

## **Brian Mulroney: The Man to Beat**

### **By Tom Velk**

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In November 1993, my colleague Al Riggs and I published a comparative study of Canadian Prime Ministers since the end of World War II, and concluded that Brian Mulroney had the best economic record since Louis St. Laurent.

We have updated our study to include the Chretien years. Mr. Chretien is still in office. His term is incomplete. But his objective record does not fare well in our statistical comparison, where a PM earns points not for basking in good times but for improving his inherited situation; for doing a better job than his competitor in the Oval Office; for showing an upward trend in desirable numbers during his term; and for making a difference in the later development of Canada. When we crunch the numbers to measure by these standards, Mr. Mulroney still has the best economic ranking of any Prime Minister in recent times, and Mr. Chretien ranks last, closely trailed by Mr. Trudeau.

Canada's current Prime Minister is regarded as having a good economic record. After all, Canada is now running a surplus, it boasts low inflation, and unemployment is down significantly since 1993. We are not saying Canada is in terrible shape: it isn't. But if "did you make substantial improvements to the numbers you inherited?" is the test, Mr. Chretien's accomplishments aren't enough. Mr. Mulroney remains the man to beat.

Our measure is the "misery index," designed by the left leaning American economist Arthur Okun, and later refined by right-thinking Robert Barro. In its simplest form, the index is the sum of just two "bad outcome" rates, inflation and unemployment.

As elaborated by Barro and ourselves, more variables are added: interest and exchange rates, taxes and deficits, income distribution, stock market performance, growth and productivity. In our earlier paper, and in this one as well, we "normalize" the Canadian data against parallel American numbers, to remove the locomotive and caboose effect. As Barro did for U. S. Presidents, we ask if each PM's numbers improved upon or fell behind the values inherited from the immediately preceding administration. In addition, we check our PM's misery numbers against those for the parallel American President, and we compare the economic state of affairs in Canada with that in the United States during each PM's term. We lagged the numbers to allow a new PM's policies to take effect. We used "conservative" indexes like the size of government relative to the economy, as well as "liberal" indexes like the distribution of income between rich and poor.

No matter how we sliced, diced or chopped the numbers, Mr. Mulroney came out on top, except for some debatable comparisons with the post-WWII data for Mr. St. Laurent. The key table is a compound of over 18 indices (some nested within others) combined to determine the overall standing of the post-war Prime Ministers.

We discount, to a degree, the St. Laurent ranking. He was the beneficiary of a worldwide post-war boom that included Canada but certainly wasn't orchestrated in Ottawa. Moreover, not all ranking statistics are available for his period. St. Laurent does earn the best over-all score; his rank is dependent on falling inflation, a reflection of nearly universal unwinding of wartime price gyrations. If St. Laurent's inflation score is set at the average of all PM's scores, his rank falls and Mulroney moves up to first place. In any case, the other-than-inflation margin between St. Laurent and Mulroney is small, while the difference between either of them and anyone else is significant.

Brian Mulroney's dynamics are good: he presided over a general fall in interest rates that lasted more or less his entire time in office. Inflation took a beating during the Mulroney years, dropping to 1.6% in his final year. He made steady gains against his American counterpart. Mr. Mulroney, unlike Mr. Chretien, inherited a troubled economy. Interest rates and inflation were sky high. Our technique raises the rank of a Prime Minister if he improves the situation he inherited, and if things continue to improve during his term. Mulroney does well by that standard.

For example, in the 1981-82 recession, short term interest rates peaked at 22.75%. By the end of 1992 short rates were 4.84%. The dollar was worth 81 cents in 1982: it was worth 83 cents in 1992. The inflation challenge facing Mr. Mulroney at his taking office was daunting. Prices rose 10.9% between 1981 and 1982. By the time Mulroney left office, inflation was down to 1.7%

Mulroney's record on unemployment reduction is good. The average level of joblessness during his time in office was two percentage points lower than during the last year of the Trudeau administration. Mulroney's performance on the growth indicator, however, is sub-par, mainly because of the 1990-1991 worldwide recession and partly due to date selections: (it is possible to argue he is on the long run average for growth, depending on how the Turner dates are handled) but Trudeau's final term in office beginning in 1980 is much worse, far and away the worst in the data set. Mr. Mulroney's growth performance, where his record is compared with per capita real exchange rate corrected GDP growth in the USA, is excellent, the best of the critical trio: Mulroney, Trudeau and Chretien.

The Canadian dollar had good international buying power while Mulroney was in charge, but Chretien and Trudeau made things worse. Few would deny that Mr. Trudeau's policies in particular were profoundly worrisome to the community of international investors. Diefenbaker, who deliberately devalued the dollar, turned in the worst value-of-the-dollar performance (prior to the disaster of Chretien). Luckily for Canada, Dief's long battle with James Coyne, who ran the Bank of Canada at the time, did little permanent damage to the dollar or to our other basic performance indicators.

