EXECUTIVE SUMMARY

FRASER INSTITUTE

# What is Behind Canada's Growth Crisis?

*By Philip Cross*

Weak growth in Canada has persisted for a decade, with per capita real gross domestic product posting its smallest gain in nearly a century. Canada's economy has grown significantly slower than that of the United States, suggesting that the origins of Canada's growth crisis are domestic. Moreover, slower growth in Canada has originated mostly in declining business investment and exports, the sectors of the economy that embed innovative technologies and reflect the competitiveness of Canadian businesses.

This paper looks at the broad reasons for the loss of dynamism in the Canadian economy, focusing on the erosion of the values that cultivate innovation and entrepreneurship. It begins with a reminder of the benefits of economic growth and how novel sustained growth is to the modern world. Growth is neither automatic nor well understood by economists, despite widespread claims that sustaining growth is easy to achieve by adopting a few simplistic policies. Canada cannot rectify its poor record on growth by continuing its exclusive focus on such formulaic policy making. Canada has adopted many of the policies economists recommend to boost growth, including high levels of immigration and education, lavish government support for research and development, and free trade deals with all the G7 nations, but slow growth has become more entrenched.

As growth has decelerated, governments in Canada have fixated on the distribution, rather than the creation, of income and on stabilizing the short-term course of the economy, rather than raising its long-term potential. Such a focus has reinforced the downward pressure on growth. In particular, policies such as more government spending and relentless monetary stimulus provide at best a short-time fillip to growth, but depress long-term potential, especially through their negative impact on business investment.

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Recent research, however, stresses the importance of a nation's culture to economic growth. Without a culture that supports entrepreneurship and innovation, even the best policies and institutions will produce disappointing results. Canadians need to dispense with the mindset that, in the words of a leading commentator, "in Canada, if you run a successful business, you are made to feel you have done something wrong."

Raising growth requires a resurrection of Canadians' faith in the ability of Canada's businesses to compete in the global marketplace without constant government guidance and intervention. In the absence of such a revival, Canada will be condemned to the stagnation seen in recent decades in Japan and much of western Europe. Canadians need to be reminded by their business and political leaders of the necessity of restoring higher economic growth if we want to pursue a wide range of economic and social goals and restore Canada's standing on the global stage.

There remain reasons to be optimistic that Canada can regain its ability to grow faster. Culture changes only slowly, and Canada showed for much of the past century that it possessed the values which incubate business dynamism. Canada has avoided the populist trap of calls for more protectionism, at least in its trade dealings with other countries, if not trade between provinces. Canada's borders remain open to large inflows of immigrants, who necessarily have a heightened taste for risk. More broadly, innovative cultures have shown they can rebound from severe setbacks, such as Europe's recovery from the devastation of two world wars and the 1930s depression because its human capital and culture remained intact even as much of its physical capital was destroyed. Canada needs its leaders to change the way they talk about and interact with business, especially our dwindling number of successful firms.

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