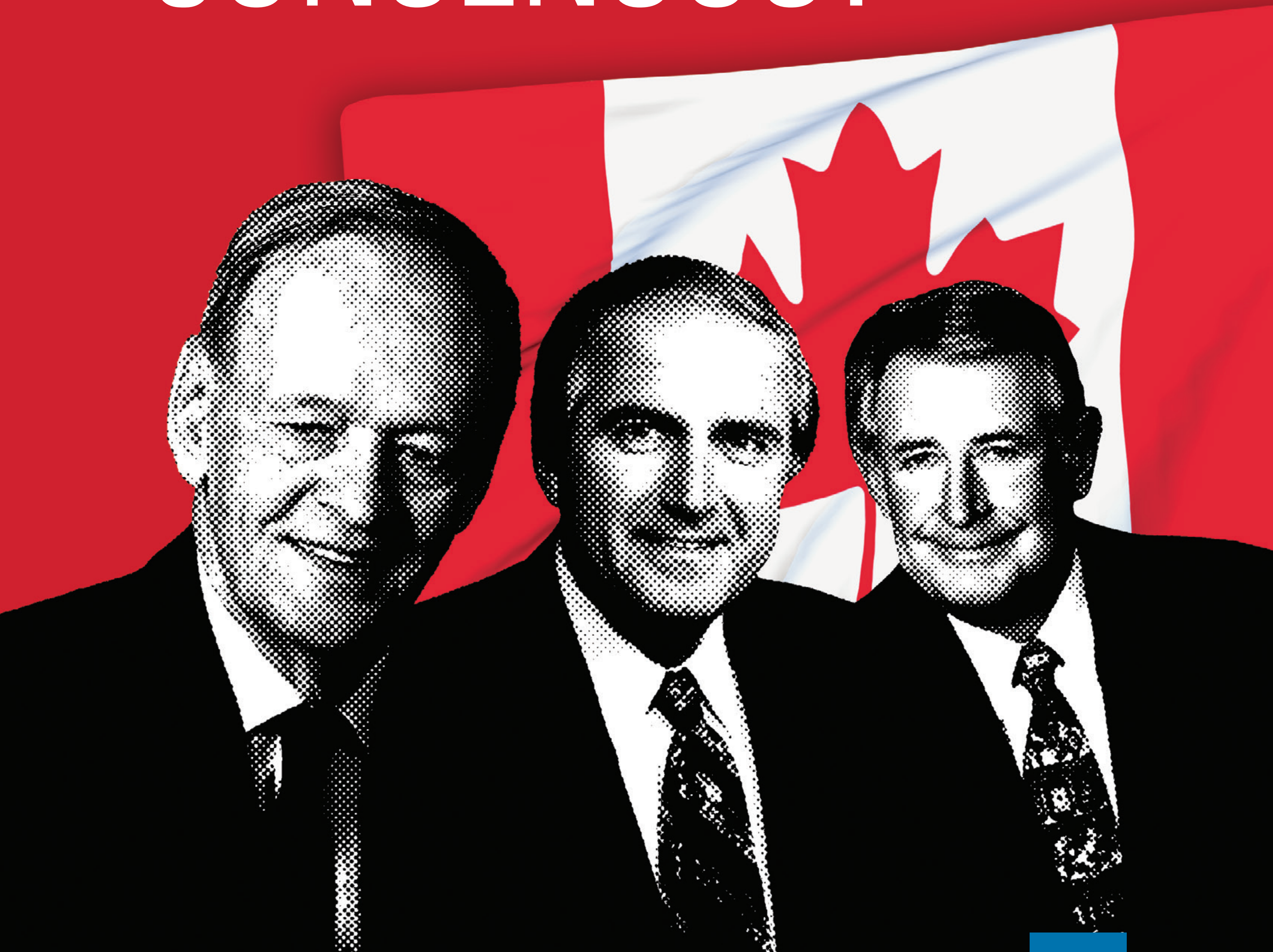
End of the CHRÉTIEN CONSENSUS?



