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Parties and federal budgets

EDITORIAL

ONE OF THE MANY THINGS on which Canada's two major political parties disagreed about in the recent election campaign was budgetary deficits.

The Conservatives reminded voters that Justin Trudeau had promised them that a Liberal government would run modest deficits of about $10 billion annually but move toward a balanced budget by about now. Instead, they wound up running deficits twice as large and in this campaign avoided any commitment to balancing the books.

One of Conservative Leader Andrew Scheer's election messages was that, under Mr. Trudeau, deficits have been out of control, the national debt is skyrocketing and the country's fiscal future is imperiled.

The Conservatives' promise was that they would cut taxes (and eliminate the carbon tax) and work toward eliminating budgetary deficits in their first four-year term.

One thing both parties either ignored or implicitly rejected was the argument of famed British economist John Maynard Keynes that such deficits were appropriate only during recessions or depressions when economic growth had stagnated and unemployment was high.

The dispute between the Liberals and Conservatives seemed to be merely whether deficits are good or bad.

Perhaps one reason voters apparently paid little attention to this fuss was the real world we find ourselves in today.

Next door, Canada must do business with a country 10 times our size which has a conservative (Republican) administration that responded to a booming economy by cutting taxes, raising tariffs and running deficits now nearing $1 trillion ($1,000 billion) annually.

That being the case, Canadian politicians needed to qualify their budgetary projections by acknowledging they were dependent on circumstances beyond their control, such as U.S. foreign and economic policy and economic conditions around the world.

As one small example, who could have predicted that China would ban imports of Canadian agricultural products as a means of protesting our arrest of a Chinese citizen whose extradition was sought (demanded?) by the U.S. on fraud charges based on allegations that her company had traded with Iran in breach of American sanctions?

In contrast to the situation south of the border, Ottawa's deficits since 2015 were small enough that the federal level of indebtedness, already low compared with Canada's peers, fell further. And, barring an economic downturn, the deficits predicted by the Liberals would still be small enough to keep the level of debt on a downward slope.

Ottawa's fiscal house was in good shape in 2015, and as The Globe and Mail observed in Monday's editorial, the fiscal house is ?in slightly better shape in 2019. And if the Liberals are true to their plans, it will be in slightly better health in 2023.?

The Liberals' approach has been one with which most economists are comfortable.

Both federally and provincially, the Conservatives are committed to balancing budgets, with governments spending no more than they take in, and never borrowing against the future. But to close the budget gaps the governments must either raise taxes or cut spending.

In the election campaign the Conservatives understandably tried to avoid talking about cuts and Liberals couldn't stop talking about them, using Ontario's Ford government as proof positive of their inevitability.

As we see it, Keynes got it right, and both federal and provincial governments should be trying hard to move toward surpluses while the economy is in relatively good shape, and doing it by a careful blending of modest tax hikes and program cuts, while warning of a need for deficits in the event of a recession.

One final observation: sometimes deficits turn out to be a lot bigger or smaller than a government has predicted.

In Ontario, the one inherited by the Ford government has turned out to be about $7 billion, not the $15 billion the Tories had predicted.

And at Ottawa, the government apparently ran surpluses in the first nine months of the 2018-19 fiscal year, when the final result was expected to be a deficit of about $18 billion.