Mr. Trudeau ranks second to last. He inherited a good situation, including a balanced budget, and proceeded to make it worse. He accumulated one deficit after another, and ran up the federal debt by more than 1000%.

By his final term in office, inflation, interest rates and the deficit were all out of control. The deficit of \$38 billion in his final year in office represented 8.7% of GDP. On economic policy, Mr. Trudeau alienated Western Canada and foreign investors by confiscating property rights in energy resources and abrogating private contracts, particularly if they reached across international borders. The long run consequences—run-away inflation, a free-falling dollar, sky-high interest rates, and worsening unemployment—all presented Mr. Mulroney with serious structural problems that took a long time to resolve.

In areas of leadership, not easily measured with numbers, Mr. Mulroney undertook innovative policy actions, free trade and the GST, intended to bring about economic efficiency by generating more competition, assuring more rational domestic relative prices while increasing the tax system's transparency.

These policies were not just in contrast with those of the opposing party; they ran counter to the prevailing view of Canada's political orientation. We mention this not to praise or blame Mr. Mulroney, but to argue that the consequences of such innovation can reasonably be said to be a state of affairs that would not have come into existence had the "ordinary" political/economic evolution of Canada gone forward instead.

This table summarizes much subsidiary work, all available in the full study, to be found at McGill.ca on the Web. At the website, you will see all the real numbers behind the table: here, we have translated them to more familiar school grades, with a grade point average for each PM. The grades refer to the PM's rank on each variable below, so for example Mr. Mulroney gets an A+ for interest rate (% rate) because he had the best (out of the six PMs ranked) score on this variable. Going down any column, the relative grades show the rank each PM gets on that particular variable. The best one gets the best grade. With six PMs to rank, the possible scores are A+ (5 grade points – just like school), A (4 grade points), B (3 grade points), C (2 grade points), D (1 grade point), and F (0 grade points). Where underlying scores are close, any two PMs might get the same grade. We then calculate an over-all grade point average, going along the rows, adding each variable in turn, and so get a final ranking for all PMs. The ranking here is identical to the one we get using much more complicated numbers. The advantage of the complicated numbers (at the website) is they show a degree of rank not evident here. The advantage of the grade point technique is its familiarity, and the absence of the spurious weighting that would occur were raw data with differing degrees of dispersion used instead.

Mr. Mulroney has a run of A's and B's, (with one troublesome D for growth – a world-wide recession hurt him), adding up to thirty-eight grade points for ten variables (column 11), giving him a rank of 2 and a GPA (grade point average) of 3.8 (column 12), second only to St. Laurent's first rank with a GPA of 3.83 (column 12 again). But Mr. St. Laurent's high standing is not so well supported as Mulroney's is. We do not have all the ranking variables for him we would like to have (the absent material shows as dashes – in the table). Dashed data is either not available, or is not comparable to the more recent

numbers that apply to PM's closer to us in time. Diefenbaker's standing is also less well supported than the PMs who come after. As anyone would expect, the world changes significantly with time, and so close contemporaries can be better compared and ranked than distant ones. We feel quite secure in our 1, 2, 3 ranking of the critical three PMs, Mulroney, Trudeau and Chretien.

Column #	1	2	3	4	5	6	7	8	9	10	11	12
Variable name	Infl	unemp	% rate	growth rate in GDP	X rate	govt burden	income Distr	invest climate	Prod	Can vs USA	Total grade points ÷ # of variables	PM's Rank & GPA
St. L..	A+ (5)	B (3)	C (2)	A+ (5)	B (3)	--	--	--	--	A+ (5)	23/6	1 (3.83)
Dief	A (4)	C (2)	B (3)	B (3)	D (1)	C (2)	D (1)	--	--	B (3)	19/8	4 (2.375)
Pear	D (1)	B (3)	C (2)	A (4)	B (3)	B (3)	B (3)	A (4)	A (4)	B (3)	30/10	3 (3.0)
T. ave	D (1)	F (0)	F (0)	C (2)	A (4)	D (1)	A+ (5)	B (3)	A+ (5)	C (2)	23/10	5 (2.3)
Mulr	B (3)	A (4)	A+ (5)	D (1)	A+ (5)	A (4)	A (4)	A+ (5)	B (3)	A (4)	38/10	2 (3.8)
Chret	C (2)	A (4)	A (4)	D (1)	F (0)	A+ (4)	C (2)	C (2)	C (2)	F (0)	22/10	6 (2.2)

The PM's are benchmarked by the fiscal years beginning the year they took office. Mr. Trudeau's score and ranking is a blend his two FY tenures, 68-79, and 80-83. Three Prime Ministers of the period—Joe Clark, John Turner and Kim Campbell—are excluded from the survey since they were in office for a period of months rather than years, passed no budgets or fiscal measures, and left no economic footprints.

