



# Conservatives in search of an economic legacy

By Scott Brison

In the 1990s and early 2000s, Canadian governments made their economic visions the cornerstones of their legacies. Brian Mulroney brought Canada into a free trade agreement (FTA) with the United States. Jean Chrétien and Paul Martin eliminated the deficit. Their decisions, however controversial when first taken, have come to be seen as the lasting accomplishments that they were.

With the FTA, Mulroney's Progressive Conservatives cemented Canada's most important trading relationship. In balancing the books, paying down the debt by \$81 billion, and shoring up the Canada Pension Plan, the Chrétien and Martin Liberals laid a strong foundation for our social safety net and secured its sustainability. What, we might well ask, will be the economic legacy of Stephen Harper's Conservative government?

It is a question that is clearly on Finance Minister Jim Flaherty's mind. In a recent speech, he told listeners that he set Canada on a new path with his cuts to the GST in Budget 2006. Without a doubt, the GST cuts altered Canada's economic direction, though not in a way most governments like to trumpet. In combination with a 40 percent increase in government spending in just three years, the Conservatives' cuts to the GST put the country on the edge of deficit well before the financial crisis of 2008. However, Minister Flaherty failed to mention another Budget 2006 measure which has had a major impact on the financial security of Canadians: his decision to loosen mortgage rules in Canada. Sadly, the Harper Government's economic legacy could be a housing bubble.

In 2006, the Conservatives followed the example of the U.S. housing market and allowed American mortgage insurance providers to bring forty-year, zero-down mortgages to Canada. Thousands of buyers locked into decades of expensive interest payments and insurance premiums before they had any equity in their own homes. David Dodge, then governor of the Bank of Canada, made the likely consequences plain to anybody ready to listen. Yet the Conservatives left their new rules on the books for nearly two years, even as the U.S. housing market crashed.

The bubble is a made-in-Ottawa problem, and it is still expanding. Under the previous Liberal government, the maximum amortization period for a residential loan was 25 years, which required a minimum five percent down-payment. Since the financial crisis hit in 2008, the Conservatives have lowered the maximum amortization period three times, from 40 years to 35 years, then to 30 years, and most recently to 25 years. It is an effort to restore the housing market balance that they upset in the first place.

As anybody who has recently tried to buy a house in Regina or sell a condo in Vancouver can attest, the Conservatives' tactics are not working. Much of Canada's housing market remains overvalued, but as both *The Financial Times* and *The Economist* have reported this

month, a crash is a real possibility. Record housing prices, combined with flat-lined household incomes, have driven Canadians to take on record levels of personal debt. The average Canadian now holds \$1.67 in debt for every dollar of disposable income — the level reached in the U.S. and U.K. just before their housing bubbles burst. Citing concerns over Canada's housing market and levels of household debt, international rating agencies have downgraded some of our largest banks.

The consequences of Conservative mismanagement go beyond the economic. Overvalued houses price people out of the market. Young Canadians and families cannot get a foot on the property ladder; burdened with debt and rent, they find themselves without stability, support, or savings. After seven years of Conservative government, we live in a deeply unequal Canada. Household debt climbs while incomes stagnate. Unemployment and underemployment remain far too common. A generation of young Canadians has no idea whether or not they will ever own a home.

Usually, it takes time and vision to build a legacy. Within months of taking office, and without regard for advice or consequences, the Conservatives changed the rules of the Canadian housing market. They took a major economic decision lightly, even carelessly, and they have spent the past five years trying to reverse it. Today, their talking points do their artful best to imply that they never made it at all. Whatever the Conservatives may feel, the status quo is not acceptable. Five years after the start of the recession, Canadians remain under tremendous financial pressures. The upcoming federal budget provides the government with an opportunity to change course.

Recognizing that the status quo is not working, Canadians want better ways to increase their savings, manage the rising costs of living, and prepare for retirement. They want young Canadians to have more economic opportunities than their parents had — not fewer. They want a government that will cut down on waste and mismanagement. Above all, they want a government that can be trusted to manage the economy competently and avoid reckless policy experiments.

A Liberal government would introduce a real jobs plan to kick-start the economy and address inequality between generations, between regions, and between and non-aboriginal Canadians. We would introduce a dedicated E.I. hiring credit for youth, significantly increase resources for the Canada Summer Jobs Program, and re-open the youth employment centres that the Conservatives closed. To help Canadians increase their savings and prepare for the future, we would introduce a voluntary, supplemental CPP.

Unless Minister Flaherty is satisfied with a housing and personal debt bubble for a legacy, he ought to use Budget 2013 to tackle the financial challenges facing Canadians.

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