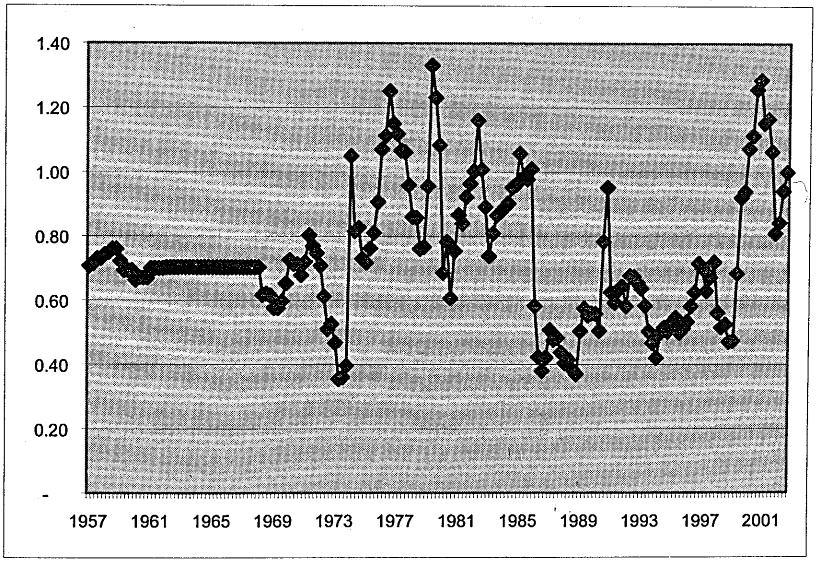
The problem lay in interpreting price signals. In this case, the misinformation was the appearance of new equilibria forming. Trend lines drawn through the peaks of the oil price spikes following the shocks of 1973 and 1979 made oil prices in the $60 dollar a barrel range look quite reasonable. The fact that the high-cost tar sands project born of that type of analysis was eventually mothballed is eloquent testimony to the scope there is to mis-read price data—and Canada did not lack for qualified economists or oil industry experts.

Perhaps most importantly, things came very much unhinged in terms of *relative* prices as well. For example, consider the price of oil in terms of gold. The data here are in index form with 1957:Q1=1.00. Through the Bretton Woods era, the comparatively stable prices of oil and gold resulted in the relative price between these two commodities moving in a rather narrow range. Following the breakdown of the Bretton Woods system, the relative price has not shown a coherent tendency to seek an equilibrium. And this surely is the essential problem: what matters in economics *is* the relative price.

Figure 5. Oil Price in terms of Gold, 1957 - 2002



Source: IMF, International Financial Statistics, December 2002.