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From export boom to private debt bubble: a macroeconomic policy regime assessment of Canada's shifting growth regime in the neoliberal era

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Working Paper, No. 203/2023

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Abstract: This paper examines the emergence of private debt-led growth in Canada since the Global Financial Crisis (GFC) by means of a growth regimes and macroeconomic policy regime assessment. Examining each of the four business cycles in the 1983-2020 period, roughly encompassing the entirety of the neoliberal period, results demonstrate the emergence of a 'rising' weakly export-led growth regime in the early 1990s, a shift to a 'falling' weakly export-led regime by 2001, and a turn to a debt-led private demand regime since the GFC. The macroeconomic policy regime then identifies the structural changes and policy factors which have contributed to Canada's shifting growth regime. While price competitiveness played an important role in the first three cycles, it failed to re-establish an export-led regime in the post-GFC period due to decreased non-price competitiveness. Instead, the post-GFC combination of negative real interest interests which encouraged the accumulation of private debt and fiscal policy which ex post did not address the negative financial balances of the household sector supported the turn to private debt-led growth.

Key words: growth regimes, macroeconomic policy regime, financialization, private debt, post-Keynesian economics, Canada

JEL codes: E11, E12, E60, E65, F62, O51

Acknowledgements: I am grateful to Eckhard Hein and the participants of IPE Berlin's Frontiers in Growth Regimes Research workshop in October 2022 for comments on earlier drafts. The views expressed herein are my own, as are any errors and shortcomings. This paper will be submitted to a special issue of the *European Journal of Economics and Economic Policies: Intervention* on 'Frontiers in Growth Regimes Research: Theoretical Perspectives and Country Cases'.

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1. Introduction

In its trajectory since the Global Financial Crisis (GFC) of 2007-2009, Canada has emerged as an outlier amongst its peers. Far from private sector deleveraging—as was the case for the United States and many advanced economies—Canada has instead seen the explosion of private debt, i.e., debt issued to the corporate and household sectors. According to the International Monetary Fund (2021a, 5), in Canada "[h]ousehold debt exceeded 170 percent of disposable income in 2019, one of the highest levels among G20 countries" while "[d]ebt-to-assets and debt-service-to-income ratios for non-financial corporates at end 2019 were the highest among the G7." Largely premised on an inflated housing market, the financial stability of the household sector is of particular concern for policymakers with the Bank of Canada (2022), for example, warning of "elevated levels of household debt and high house prices" as "interconnected vulnerabilities."

The Canadian experience is all the more curious because it was not that long ago that Prime Minister Stephen Harper famously spoke of the country as a rising "energy superpower" and many politicians and journalists celebrated—wrongly, as Stanford (2013) shows—the "exceptionalism" of the policy regime which purportedly allowed the country to avoid some of the worst effects of the GFC.[1] Indeed, throughout the 1990s and 2000s, the prevailing view was that Canada's embrace of financial globalization and neoliberal macroeconomic management was a complete success. In these decades, successive governments sustained the reconfiguration of monetary, fiscal, and labour market policy along neoliberal lines (Lewis 2003; McBride 2019). Above all, integration into the global economy by means of trade and investment liberalization, most notably through the implementation of the Canada-US Free Trade Agreement in 1988 and the North American Free Trade Agreement in 1994, formed the core of Canada's economic strategy (Klassen 2014, ch. 4).

Against this backdrop, the purpose of this article is to assess the macroeconomic and policy factors which explain the rapid accumulation of private debt. Drawing from post-Keynesian economics, this article examines Canada from the point of view of its growth regime and macroeconomic policy regime. As we shall see, the former refers to a typology of patterns of the sources and financing of growth (e.g. Akcay et al. 2021; Dodig et al. 2016; Hein 2019), while the latter is a set of indicators assessing the demand effects of each node of macroeconomic policy and the open economy (e.g. Hein/Martschin 2021). Taken together, these methodologies permit the investigation of Canada's particular path within the broader global conjuncture of financialized capitalism (Epstein 2005).[2]

Taking a long-run perspective of the entire neoliberal period, this article will proceed by analyzing Canada's growth regime and the orientation of the macroeconomic policy regime over the course of four economic cycles since the early 1980s. The results demonstrate that neoliberalism initially entailed the emergence of a 'rising' weakly export-led growth regime by the early 1990s, which shifted to a 'falling' weakly export-led regime by 2001 before giving way to a debt-led private demand growth regime following the GFC. The macroeconomic policy regime assessment identifies the factors which supported these growth regime shifts. In each of the three pre-GFC cycles, open economy conditions—specifically the movement of the

[1] Indeed, it was possible even as late as 2014 for some analysts to posit that the main risk to the Canadian economy was external, stemming from "the accumulated debts of *other* countries and the unwinding of *their* extraordinary monetary measures" (Medhora/Rowlands 2014, x, emphasis added).

[2] As such, growth and macroeconomic policy regimes form part of the burgeoning post-Keynesian approach to comparative political economy which seeks to provide an alternative to the Varieties of Capitalism approach of Hall/Soskice (2001) that has largely dominated the field. In addition to the growth regimes literature cited in this article, see Kohler/Stockhammer (2021), Stockhammer (2022), and Baccaro et al. (2022) for the complementary conceptualizations of growth drivers and growth models.

exchange rate—contributed to shifts in the growth regime. In the post-GFC cycle, however, currency depreciation was not accompanied by increasing net exports or an improving current account for at least two reasons. First, by this time the secular transformation of the economy had decreased non-price competitiveness and limited exports in the absence of external demand. Second, while the mostly expansionary turn of policy did serve to stabilize the macroeconomy after the GFC, it nonetheless had the consequence of encouraging the accumulation of private debt, thereby exacerbating the trend of negative household financial balances that began in the 1990s. In this regard, negative real interest rates played a key role in directly stimulating lending, while fiscal policy was likewise insufficient in supporting the deleveraging of households from the point of view of sectoral financial balances.

