



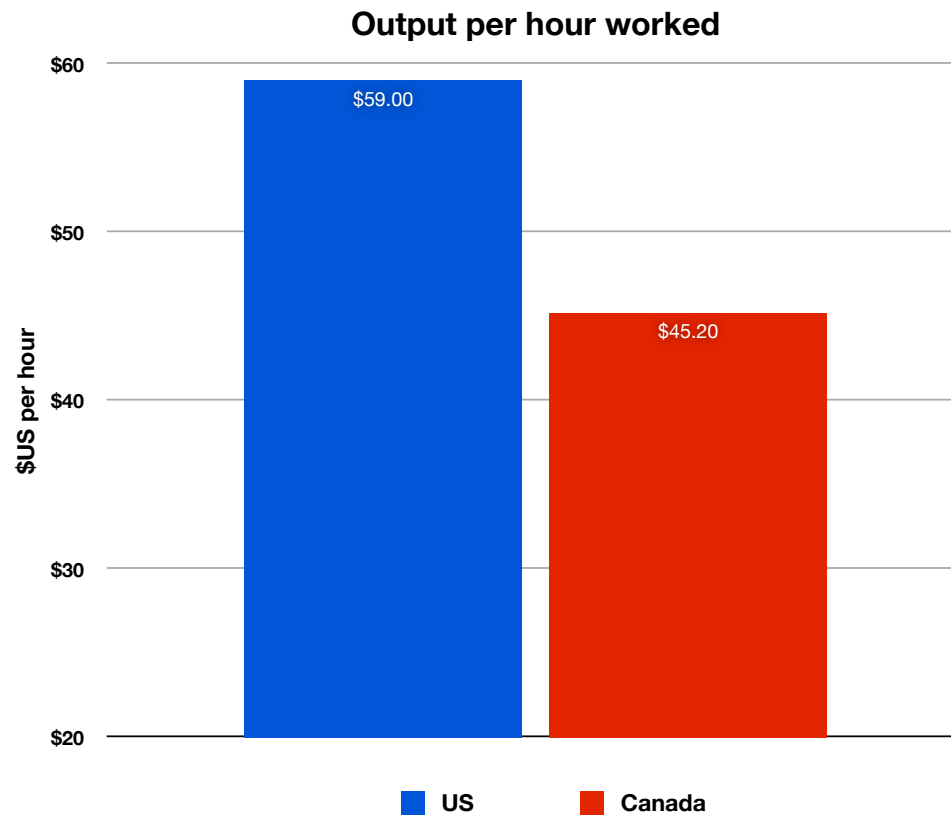
Fixing America the Canadian Way

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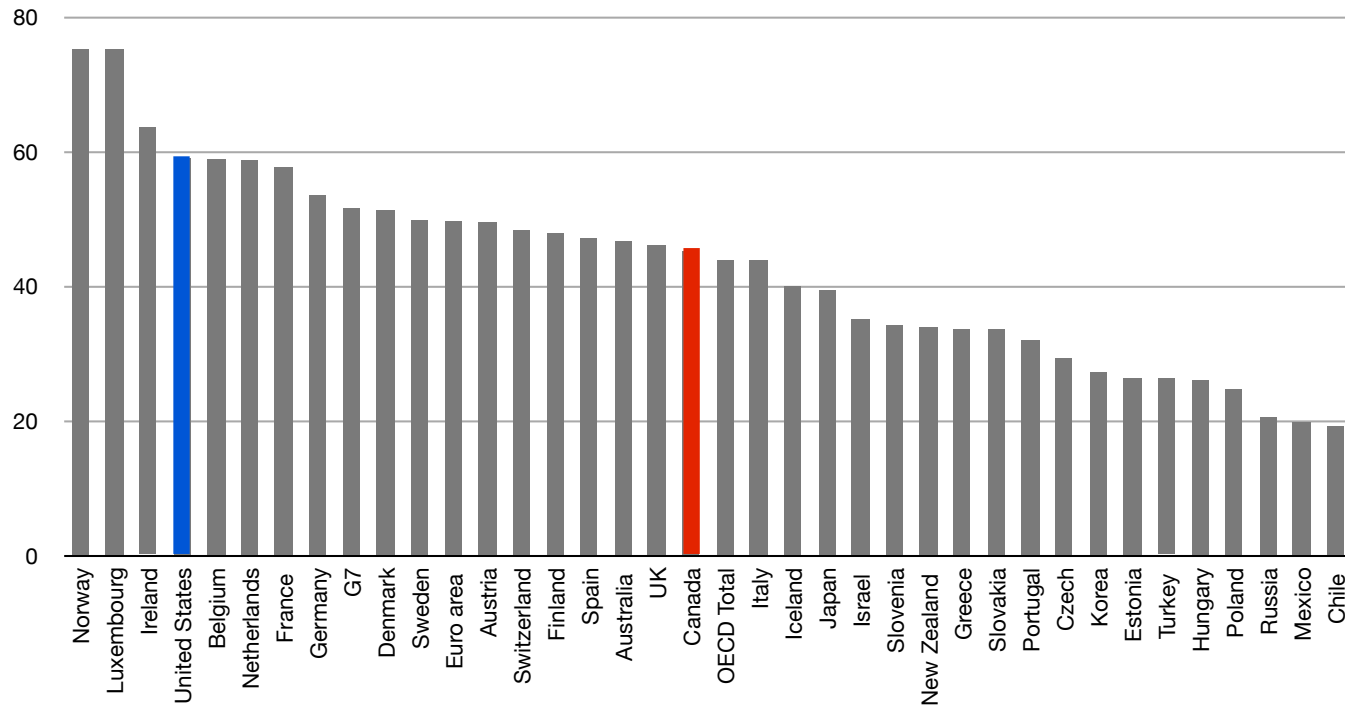


