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ANALYSIS | 'It's not working': Why the old economic rules don't add up any more

Traditional economic indicators paint a murky picture of Canada's prognosis

By Peter Armstrong, CBC News | Posted: Sep 12, 2016 5:00 AM ET | Last Updated: Sep 12, 2016 5:00 AM ET



'How terrible is wisdom when it brings no profit to the wise,' Greek poet Sophocles wrote. But bringing profit into the lives of everyday people is harder than ever today, Peter Armstrong writes. (Shutterstock)

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There's a Sophocles quote about the perils of knowledge. "How terrible is wisdom when it brings no profit to the wise," he wrote, with the generally grim outlook of a Greek tragedian.

It's a timely reminder — as you read through the business pages and pore over the blogs and scratch your head at Twitter's hot take du jour — to wonder where wisdom lies in this economic beat.

On the Money

Today, CBC is launching a new economics and business program called *On the Money*. It's about you and your money and what's happening with our economy. We'll tell those stories, your stories and together, I hope we can get a better sense of the economic forces at play at home and around the world. I hope you can tune in. — Peter Armstrong

These are particularly murky times for our economy, when even the wisest among us are often flummoxed. Some of our best and most reliable economic indicators are awash in contradictions. Whether it's our GDP grinding along at meagre levels, or **wildly volatile jobs figures** or manufacturing data, the picture that emerges is foggy.

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Host of On The Money on CBC News Network and economics reporter for CBC news. A former host of World Report on CBC Radio, Peter Armstrong has been a foreign correspondent and parliamentary reporter for CBC. He is based in Toronto.

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"The economy today is much more confusing than it used to be," says Benjamin Tal, deputy chief economist with CIBC World Markets. "We used to have a normal economic cycle where the economy goes up, inflation goes up, you raise interest rates, you go into a recession and then you cut interest rates and everything goes back to normal."

"Now we have a situation where it's not working," he says.

Policy-makers from Tokyo, Frankfurt and Washington have tried everything to spark a recovery. After traditional methods didn't work, they turned to modern-day central bank alchemy — everything from **negative interest rates** to quantitative easing. And still, eight years after the great recession, the global economy remains stuck in the mud.

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Benjamin Reitzes, senior economist at Bank of Montreal says the whole structure of our economy has changed.

"You had a period of 10 or so years when you had China integrating into the global economy and that created a persistent trend of increased trade that apparently made growth better pretty much everywhere (whether it made everyone better off or not is a separate point) but it improved GDP growth globally. And that trend is over now."

"What the new trend is," Reitzes says, "that's difficult."

Tal says today's economy is much harder to predict. Our integrated modern economy means what's happening in China has a direct impact on mortgage rates here in Canada. "And this link, this correlation is much larger than it used to be because of globalization." But Tal says that's only part of the picture.

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"There is a growing gap when it comes to income distribution in Canada. This means that average numbers don't tell you anything any more," he says. "Because you look at average GDP and average income and it doesn't really tell you the story. So you cannot look at average numbers and say 'Canada is doing OK' because within this number you have a huge gap between people who have a lot and people who don't have much."

The old models don't necessarily work any more. Tal points to one odd fact that stands out for him. Canada is the No. 1 country in the world in terms of education, but we are also the No. 1 country in terms of educated people who live in poverty.

'You have a huge gap between people who have a lot and people who don't have much.'

- CIBC economist Benjamin Tal

All that, he says, adds to the difficulty in getting a good reading on what's happening. And yet, now more than ever, people are screaming for a better understanding of the global economy and the role Canada will play. Whether it's the success of books and movies like *The Big Short* or Thomas Piketty's blockbuster hit *Capital in the Twenty-First Century*, people are hungry for a sense of why the economy is acting this way and what will come next.

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Thomas Piketty says economists need to look beyond the data to the broader story the economy is telling us.

"Economics 101 is obsolete in many ways," says Tal. "The great recession changed a lot of things. That is why we are trying all kinds of things we never tried before: negative interest rates, quantitative easing and that's clearly confusing."

Piketty himself says economics needs to look beyond the data to the broader story the economy is telling us.

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"To put it bluntly," he says in his bestselling book, "the discipline of economics has yet to get over its childish passion for mathematics and for purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with the other social sciences."

And yet, even as the fog lays heavy over the economic horizon, economists like Reitzes, Tal and countless others are compiling the individual stories that make up the breathtaking amount of data we have at our disposal. They're parsing those experiences and threading them into one common narrative, hoping to better understand the economy at large.



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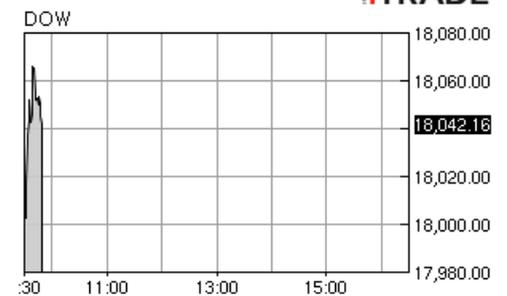


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