2. Growth regimes and Canadian political economy

As an initial point of departure, it is worthwhile to briefly consider the way that growth regimes analysis provides a novel approach within Canadian political economy (CPE), a field with a long history of mainly heterodox scholarship from across the social sciences. Although there exists a plethora of contemporary approaches to CPE, there are two which deserve particular mention for their attention to macroeconomics. The first is the Canadian variant of dependency theory emphasizing foreign ownership as in Levitt (1970) and Clement (1977), on the one hand, and the role of primary commodity "staples" exports in leading economic growth as in Watkins (1963), on the other hand. The most recent statement of this paradigm is Stanford (2008, 2019) who shows that the staples share of exports spiked upwards at the onset of the early 2000's commodity boom and represents a structural reorientation of the Canadian economy towards staples extraction. The second is Marxism, which has linked issues of capital accumulation to the state (Panitch 1977; Albo/Jenson 1997) and corporate power (Carroll 1986). Recent contributions have studied the internationalization of Canadian capital and transnational class formation as in Klassen (2014) or the dynamics of accumulation through the GFC as in McCormack and Workman (2015).

As a methodology derived from post-Keynesian economics, growth regimes analysis is distinct from but complementary to these well-established approaches to CPE. On the one hand, the analytic focus on demand complements the thematic concerns of Marxism and staples theory because it brings into perspective the feedback effects of demand on accumulation and hence the overall productive structure. On the other hand, the post-Keynesian emphasis on stock-flow consistency and sectoral financial balances goes beyond these other approaches in that it provides a consistent macroeconomic framework linking stocks to flows and the sources of growth to its financing.[3] As a result, growth regimes analysis offers a useful framework with which to analyze a phenomenon such as Canada's turn to private debt-led growth.

3. Canada's succession of growth regimes

With these considerations in mind, we can turn now to the typology of growth regimes and its application to Canada. Initially developed by Hein (2011, 2012), the taxonomy has since been refined and extended in a number of studies (e.g. Dodig et al. 2016, Hein 2019; Dünhaupt/Hein 2019; Akcay et al. 2021). Before considering each classification type, we can note that a growth regime is diagnosed according to specific patterns of two key indicators: the financial balances

[3] See Lavoie (2014, ch. 1) for a comprehensive discussion of the theoretical foundations of post-Keynesian economics.

of each sector and growth contributions by component of gross domestic product (GDP). Apart from statistical discrepancies, the former necessarily sums to zero and the latter sums to the rate of real GDP growth. The significance of these indicators is that they show the financing and sources of growth, respectively.[4]

First, it is indicative of a *debt-led private demand (boom)* (DLPD) regime when the private domestic sectors are, as a whole, in deficit. Financing these private domestic deficits are the surpluses of the external sector. In such a regime private domestic demand provides significant growth contributions while net exports contribute negatively to growth.

Second, the logical counterpart of the DLPD regime is the *export-led mercantilist* (ELM) regime. This regime is the logical counterpart because the current account deficits of debt-led regimes must be matched by the current account surpluses of other economies. A country is said to have an ELM regime when the domestic sectors are in an overall surplus position while the external sector is in a position of deficit, indicating persistent current account surpluses. Net exports provide positive growth contributions which outweigh the growth contributions from domestic demand, which might be small or negative.

Third, a weaker version of the ELM regime is the *weakly export-led* (WEL) regime which features two sub-variants. On the one hand, a 'falling' WEL regime applies to the situation of the domestic sectors being in surplus while the external sector is in deficit, suggesting current account surpluses. Since net exports contribute negatively to growth, the situation is one of falling net exports and a declining current account. On the other hand, a 'rising' WEL regime occurs when the domestic sectors are in deficit and the external sector in surplus, suggesting current account deficits. Since net exports contribute positively to growth, there is a pattern of rising net exports and an increasing current account.

Finally, a regime is considered as *domestic demand-led* (DDL) if the private household sector is in position of surplus while the public sector, and possibly the corporate sector, is in deficit. The external sector is largely balanced. The domestic sectors contribute strongly to growth while the growth contributions of net exports are only slightly negative or positive.

On this basis, Table 1 displays the averages of these indicators across four trough-to-trough economic cycles since the early 1980s: a first from 1983 to 1991; a second from 1992 to 2000; a third from 2001 to 2009; and a fourth from 2010 to 2020.[5] By examining nearly four decades of data, it is possible not only to identify the most recent private debt dynamics, but also to situate their emergence in historical context. Accordingly, the picture which emerges in Table 1 is a stylized account of the evolution of Canada's macroeconomy in the period of neoliberalism and financial globalization.

[4] The presentation of the next four paragraphs follows the most recent contributions to the literature, specifically Hein and Martschin (2020, 565-567) and Ackay et al. (2021, 5-7).

[5] The identification of these cycles is based on the science and the art of looking at the technical definition of a recession—i.e., two or more consecutive quarters of negative GDP growth—and the movement of unemployment. Doing this makes the collapse of the 1999 dotcom bubble a turning point but not the two quarters of negative growth in 2015. This periodization makes the character of the WEL regimes from 1992 to 2009 easier to discern.

