

Poillievre's Challenge

Pierre Poillievre won the recent Conservative Party of Canada leadership race with a clear and consistent message promoting freedom for individuals and families. His jabs at “Justinflation” and “gatekeepers” resonated with people, and in particular young people, who feel locked out of homeownership and a middle class lifestyle by rising prices and precarious career prospects.

His message reminds me most clearly of Ronald Reagan's 1980 U.S. Presidential campaign, in which he asked people to:

“Vote for me if you believe in yourself, if you believe in your right to control your own destiny and plan your own life, yes, and have a say in the spending of your own money. The President (the incumbent Jimmy Carter) is going to have **more** government on the backs of the people and of business and of industry, the working people, in order to try to solve the problems that were **created** by too much government on our backs. We can get government off our backs, out of our pockets.”

Source: https://www.pbs.org/wgbh/commandingheights/shared/minitext/tr_show01.html

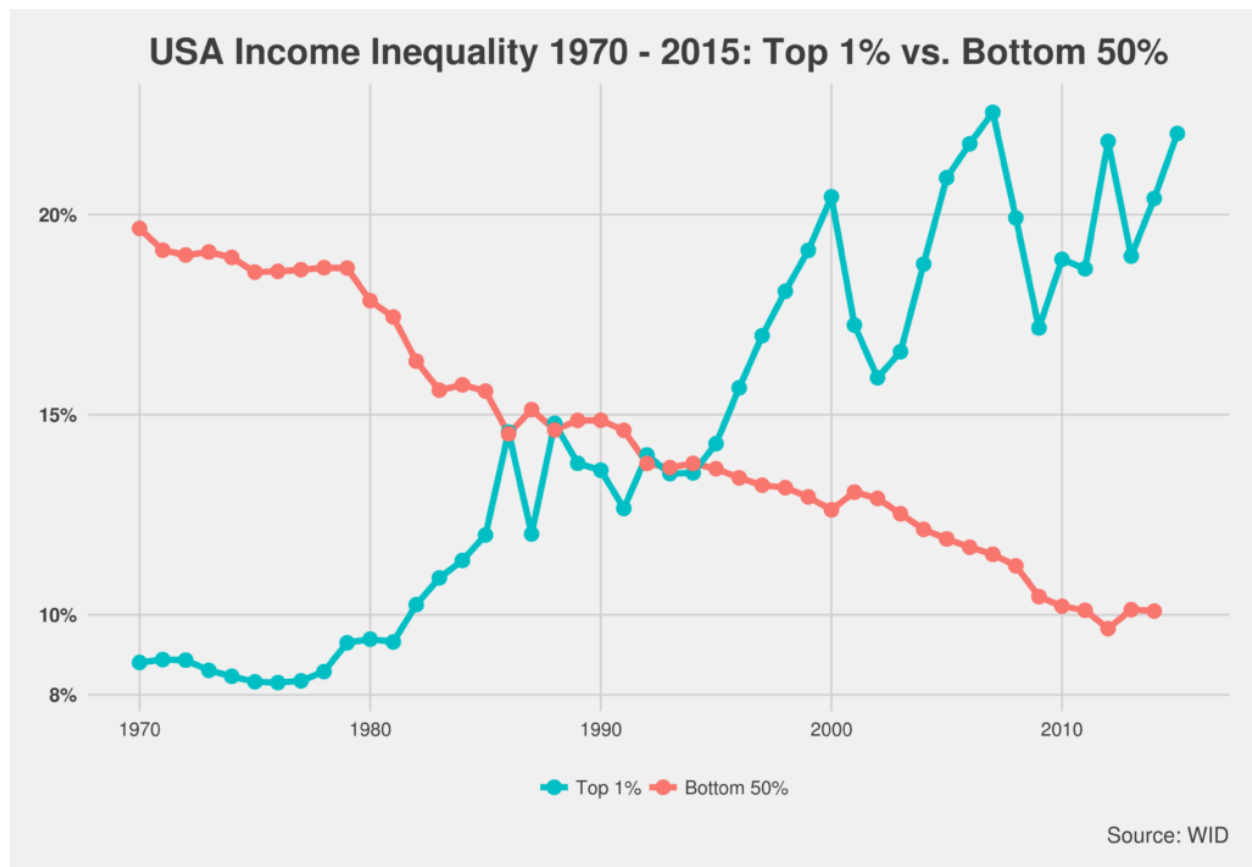
Once elected, Reagan enacted many of the same policies being touted by Poillievre - sound money (a.k.a. money that keeps its purchasing power), deregulation (a.k.a. the removal of gatekeepers), modest taxes and limited government spending.

