

On the Economy

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During a recession, there are two essential roles for governments. First, governments must stimulate economic recovery through spending, particularly on infrastructure projects that will create both jobs and the conditions for future prosperity. Second, governments must mitigate the harm to families, individuals, and businesses alike through income security programs and other measures. The duty of a government in good economic times is to preserve its fiscal capacity to act during bad times. Sadly, the Conservative government did the opposite.

Prime Minister Mulroney took office after Canada emerged from the worst recession since the Great Depression. His first seven years in office were marked by the longest period of sustained economic growth in Canadian history up to that point. Despite this historic opportunity, the Conservative government never achieved its objective of eliminating the deficit. It posted large deficits in every year it held office, leaving it ill-equipped to deal with the recession of 1990-91.

Liberal governments under Mr. Chretien and Mr. Martin beat the deficit. They divided surpluses equally among three key activities: paying down debt, giving measured tax relief, and increasing program spending. Thanks to this stewardship, Mr. Harper's government inherited a very strong fiscal situation. Regrettably, the Conservative government would repeat the mistakes of the Mulroney era, squandering the opportunity of a growing economy, and putting the nation's finances into a state unable to handle a downturn.

In a February 2008 editorial, the Globe and Mail warned of future deficits, accusing the government of "... failing to heed the warning signs of an economic slowdown and ... spending as if there were no tomorrow." The risk, according to the Globe, was that the government would "... tip Canada back into deficit spending."

Sure enough, the Parliamentary Budget Officer's November 2008 report, entitled Economic and Fiscal Assessment, indicated the government got into deficit while the economy was still growing. He clearly stated that "the weak fiscal performance to date is largely attributable to previous policy decisions as opposed to weakened economic conditions..." In other words, Canada's current fiscal situation is the result of bad policy decisions made by the Harper government, not the global economic crisis.

By putting Canada into deficit before the downturn, the government limited its capacity to engage in a stimulus effort when needed, and limited its capacity to help families, individuals and businesses

through these hard times. For the huge deficits Mr. Flaherty is now forecasting, Canada should be getting much more stimulus and much more assistance. Conversely, for the stimulus and assistance we are getting, the deficit should be much smaller. Instead, because the government hobbled the fisc on the eve of a recession, Canadians have to suffer more.

The Standing Senate Committee on National Finance, through its study of the 2009-10 Main Estimates, will continue to monitor and report on these important issues. The government should soon table Supplementary Estimates (A), which will detail many stimulus measures from Budget 2009. Moreover, the committee continues to monitor the budget implementation bill (C-10), with particular attention to employment insurance changes. Within these mandates, the committee will also follow up on its June 2008 report on infrastructure and regional development agencies.

The committee is particularly concerned about the \$3 billion discretionary fund, the procedure to be followed for departments to access this money, and the standard of accountability that should be met. We have been assured that the Auditor General will be watching these funds and that there will be regular reporting to Parliament. This is good news, but that may not have happened if we had not made such an effort to highlight the potential for error and abuse in this area. We will be monitoring these funds on a continuing basis to ensure that the funds are put to best use.

Stephen Harper and Jim Flaherty inherited a very strong fiscal position. Sadly, they could not resist the temptation to spend beyond the government's means. Conservative columnist Andrew Coyne described the government's most recent budget in the following terms:

“... the largest annual increase in spending ... since at least the Second World War. The \$22 billion the Harper government will pile on top of program spending this year ... amounts to an increase of more than 10.1 per cent. That's a larger rise ... than anything the Trudeau governments ever mustered... No government in our history has spent this much, this fast.”

As it struggles to cope with the worst economic downturn in a century, Canada is suffering from a hangover resulting from a Conservative spending spree. Instead of keeping a steady hand on the finances of the country, the government has left itself unprepared to deal effectively with the economic downturn. It is ironic that a man who joined a “Reform” movement born partly in response to Mr. Mulroney's lack of fiscal discipline would end up leading that movement into repeating those very same mistakes. Worse than that, it is tragic for Canadian citizens and businesses that their government is not really there for them when it is needed most.

Senator Joseph Day is chair of the Senate Committee on National Finance, but the views expressed here are his own.