Table 1: Indicators for Canada's demand and growth regime, averages per trade cycle

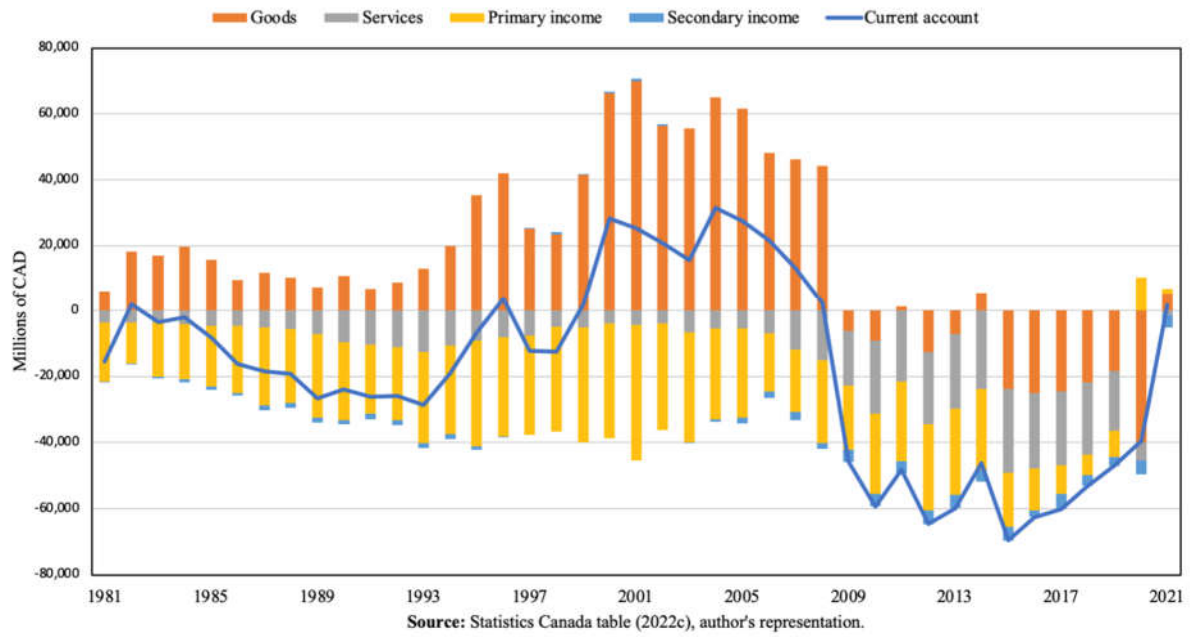
	1983-1991	1992-2000	2001-2009	2010-2020
Financial balances of the external sector, per cent of nominal GDP	2.23	1.09	-0.94	3.54
Financial balances of the public sector, per cent of nominal GDP	-6.85	-3.32	0.25	-2.15
Financial balances of the private sectors, per cent of nominal GDP	4.62	2.16	0.64	-1.52
— Financial balances of households, per cent of nominal GDP	3.97	1.12	-3.29	-2.80
— Financial balances of corporations, per cent of nominal GDP	0.64	1.04	3.93	1.28
Real GDP growth, per cent	2.70	3.43	1.74	1.57
Growth contribution of domestic demand, percentage points	3.05	2.73	2.70	1.57
— Growth contribution of households and NPISH, percentage points	1.61	1.71	1.69	0.99
— Growth contribution of general governments, percentage points	0.53	0.07	0.50	0.28
— Growth contribution of gross fixed capital formation and investment in inventories, percentage points	0.91	0.95	0.51	0.30
Growth contribution of the balance of goods and services, percentage points	-0.37	0.68	-0.94	0.00
— Growth contribution of exports, percentage points	1.50	3.16	-0.39	0.71
— Growth contribution of imports, percentage points	1.87	2.49	0.54	0.71
Net exports of goods and services as a share of nominal GDP, per cent	1.29	2.46	3.23	-1.79
Regime	DDL	'Rising' WEL	'Falling' WEL	DLPD

Source: Statistics Canada (2021a; 2022d; 2022e; 2022f; 2022g; 2022h), author's calculations and representation.
Notes: *DDL*, domestic demand-led; *DLPD*, debt-led private demand; *WEL*, weakly export-led; *NPISH*, non-profit institutions serving households.

In the 1983-1991 cycle, Canada more or less followed a DDL growth regime. The household sector was in a substantial surplus position which found its counterpart in the financial balance deficit of the public sector. Moreover, the domestic sectors contributed positively to growth while net exports contributed negatively. What makes the regime diverge from the definition is the fact that the current account was not at all close to balance. Indeed, an interesting phenomenon of this cycle is the coexistence of a positive financial balance of the external sector—in other words, a negative current account—alongside positive net exports. As graphed in Figure 1, the explanation of this phenomenon is found in the balance-of-payments statistics which show that Canada's deficits in primary income—that is say, net outflows of interest payments, dividends, and profit—drove the current account deficits in