Who are we to talk?





Output per hour: OECD





The 'Northern Tiger'

- Didn't lose any banks
- Still Triple-A
- Relatively “good” recession





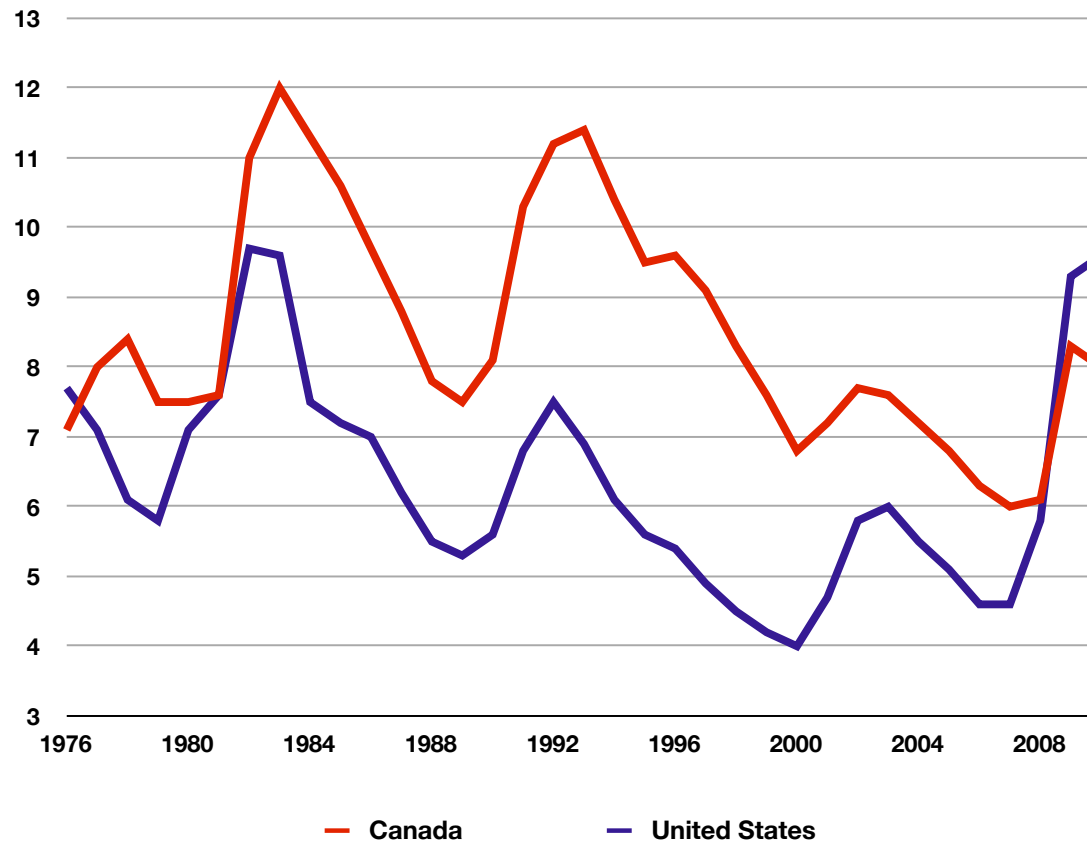
Really?

