OTTAWA CITIZEN

Thanks for the advice, Carney

By John Robson
December 17, 2010

Not much takes the edge off my festive mood faster than the government sternly warning us not to be reckless with money. Yeah, you go first, buddy.

In the spirit of fairness, I should note two key things about Monday's warning from Bank of Canada governor Mark Carney that we're in hock up to our eyeballs. First, "the government" is a hydra with many quite dissimilar heads that do not always act in concert, and the Bank of Canada is not among the more conspicuously profligate of these hissing tentacles.

Second, his warning does fall into the category economists technically label "scarily accurate and horrible." It appears that Canadian household debt reached another record high this fall -- 148 per cent of disposable income, leaving a ring slightly higher on the tub than even the bath of red ink Americans are currently taking.

Now let me rescind both those qualifications. On the first point, the Bank of Canada may not personally be in debt. But what has it been doing about consumer debt? I'll tell you. On behalf of the government, it has been keeping interest rates low on purpose on the theory that cheap money will "stimulate" the economy.

Some other day I'll fascinate you with an explanation of why I think this whole idea is nonsense. The point right now is that the ostensible mechanism by which low interest rates were going to get us out of the recession was that when interest rates are low people can spend more because they can borrow more. And apparently people spending more because they can borrow more is so good for the economy that the governor of the Bank of Canada has to threaten us to make us stop.

Actually he said it wasn't a threat. Mr. Carney did mention that the government might lecture us, then pass regulations to make it harder to borrow money and, finally, raise interest rates. But he added: "It's only in the context that (if) all of those are addressed, is there an issue for monetary policy in reinforcing the activity? That is the question. I'm asking the question. I'm not supplying any hint of the answer." No, of course not.

Finance Minister Jim Flaherty did even better on Monday, noting that one thing his government could do to reduce borrowing was tighten mortgage eligibility rules yet again. But, given his conversations with bank executives, "There is no reason for extreme concern right now. But there is a reason for concern." At this rate, the next thing the government will warn us about is vagueness.

Or lack of transparency. The governor's Monday remarks included the observation that "Cheap money is not a long-term growth strategy." Thanks for telling us. Now cue Friedrich Hayek's warning from 1939 that "to aim at the maximum of employment which can be achieved in the short run by means of monetary policy is essentially the policy of the desperado who has nothing to lose and everything to gain from a short breathing space."

So are you admitting your plan was just a short-run one and, if so, why didn't you tell us sooner? Didn't you trust us? And if that was your plan, and it worked, where do you get off now lecturing us about having done what you paid us to do?

On my second qualification, we should take to heart Mr. Carney's central point that you should not incur debt that exceeds your disposable income, even though the warning comes from the state. As Benjamin Franklin noted in Poor Richard's Almanac, "He that's aground knows where the shoal doth lie." But my goodness, if we're going to try to get something off the reef without delay, it should be the government.

It's a little hard to determine how the federal government's debt-to-disposable-income ratio compares to our own because it's not obvious what constitutes government's disposable income. Right now, a lot of people say federal debt is reassuringly low, a paltry half-trillion dollars, a mere 40 per cent of GDP, a bagatelle, smaller than in the dark days of the 1980s and a lot better than the American figure. Indeed, if you consider the entire GDP to be the government's disposable income, it's modest by your standards and mine as well.

If you don't think the government could, in a pinch, stuff the whole GDP into its own wallet, the matter looks less reassuring (and remember that in a real crisis the provinces, also gravely indebted, might lunge for the same GDP at the same time causing a nasty coco bonk). According to its 2010 budget, the federal government's revenue for 2010-'11 was to be $231.3 billion -- putting its debt-to-total-income ratio at an alarming 239 per cent. Of course, its books are so complicated that it has other revenue sources and a few minor, hideously immense, unfunded liabilities that demographics make way worse. But, apart from that, its financial situation is merely shocking even compared to ours.

The state's advice to smarten up is still good. Let's start with it. Ho ho ho.

John Robson's column appears Fridays.

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