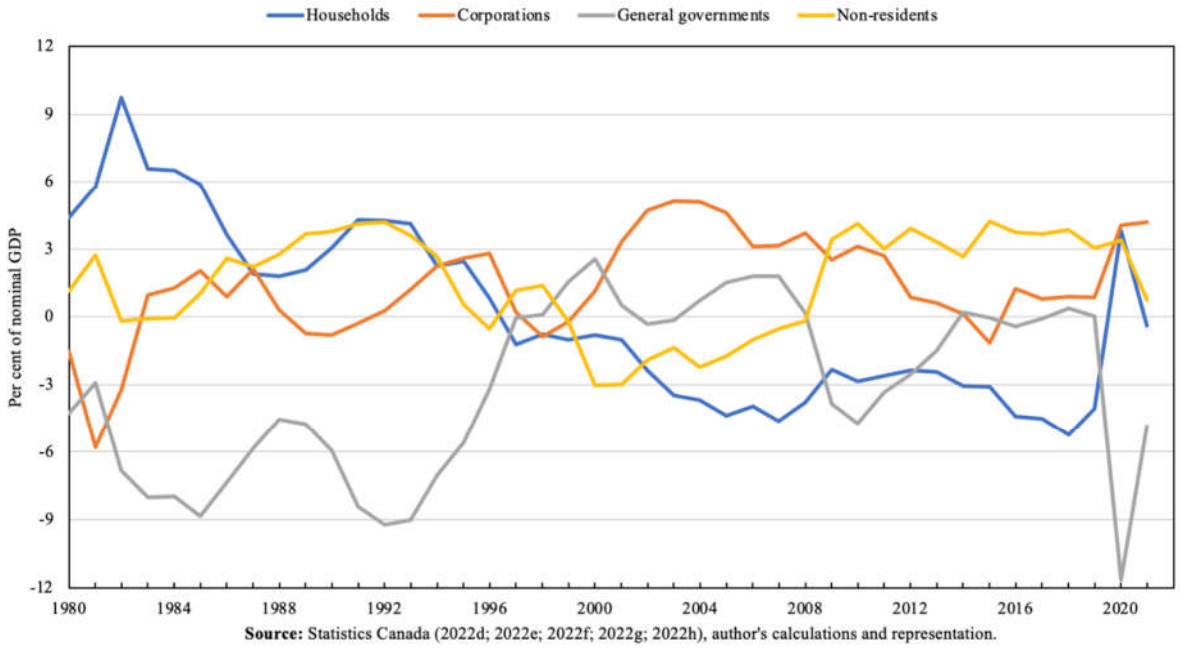
these years despite generally positive values of net goods and services. These net outflows of primary income are suggestive of foreign ownership, a concern which was prevalent in CPE at the time.

Figure 1: Current account



Source: Statistics Canada table (2022c), author's representation.

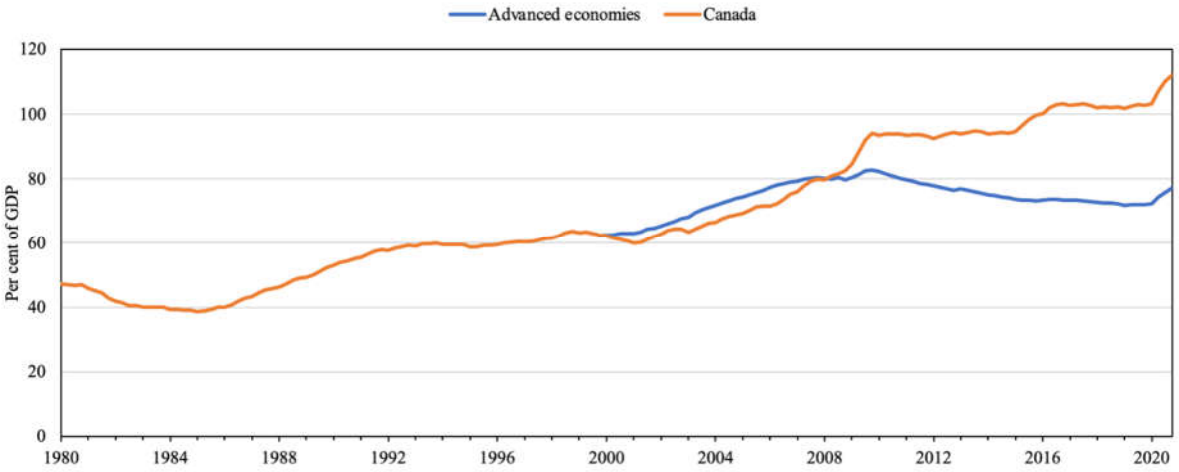
Figure 2: Sectoral financial balances



Source: Statistics Canada (2022d; 2022e; 2022f; 2022g; 2022h), author's calculations and representation.

The second cycle from 1992-2000—the heyday of neoliberal reform and globalization—saw a shift to a 'rising' WEL regime. On first glance, the findings do not appear substantially different from the earlier DDL regime. Like the previous regime, the private domestic sectors are in surplus while the public sector is in deficit. The external sector is even closer to balance. The key difference is that the growth contributions of the balance of goods and services turn positive in this cycle, suggesting rising net exports and falling current account deficits. This is precisely what is observed in Figure 1 which shows a dramatic upswing in the current account driven by the balance of goods in these years.

Figure 3: Household sector debt-to-GDP ratios



Source: BIS (2021), author's representation.
Note: The figure displays credit to households and NPISHs from all sectors at market value.

The third cycle from 2001-2009 sees a continuation of a WEL growth regime, albeit one with 'falling' characteristics. Accordingly, the positions are reversed: the external sector has a negative financial balance—hence a positive current account—while the domestic sectors as a whole are in surplus. The balance of goods and services provide substantially negative growth contributions in this cycle, implying a declining current account and falling or stagnant net exports as in Figure 1. While the domestic sectors as a whole are in surplus, driven mainly by the surplus position of the corporate sector, a crucial trend in this cycle is the turn of the household sector to a substantial deficit position, implying rising levels of household debt and a negative saving rate for significant segments of the household sector. As seen in Figure 2, there were already some years in the 1990s in which the household sector turned to negative financial balances, but it was only in the 2001-2009 cycle that the dynamic consolidated itself into a long-term trend.[6]

These private debt characteristics take full form in the fourth and most recent cycle from 2010 to 2020. The external sector reverts into surplus, indeed a far larger surplus position compared to the first and second cycle. The domestic sectors as a whole have a negative financial balance, driven by deficits of the household sector and, to a lesser extent, the public sector. The domestic sectors contribute positively to growth while the balance of goods and services contributes neutrally. While this cycle saw the return of public sector deficits, it is noteworthy that they are far smaller as shares of GDP than in the 1983-1991 cycle or even the 1992-2000 cycle. Moreover, as Figure 3 shows, it is in these years that Canada's household debt ratios diverged from the advanced economy aggregate.

