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TRUE NORTH: FEDERAL BUDGET

Back to the future: A guide to budget-making

The size of government is no measure of social progress, and a well-oiled economy is still the best weapon against poverty.

By Brian Lee Crowley

OTTAWA—My grandpa always said to me that if you want to be best in the world at something, do something no one else is doing.

Canada applied that advice to its economy in the 1990s, with impressive results. Other countries waded ever deeper into expanded social programs, higher taxes, bigger spending and more unionized public sector workers, while Canada went the other way after *The Wall Street Journal* twitted us for becoming an "honorary Third World country."

After our near-death experience with massive deficits and out-of-control debt, we reversed course. Under the Liberal budget reforms, the size of government fell precipitously—from 53 per cent of GDP to 42 per cent, one of the most remarkable reductions in the size of government seen anywhere in the developed world in recent decades.

But, of course, balancing the budget and reducing the size of government are not ends in themselves. Like shedding pounds, the effort is worthwhile because you feel better, your health improves, you have more energy.

Canada got all those benefits in spades. In the decade following the first balanced budget under Jean Chrétien and Paul Martin, Canada beat the G7 average every year on job creation, inward investment and economic growth per capita. The number of people living on low incomes declined impressively. It was an economic and social success that became the envy of the industrialized world.

Being in relatively good shape also paid major dividends during the recession. Ours was shallower than most other western economies', and our jobs levels have now returned to

their pre-recession highs. If we measured unemployment the way the Americans do, their unemployment rate today would be about half again as high as ours.

But the problem with comparing yourself with the pudgy brigade when you're slimming is that you can fool yourself into believing that not being obese, but merely pleasantly rotund, is the same thing as being in peak condition. After all, if everybody else in your chapter of Overeaters Anonymous looks worse than you, resisting that piece of chocolate cake can sometimes seem not just unnecessary, but mean-spirited. Haven't we earned a break from dieting?

That's certainly been the view shared by most people during the recent recession and its aftermath. The stimulus program certainly had its place and it, plus the fall in economic activity, inevitably drove up the deficit. But now we are well out of recession and the forecasts are for steady if not spectacular growth for the next few years. The question governments now face is whether to get us back on track for peak performance or to continue to backslide long after backsliding's justification has disappeared.

Some comfort may be derived from the fact that no political party now wants to own the deficit, and all of them compete on plans for returning us to budget balance. Balanced budgets, though, are not an end, but a means. We have to know what kind of balance we want and why.

The smaller government track on which Jean Chrétien and Paul Martin set us has ushered in a period of remarkable economic strength for Canada, but the social advances we achieved clearly showed that economic progress was not purchased at the price of a callous disregard for the most vulnerable. Jobs and income were up, taxes and poverty were down. And this was achieved during a period when the size of government in Canada was falling precipitously relative to the economy.

Remember that when governments, whatever their political stripe, try to shepherd Canada back onto the Chrétien-Martin track. The size of government is no measure of social progress, and a well-oiled economy is still the best weapon against poverty.

All the rhetorical blood that will be spilt trying to equate bigger government, more civil servants, continued deficits and higher tax burdens with a social conscience will be in defence of an illusion. When the Liberals cut the size of government they were perfectly capable of distinguishing between spending essential to the public good, and programs that had outlived their usefulness. They also innovated, changing the way they delivered a whole range of services to reduce their cost but not their effectiveness.

The resulting record of progress for Canada is indisputable. The job is not over, however: there is lots of work to do to bring the cost (in both cash and labour) of needed public services in line with comparable costs in the private sector. Plus, other countries are now facing the same compelling need to fix their public sector that Canada did a decade and a half ago, whereas Canada has lost momentum. We can no longer depend on others

making us look good in comparison. How we choose to respond will shape Canada profoundly for the better or for the worse in the next decade.

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