



COMMENTARY/COMMENTAIRE

Balancing Budgets: Good Politics, Good Policy

By Jason Clemens

Summary

Conventional political wisdom holds that slow, incremental action on deficits is preferable and more successful electorally than aggressive, determined efforts to balance budgets quickly with spending reductions. The Canadian experience during the 1990s refutes this view. The history of three provincial governments, as well as the federal government during the 1990s, shows that purposeful action to reach balanced budgets can result in electoral success.

Saskatchewan

The first province to tackle its deficit and debt problems meaningfully was actually Saskatchewan, led by New Democratic Party (NDP) Premier, Roy Romanow. Beginning in 1991-92, the Saskatchewan government reduced program spending by 10.2 percent over three years and reduced its public sector by nearly 3.0 percent. In an effort to eliminate its deficit and reach a balanced budget position, it also raised taxes during this period.

The Romanow government achieved a balanced budget two years ahead of schedule through a combined policy of tax increases and spending reductions. This led not to electoral ruin – even though Romanow’s NDP had challenged many of their own constituencies – but rather electoral victory. Premier Roy Romanow led his party to a second majority government in 1995 capturing 72 percent of the available seats. The NDP formed a coalition government with the Saskatchewan Liberal Party after the 1999 election and returned to a majority in 2003, although Roy Romanow retired in 2001.

Alberta

The next reform-minded government to act was Ralph Klein’s Progressive Conservatives in Alberta. Over a three-year period beginning in 1993-94, the Klein government reduced program spending by over 21 percent and public

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sector employment by over 14 percent. This meant deep cuts and reforms to every department and program in Alberta.

The results were quickly visible. The Klein Conservatives achieved a budget surplus of 1.1 percent of GDP in 1994/95, just the second year of Premier Klein's tenure, and well ahead of schedule. The result of these determined and expeditious actions was improvement in their electoral performance. Premier Klein actually increased his margin of victory in both the 1997 and 2001 elections.

Federal Government

In 1995-96, in what is generally accepted as an historic budget, the Chrétien Liberals set in motion fundamental reforms to the federal government. Program spending was reduced by almost 10 percent over three years and the public sector declined by nearly 12 percent over the period of reform. Like the experience of the Saskatchewan NDP, the reforms enacted by the Liberals meant taking on many of their own supporters and constituencies.

The electoral results were stunning. The Chrétien Liberals won three consecutive majority governments. The three successive majorities recorded by Prime Minister Jean Chrétien markedly outdid the electoral record of his mentor, Prime Minister Pierre Trudeau. Indeed, one has to return to the record of Prime Minister Mackenzie King back in 1935 to 1945 to find a government able to achieve three consecutive majority governments.

Ontario

The final example of a reform-minded government enacting difficult spending reductions to achieve a balanced budget while avoiding electoral defeat is Mike Harris's Progressive Conservatives in Ontario. Beginning in 1996-97, the Harris government reduced program spending by 4.1 percent and the public sector by 11.3 percent. Of the four examples, this may have been the most contentious and acrimonious set of reforms implemented even though they are comparatively small relative to the reforms enacted in Saskatchewan, Alberta, and federally.

Due to tax cuts enacted alongside spending reductions, the turnaround in the deficit was slower in Ontario. However, the election results of the Harris Conservatives confound the current conventional wisdom. Even though many of the programs affected were supported by concentrated special interests, meaningful reductions in program spending were implemented. Despite these actions, the Harris Conservatives returned to power in 1999 with a majority government. This was the first two-term consecutive majority government elected in Ontario since Conservatives achieved the same in 1967 and 1971.

Conclusion

Concerted, focused efforts to eliminate budget deficits, particularly when spending reductions are relied upon rather than tax increases, can be a foundation for not only better economic policy but also electoral success. Examples that cross ideological boundaries, political parties, and the geography of the country show a link between reform-minded government and re-election. This is a critically important link to understand, now that so many governments across the country face similar issues to those resolved in the 1990s.

Sommaire

Selon la sagesse politique conventionnelle, il est préférable et plus rentable électoralement de s'attaquer lentement et graduellement aux déficits que d'équilibrer les budgets de manière agressive et déterminée par des réductions de dépenses. L'expérience canadienne au cours des années 1990 réfute ce point de vue. Ce qui est survenu dans trois provinces et au niveau fédéral pendant cette décennie montre qu'une intervention résolue pour atteindre l'équilibre budgétaire peut entraîner des succès électoraux.

Saskatchewan

La première province qui s'est véritablement attaquée à son problème de déficit et de dette est la Saskatchewan, alors qu'elle était dirigée par le premier ministre néo-démocrate Roy Romanow. En 1991-1992, le gouvernement saskatchewanais a diminué ses dépenses de programmes de 10,2 % sur une période de trois ans et réduit la taille du secteur public de presque 3 %. Dans le but d'éliminer son déficit et d'atteindre l'équilibre budgétaire, il a également augmenté les impôts pendant cette période.

Le gouvernement Romanow a équilibré son budget deux années plus tôt que prévu grâce à une politique combinée d'augmentation des impôts et de réduction des dépenses. Cela a mené non pas à sa ruine électorale – bien que le Nouveau Parti démocratique de M. Romanow ait déplu à plusieurs des groupes qui l'appuyaient – mais plutôt à la victoire. Le premier ministre Roy Romanow a remporté une seconde majorité en 1995 en capturant 72 % des sièges en jeu. Le NPD a formé un gouvernement de coalition avec le Parti libéral de Saskatchewan après l'élection de 1999 et a de nouveau obtenu une majorité en 2003, bien que Roy Romanow ait quitté la politique en 2001.