Summing up, this account of Canada's growth regime shows the evolution of the macroeconomy in the period of neoliberalism. As an ex post assessment, these findings do not imply any particular policy orientation. Nevertheless, we can note that they largely corroborate the turning points emphasized within the CPE literature such as the Canada's integration into the world economy by means of free trade in the late 1980s and early 1990s (Klassen 2014, ch. 4) as well as the post-2000 turn towards primary commodity exports noted by Stanford (2008). Most crucially, these findings go beyond the existing literature in demonstrating the emergence of a DLPD growth regime in the post-GFC period.[7]

[6] To my knowledge, Seccareccia (2005) is the first analysis on the emergence of persistent household deficits.
[7] It should be noted, however, that the issue of private and household debt has generated some interest across the spectrum of Canadian policy thinktanks. The general issue at hand in these policy reports—such as Macdonald (2017), Di Matteo (2017), and Cross (2020)—is documenting the phenomenon and examining the robustness of household balance sheets in the event of a shock to the economy. The analysis undertaken here is broader in that it situates the accumulation of debt within the actual course of Canadian macroeconomic development.

4. The role of the macroeconomic policy regime

Having in the previous section examined the evolution of Canada's growth regime, we can turn our attention to the question of why Canada has seen these shifts from one growth regime to the next. Deploying the notion of the macroeconomic policy regime, this section assesses the demand effects of each node of macroeconomic policymaking—monetary, fiscal, and labour market policy—as well as open economy conditions in order to determine if they have contributed to shifts in the growth regime.

Originating in papers examining the United States (Fritsche et al. 2005) and the issue of macroeconomic coordination (Hein/Truger 2005), the notion of the macroeconomic policy regime has since been extended and applied to an increasing number of countries (e.g. Hein/Truger 2011; Herr/Kazandziska 2011; Hein/Martschin 2021). The policy regime assessment is derived from the optimal post-Keynesian policy mix which would support a stable, externally-balanced DDL growth regime as per the typology that we have already seen. Although an in-depth treatment of the theoretical foundations for the post-Keynesian ideal-type policy mix is beyond the scope of our analysis, it suffices to note that it is immediately distinguishable from New Consensus Macroeconomics in that all nodes of macroeconomic policy have short- and long-run effects on demand, distribution, output, and employment, and that there is accordingly a need for policymakers to coordinate their available policy instruments.[8]

The key features can be stated as follows. To support growth and stabilize the debt of the deficit sector(s), monetary policy should target a slightly positive real rate of interest that is below the rate of real GDP growth, which would avoid the situation of the deficit sector(s) being forced to run primary surpluses in order to service debt. Meanwhile, wage policies should link unit labour cost growth to the target rate of inflation as a means to stabilize nominal inflation and functional income distribution, i.e., the wage and profit shares of the economy. Finally, fiscal policy in the post-Keynesian policy mix is first considered within the accounting reality given by the sectoral financial balances identity. Accordingly, the financial balance of the public sector by definition equals the private sector balance minus the current account balance. There is an appropriate and key role for fiscal policy to support a level of output consistent with the target rate of non-inflationary (full) employment which is consistent with stable public debt to nominal GDP ratios given the aforementioned target for monetary policy. Furthermore, fiscal policy can serve to take on several other important roles. These include supporting productivity growth, and hence long-run GDP growth, through targeted public investment as well as ensuring a more equal distribution of income (Hein/Martschin 2021, 508-509).

[8] See Hein and Martschin (2021) for a detailed treatment of the macroeconomic policy regime as well as Hein and Stockhammer (2010) for the post-Keynesian policy mix. Carlin and Soskice (2009) provide an entry-point into New Consensus Macroeconomics by means of the 3-equation model.

Table 2: Canadian macroeconomic policy regime indicators, average annual values

	1983-1991	1992-2000	2001-2009	2010-2020
Monetary policy				
Short-term real interest rate, per cent	5.53	3.75	1.02	-0.52
Long-term real interest rate, per cent	5.71	5.30	2.35	0.31
Long-term real interest rate minus real GDP growth, percentage points	3.01	1.86	0.61	-1.27
Wage policy				
Nominal unit labour costs, annual growth, per cent	3.43	1.29	2.29	1.71
Inflation rate (CPI), per cent	4.67	1.59	2.04	1.65
Adjusted wage share, per cent	58.02	57.76	55.11	55.59
Change in adjusted wage share from previous business cycle	-1.38	-0.27	-2.64	0.48
Fiscal policy				
General government structural balance as percentage of potential GDP, annual change, percentage points	-0.25	0.99	-0.38	-0.55
Output gap as percentage of potential GDP, annual change, percentage points	0.23	0.42	-0.61	-0.01
Number of years with pro-cyclical fiscal policy (co: contractionary, ex: expansionary)	4 (1 co, 3 ex)	3 (2 co, 1 ex)	3 (1 co, 2 ex)	6 (4 co, 2 ex)
General government gross fixed capital formation, per cent of GDP (chained 2012 dollars)	3.19	3.17	3.65	3.91
Open economy				
Change in real effective exchange rate, vis-à-vis 27 countries, per cent	0.72	-3.11	1.90	-0.90
OEC economic complexity index	n.a.	1.09*	0.98	0.94
Real exports of goods and services, per cent of GDP	20.89	31.37	33.68	31.25
Real imports of goods and services, per cent of GDP	16.97	24.46	28.49	31.78

Source: See Appendix.
Note: * = data unavailable for years prior to 1998.