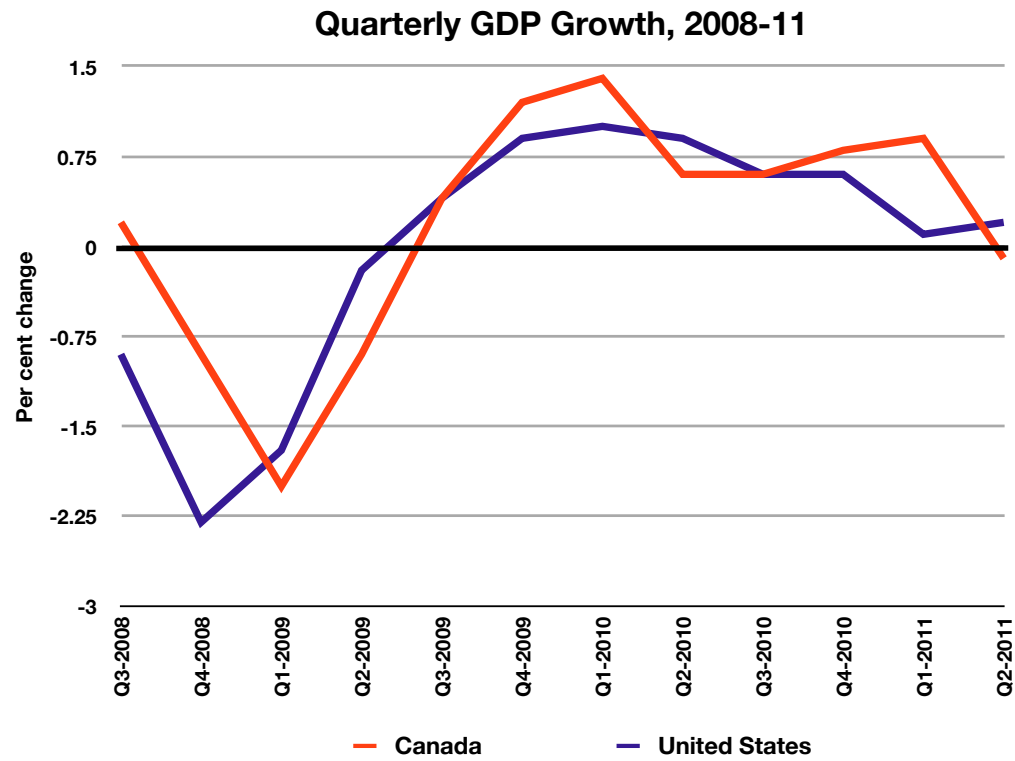
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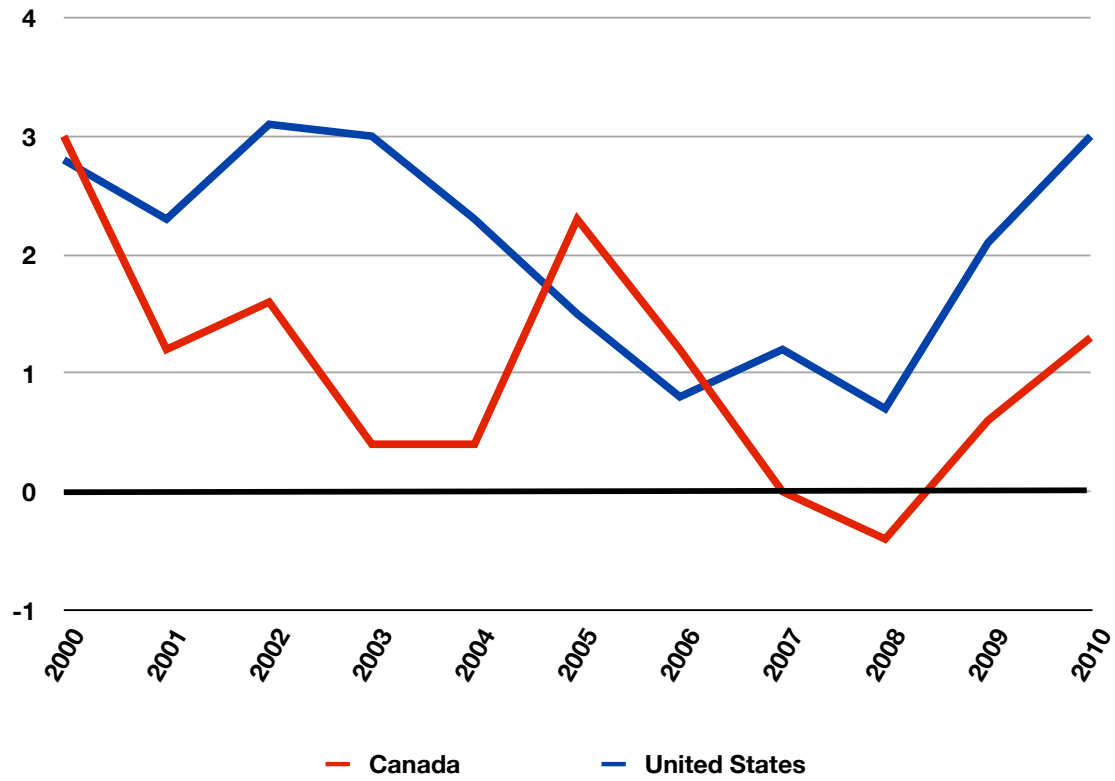
Unemployment rates, 1976-2010







