Hard currency standard the best way to fix Canada’s teetering economy

by Conrad Black

Canadians have been advised to prepare themselves for economic stagnation for the first half of this year and a reduction in the whole year in per capita net income for Canadians, (the GDP divided by the population). I find myself resistless against the temptation to inflict upon patient readers yet again my program for a radically different approach to fiscal and monetary management that will capitalize on Canada’s strengths and resume the long-lost progress back toward being, except for petro-states and tax haven states, the wealthiest per capita country in the world except for the United States, and with a more prosperous lower income bracket than the United States. The present ruling orthodoxy of central banking and national treasury management is one where all currencies are steadily losing value by being inflated at various rates and are measurable only in relationship to each other. There is no such thing as a hard currency as that phrase was known a century ago when the principal currencies were linked to the price of gold.

If someone casually reads the works of Dr. Samuel Johnson in the 18th century and of Charles Dickens a century later, it is clear that the cost of a quart of milk, a loaf of bread, or normal lodging for a night in London did not change. In the intervening century there were booms and busts in the economy but not inflation. It was only after the terrible destruction of the First World War in which 16 million European men in the prime of their lives were killed and tens of millions wounded or enfeebled by disease, and there was terrible destruction in Belgium and eastern France and parts of Eastern Europe, that inflation became unavoidable. It became practically impossible to maintain a sustainable level of public confidence without expanding the money supply and direct or indirect relief of the unemployed and dispossessed, and the world's currencies began to lose their value.

Through the 1920's Germany staggered under an artificial weight of reparations for the First World War: Germany was substantially responsible for the outbreak of the war by giving a "blank cheque" to Austria-Hungary against Serbia, but those countries and trigger-happy Russia all share in the blame for the start of that terrible war. The Austro-Hungarian Empire collapsed and was broken up and Russia was taken over by the Communists and Germany was left to pay the victorious powers for the cost of the war. Predictably, it could not afford this burden, and borrowed money to pay some of the reparations and then defaulted on the resulting loans. The speculative bubble in American equities (especially) eventually burst, a terrible depression settled upon a still war-shattered world, and our masters-in-government could see no escape except to spread money around in welfare, workfare, and soon enough, rearmament and the conscription of huge numbers of people to the armed forces and defense production industries. The Second World War followed, and the postwar arrangements were much more satisfactory than after the First World War, because the United States did not plunge into isolationism but rather took the lead in promoting international cooperation.

Nearly 80 years have followed without a major war between the most powerful countries; democracy and the market economy have expanded greatly and the percentage of chronically poor people in the world has declined from approximately 70 per cent in 1945 when most of Europe and Japan and large parts of China were a rubble heap, to under 10 per cent now. These are astounding achievements, but they have been accomplished in part because of a steady and deliberate debarment of all the currencies in the world. Generally, incomes have risen at a rate higher than the rate of inflation so collective and average personal net worth have increased, but the entire economic monitoring system is on a ski slope.

In all of the circumstances, it is time for some substantial reforms, and Canada, as a very rich country both in its natural resources and the skill of its workforce is in a position to be an innovative influence. There is precedent for this: John Turner as finance minister connected taxes and benefits to rates of inflation. Brian Mulroney and Michael Wilson moved federal government tax revenue significantly from income taxes to taxes on non-essential spending. Jean Chrétien and Paul Martin devolved many joint federal-provincial spending requirements downwards to the provinces, which largely passed them on to the municipalities.

This chiefly enabled the federal government to balance its budget for 14 consecutive years. Stephen Harper attempted to assure a reduced public sector share of GDP by reducing the federal sales tax (HST), mistakenly confident that he would not be succeeded by a regime that believed that deficits solve themselves. Canada should fix the value of its currency to the value of a combination of agreed quantities of precious metals, oil, basic housing and food: a yardstick that would reflect the value of the most desirable commodities and the cost-of-living to people of modest means. We would resurrect the concept of a hard currency but attached not to a relatively rare and elite precious metal such as gold, but rather to a combination of resources representing the wealth of this country and modified by the cost-of-living to people of vulnerable incomes. This would be too varied a yardstick to be vulnerable to speculation. The desirability of hard and stable currencies would become obvious and would quickly be emulated. As much as can practically be done, we should shift the source of government revenue from taxes on income to taxes on non-essential spending: elective spending. This would make taxes more easily and economically collectible by giving them a somewhat voluntary status: people don’t have to buy luxury goods or indulge themselves opulently. They sometimes choose to do so and are rightly less resentful of taxes on self-indulgent spending than they are of governments seizing the money that they have earned.

Cash payments to unemployed people who are capable of working should be converted to workfare programs where, when appropriate, the unemployed are trained up toward occupations where there is a shortage of qualified people. The private sector should be tax-incentivized to hire people, provided they are not simply replacing others who have been laid off at a reduced net cost to the employer. Tax incentives should be provided to those occupations that genuinely add value such as manufacturing, agriculture, and legitimate research and academic instruction. We need more plumbers and fewer graduates in gender studies. The federal government should withhold assistance to sections of the health care and education systems that do not meet reasonable standards of administrative efficiency and an internationally competitive level of service. Canada’s schools have to be liberated from the tyranny of the teachers' unions, private medicine must be accepted, and the necessary incentives put in place to ensure that our ratio of doctors to population is adequate. When it is necessary to cool out the economy, we should have standby taxes on inflationary categories of spending and sharp reduction of taxes on savings and investment income before raising interest rates. The Bank of Canada inflation target should be reduced from two per cent to zero.

Any introduction of most of the foregoing program, bred on pride rather than shame at our bountiful natural resources, would reduce the flight of capital that is slowly strangling Canada's competitive position. There would be a flood of retained and incoming investment to the benefit of all Canadians.

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