The components of the expanded misery index are: inflation (infl), unemployment (unemp) the interest rate (%), a measure of GDP growth (grow), the exchange rate (X rate), the size of government relative to the rest of the economy, (govt burden), the distribution of income between rich and poor (income distr), the investment climate in Canada relative to the USA, measured by the relative performances of the two nation's stock markets (invest climate), the degree to which Canada's productivity lags behind the Americans' (prod), the aggregate lag we suffer vis-a-vis the USA across a wide range of economic measures (Can Vs USA). The general plan of the table is to award each PM a grade that reflects how well he manages the state of affairs that he inherits from the previous government. In any column, the PM with the A+ grade is the one who did the best with the worst initial situation. The lowest grade (a D or F) goes to the PM who made the least improvement in the numbers he inherited, or who (more likely) made things worse. Each letter grade is shown with its numerical equivalent in parenthesis.

In this comparison, Mulroney benefits from having made a bad situation better, while Chretien suffers from having made a good situation worse. Then again, what a Prime Minister does with his fiscal inheritance is a measure of leadership.

Mr. Mulroney inherited a mess, and he cleaned up most of it. By the time he left office, while the debt had more than doubled again, the federal government's operating deficit of \$16 billion had been converted to an operating surplus of \$6 billion, and the deficit as a percentage of output had been substantially reduced before the 1990-91 recession sent it soaring again. Inflation was at 1.6 %, its lowest level in 30 years, and the prime rate of 6% was the lowest in 20 years, Unemployment was 2 points lower than at the end of the Trudeau period.

Canadian exports—now more than 40% of output, up from less than 25% before the FTA-- are more competitive due to the Good and Services Tax, a consumption tax which does not apply to exports, replacing the hidden 13.5% Manufacturers Sales Tax. Both personal income taxes and corporate taxes on export-related employment and corporate profits, as well as direct GST receipts now at \$22 billion a year, have clearly been positive factors in Ottawa balancing the budget during the Chretien years.

Other structural changes, such as the abolition of the National Energy Program, and the replacement of the Foreign Investment Review Agency with Investment Canada, sent positive signals to investors. Structural change was also hastened by a wave of privatizations, including Air Canada and Canadair, which have become strong performers in the private sector.

The situation Mr. Chretien inherited was much different, and much better, than the one Mr. Mulroney inherited. The balancing of the budget is clearly Mr. Chretien's signal achievement, but we share the concern of many economists that he is not using the fiscal dividend to pay down the \$575 billion federal debt or to significantly cut the total burden of government upon the economy. Other fundamentals, such as interest rates and inflation, are again moving in the wrong direction. Marginal tax rates remain too high, especially compared with the United States, and have become an issue in the brain drain.

Why is Mr. Chretien last? By any competitive standard, he has not done a good job. Under Chretien, the dollar is lower than it has ever been in all of Canadian history, our productivity relative to the American's is worse than at any other time in the past 35 years (data ends in 1996), our 1999 per capita annual GDP is a mere \$19,110 US, compared with \$32,484.94 US south of the border, our real long term interest rate is one-half a percentage point higher than the American's (not inconsiderable, since the rates are not high: 3.5% in the USA and 4.02% here). The real short-term American interest rate is also lower than ours, at 2.64% there in contrast with 3.21% here. Our 1999 unemployment rate of 7.62% contrasts sharply with the American rate of 4.28%, suggesting that our much-bragged-about inflation numbers (according to the IMF, 1.56% for Canada in 1999 versus an American figure of 1.47%) reflects a "cool" economy, rather than high quality policy. In comparison with Mr. Mulroney, who had to clean the stables, Mr. Chretien is free riding on an international wave of prosperity and an export boom made possible by Mr. Mulroney's NAFTA and soaring American demand for our products. The portion of Mr. Chretien's export surplus that is due to the weak dollar means we must pay much more for our imports than we ever have done at any time in the past. The part of the weak dollar that is due to Mr. Chretien's unwelcoming attitude

toward foreign capital is the price the nation must pay for his government's excessively protectionist stand in favor of local capital.

Why is Mr. Mulroney first? Because he made Canada a better, richer country than he found it -- to a degree unsurpassed by other Canadian PMs. His accomplishments vis-a-vis those of his contemporaries in the Oval Office were better than those of other Canadian leaders. He left a legacy of policies that continue to pay dividends. Brian Mulroney changed Canada. The Canada he created is more outward looking, less antagonistic to its American neighbour, and more market oriented than it would have been without him. Polls, media popularity and public approval ratings are one thing. Economic measurements and lasting accomplishments are another.