Growth of labour productivity, 1990-2010





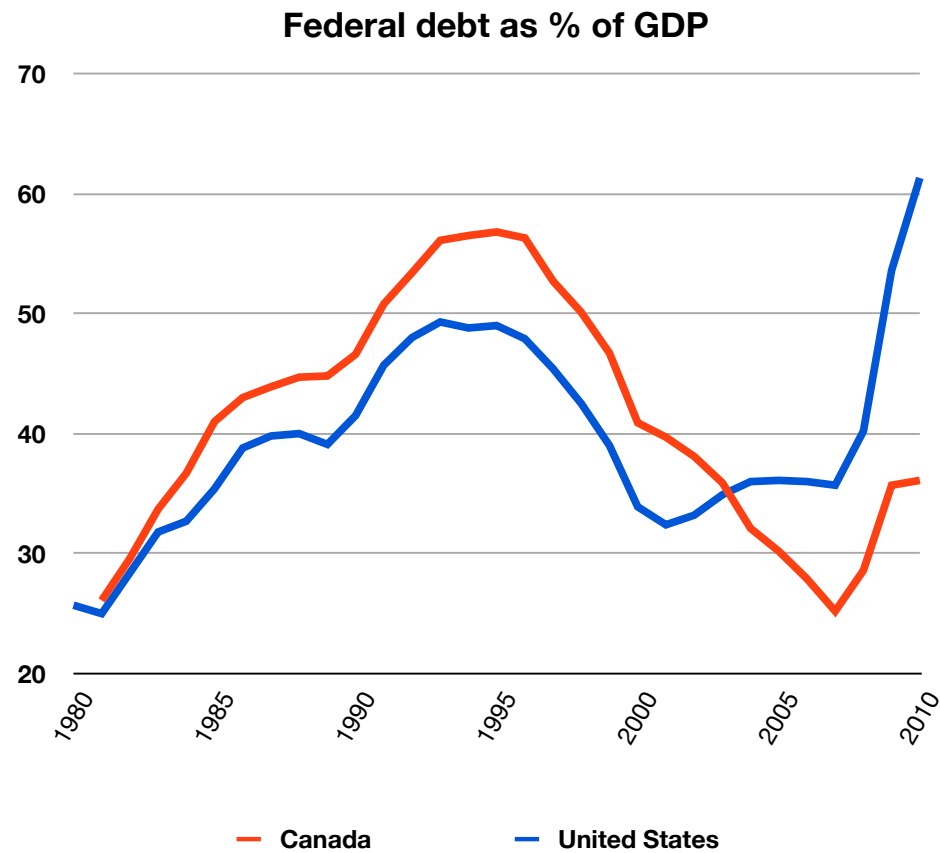
In sum...