Table 3: Macroeconomic policy regime assessment

	1983-1991	1992-2000	2001-2009	2010-2020
Monetary policy stance	–	–	–	+
Wage and incomes policy stance	–	–	+/–	+
Fiscal policy stance	+	+	+	–/+
Open economy conditions	–	+	–	+
Demand and growth regime	DDL	'Rising' WEL	'Falling' WEL	DLPD

Note: Inspired by a similar table in Hein and Martschin (2021, 515); *DLPD* = debt-led private demand; *DDL* = domestic demand-led; *WEL* = weakly export-led ; + : expansionary stance, − : contractionary stance, 0: neutral stance.

Monetary policy:
+ : negative real long-term interest rate-real GDP growth differential
− : positive real long-term interest rate-real GDP growth differential

Wage policy:
+ : nominal unit labour cost growth close to Bank of Canada inflation target and rising labour income share
− : nominal unit labour cost growth far away from Bank of Canada inflation target (after 1991) and falling labour income share
+/− : nominal unit labour cost close to Bank of Canada inflation target (after 1991) and falling labour income share

Fiscal policy:
+ : counter-cyclical in many years, high public investment to GDP ratio
−/+ : pro-cyclical in many years, high public investment to GDP ratio

Open economy conditions:
+ : real depreciation
− : real appreciation

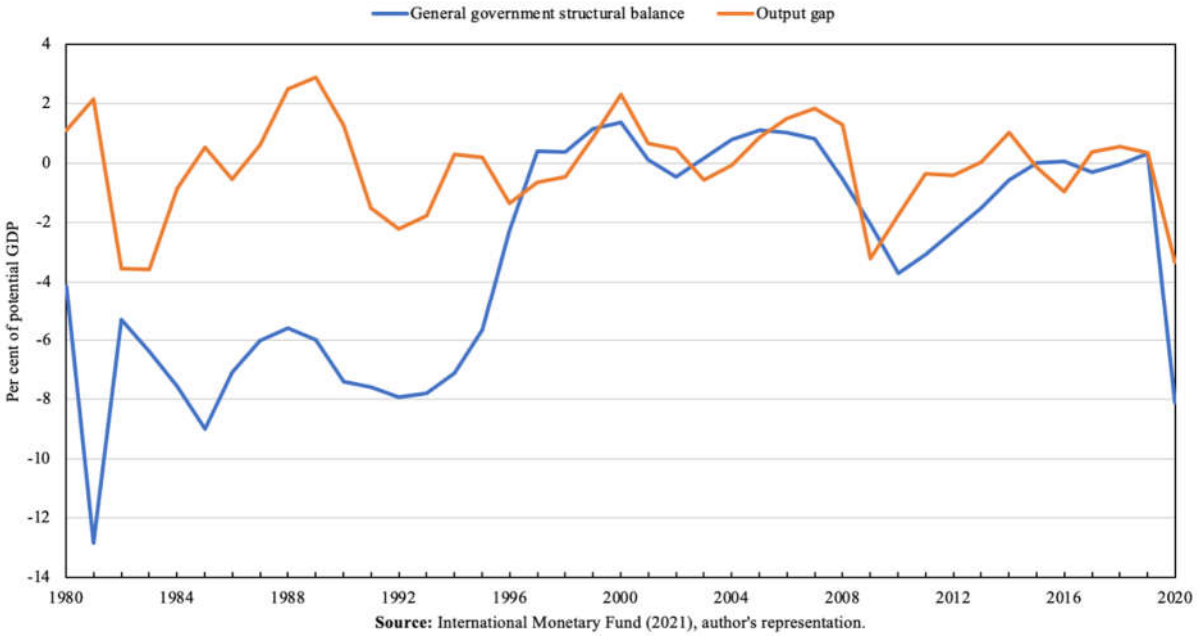
The macroeconomic policy regime assessment operationalizations these considerations. Following Hein and Martschin (2021, 510-511), indicators for short-term and long-term real interest rates as well as the difference between the real long-term interest rate and the rate of real GDP growth provide a basis on which to ascertain the behaviour of monetary policy. Comparing nominal unit labour cost growth to the rate of inflation as well as assessing the movement of the wage share permit an assessment of wage policy. It is more difficult to assess deliberate fiscal policy given that the sectoral balances equation is an identity; however, the co-movement of the general government structural balances and the output gap as shares of potential GDP provides clues on fiscal policy. A movement of these indicators in the same direction can be taken to indicate counter-cyclical fiscal policy while a movement in the opposite direction suggests pro-cyclical fiscal policy.[9] General government gross fixed capital formation further supplements these indicators as a measure of the orientation of fiscal policy. Finally, regarding open economy conditions, import and export shares indicate the overall openness of the economy. The average annual change of real effective exchange rates provides a measure of international price competitiveness whereby an increase indicates currency appreciation and therefore decreasing price competitiveness and vice versa. The OEC economic complexity index is an indicator of non-price competitiveness.