Alberta

Le second gouvernement ayant concrétisé sa volonté de réforme est le gouvernement progressiste-conservateur de Ralph Klein en Alberta. Sur une période budgétaire de trois ans débutant en 1993-1994, le gouvernement Klein a réduit ses dépenses de programmes de plus de 21 % et le nombre d'employés du secteur public de plus de 14 %. Cela s'est traduit par des coupures très sévères et des changements dans la façon de faire les choses dans chaque ministère et programme en Alberta.

Les résultats ont rapidement pu être constatés. Le gouvernement Klein a dégagé un surplus budgétaire de 1,1 % du PIB en 1994-1995, soit dès la seconde année au pouvoir du premier ministre Klein et bien en avance sur ce qui était prévu. Ces efforts déterminés et diligents ont permis d'améliorer ses performances électorales. Le premier ministre Klein a obtenu des mandats encore plus décisifs lors des deux élections de 1997 et 2001.

Gouvernement fédéral

En 1995-1996, lors du dépôt de ce qui est généralement perçu comme un budget historique, le gouvernement libéral de Jean Chrétien a enclenché des réformes fondamentales du fonctionnement du gouvernement fédéral. Les dépenses de programmes ont été réduites de presque 10 % sur une période de trois ans et la taille du secteur public a diminué de près de 12 % pendant la période des réformes. Tout comme cela a été le cas avec le NPD en Saskatchewan, les libéraux ont dû défier plusieurs de leurs supporters et des groupes qui formaient leur base électorale lors de la mise en œuvre de leurs réformes.

Les conséquences sur le plan électoral ont été renversantes. Les libéraux ont obtenu trois mandats majoritaires consécutifs. Ces victoires ont permis au premier ministre Jean Chrétien de surpasser les succès électoraux de son

mentor, le premier ministre Pierre Trudeau. Il faut d'ailleurs retourner à l'ère Mackenzie King de 1935 à 1945 pour trouver un gouvernement capable d'obtenir trois majorités de suite.

Ontario

Notre dernier exemple d'un gouvernement réformiste qui met en œuvre de douloureuses réductions de dépenses pour atteindre l'équilibre budgétaire tout en évitant la défaite électorale est le gouvernement progressiste-conservateur de Mike Harris en Ontario. À partir de 1996-1997, le gouvernement Harris a coupé ses dépenses de programmes de 4,1 % et la taille du secteur public de 11,3 %. Parmi les quatre exemples présentés, c'est probablement celui où les réformes ont été les plus controversées et ont entraîné les débats les plus acrimonieux, même si elles ont été relativement modestes en comparaison de celles adoptées en Saskatchewan, en Alberta et au niveau fédéral.

À cause des diminutions d'impôt mises en œuvre en même temps que les réductions de dépenses, le déficit a mis plus de temps à se résorber en Ontario. Les performances électorales du gouvernement conservateur de Mike Harris contredisent toutefois les idées reçues à ce sujet. Même si plusieurs des programmes touchés par les coupures étaient défendus par des groupes d'intérêts, des réductions notables ont été mises en œuvre. Malgré les réactions, le gouvernement Harris a été reporté au pouvoir en 1999 avec une majorité. Cette double victoire majoritaire de suite ne s'était pas produite en Ontario depuis que les conservateurs avaient obtenu un score similaire en 1967 et 1971.

Conclusion

Des efforts concertés et bien ciblés pour éliminer les déficits budgétaires, en particulier en s'appuyant sur des réductions de dépenses plutôt que des augmentations d'impôts, peuvent non seulement servir de base à de meilleures politiques économiques, mais aussi mener au succès électoral. Des exemples tirés de contextes idéologiques divers et impliquant différents partis politiques et différentes régions du pays montrent un lien entre la présence d'un gouvernement ayant une volonté de réforme et sa réélection. Il est extrêmement important de bien saisir ce lien, alors que tant de gouvernements à travers le pays sont aujourd'hui confrontés à des problèmes similaires à ceux qui ont été résolus dans les années 1990.

Introduction

The dominant political wisdom in Canada and the United States is that determined but slow, incremental action on deficits is a political winner. The logic is that citizens prefer balanced budgets and fiscal prudence in a broad sense, but are unwilling to accept the immediate pain of actual spending reductions. More specifically, the rationale is that citizens accept the idea of spending reductions until the specific details are laid bare, at which point they balk. This reasoning had led to a general response to deficits and rising debt whereby governments slow the growth of spending and hope that revenues catch up over time. It's a "no pain, big gain" logic simply divorced from our recent experience. It ignores the real risks of not moving forcefully to make our governments live within their means.

I. Playing Catch-Up is Risky, Too

Most governments in Canada are relying on a plan of slowing the growth in program spending coupled with higher revenues in the future to balance their budgets. Provincial deficit forecasts for 2011-12 range from a small surplus in Saskatchewan to a deficit of 2.6 percent of GDP in Ontario.¹ The federal deficit is forecast to be 1.9 percent of GDP this year.² All told, the provincial and federal governments expect to incur \$57.6 billion in red ink this year (2011-12).

The time needed to balance provincial deficits with this strategy ranges from three years (2013-14) for British Columbia, Alberta, Nova Scotia, and Quebec to seven years (2017-18) for Ontario.³ The federal government's plan is to balance its budget in 2014-15⁴.

The federal government and six of the seven provinces that provided forecasts in their budgets rely on revenues catching up with slower spending growth.⁵ Revenue growth assumptions range from an annual average of 3.2 percent in Manitoba to 7.3 percent in Alberta. On the other hand, program spending is assumed to grow at much lower annual rates, ranging from 1.4 percent in Ontario to 1.9 percent in Quebec.⁶ The federal plan calls for revenues to grow, on average, by 5.6 percent between 2011-12 and 2015-16 while program spending will be constrained to grow at 1.7 percent annually.