Jason Clemens
Matthew Lau
Milagros Palacios
Niels Veldhuis

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Executive Summary

The *Chrétien Consensus* was an implicit agreement that transcended political party and geography regarding the soundness of balanced budgets, declining government debt, smaller and smarter government spending, and competitive taxes that emerged in the early 1990s and lasted through to roughly the mid-2000s.

The reforms began in Saskatchewan under the NDP led by Premier Roy Romanow in 1992. The quick success of the Romanow reforms set the stage for even more aggressive reforms in neighbouring Alberta one year later by Premier Ralph Klein. The combination of the successful reforms in both provinces were a catalyst for the federal government to enact similar reforms, what we have coined the Chrétien Consensus, under the leadership of Liberal Prime Minister Jean Chrétien in 1995. These reforms spread across the entire country and were implemented in every province to varying degrees and at different times during the decade.

Balanced budgets created a stable business and investment environment by eliminating the threat and uncertainty of future tax increases that are inherent to deficits. Declining government debt meant that there was more domestic capital available for private investment. Smaller and smarter government spending meant both that governments were playing a smaller role in the economy—relying more on individuals, families, and businesses to make economic decisions—and that governments were delivering greater value-for-money in the remaining programs. Finally, competitive taxes meant that the incentives for work effort, investment, and entrepreneurship were improving and that Canada was strengthening its relative attractiveness for businesses and entrepreneurs globally.

These policies created an environment conducive to and supportive of entrepreneurship and investment, which formed the basis for a robust, prosperous economy that lasted well over a decade after the reforms were implemented. Specifically, Canadians enjoyed rising incomes, incredibly strong job growth and the opportunities such growth provides, and a prolonged period of business investment, which ultimately forms the foundation for long-term prosperity.

This success was no doubt aided in part by other factors such as the commodity price boom and the success of the US economy during this period. However, the basis for that success was the policies imbedded in the Chrétien Consensus. In other words, Canada capitalized on these opportunities because it had established a foundation for success and an environment supportive of economic growth.

The better part of the last decade ending in 2016 has seen most Canadian governments moving away from the Chrétien Consensus. Governments across the country, particularly those in Alberta, Ontario, and now federally, have decisively and purposefully moved away from the policies of the Chrétien Consensus by increasing government spending through both borrowing (deficits) and increased taxes. The increases in spending have often been haphazard and without much attention paid to prioritization or importance. Governments have taken a much more active, larger role in the economy of the nation and most provinces. And finally, many governments have also increased taxes without regard for how such increases affect incentives or competitiveness. In short, the country has rejected the Chrétien Consensus and this is nowhere more evident than in Ottawa today, where the Trudeau Liberals ran on and are now governing based on a set of economic principles that are the antithesis of the Chrétien Consensus.

It is not surprising to those involved in this project that Canada is now struggling economically since the policy foundation for our success in the 1990s and 2000s has been rejected. Returning to the principles of the Chrétien Consensus will require first and foremost that citizens demand such policies. Only then will governments start to make the difficult decisions needed to rein in government spending, achieve balanced budgets, begin reducing debt, and start to refocus on tax competitiveness. Such policies delivered strong economic prosperity in the 1990s and 2000s, and given the opportunity will do so again.

About the Authors

Jason Clemens

Jason Clemens is the Executive Vice President of the Fraser Institute. He has an Honors Bachelors Degree of Commerce and a Master's Degree in Business Administration from the University of Windsor as well as a Post Baccalaureate Degree in Economics from Simon Fraser University. He has published over 70 major studies on a wide range of topics, including taxation and entrepreneurship. He has published over 300 shorter articles in US, Canadian, and international newspapers.

Matthew Lau

Matthew Lau is a Toronto-based freelance writer and former Fraser Institute research intern. He holds a Bachelor of Commerce, with a specialization in finance and economics, from the University of Toronto.

