

Canada's Economy To Follow US Downfall: Analysts

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Contrary to what Finance Minister Jim Flaherty might think, there seems to be a great deal of interest in the national debt. Because talk of the debt in the budget speech was all but lost in the avalanche of "stimulus spending," perhaps we can attempt to shed some light on it, as well as the general state of the Canadian economy, and some future predictions.

Economics can often be more art than science, but we'll try to deal with not-too-admittedly complicated answers to simple questions. Currently, Canadian National Debt is about \$ 780 billion – a lot of dollars. And we are (and were) to pay interest on this debt at variable rates over the next 25 odd years overall, which works out to be about one thousand billion, or \$1,000,000,000,000 one trillion (count them, 12 zeroes) in interest. Of this 1.6 trillion dollars of outstanding debt and interest already paid, only (maximum) 100 billion in recent years has ever been spent on actual programs of the Canadian government.

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Instead of taking that initial 100 billion during these years the government could have asked the Bank of Canada to print either species "new" money to be used by the government, or simply credit the accounts of Government on which he wrote checks for all sorts of people – the Bank of Canada could have either the interest or no nominal interest, if the money would be considered a loan.

How long have we had this massive debt? Since the Second World War. In 1944, it was about \$ 8 billion. In 1975, \$ 19 billion. In 1981, \$ 91 billion. In 1993, \$ 458 billion. This is certainly something to be alarmed about because our economy, and the rest of world's economies, are experiencing the worst financial crisis of the 20th and 21st centuries. We could be vulnerable to unforeseen changes in the international

economy. Interest rates on the debt could skyrocket beyond our control. Our children and grandchildren could be caught between a rock and a hard place.

Jim Flaherty's recent revelations about the future of annual deficits of Ottawa does not meet with any confidence that the federal government has a strong hold on the valves that control the level of debt in Canada. Indeed, he said that Canada will take longer to emerge from its current economic crisis than expected, and added that Canada will record higher deficits for as long as his government announced a few months ago.

“During our budget planning over the course of the past year, global conditions deteriorated well beyond any expectations,” Flaherty said during a speech to the Victoria Chamber of Commerce.

On Thursday, the government said it has a “sound plan” to bring the budget back to balance, though Flaherty's speech and the accompanying documents did not say when Canada expects to return to the black.

The documents predicted Canada will remain in deficit for at least the next five years, with a \$5.2 billion deficit projected for 2014-15.

What should be striking to all Canadians is the fact that Flaherty is on record as saying that Canada would be the first out of this recession. He insisted that we were “well on track” out of this recession in the second quarter of this year. The Bank of Canada and all its cronies said the exact same thing.

As previously stated, the interest on the national debt already costs Canada an easy 40 billion dollars a year. What the Tories eschew as the answer is the same one that Trudeau wreaked havoc on the Canadian economy in the late 70s early 80s. Disappointingly, over 20 years that 40 billion interest becomes 800 billion dollars that has disappeared; and to think all politicians were worried about behind the scenes was a static 6-700 billion dollar national debt. Canadians should definitely brush up on their accounting skills because this country is going to be in a lot of trouble soon with a clear and decisive lack of leadership and accountability which not even an election could change.

What about Canadian “Main Street?”

Canada's exports will suffer from declining demand in the United States. Canada relies on the United States for 80% of its exports. That the U.S. dollar loses its value because of the massive monetary inflation of the Fed, the dollar will tend to increase, and this will make the export of all but the oil and gas more difficult. This will mean dollars Canadian Government Printing keep the dollar from rising against the U.S. dollar due to inflation in Canada.

Indeed, Canada's trade in the real estate sector faces “very difficult times” that will likely send some home owners into the protection of creditors while the market corrects excessive valuations during the last cycle, PricewaterhouseCoopers warned in a report Monday in August 2009.

Allen said Alberta is particularly vulnerable because of an oversupply of products and low demand driven by tumbling prices for natural gas, representing a significant portion of the province's industry of energy.

The report accuses scare money – and which therefore limits the buyers – for the sector woes. In addition, he said, investors' appetite for commercial mortgage securities has dried up.

“The credit crisis and ensuing recession have dragged commercial real estate markets into very trying times, marked by value losses, rising foreclosures, and reduced property revenues,” Frank Magliocco, leader of PwC's real estate practice in Canada, said in the report.

As if the real estate sector was hurting enough, government statistics show that unemployment in Canada could close over 10 per cent by 2010, according to the OECD, which warned that while unemployment in the country has peaked, the labor market could take some time to recover the recession.

“The Canadian labour market “typically takes a long time to recover from recessions. The unemployment rate in the early 1990s recession peaked in early 1993, but did not drop below its pre-recession level again until almost eight years later.” — OECD.

What the OECD fails to mention is that we did not have the threat on the middle-class as we do now back in the early 1990's recession. Since the middle-class consumes and produces a majority of the tax dollars generated in the country, the severe loss of their jobs takes a stunningly bad toll on the state of tax revenues. Indeed, as Minister Flaherty said, “Canada's struggling manufacturing industry will not return to its glory days.” Admittedly an act of madness because this sector of the economy is one of the few which produces real wealth to fund taxation programs to which governments are so attracted to. Indeed, some pittance of one quarter of the Canadian economy is only devoted to wealth producing. Is it any wonder that Canada and the United States are quickly becoming debtor's hells?

