THE GLOBE AND MAIL

Canada isn’t broken, but it will be if we don’t make the right decisions

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March 24, 2023

Argentina used to be Canada.

In the years before the First World War, as steel-hulled ocean liners made it possible to move people and goods across the seas cheaply and quickly, and the telegraph sent money circling the globe at the speed of electricity, a small group of what were then emerging market economies became destinations for billions of pounds, francs, marks and dollars – investment capital laying a bet on the future. They also attracted millions of immigrants. One of those emerging markets was Canada. Another was Argentina.

A lot of people wagered on Argentina. And why not? Buenos Aires in 1913 was a boomtown of 1.5 million people, three times the size of our then-biggest city, Montreal. Argentina’s capital, birthplace of the tango, looked like Paris transported to the Riviera. (This at a time when Toronto was known as “the Belfast of Canada.”) Its new opera house was bigger than Covent Garden in London; opening night was a performance of Giuseppe Verdi’s Aida. Its new subway (Canada didn’t get one of those until the 1950s), backed by the money and confidence of European investors, transported riders beneath the belle époque downtown in elegant rolling stock imported from Belgium.

Railroads radiated out from the city, carrying the agricultural produce of the world’s eighth-largest country to its port, which was also the destination for a tide of migrants higher than the wave arriving in Canada at that time. The new arrivals were mostly from Spain and Italy. Those countries are now wealthy members of the European Union, but a century ago, Argentina’s wages and standard of living were far higher.

Argentina’s economy looked a lot like Canada’s. It exported natural resources and food from vast and newly-opened farmlands, and it was industrializing thanks to a flood of foreign investment. Per person gross domestic product was neck and neck with Canada. Sir Wilfrid

Laurier boasted that the 20th century would belong to us, but millions of immigrants and investors thought that it would belong to Canada's southern twin, Argentina.

And then, bit by bit, Argentina's promising future slipped away. By the last third of the 20th century, it had performed a rare feat: it had gone backward, from one of the most developed countries to what the International Monetary Fund now classifies as a developing country. Argentina's economic output is today far below Canada's, and consequently the average Argentinian's income is far below that of the average Canadian.

Argentina was not flattened by a meteor or depopulated by a plague. It was not ground into rubble by warring armies. What happened to Argentina were bad choices, bad policies and bad government.

It made no difference that these were often politically popular. If anything, it made things worse since the bad decisions – from protectionism to resources wasted on misguided industrial policies to meddling in markets to control prices – were all the more difficult to unwind. Over time the mistakes added up, or rather subtracted down. It was like compound interest in reverse.

These days, TV screens and streaming platforms have lots of shows built around dystopian futures and alternate histories, from The Walking Dead and The Last of Us, set after an imagined apocalypse, to The Man in the High Castle and For All Mankind, where the Second World War and the Cold War turned out differently.

In the real world, for Canadians interested in futures that might have been, or might yet be, there's Argentina. One of our alternative historical timelines is its actual history.

In the real history of the last century, of course, Canada took a very different path than Argentina. The two economies started in the same place, but after the Second World War, they diverged. Argentina took a wrong turn. Canada did not.

But is Canada still on the right course? And if not, what to do about it? Some clues may come on Tuesday, when the federal government presents its annual budget. These blueprints for the future land at a time when many Canadians are anxious. The economy is balanced between post-downturn recovery and inflation-fighting recession. Unemployment is at record lows, yet many Canadians are squeezed, particularly by the cost of housing. The Biden administration is inadvertently aiming its heavy artillery at Canadian industry with the misnamed Inflation Reduction Act, which is a plan for protectionism dressed up as environmental policy. Then there's the sorry state of Canadian medicare, long-cherished, and with good reason, as a symbol of national accomplishment. Today, one in five adults does not have, and cannot find, a family doctor.

Conservative Leader Pierre Poilievre, who knows how to hit a nerve, said late last year that "it feels like everything is broken in this country right now." That's an exaggeration – the Poilievre house specialty – but an honest observer has to admit that, however stretched the phrase, at its root is something widely felt. It's not quite right, but it isn't entirely wrong.