Milagros Palacios

Milagros Palacios is a Senior Research Economist at the Fraser Institute. She holds a B.A. in Industrial Engineering from the Pontifical Catholic University of Peru and a M.Sc. in Economics from the University of Concepcion, Chile. Ms. Palacios has studied public policy involving taxation, government finances, investment, productivity, labour markets, and charitable giving, for nearly 10 years. Since joining the Institute, Ms. Palacios has authored or coauthored over 70 comprehensive research studies, 70 commentaries, and four books.

Niels Veldhuis

Niels Veldhuis is President of the Fraser Institute. He has written six books, more than 50 peer-reviewed studies, and over 200 articles on a wide range of economic topics. He holds a Bachelor's Degree in Business Administration, with joint majors in business and economics, and a Master's Degree in Economics from Simon Fraser University.

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Introduction

As governments across Canada struggle with slow economic growth, budget deficits, rising debt, and tax increases, many Canadians will look back on the 1990s and 2000s with great fondness as it was a period of the exact opposite: strong economic growth, balanced budgets, declining debt, and tax relief. This book explores how the policy consensus regarding balanced budgets, declining debt, smaller government, and competitive taxes was reached in the 1990s, and seeks a better understanding of how this consensus established an environment for economic success and prosperity.

This consensus, what we have coined the *Chrétien Consensus*, specifically consisted of an implicit agreement—that transcended political party and geography—regarding the soundness of balanced budgets and paying down government debt by reducing and reforming government spending, which established a foundation for lower, more competitive taxes. These policies created an environment conducive to and supportive of entrepreneurship and investment, which formed the basis for a robust, prosperous economy that lasted well over a decade after the reforms. There are a host of other factors, including the commodity price boom and the success of the US economy, that amplified Canada's success during this period; however, the basis for that success was the policies imbedded in the Chrétien Consensus.

The book[1] first explores the formation in the mid-1990s of the Chrétien Consensus, which started in Saskatchewan and then spread to a number of provinces as well as to Ottawa. Specifically, Chapters One through Three chronicle the development of the Chrétien Consensus in Saskatchewan, Alberta, and Ottawa. Chapter Three (the Chrétien Consensus in Ottawa) also contains a brief overview of how the consensus reached most provincial capitals. The fourth chapter refutes a number of common myths used to explain the success of Canada during the 1990s and early 2000s outside of the Chrétien Consensus. While many of these factors, such as a booming US economy, clearly benefitted Canada, they cannot explain the totality of the nation's success during this period. Chapter Five describes the unfortunate move away from the Chrétien Consensus in Ontario and Alberta, and contains some summary analysis for all the provinces. Chapter Six details what should be seen as the definitive rejection of the Chrétien Consensus: the policies being enacted in Ottawa by the Trudeau Liberal government. Chapter Seven concludes with some final thoughts about the benefits of recapturing the Chrétien Consensus.

Chapter 1

Saskatchewan's 'Socialist' NDP Begins the Journey to the Chrétien Consensus

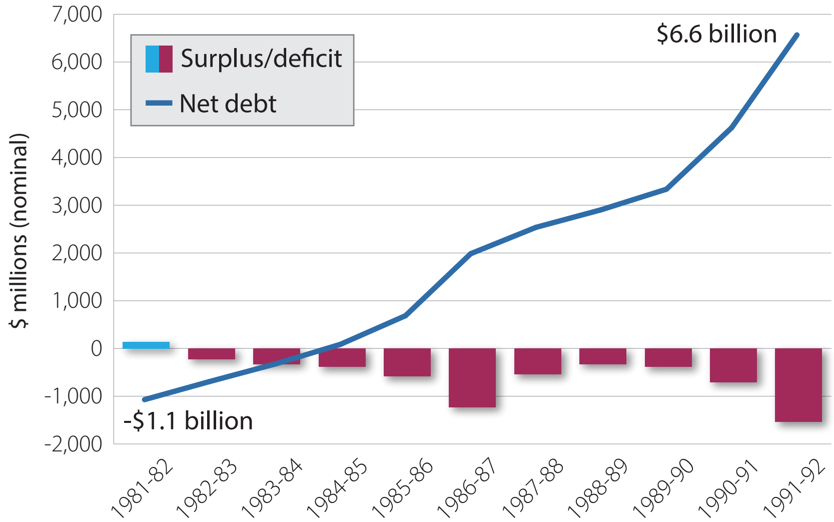
The journey to the Chrétien Consensus began in Saskatchewan under a New Democratic Party (NDP) government led by then-Premier Roy Romanow. While the reforms enacted by the Saskatchewan NDP in the early 1990s were less dramatic than their neighbours in Alberta, they were in several ways more important. First and foremost, Saskatchewan was the first Canadian government to genuinely tackle its deficit and debt problems. Second, the fact that the first government to honestly start dealing with its finances was an NDP government created the political space for other governments to initiate similar reforms. The political leadership and indeed courage of the Romanow NDP government is an aspect of the 1990s reforms, or the Chrétien Consensus, that is too often overlooked or minimized.