Table 2 consolidates the empirical findings while Table 3 summarizes the assessment of each node of the policy regime. As with the findings for Canada's growth regime, the policy

[9] By focusing on the change of these indicators, this interpretation does not presume that the statistical estimation of their levels is correct. As Hein and Martschin (2011, 511) note, the concept of potential GDP suffers from measurement and endogeneity problems.

regime has evolved substantially across the last four economic cycles. Starting with the 1983-1991 cycle, Table 3 shows that fiscal policy played the key role in providing expansionary support for the DDL at this time. As plotted in Figure 4, the output gap and general government structural balance generally moved in the same direction—an indication of counter-cyclical fiscal policy—and the years in which they moved in opposite directions were pro-cyclical in an expansionary way. In contrast, the other nodes of the policy regime were straightforwardly contractionary. There was a significant positive differential between the real long-term interest rate and the real GDP growth rate. The wage share shrunk substantially. Finally, open economy conditions deteriorated from the appreciation of the Canadian dollar. In the context of these contractionary features of the policy regime, it is unsurprisingly that the DDL regime was unsustainable.

Figure 4: General government structural balance and the output gap



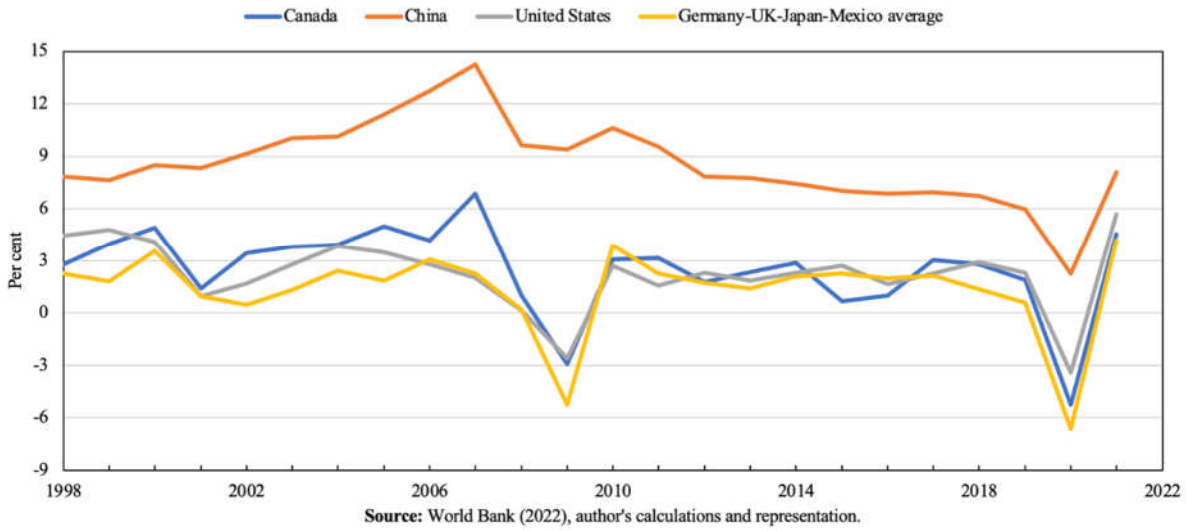
Source: International Monetary Fund (2021), author's representation.

The policy regime in the second cycle from 1992-2000 is curious for both its continuity and change that it represents. Despite the many institutional changes of the time—free trade with the United States in 1988 before NAFTA in 1994; inflation targeting from 1991; the hegemonic pursuit of balanced budgets since the 1993 federal election; and labour market reform—the domestic levers of macroeconomic policy maintained the same macroeconomic stance. Monetary policy remained contractionary from the positive differential between the long-term interest rate and the rate of real GDP growth. The significant divergence between unit labour cost growth and the inflation target as well as the continued decline of the wage share signal contractionary labour market policy. The indicators for general government fiscal policy, somewhat surprisingly, continue to show evidence of counter-cyclical policy despite the federal government's pursuit of austerity at the time.[10] It is the extremely favourable open economy conditions which explain these findings. The increasing openness of the Canadian economy, the respectably high economic complexity index value (relative to the cycles to come), and the significant depreciation of the Canadian dollar supported the emergence of the 'rising' WEL growth regime of the time, with positive net exports and an improving current account.

In the third cycle from 2001-2009, the data provide some evidence on the factors which supported the shift to a 'falling' WEL growth regime. Monetary policy became less

[10] Lewis (2003) provides a comprehensive account of the turn to budget hawkishness.

Figure 5: GDP growth vis-à-vis major trading partners



Source: World Bank (2022), author's calculations and representation.

contractionary compared to the previous cycle while fiscal policy retained its counter-cyclical orientation and, arguably, became even more expansionary when considering general government gross fixed capital formation. Wage policy, in a sense, became expansionary because nominal unit labour costs, on average, grew slightly faster than the CPI. However, rather than rise as a result of this dynamic, the wage share continued to fall. It is again the change in open economy conditions which is crucial. The significant appreciation of the Canadian dollar corresponds with the observed increase in the import share. At the same time, the export share continues to rise despite decreases of both price competitiveness from currency appreciation and non-price competitiveness from the lower economic complexity index. By plotting Canada's GDP growth against its major trading partners, Figure 5 helps to make sense of these dynamics. Supported by a relatively more expansionary policy regime in this cycle, Canada grew faster than most of its major trading partners apart from China throughout the 2000s, particularly vis-à-vis the United States, by far its largest trader partner. This dynamic supported the emergence of a 'falling' WEL growth regime as the stimulation of imports over exports served to weaken the current account.