For example, this country is finding it remarkably difficult to get important things built on time and on budget, or at all. Consider the Trans Mountain pipeline, which the Trudeau government bought in 2018 to ensure its expansion, and to allow billions of dollars to be pumped back into Canada through the export of more of Alberta's landlocked oil. It was the right move, and the expectation was that, once shovels were in the ground, the feds could sell the project back to the private sector and even turn a profit. Instead, TMX announced earlier this month that the project's budget is now $30.9-billion – just the latest big price jump that brings it to nearly triple the original price tag. Financial analysis firm Morningstar estimates that taxpayers could be saddled with a $20-billion loss.

It's hardly an isolated case. The Site C hydro project in British Columbia is far over budget. So was Muskrat Falls in Newfoundland and Labrador; costs got so far out of control they imperilled the province's fiscal health, necessitating a quiet federal bailout. In Montreal, the REM regional rail project was pitched as a public-private partnership to build badly needed transit on a tight budget and in a short time; it is behind schedule and over budget. Same goes for Toronto's Eglinton Crosstown subway. It didn't open in 2020 as planned and things are so far behind schedule that the provincial agency in charge refuses to say when it might be completed. The cost of the Ontario Line, a 15-kilometre subway also being built by the province in Toronto, has nearly doubled from $10.9-billion when it was announced in 2019 to as much as $19-billion late last year.

In Europe, transit is regularly built at far lower prices per kilometre. Our system for deciding what infrastructure to build, and managing it to a successful completion feels, well, kind of broken.

Or consider that the United States this year will become the world's largest exporter of liquefied natural gas (LNG). In 2016, neither the U.S. nor Canada exported any LNG despite their vast gas reserves, as both lacked the port facilities and pipelines to do so. Since then, the necessary infrastructure in the U.S. has been built – just like that – allowing its economy to benefit from huge quantities of high-priced exports to Europe and Asia.

And Canada? Still working on it. Projects are in process, notably the massive LNG Canada terminal in B.C. But it won't come onstream until at least 2025. Until then, Canada's scorecard shows zero LNG exports in 2016, zero LNG exports today.

Or consider health care. Canadians used to claim that ours was the best health care system in the world, but it's impossible to believe that any more because it's clearly not true. Our system is still better than that of Americans in that the share of our economy devoted to health costs is far lower, and people aren't denied care due to their ability to pay. But that's even more true in most other highly developed countries. They have universal health care systems, just like us, but often offering more coverage – things like drugs and dentistry – and faster access. The Commonwealth Fund, which regularly assesses the state of 11 leading health care systems, says the U.S. is the worst overall, by far. But in second-to-last, there's Canada.

And lurking beneath all of this is the hidden sapper of the Canadian Dream: low productivity growth.

The good news is that Canadian productivity is not going backward, so we're not getting poorer. But productivity growth has long been anemic. Ditto the level of business investment in productivity-raising technology. If you're worried about a future of job losses due to automation, don't be. Instead, worry about the threat to Canada's future prosperity from a lack of automation-powered job losses. Investing in processes and technologies so companies can produce more with fewer people, the way Canada over the last century increased the value of farm output while eliminating most menial farm jobs, is how you raise productivity and grow the economy.

That subject doesn't exactly excite politicians or voters, so governments end up focusing on goodies that are pitched as benefiting the economy, but which do nothing of the sort. Last year, provinces such as Quebec and Ontario chose to borrow money not to invest in the future, but to send cheques to voters with the thin excuse of "fighting inflation" or, in the case of Ontario, making driving cheaper. Ontario also stands out for spending huge sums subsidizing residential electricity bills, at a cost estimated by the province's Fiscal Accountability Office at $118-billion over 20 years. That's not an investment in future prosperity. But it's popular, and politically difficult to stop.