Put differently, using the strategy currently in vogue means it will take a total of 40 provincial and federal annual budgets for all governments to reach balanced budgets. Of those 40 annual budgets, only three will actually contain reductions in program spending. Simply put, almost all the governments in Canada that face deficits are counting on a two-pronged strategy: slowing the growth in spending on the one hand and hoping for higher future revenues on the other.

Does such a strategy work? Both logically and historically, the evidence is not encouraging.

Let's dispense first with the underlying premise of this strategy, namely that governments face little or no risk in simply slowing the growth of spending incrementally and allowing future revenue increases to bring the budget back into balance. An approach that truly faces lower risk is one with few ways in which things could go seriously wrong. When it comes to balancing a government's books, an approach based on hoping that revenues grow strongly in the future coupled with modest spending restraint is pure fantasy.

Both the spending and the revenue side of such a strategy contain significant risks. For example, an economic slowdown such as Canada recently experienced causes spending to increase and revenues to decline. An

unexpected natural disaster is another example that would certainly increase spending and potentially slow economic growth, which results in lower revenues. Higher than budgeted interest costs, which many expect to materialize in the near term,⁷ can be a source of unexpectedly higher spending.

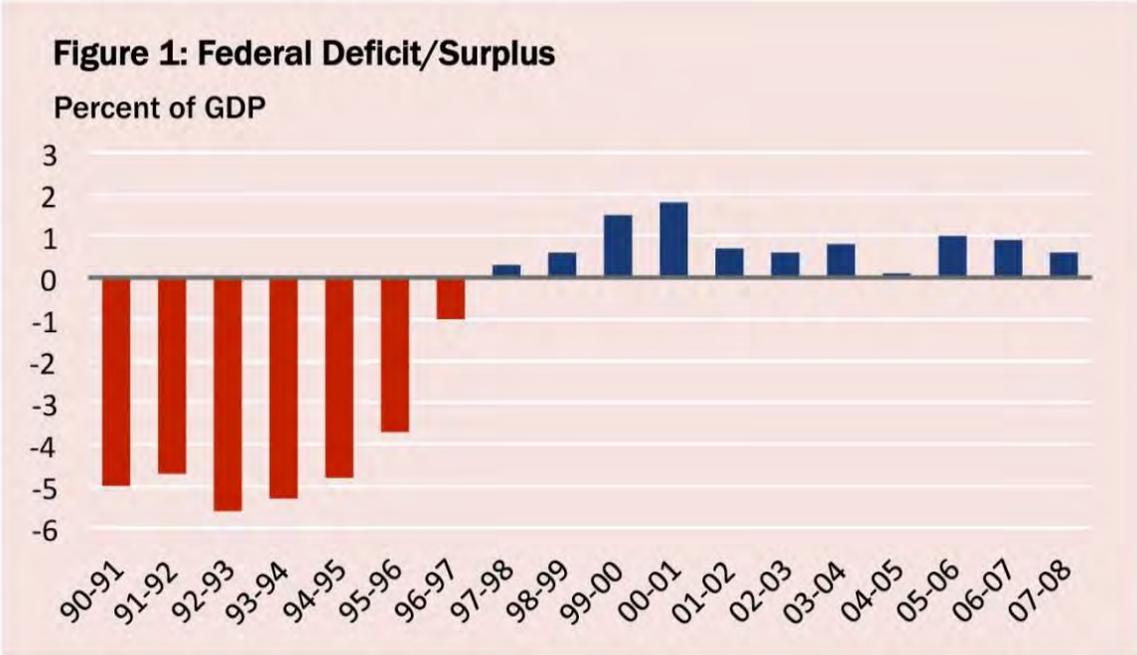
Historically this approach of slowing the growth of spending coupled with a prayer for higher revenues is the exact approach taken by Canadian governments, both federal and provincial, during the 1980s and early 1990s. Their record of success in taming deficits and returning to balanced budgets is non-existent. Although some provincial governments experienced surpluses during this period, not one government in deficit successfully achieved a balanced budget using this approach and governments collectively remained in deficit throughout the period.

II. Understanding the Political Success of Balancing Budgets⁸

This leads us to the second aspect of the argument, which is that determined and purposeful actions to reduce deficits are politically risky and result in electoral losses.⁹ The historical experience of the 1990s flips this theory on its head. Bluntly stated, balancing budgets with purpose and vigour can be a recipe for electoral success.

i) Chrétien Liberals: Smaller, Smarter Government Leads to Surpluses and Majority Governments