How well did he do? Well, on the sound money front, interest rates that approached 20% p.a. in 1981 threw the American economy into a deep recession. As households and businesses struggled to service their debts, prices began to stabilize as people with plummeting disposable incomes cut spending.

Regarding modest taxes and limited government spending, Reagan's record was a mixed bag. While he did cut taxes, and especially taxes for the wealthy, spending actually rose. Unsurprisingly, the recession caused by the increase in interest rates led to reduced tax receipts and more government spending on income support and relief payments. Increased spending on defense only added to his (at the time) unprecedented budget deficits.

With regards to deregulation, the results were also mixed. On the positive side, the deregulation of the trucking and airline industries led to more competition, lower prices, and an increase in economic activity. As the price of an airline ticket is now not much higher in dollar terms than it was in the late 1970s, many more of us can afford to fly now than was the case 45 years ago.

However, the deregulation of the banking industry begun under Reagan has given us 40 years of growing economic inequality and instability. While Nixon's default on dollar-gold convertibility in 1971 set the stage for our current economic problems, it was the deregulation of finance by leaders like Reagan and Margaret Thatcher in the U.K that ushered in the first act. Looking at the graph below:



Source:

<https://rwer.wordpress.com/2018/05/18/income-inequality-1970-2015-usa-and-france-compared/>

While in 1980 the bottom 50% of households claimed almost 20% of total income, they now enjoy only 10%. Meanwhile, the top 1% of households' already outsized 9% share of total income from 1980 has ballooned to over 20% today. If the collective income of just 1% of households is now twice as great as the collective income of 50% of households, on average, we can calculate that the average income of a household in the top 1% is now **one hundred times** the average income of a household in the bottom 50%.

While Reagan's message resonated with many voters, his policies, taken as a whole, clearly did not benefit everyone equally. Not for the first time, a leader promising more opportunity and more freedom for working people delivered them the exact opposite.

So, what can Poilievre do to avoid being remembered as just one more politician who succeeded to power using the old "bait and switch?" His first priority must be to re-regulate finance. As the character playing Pope Francis put it in the movie "The Two Popes:"

"The banks almost destroyed my country. You know, they beg for deregulation, like tigers begging to be let out of a cage. Once out, though, they devour everything in sight."

Source: <https://www.imdb.com/title/tt8404614/characters/nm0000596>

What sort of regulations? First of all, the power of the chartered banks to create money must be tightly curtailed. If banks are to be granted the ability to create money from nothing whenever they grant loans, those loans must be to small and medium enterprises for productivity-enhancing investments in technology, equipment and training.

To ensure they remain true to their new mission, the banks must also be prohibited from lending money for the speculative purchase of existing assets such as stocks and real estate. As 40 years of experience has taught us, access to cheap and abundant credit has granted privileged insiders the power to buy up every existing asset worth owning, while simultaneously driving the prices of such assets beyond the reach of ordinary people.

Of course, in a globalized financial system, Canadian efforts to direct bank lending away from existing assets and towards productive investment will fail if we allow foreign banks to flood the country with credit. To prevent skyrocketing foreign ownership of Canadian assets, it will also be necessary to implement capital controls.

Will this be easy? No. It is much easier to let a tiger out of its cage than to put it back in. Further, as the ex-finance minister of Greece, Yanis Varoufakis, put it in an interview some time ago (and I am paraphrasing here), it is no surprise that our politicians are so mediocre, because the real power now lies with those in charge of finance. The banks have been in charge for some time now, and they will likely respond vigorously to any politician who challenges them. However, If Poilievre is serious about promoting freedom for ordinary Canadians, this is a challenge he can neither afford to ignore nor to lose.