

## **A Conversation with David Henderson**

Frontier Centre for Public Policy, August 1, 2000

FRONTIER CENTRE: In August the National Post published a provocative article in which you argue that Canada's rate of economic growth could out pace the impressive American rate and that Canada's standard of living could surpass that of our American cousins within twenty years should we adopt certain changes in public policy. Wouldn't such an about face, in fact, restore the Canadian advantage?

DAVID HENDERSON: Well, it very well could - in fact, I think Canada could equal the United States within twenty years and then potentially go ahead of the United States after that.

FC: Wasn't Canada more prosperous throughout the first part of its history?

DH: My impression is that they were relatively equal and I think one of the main reasons they were relatively equal was that there was completely free immigration between the two countries until the early 1960s. We can't have major divergences in standards of living when people are free to move from one to the other.

FC: The facts that you identify as the reasons why Canada has fallen behind the U. S. economically-- higher taxes, higher levels of government spending, more regulation--are the same attributes cited by nationalists as the Canadian identity. They claim that Canada is a better place to live than the United States precisely because we have socialized more of our economy. What's your view?

DH: There are a number of people who think of that as part of the Canadian identity. My own view, growing up as a Canadian, is that the Canadian identity had more to do with a sense of fair play and so on and not really with having more government. That was never my view nor the view of people in my community so far as I could ever tell.

But, as to whether that would be bad as seen by Canadians, I think you just have

to look at how Canadians act. They are showing by their behaviour-many are planning to move from Canada to the United States--that they think the lower-tax, lower-spending, less-regulatory policies in the United States are better.

FC: You say that Hong Kong's laissez-faire policy explains its high rate of economic growth. Although Hong Kong on average has a higher standard of living than Canada, isn't there a wider spread between top and bottom than here - lots of millionaires but many more people who can't afford a decent standard of living or even basic health care? Do we want a society with less equity and a wider spread of incomes?

DH: There are a couple of answers there. First, I am not sure about the data about Hong Kong. I know that there is a wide spread, but I am not sure how much difference there is in equality between there and Canada. But, let's say there is, which very well may be the case. Equality and equity are not the same thing. Equity has to do with people being treated fairly and most people's view of fairness is that if you play by the rules then whatever outcome results is fair. In other words, a rules-based fairness not an outcome-based fairness. And, the other thing is that you could have more inequality and yet still have the poorest people be better off. You have to distinguish between degree of inequality and absolute levels of income and, in fact, if we had the policies I propose for Canada, the worst-off people in Canada would be better off fairly soon even if there is an increase in inequality.

FC: Canada's high income tax rates might bring us lower levels of economic growth but the money, it is alleged, is directed towards socially worthwhile goals, like universal social safety nets and help for disadvantaged provinces. Voters have consistently supported political parties that advance this agenda. Are the majority of Canadians so feeble-minded that they endorse a system that is, on the whole harmful?

DH: First, before I get to the feeble-mindedness, let me just say that the whole idea of giving any kind of special program for disadvantaged provinces is absurd. There can't be such a thing as a disadvantaged province - there can only be disadvantaged people, so it doesn't make any sense to give special money to Newfoundland when everyone in Newfoundland benefits from it, including

millionaires. But, no - Canadians aren't feeble-minded; they just don't have much choice. Because of the way the political system works, the very special interests that get these subsidies tend to dominate the system. Canadians get to vote once every few years - they don't have a referendum process or an initiative process and the outcome is usually worse with representative government than when people get to vote directly on issues.

FC: Canada has followed the European Model of "cradle-to-the-grave" welfare but you say that Canadian governments use higher levels to "hound" us from "cradle -to -the grave". In what sense does expanded government spending on social welfare result in more hounding?

DH: Well, it isn't the spending on social welfare, per se, it is the spending on government per se. There are just all kind of things that government does to interfere in people's lives. Every bureaucracy has its wish list of things it wants to do and the more money they get the more of those things are done and that involves more regulations, that involves more hounding. There has been a major increase in government advertising; you hear government advertising itself all the time and that is a kind of big brother, Orwellian hounding going on in Canada.

FC: You recommend that we put our government on a diet. What spending program could and should be cut?

DH: Well, I think one of the biggest and most important ones to cut is the equalization grants because those can't even be justified as grants to poor people. They are grants to provinces and they also, by the way, give those provinces a strong incentive to avoid good policy because that will then reduce the size of their grant.