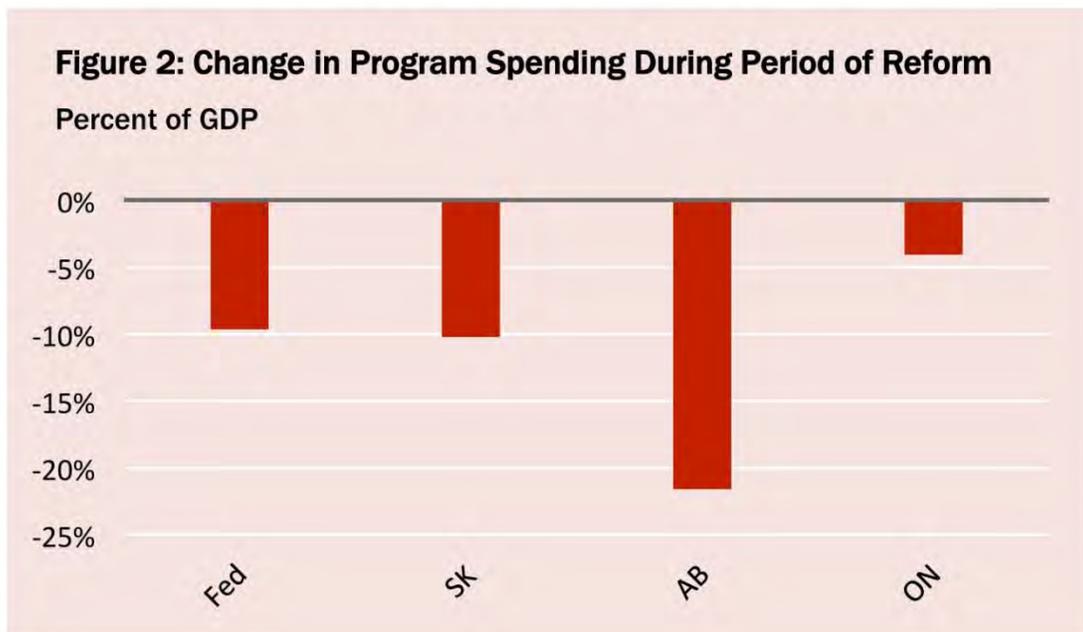
The experience of the Chrétien Liberals is perhaps the most poignant example in recent history. Prime Minister Jean Chrétien entered office with a \$38.4 billion deficit, rising national debt, and interest payments consuming 32 percent of revenues.¹⁰ The 1995 budget delivered by Finance Minister Paul Martin is justly characterized as the most important government document in a generation.¹¹



Sources: TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf.

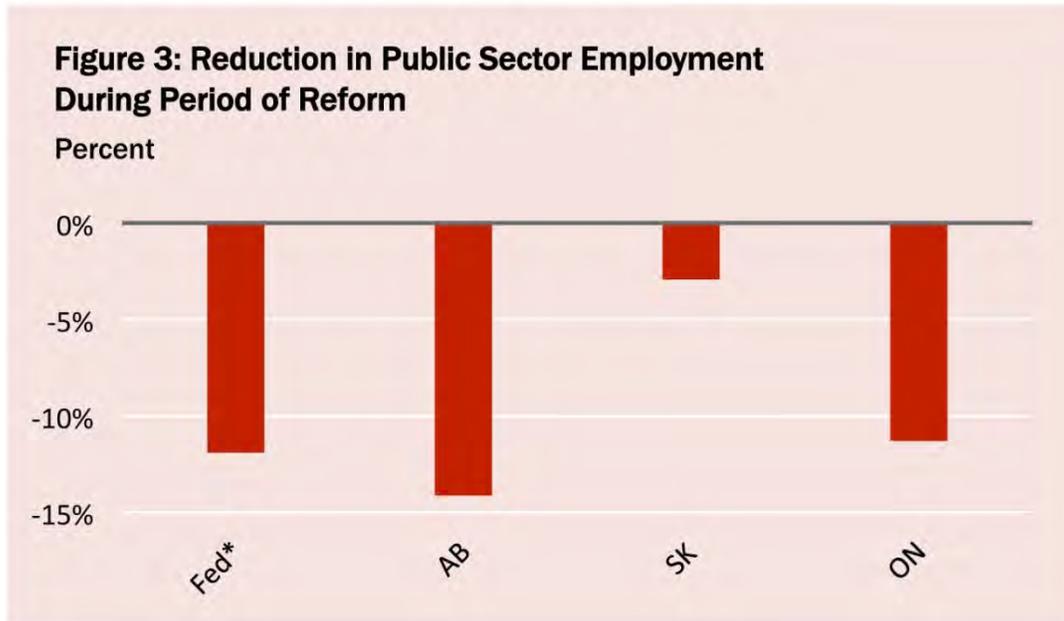
The budget called for a fundamental re-ordering and re-thinking of government based on “smaller...smarter government”. It implemented a nearly 10-percent reduction in federal program spending over three years (figure 2), which included a nearly 12-percent reduction in the public sector (figure 3).¹² Massive cuts were made to departmental spending in transportation, agriculture, and support for business.

These determined efforts to reduce spending and bring it in line with expected revenues brought quick results. Within two budget cycles, the federal budget was balanced and debt began to decline.¹³ In addition, interest costs, which create a wedge between what the government collects and what it can actually spend on programs, began to decline, which meant more money became available for program spending and tax relief.



Note: Period of reform for each government is as follows:
 fed 1995-96 to 1997-98, SK 1991-92 to 1994-95, AB 1993-94 to 1996-97, and ON 1996-97 to 1998-99.
 Sources: Government of Canada, Department of Finance (2011). Fiscal Reference Tables, Tables 1, 22, 24, and 25.
 Accessed on May 26, 2011.
 Available at: www.fin.gc.ca/frt-trf/2010/frt-trf-1001-eng.asp#tbl2.

The electoral results were equally as stunning. The Chrétien Liberals won three consecutive majority governments, two of which occurred after the reform-minded budget of 1995 and the ensuing cuts to spending and public sector employment (1997 and 2000).¹⁴ The three successive majorities recorded by Prime Minister Chrétien markedly outdid the electoral record of his mentor, Prime Minister Pierre Trudeau. Indeed, one has to return to the example of Prime Minister Mackenzie King back in 1935 to 1945 to find a regime able to achieve three consecutive majority governments.



