9	+ 24.4
M+(gross) money supply			
	417.6	421.8	1.0 % change
<p><i>Source:</i> Bank of Canada statistics are from the <i>Canada Gazette</i> (August 16, 2008 and December 13, 2008). Money supply data are from the <i>Canadian Economic Observer</i> (December 2008, p. 58).</p>			

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