- Unemployment better
- Growth the same
- Productivity worse





Where we *have* done better





1978 > Bonn Summit: Trudeau's \$2 billion

1983 > Infrastructure spending stimulus

1984 > Mulroney Tories elected: 211 seats

1988 > Tories re-elected: 169 seats

1993 > Tories booted: 2 seats

1995 > *WSJ* editorial; 2nd Martin budget

1997 > First federal surplus since 1969





William Watson: U.S. turn to be banana republic

William Watson Jul 13, 2011 – 8:14 PM ET

Half a generation ago a *Wall Street Journal* editorial declared Canada an “honorary member of the Third World.” The shock of that scolding helped return a country that had begun to think of itself as ungovernable back to fiscal and economic sanity. Might a similarly sharp rebuke from its friendly northern neighbour aid in turning an apparently increasingly ungovernable United States back to sanity? Probably not. But we would feel bad for not trying: This summer’s disgraceful spectacle of a U.S. political system seemingly incapable of addressing the country’s dire fiscal condition makes the United States worthy of honorary banana republic status — with the rider that a banana republic that takes chances with the world economy gives bananas a bad name.



In fact, the U.S. fiscal deficit, at more than 10% of GDP, is already much higher than markets will typically allow the average Third-World deficit to go. The only reason the United States can borrow so much is that for at least a century the world’s lenders have considered the “full faith and credit” of the U.S. government to be as good as gold, sometimes better. But now American politicians are toying with their country’s heretofore sterling reputation — a reputation that in fact eclipsed sterling’s — so as to avoid political responsibility for budget compromises that anyone who does not draw a paycheque from Washington politics can see must be part of any final agreement. This they do in the apparent but obviously misguided belief that if their country’s reputation goes, their own can somehow survive.

The U.S. debt, at more than 60% of GDP, is still short of true Third-World status, but it won’t take many more years of 10-point increments to arrive there. Given the United States’ history and reputation, the markets will be kinder to it when it reaches such levels than they would be to genuine banana republics — or than they would have been to Canada had we not changed course in time. But once it starts to go, reputation can be a quickly wasting asset.

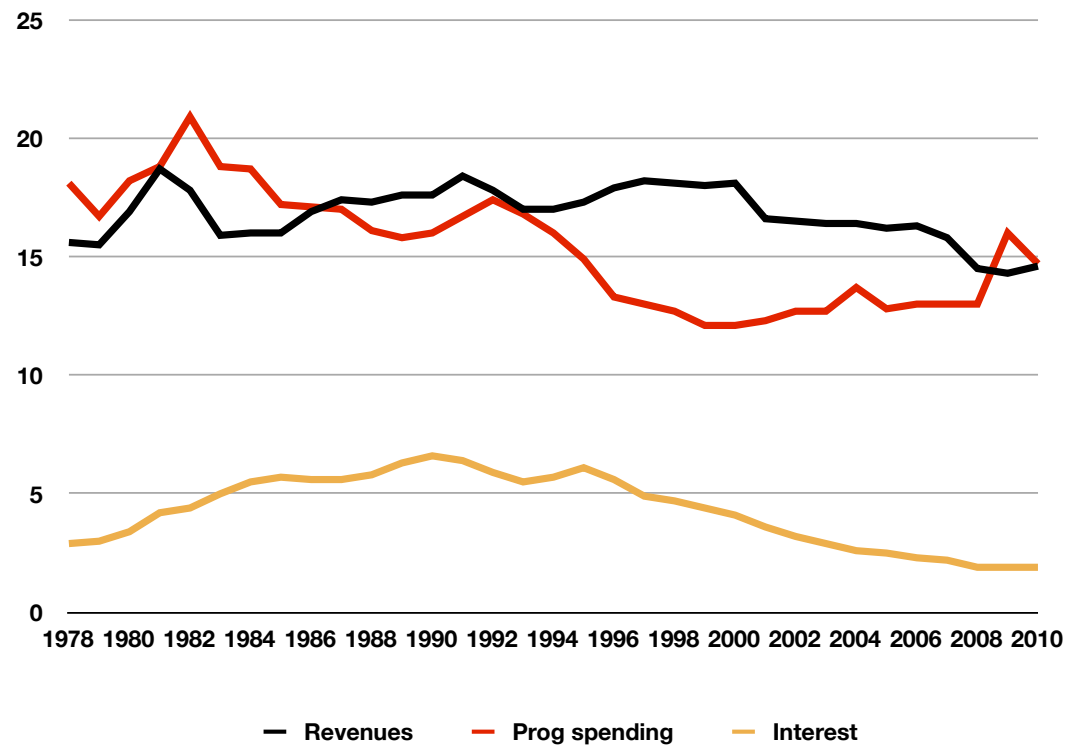
As for politics, the U.S. political system is proving every bit as dysfunctional as politics in many third-world countries, including some where the United States itself is doing nation-building. Sartorial, grooming and linguistic preferences aside, is there really much difference between the squabbling, jousting and jibing typical of the Iraqi assembly and what takes place on an average day in Washington? U.S. politicians have much more sophisticated polling, fundraising and communications support, but in terms of outcome is there really much difference? In true banana republics, of course, politics is dysfunctional by being suppressed. One man decides — though that one man is at least where the buck stops. The United States, by contrast, has reached perfectly democratic dysfunction. For the moment, at least, it seems no one will decide.