Notes: * Public Sector Employment for the federal government is broadly defined but does not include the military. Also, the calculation for the federal government covers 1995 to 1998, even though reductions in the federal PSE began in 1991. The calculation was started in 1995 after the Liberal Party began their process of reform. Public Sector Employment for the provinces includes provincial and local general government, universities, hospitals and school boards. Calculations and analysis completed by the authors. It is worth noting that all of the provinces implemented some measure of PSE reductions during this decade of reform. Some were quite small such as British Columbia (-0.2%) while others were fairly large such as Quebec (-10.7%). Sources: Statistics Canada (2010). System of National Economic Accounts, Data Tables. Available at <http://www.statcan.gc.ca/nea-cen/index-eng.htm>

Provincial Experiences

There are also vivid provincial examples in which governments enact difficult decisions on purpose in order to achieve balanced budgets and by doing so win the confidence of their electorate in successive majority governments. Two western examples and the high-profile experience of Ontario are worth considering.

ii) Saskatchewan: First Reforming Government

Saskatchewan was the first Canadian government in the 1990s to tackle its deficit in a legitimate manner. Roy Romanow's New Democratic Party (NDP) was elected in 1991 after ten years of Progressive Conservative Party rule in Saskatchewan. They ran on a platform of balancing the provincial budget and returning fiscal prudence to Regina. In the spring of 1992, the government delivered its first budget, which began to deal honestly with the province's \$845 million deficit. The government relied on reviewing all current government spending, with no sacred cows, and a commitment to cut spending first before considering tax increases.

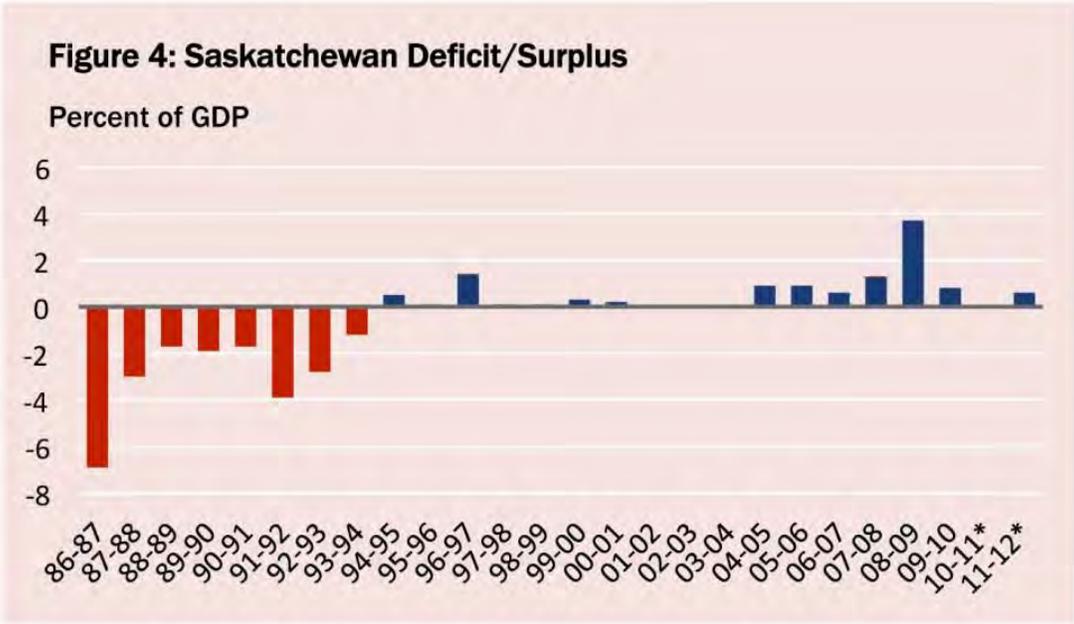
The budget set in motion policies that would eventually eliminate more than 20 programs while reducing public sector employment. In total, the budget reduced spending by \$73.1 million, which reduced the provincial deficit by nearly 40 percent. The Romanow government also increased taxes to reduce the deficit further.

The following budget (1993) introduced both additional spending reductions and tax increases. The spending cuts totalled \$141 million, including eliminating one quarter of all government agencies, boards and commissions and controversial reductions in transfers for hospitals, schools, universities, colleges, and municipalities.

As illustrated in figure 3, Saskatchewan also reduced its public sector.¹⁵ While the percentage reduction in Saskatchewan (2.9%) was measurably smaller than the cuts made by the federal government, Alberta, and Ontario, they are nonetheless important to recognize as a factor in the spending reductions implemented by Saskatchewan. In particular, it is worth noting that the public sector unions and their members were a core constituency of the NDP in Saskatchewan, which made the reductions more difficult politically.

The Romanow government achieved a balanced budget two years ahead of schedule through a combined policy of tax increases and spending reductions. In just three years, the NDP government went from an \$845 million budget deficit to a \$128 million surplus.

The current thinking would predict electoral loss for the Romanow NDP. Instead, Premier Roy Romanow led his party to a second majority government in 1995 and captured 72 percent of the available seats.¹⁶ The NDP formed a coalition government with the Saskatchewan Liberal Party after the 1999 election and returned to a majority in 2003, although Premier Romanow retired in 2001. The tough decisions enacted by the Romanow government led to majority government, not electoral ruin.