In the fourth cycle from 2010-2020, the findings document a substantial shift in the policy regime. The short-term real interest rate turned negative and monetary policy for the first time turned wholeheartedly expansionary with a negative differential between the real long-term interest rate and the rate of real GDP growth. Wage policy turned unambiguously expansionary with nominal unit labour costs growing faster than the rate of inflation and not too far away from the Bank of Canada's target inflation rate. For the first time in the period under consideration, the wage share saw a slight increase. Fiscal policy in a sense became contractionary due to the divergent directions of the structural balance and output gap in many years yet was accompanied by a substantial increase in general government gross fixed capital formation, an indication of expansionary policy. Open economy conditions improved from the perspective of price competitiveness—the Canadian dollar depreciated on average—but the continued decrease in the economic complexity index suggests a deterioration of non-price competitiveness. Despite currency depreciation, this cycle sees the import share overtake the export share of the economy due to both the increase of the former and the decrease of the latter. In the context of Figure 5, this is a curious finding since Canada grew slower than many of its trading partners, especially the United States, following the GFC. Such a scenario should have normally boosted domestic exports due the increase in foreign demand.

The way that these findings for the fourth cycle contextualize the shift to a DLPD growth regime requires nuance. First, the unambiguously expansionary turn of monetary

policy, labour market policy, open economy conditions, and to some degree, fiscal policy supported growth over the course of the cycle, albeit growth that was middling vis-à-vis Canada's major trading partners. The most direct way that the policy regime supported the accumulation of private debt is through expansionary monetary policy. Negative short-term real interest rates encouraged an asset price boom and facilitated the expansion of lending to the private sector in general and the household sector in particular. Second, fiscal policy in this fourth cycle provided important support for demand by means of high public investment. From the perspective of sectoral balances, however, fiscal policy has been insufficient in supporting the deleveraging of households. As the sectoral balances equation makes clear, a reduction of the surplus of another sector in the economy would have been necessary to reduce the deficit of the household sector. We have already found that public sector deficits in the 2010-2020 cycle were far smaller than those of the 1983-1991 and 1992-2000 cycles. Third, it would be remiss not to mention the structural change of the Canadian economy over the period of analysis. Quite simply, Canada has seen a decrease in non-price competitiveness, which implies an increase in the relevance of the price competitiveness of exports. As originally documented by Stanford (2008, 2019), Canada saw a post-2000 turn away from manufactured exports toward primary commodity exports, including, in particular, oil and gas. Such an orientation towards staples exports exposes the Canadian macroeconomy to the boom and bust nature of the commodity cycle. The strengthening of the Canadian dollar during booms can then serve to undermine the price competitiveness of the exporting sectors.

5. Conclusion

This article has examined the contours of private debt and economic growth in Canada by means of a growth regime and macroeconomic policy regime assessment over the course of four economic cycles since the early 1980s. Inspired by the insights of post-Keynesian economics, these methodologies are distinct from other approaches to CPE due to its central analytical role of demand dynamics. The assessment pursued here empirically demonstrates a series of growth regime shifts. The 1983-1991 cycle featured a DDL growth regime, albeit one with an unbalanced external sector and the coexistence of positive net exports and a negative current account. The 1992-2000 cycle then saw the emergence of a WEL growth regime with rising net exports and an improving current account. The 2001-2009 cycle saw a continuation of the WEL growth regime, albeit with stagnant net exports and a declining current account. Finally, a DLPD growth regime emerged in the 2010-2020 cycle led by the deficits of the household and, to some extent, government sectors

This article has furthermore examined the origins of these growth regime shifts by means of an assessment of the macroeconomic policy regime. Examining the demand effects of each node of macroeconomy policymaking, the findings suggest that the generally contractionary orientation of the policy regime during the 1983-1991 cycle could not sustain the DDL growth regime. Favourable open economy conditions supported the transition to a 'rising' WEL growth regime in the 1992-2000 cycle. A deterioration of these conditions then coincided with the shift to a 'falling' WEL growth regime from 2001-2009. Finally, the expansionary character of most nodes of the policy regime, especially regarding monetary policy, supported the accumulation of private debt and the emergence of the DLPD growth regime. While fiscal policy saw the return of public sector deficits, they were relatively small compared to earlier cycles and were insufficient from the standpoint of sectoral balances in supporting household sector deleveraging.

In sum, the assessment pursued in this article points to the way in which private debt-led growth originated from both immediate post-GFC macroeconomic policies as well as the

long-run consequences of Canada's embrace of financial globalization which supported the secular decline of non-price competitiveness.

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Appendix

The sources for Table 3 indicators are as follows:

- *Monetary policy:* Real interest rates calculated from OECD (2022a; 2022b) and Statistics Canada (2022b); Statistics Canada (2021a) provides the rate of real GDP growth which is subtracted from the real long-term interest rate for the third indicator.
- *Labour market policy:* Nominal unit labour costs and the consumer price index taken from Statistics Canada (2022i; 2022b). European Commission (2022) provides the adjusted wage share data.
- *Fiscal policy:* The output gap and general government structural balance retrieved from IMF (2021). Statistics Canada (2021a) provides the data for general government gross fixed capital formation.
- *Open economy conditions:* The real effective exchange rate is taken from the Bank for International Settlements (2022). The Organization for Economic Complexity (2022) provides the index of economic complexity. Real exports and imports taken from Statistics Canada (2021a).

Imprint

Editors:
Sigrid Betzelt, Eckhard Hein (lead editor), Martina Metzger, Martina Sproll, Christina Teipen, Markus Wissen, Jennifer Pédussel Wu, Reingard Zimmer

ISSN 1869-6406

Printed by
HWR Berlin

Berlin January 2023