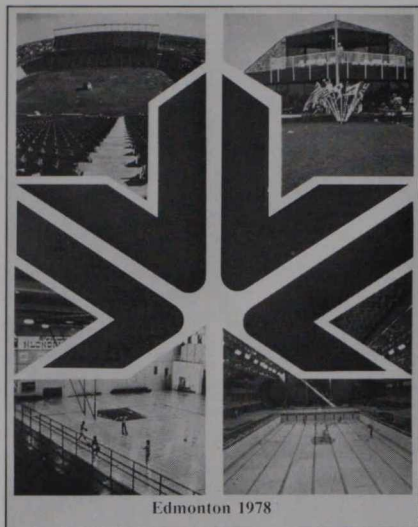


Cover shows the new stadium and athletic facilities in preparation for the Commonwealth Games at Edmonton this summer. See article on page 10.

## Canada Today



Edmonton 1978

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# What is happening to the economy

By W. L. Luetkens

Before facing his first winter visit to Canada, the author was very perturbed: should he take long underwear against the cold, he enquired. The answer was unexpected: "You can cope with the cold — but what will almost kill you is the intolerable heat indoors."

The story is revealing in several ways. It sheds light upon Canadian affluence, upon the profligate use of energy in a country where temperature and distances admittedly make it hard to economise; and upon the fierce winter, which is never far from people's thoughts. There is a theory that the trouble their ancestors had surviving amid ice and snow has caused Canadians to be ever-preoccupied with the problem of how to survive, and to exaggerate their difficulties as they arise.

Certainly, many economists in Canada believe that the fears now so freely expressed about the Canadian economy are greatly exaggerated. As we shall see, there is even some statistical evidence that the problem of Canada's external payments is less intractable than pretended. Talk of the "English disease" really misses the point, since in terms of GNP per head Canada comes very close to the top of the world league, and since, except for a brief setback in 1975, Canada has consistently run a surplus on its merchandise account since the early 1960s.

But there is no denying that the near-euphoria of the two or three years up to the middle of this decade has been dispelled. At that time Canada was profiting from a commodities boom that was going to make it grow rich from the sale of wheat and base metals. It was the only industrialised country in the world with an exportable surplus of energy. (Britain now is about to achieve something similar on the strength of North Sea oil.) Canadian oil and gas were going to insulate the country from the oil shock and provide a fat income from exports to the U.S. besides.

For a while things worked out as hoped for. Canada managed to avoid following the U.S. into recession in spite of the intimate ties between the two economies: about two thirds of Canada's foreign trade is done with the U.S., and foreign trade accounts for between a quarter and a fifth of Canadian gross national product. But then things began to go wrong. The original idea that Canada might keep down the domestic price of energy very soon proved illusory: sensibly domestic supplies were used to cushion the oil shock, allowing the price of oil to rise to world levels over several years.

It was found that Canadian self sufficiency in energy was not going to last for ever. Predictions of this sort have a way of being overtaken by events, but for what it is worth it is now thought that by the mid-1980s Canada will have ceased to be a net exporter of energy.

At the same time as the energy situation was found to be less rosy, the world commodities boom collapsed. Nickel smelters have had to close; plans to increase capacities to produce copper and other non-ferrous metals had to be stretched. Canadian dependence upon an outside world in recession was taking its toll.

Within the country that was not immediately apparent. While the U.S. was in recession, Canada was booming, and the boom was inflationary. By means of an expansionary fiscal policy, Canada appeared to be "spending its way out of trouble," as the phrase goes. It might have worked, if the U.S. and the world at large had come out of recession and gone into one of the strong booms that were characteristic of the 1960s and early 1970s. But it did not happen. World demand for Canadian raw materials remained relatively poor. Canadian manufactures became less competitive as wages rose in sympathy with the boom at the very time when U.S. wages were stagnating.

## Period of growth

Mr. Jean Chrétien, the Canadian Finance Minister, summed it up in his budget speech on April 10, when he said: "It is now clear that many of our current difficulties have their roots in the period of extraordinary growth Canada experienced between the mid-1960s and the mid-1970s. With the great advantage of hindsight we can see that we did not always use our good fortune widely.

"Our economy boomed. The world environment was good to us. Canadians enjoyed a very large increase in their standard of living. But we all came to expect too much of the economy. The money supply was increased too fast.

"Too much was asked and given at the wage bargaining table. Other forms of income rose too rapidly. Too little attention was paid to the long run efficiency of the Canadian economy, and its ability to compete . . . World recession arrived and compounded our loss of competitiveness. A large deficit opened up in our balance of payments. Our growth slowed down. The loss of sales meant the loss of jobs."