Canada's vibrant economy gears up for the 1990s

The Canadian government has been steadily reducing its spending to bring down the federal deficit, and The Bank of Canada has been using tight monetary policies to ward off inflation. Nevertheless, the Canadian economy continues to thrive – the result of a strong private sector, which is now growing at one of the fastest rates in the industrialised world on an increasingly diversified base.

Canada's economy is thriving. Between 1984 and 1988 the country boasted the highest average growth rate within the OECD – 4.7 per cent; and despite a slowdown to 2.6 per cent last year, the economy remains in good shape with an annual growth rate of 3.5 per cent predicted for the early 1990s.

One reason for the country's success has been the federal government's determination to achieve sustained non-inflationary growth. When it came to power in 1984, the economy was weak and the federal deficit had soared to $32.6 billion.

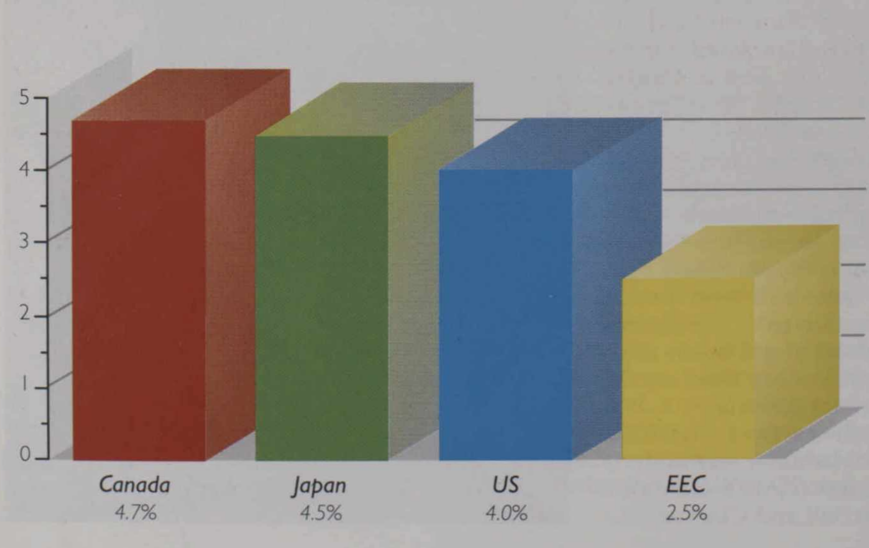
The government has tackled the deficit by raising taxes, curbing spending and imposing cuts in public-sector staffing. In 1985 eight out of every 100 working Canadians were government employees; now the number is down to seven out of every 100, and the public payroll is back at its 1973 level.

As a result, the federal deficit as a percentage of GDP has been almost halved since 1985, and the growth of the public debt has been brought roughly in line with the growth in the economy. The operating balance is now in surplus and annual growth in public expenditure has averaged 3.6 per cent over the past five years.

In spite of the government's tight fiscal policy, more than one million new jobs have been added to the economy since 1984 – the result of continuing strength in the private sector. This expansion in the number of jobs has been accompanied by an increase in labour productivity of 2.2 per cent per year and a rise in real, after-tax incomes of 2.5 per cent per year.

As in other countries, inflationary pressures started building up last year, but the Bank of Canada has been taking strong measures to contain them. Interest rates have been increased as a precautionary measure, and the Canadian dollar is now stronger than it has been for a decade.

GDP/GNP Growth (%) 1984-88
(source OECD)



Vibrant private sector

The key to Canada's economic success has been its vibrant private sector, which the government has sought to stimulate in a number of ways. Key industries – such as transport, energy and financial services – have been deregulated, and 17 federal Crown corporations have been privatised.

Efforts have also been made to encourage foreign investment. The protective Foreign Investment Review Act and the National Energy Policy were dismantled in 1985. The replacement Investment Canada Act envisaged an active investment development programme that gave responsibility for investment promotion to three government departments – Investment Canada, External Affairs and International Trade Canada, and Industry, Science and Technology Canada.

The policy of freeing up the economy has paid off. 'We have attracted record direct foreign investment inflows into Canada since 1985,' says John Crosbie, Canada's Minister for International Trade. 'From a net outflow in that year we reversed our position to a $1.6 billion net inflow in 1986 and $4.8 billion in 1987.'

It is not just the simple influx of funds that has benefited the economy but also the technical knowhow and new ideas that corporate investors