Note: * Forecasted amounts.
 Sources: TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf

iii) Alberta: Aggressive Action to Establish an Alberta Advantage

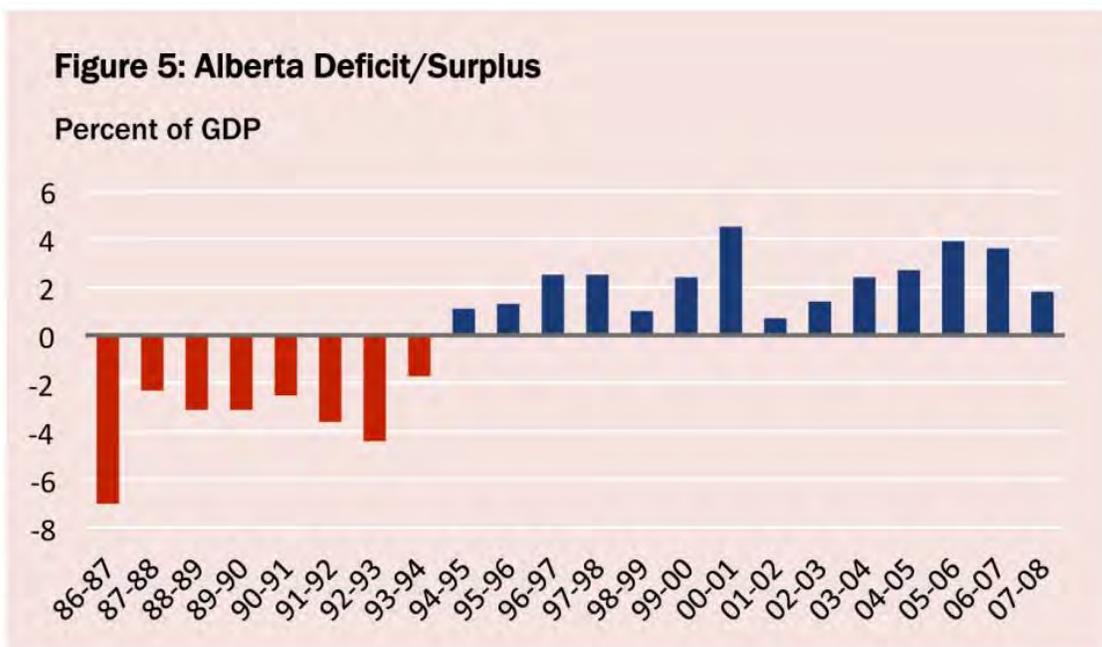
Premier Ralph Klein took over the mantle of leadership for the Progressive Conservatives in Alberta in 1992 during a period of great fiscal upheaval. Alberta’s finances were literally spiralling out of control in the early 1990s. Alberta’s spending, which had been premised on high oil prices, simply could not adjust to the new reality of

lower oil prices, and left the provincial government on a path of unsustainable spending. As Premier Klein arrived in office (1992), the province’s deficit reached \$3.3 billion (nearly 4.5 percent of GDP), provincial debt had increased to \$20 billion, and interest costs were consuming about 10 percent of revenues.

It is fair to say that the first two budgets of Ralph Klein’s tenure as Premier of Alberta fundamentally changed the status quo in Alberta and Canada. Premier Klein’s first two budgets (1993 and 1994) reduced program spending, decreased government employment, and set a clear goal of a balanced budget in four years. The Deficit Elimination Act mandated reductions in the deficit and required deeper spending cuts the following year if targets were not met in the current year. The government took an across-the-board approach, with fourteen of the seventeen government departments experiencing reductions in their budgets, and with some seeing the size of their budgets reduced by more than a quarter.

All told, Premier Klein oversaw a government spending decrease from \$16.1 billion in his first year to \$12.7 billion in 1996/97, a reduction of more than 20 percent (figure 2). Part of the contracted program spending included a large reduction in public sector employment between 1993 and 1997. Specifically, total public sector employment in Alberta was reduced by 14.1 percent over this period (figure 3).

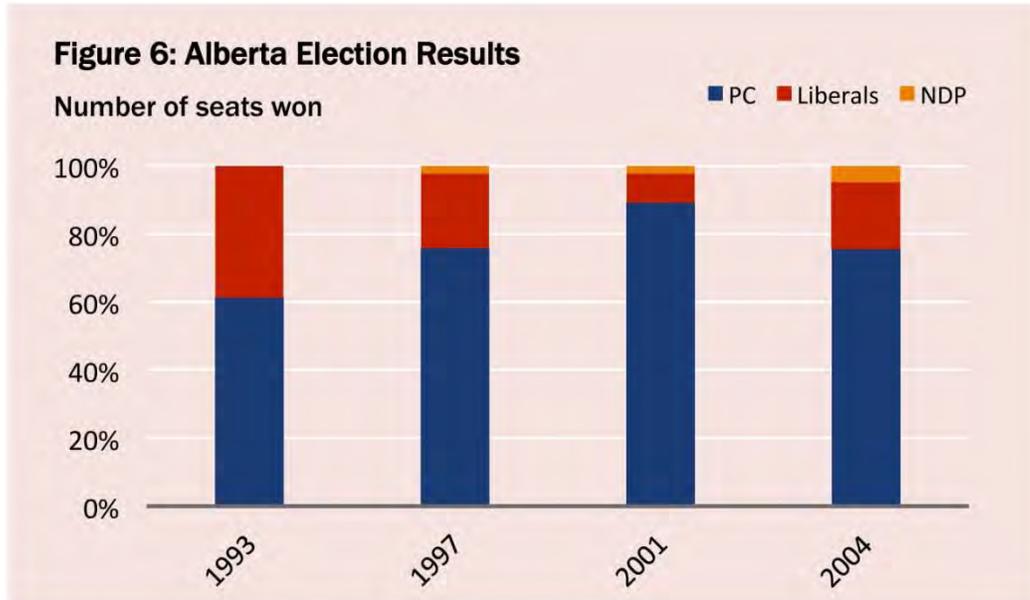
The Klein Conservatives achieved a budget surplus of 1.1 percent of GDP in 1994/95, just the second year of Premier Klein’s tenure, and well ahead of schedule. The reforms enacted led to a long period of surpluses (figure 5), which allowed the province to eliminate its net debt and build up rainy-day funds for the future.