FC: Like Britain and the U.S., Canada has deregulated industries like transportation and telecommunications with apparent ease and success. What are the next best candidates for similar treatment?

DH: Electricity is one of the next. Next, I think, is allowing competition with the Post Office. Once that has had a few years to work, then winding down the Post

Office - privatizing it somehow - maybe selling it to the postal workers, because just as with the communications revolution, there just can't be any justification any more, if there ever was one, for having a government monopoly in the Post Office. There are many more - liquor monopolies should be ended, education monopolies should be ended, the government monopoly in health care should be ended. There are just so many that are ripe.

FC: You have stated on other occasions that the information revolution and its corollary -- rapidly falling communications costs -- may have created a productivity boom that effectively makes Western economies recession-proof. Could you elaborate?

DH: Yes, there are a couple of reasons for that. One of the things that the information revolution has done is made "just in time" production much more common and, therefore, there are not the inventory build-ups. Most recessions are caused by inventory build-ups and attempts to reduce production to bring inventory down. However, if the inventory is never built up, there just isn't that slack in the system so you don't have to cut production radically. This is a huge factor. And then, of course, there is the continued productivity boom. A recession is generally defined as a two-quarters-in-a-row decline in GDP per capita. The productivity boom makes a recession much less likely to happen.

I wouldn't say the economy is now "recession-proof"; I would say that the probability of recession is much lower and the duration and magnitude of one will be much less.

FC: When are we going to have our next recession?

DH: I have been waiting for one for a few years because I think it is always a good idea to buy a new car during a recession. I am to the point where I have given up on waiting. I will soon buy a new car because I don't necessarily think there will be a recession in the next few years.

FC: If Canada fails to embrace your prescription for more economic freedom, what will be the consequences? Can we expect Canada to fall behind slowly as it has for the past generation? Or can we expect worse?

DH: Most realistically, the former - I think Canada will, if they don't make these reforms, or some big progress in the direction I am talking about, likely continue to fall behind slowly. There will be wiggles and bumps along the way because there will be some politicians who come in and do a couple of these things. Overall, I am not optimistic.

FC: You left Canada nearly thirty years ago but you stay in close touch with family and friends here. Describe the biggest differences in this country over that period? Could you have experienced as much professional success if you had stayed?

DH: The biggest differences are hard to describe. The major thing I notice when I come back here is just how Canada has evolved very similarly to the way the United States has evolved. You see the superstores, this fantastic supermarket today here in Winnipeg - I mean it just blew me away - I thought I was in a major American city. You see people with cell phones; you see all of the obvious indicators of wealth in Canada that you see in the United States so those are the major changes and those are all positive. The major negative change is all the government advertising - there is just a lot of it - it is very pervasive in Canada. The other one is when I left here in the early 70s there was a lot of very hot Canadian nationalism - it was fashionable to hate America. I now sense that a lot less when I come back here. When I tell people I moved from Canada to the United States I don't get many nasty reactions any more, the way I used to in the early 70s - I get more, "Gee, what's it like?" "I wonder if I could do that?" It is very different.

FC: Could you have experienced as much professional success if you had stayed?

DH: I don't think so - I would have been a bigger fish but in a smaller pond. I was involved in some of the particular issues and the political changes happening in the United States, writing about them and studying them. I could not have done that in Canada and gotten the same audience or jobs I got in the U.S. On the other hand, if I had been here I would have done well but it would not have been as good for me. I believe strongly in freedom and there wasn't a big constituency for that in Canada as there has become in the United States in

the last 20 or so years. I do sense though this is changing now. There is a big constituency in Canada - I think it would be different now if I came back here, frankly. You've got the Fraser Institute and the Frontier Centre; a lot of exciting changes are percolating.

FC: There is talk in the U. S. about paying off the entire U.S. debt within a relatively short time whereas, here in Canada, there seems to be little urgency among the political class to do anything about the debt. What are the implications of this kind of difference?

DH: Well, I think that's a tough question - and the reason is because we have to hold certain things constant to do the analysis. If we are talking about paying off the debt as opposed to increasing government spending then it's a great idea but if we are talking about paying off the debt as opposed to cutting taxes - it is not so clearly a great idea and there are other major economists who agree with me. Nobel Laureate Milton Friedman is one of them. He believes that if you pay off the debt it just frees up money that otherwise would have had to go to interest for government to spend. That is why there may be the case for not paying it off so quickly but instead just having massive tax cuts instead.