Then there's housing. Even before the pandemic, a two-decade-long run up in prices was silently eating away at economic growth. How? By discouraging people from moving to the most dynamic and productive parts of the country. Then COVID-19 hit, and unaffordability spread and reached new heights. There's been some pullback since, but from the Fraser Valley to Southern Ontario, homes today are less affordable than in 2019.

It's a similar story for renters. Vacancy rates last year dropped to their lowest level since 2001, according to the Canada Mortgage and Housing Corporation. Rents in purpose-built rental buildings also rose by an average of 5.6 per cent, but that figure includes people who stayed in the same apartment. The price of rent for new tenants rose by a whopping 18.2 per cent. In Toronto, it was up 29 per cent.

A failure to cut through zoning rules that make it hard to build where more people want to live lowers economic growth. The shortage of new housing supply in places with so much new housing demand is putting a squeeze on the future, and the people who are the future, namely young Canadians and new Canadians. For the first time ever, Canada grew by more than 1-million people last year, with a record 437,000 immigrants and 608,000 temporary residents. Statistics Canada's announcement noted that this could "represent additional challenges for some regions of the country related to housing, infrastructure and transportation, and service delivery to the population." No kidding.

Canada has a long list of things that, though they may not be fully "broken," are less than optimal. There's a dearth of competency and seriousness about tackling this, extending across political parties and through governments. On the plus side, we're still a long way from becoming Argentina. Perhaps the best example of that came when U.S. President Donald Trump tried to kneecap NAFTA.

One of Argentina's paths to ruin was protectionism. And the United Kingdom, when it chose Brexit in 2016, also decided to wage a trade war against itself, by making it difficult to trade with its main trading partner. In Canada, in contrast, when NAFTA was threatened, political leaders left, right and centre all agreed that it, and access to the American market, had to be preserved. Canada still makes more than a few right choices.

And Canada still works, mostly. Graded on the curve against our most obvious comparator, the United States, things don't look particularly broken. The list of metrics in Canada's favour is long.

The average Canadian born in 2020 can expect to live nearly five years longer than the average American. Americans are on average in poorer health. Their murder rate is nearly four times higher, poverty is more widespread, and poor Americans are poorer than poor Canadians. The children of low-income Canadians are more likely than their American counterparts to grow up and join the middle class, according to research by Miles Corak, a Canadian economist at the City University of New York. And PISA, the massive Programme for International Student Assessment, finds the average Canadian 15-year-old can read, do math and understand science at a higher level than their American peers.

The Human Freedom Index, an annual assessment of personal, civil and economic freedom compiled by two conservative think tanks, the Fraser Institute and the Cato Foundation, says that of the two countries Canada is the more free. The Economist Intelligence Unit says that North America's five least livable cities are in the United States, while the four most livable cities are in Canada.

The Canadian glass, in other words, is far more than half full. But at the same time, it's far from full. As soon as we start comparing Canada to leading European and Asian countries, we don't look quite so outstanding. For example, in the 1990s Canada was top of the charts in the United Nations' Human Development Index. The most recent measure has us in 15th place, and slipping.

If Argentina is Canada gone wrong, then South Korea is the opposite: a country that should not have become Canada, yet did. It has none of Canada's natural advantages, and in the mid-20th century it was devastated by war.

In 1960, Canada's GDP per capita was nine times that of South Korea. The average Canadian consequently enjoyed a much higher standard of living. South Korea in 1960 was very poor. It was poorer than Haiti.

But to quote noted Canadian economist Drake, having started from the bottom, now it's here.

South Korea moved from the bottom to here not in single leap but by step by step, year after year. The Canadian and South Korean economies both grew over the last half century, but South Korea was on a slightly steeper upward slope. That trend compounded over time – just like Argentina, except in the right direction. Today, South Korea is only four places behind Canada on the Human Development Index. Its per-capita GDP is 85 per cent of Canada's.

Almost all South Korea had to work with was the most important natural resource: people. That should give Canadians confidence in our future. We have a highly educated population, living in a land with a long list of geographic gifts. If we make the right choices, there’s no reason we can’t be the most prosperous and successful society on earth.

Why shouldn’t the 21st century belong to Canada?