Sources: TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf.

The result of the determined and expeditious actions of the Alberta Progressive Conservatives was an improvement in their electoral performance. Premier Klein actually increased his margin of victory in both the 1997 and 2001 elections (figure 6).¹⁷ Interestingly, some pundits blamed the reduction in his margin in 2004 on a loss of vision and increased spending. While the electorate in Alberta may be more conservative than any other jurisdiction in the country, the deep and painful cuts implemented by the Klein government challenged a number

of powerful vested interests in the province. However, the result was not electoral loss but rather improved and consecutive majority governments.



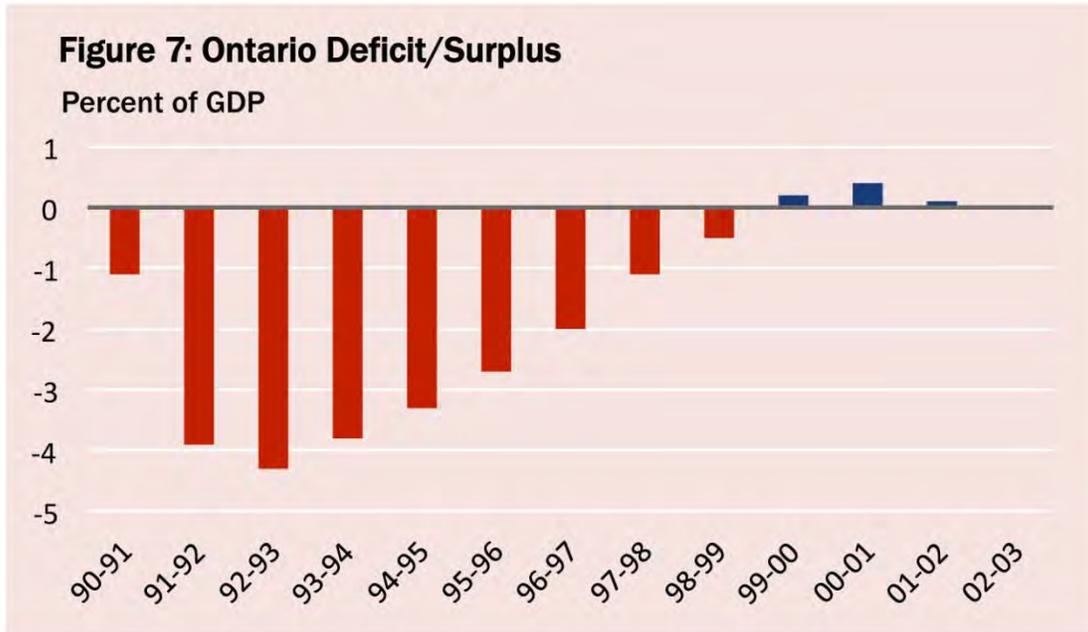
Sources: www.elections.ab.ca and http://en.wikipedia.org/wiki/List_of_Alberta_general_elections.

iv) Central Canada Follows Suit: Ontario's Mike Harris and the Common Sense Revolution

The historic reforms begun in Saskatchewan, amplified in Alberta, and extended in Ottawa established the foundation for fiscal reforms in Canada's most populated province and the nation's largest economy: Ontario. There is no doubt that Ontario was in a fiscal crisis by the early 1990s. The provincial deficit had exploded to almost \$11 billion. Over just a five-year period beginning in 1989/90, the provincial government had accumulated \$49 billion in debt. Interest costs were consuming 17 percent of available revenues by 1994/95.

In 1995, Mike Harris, the leader of the third party in Ontario, led the Progressive Conservatives to a majority government based on the promise of returning the province to fiscal prudence and economic prosperity through a Common Sense Revolution. Prior to even presenting a full-year budget, the Harris Progressive Conservatives moved to address the province's fiscal imbalance. They implemented a reduction of \$850 million in program spending, along with reductions in capital spending of some \$307 million. Each minister was additionally required to identify reductions of \$500 million.

The Harris Progressive Conservatives presented a three-year austerity plan in their first budget (1996). Combining lessons from the federal Liberals and the Alberta Progressive Conservatives, the government implemented a tough budget in 1996, with a multi-year plan to achieve a balanced budget by 2000/01 even while reducing taxes¹⁸ immediately to improve economic incentives and competitiveness. Program spending was reduced immediately, although not to the same degree as observed in other provinces (figure 2). The plan included reductions in administration costs, cuts in subsidies to businesses, reduced funding to agencies, boards, and commissions, and reductions in government grants. Public sector employment was reduced by a little over 11 percent (figure 3).¹⁹



Sources: TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf.

The turnaround in the deficit, while a year ahead of schedule, was not as quick as what was achieved in Alberta and Saskatchewan or federally under the Liberals. A major part of the reason was that the Harris Progressive Conservatives implemented substantial tax relief concurrently with their reductions in spending. The tax reductions delayed the balancing of the budget, but were critical to restoring investment and business confidence in the province and the beginning of restored tax competitiveness. After five years, the Harris government turned a substantial \$11-billion deficit into a small surplus of \$300 million, while dramatically reducing taxes.