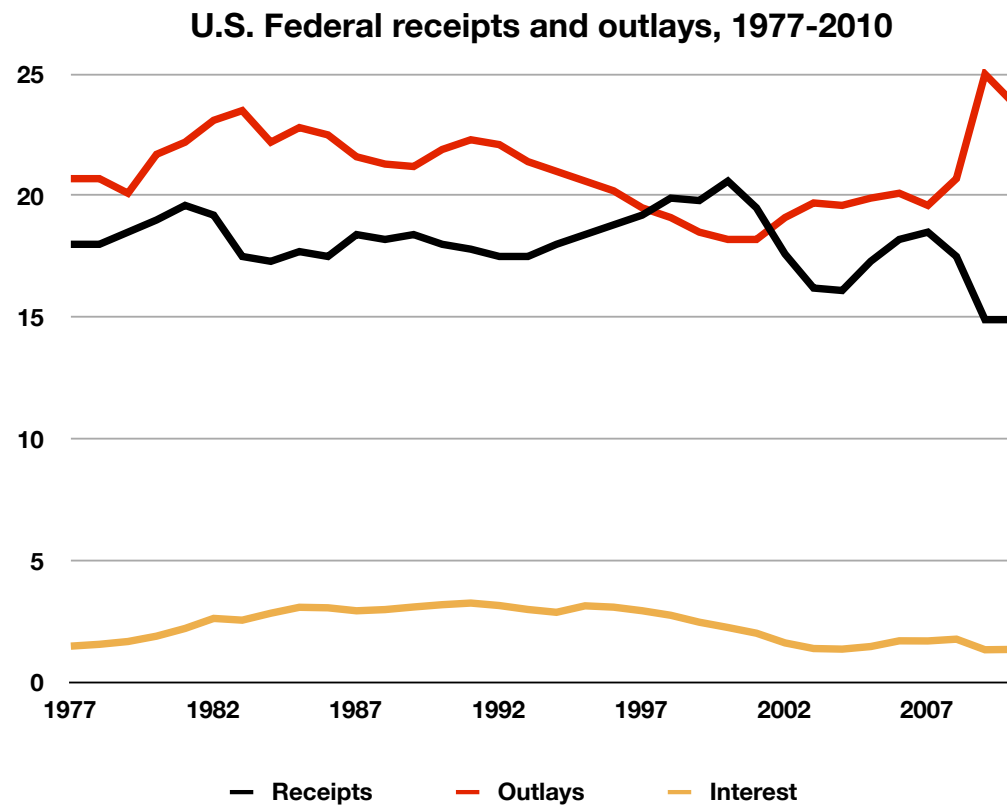
How we did it

Federal revenues and spending, 1978-2010





How will you do it?





Where you went wrong





Lessons from Canada's experience

- The country can get out front of the politicians
- A majority government with no effective opposition can move fast. Can Congress?
- You can mix spending cuts and tax reform
- A strong economic recovery helps
- Yes, you can!





Number 1 Lesson

‘If you find yourself in a hole, the first thing to do is stop digging.’