Again, the electoral consequences for the Harris Conservatives confound the current conventional wisdom. Even though many of the programs were supported by concentrated special interests, meaningful reductions in program spending were implemented. Yet despite these actions, the Harris Conservatives were returned to power in 1999 with a majority government. This was the first two-term consecutive majority government elected in Ontario since Conservatives achieved the same in 1967 and 1971.²⁰

Conclusion: Purposeful Deficit Reduction Is Good Politics

The Canadian public, and more narrowly the Canadian electorate, understand both the short-term and long-term costs of running deficits, accumulating debt, and increasing interest costs. Canadian political culture now demands balanced budgets, fiscal prudence, and a path towards lower taxes. Such actions, when done deliberately and with purpose, have led to great, indeed, historical electoral success at both the federal and provincial levels. Thus, a win-win opportunity exists for Canadian politicians who pursue effective deficit reduction policies: their electorates enjoy better economic policies and fruits of such efforts while the politicians themselves enjoy electoral success.

Endnotes

- ¹ TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf.
- ² Government of Canada, Department of Finance (2011). The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth. Presented June 6, 2011. Ottawa, ON: Department of Finance. Available at www.budget.gc.ca/2011/plan/Budget2011-eng.pdf.
- ³ Please note that the summary dates were provided by TD Economics (2011). Overview of the 2011-12 Government Budget Season. Special Report, May 25, 2011. TD Economics. Available at http://www.td.com/economics/special/sg0511_budget_review.pdf. Adjustments were made to the data presented by TD Economics for New Brunswick and Newfoundland and Labrador. The TD Economics analysis excluded these provinces because they are in balance this year (2011-12); however, they're expected to be deficit next year.
- ⁴ The federal government implemented a strategic and operating review of spending in the June 2011 budget with an express goal of securing \$11 billion in savings over four years beginning in 2012-13, which results in a balanced budget one year earlier than previously planned.
- ⁵ Saskatchewan was excluded since it is currently in surplus and is expected to remain in surplus. In addition, New Brunswick and Prince Edward Island were excluded because they did not provide sufficient information in their respective budgets to calculate future revenue and program spending growth.
- ⁶ These calculations are taken from a forthcoming study co-authored by Jason Clemens examining the approach used by the provinces to balance their budgets compared to their experiences in the 1980s and 1990s.
- ⁷ For instance, most major financial institutions have forecasted higher interest rates in the near future. See Scotiabank Group, Economics Department (2011). Global Forecast Update, June 2, 2011. Available at www.scotiacapital.com/English/bns_econ/forecast.pdf; Royal Bank of Canada, Economics (2011). Financial Markets Forecast, June 2011. Available at www.rbc.com/economics/quicklink/pdf/rates.pdf; and TD Bank, TD Economics (2011). Long-Term Economic Forecast, March 2011. Available at www.td.com/economics/qef/long_term_mar11.pdf.
- ⁸ Information in this section is partially based on the analysis presented by Brian Lee Crowley, Jason Clemens, and Niels Veldhuis in the *Canadian Century: Moving Out of America's Shadow* (2010). Key Porter Books: Toronto, ON. Macdonald-Laurier Institute, Ottawa, ON.
- ⁹ There is an important and recent academic paper worth considering on this issue: Alberto Alesina, Dorian Carloni, and Giampaolo Lecce (2010). "The Electoral Consequences of Large Fiscal Adjustments". Harvard Working Paper. Available at www.economics.harvard.edu/faculty/alesina/files/Electoral+Conseq+of+Lge+Fiscal+Adjust.pdf. The abstract of the paper states "The conventional wisdom regarding the political consequences of large reductions of budget deficits is that they are very costly for the governments which implement them: they are punished by voters at the following elections. In the present paper, instead, we find no evidence that governments which quickly reduce budget deficits are systematically voted out of office in a sample of 19 OECD countries from 1975 to 2008 (including Canada). We also take into consideration issues of reverse causality, namely the possibility that only "strong and popular" governments can implement fiscal adjustments and thus they are not voted out of office "despite" having reduced the deficits. In the end we conclude that many governments can reduce deficits decisively avoiding an electoral defeat.
- ¹⁰ The information is taken from the Federal Department of Finance, Fiscal Reference Tables. Available at www.fin.gc.ca/frt-trf/2010/frt-trf-1001-eng.asp#tbl1.
- ¹¹ For information on the 1995 federal budget please see www.fin.gc.ca/budget95/binb/BINB-eng.asp.
- ¹² The calculation for federal public sector employment includes federal employees broadly defined but exempts the military. It also covers the period 1995 to 1998, even though reductions in PSE were initiated before 1995. Finally, it includes federal employees stationed abroad.
- ¹³ The reform budget of 1995 covered the 1995-96 fiscal year for the government. The 1997-98 budget showed a small surplus.
- ¹⁴ For general information on Canadian federal elections please see www.elections.ca/home.aspx.
- ¹⁵ Note that the definition used for public sector employment for the purposes of this paper is fairly broad; it includes both provincial and local government employment, hospitals, universities, and school boards.
- ¹⁶ For general information on Saskatchewan elections please see www.elections.sk.ca.
- ¹⁷ For general information on Alberta elections please see www.elections.ab.ca.

¹⁸ Ontario's personal income tax rates were cut by 30 percent over three years. This amounted to \$1.2 billion in 1996/97 and \$4.8 billion per year when fully implemented in 1999/00.

¹⁹ The reductions in the broadly defined public sector actually began under the NDP Government in 1992 and continued unabated through to 1999.

²⁰ For general information on Ontario election please see www.elections.on.ca.



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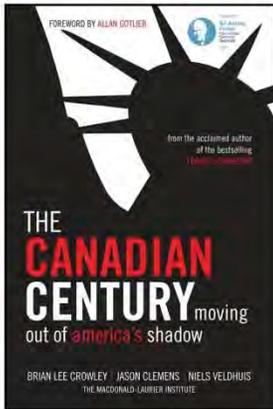
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