The Progressive Conservative government of Premier Grant Devine dominated Saskatchewan politics from 1982 through to their eventual defeat by the NDP in 1991. During the Devine PC reign, Saskatchewan ran deficits each and every year (figure 1).[2] A deficit is simply borrowing in any given year when the spending of a government exceeds its revenues. The most basic way to think about government surpluses and deficits is the degree to which the government of the day matches its current spending against its current revenues. When governments run deficits, particularly when the deficits relate to day-to-day spending,[3] it means the government has purposefully decided to spend more

The Chrétien Consensus consisted of:

- **Balanced budgets**
- **Declining government debt**
- **Smaller, smarter government**
- **Competitive taxes**

Figure 1: Saskatchewan Fiscal Balance and Net Debt, 1981–82 to 1991–92



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

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today than it receives in revenues (i.e., taxes and other levies) and to finance the difference (deficits) by borrowing. It's also important to recognize that borrowing today is simply taxes that are deferred into the future.

Figure 1 shows the annual deficits (nominal) of the Saskatchewan government during the tenure of the Devine PCs, which ranged from a deficit of $227 million in 1982–83 to a deficit of $1.5 billion in 1991–92. It's worth noting that the deterioration in Saskatchewan's finances during this period took place while the economy was growing. Indeed, per-person income (GDP) adjusted for inflation increased by 2.6 percent between 1983 and 1989 while the provincial deficit worsened significantly.

The $1.5 billion deficit in 1991–92 represented 29.5 percent of total program spending that year. Program spending refers to the amount of money spent by a government minus any interest payments on outstanding debt. It is a method by which to gauge the level of active and controllable spending undertaken by a government since interest payments, at least in the short run, are largely outside of the control of a government. At 29.5 percent of program spending, Saskatchewan was basically borrowing $3 for every $10 dollars it spent in 1991–92.

As a result, the accumulated debt of the province of Saskatchewan rose markedly during the 1980s and early 1990s—just like it would with individuals or businesses that continually overspend relative to their resources (i.e., they borrow).

The line in figure 1 shows the level of net debt in Saskatchewan over this period. Net debt is a measure of total (or gross) debt adjusted for financial assets held by the government. It is meant to reflect the true extent of a government's indebtedness by taking account of not only their debt but also their financial assets.[4] Readers can think about their own finances in a similar way. It would be inaccurate to simply look at one's accumulated debt, such as a mortgage, without considering the assets that the debt may have been used to purchase. Net debt statistics take account of a government's debt as well as their financial assets. Another way to conceptualize net debt is to consider that it measures the amount of debt a government would have if it liquidated all of its financial assets.

The deterioration in Saskatchewan's debt position is easily seen in figure 1. The province goes from having more financial assets than debt in 1981–82 (by roughly $1.1 billion) to having a net debt position of almost $6.6 billion a mere decade later.[5]

A common way to measure the burden of debt is to compare it in dollar terms with the size of the economy, the rationale being that the size of the economy determines the government's ultimate ability to manage and service the debt over time. A sign of the incredible burden being imposed on the Saskatchewan economy and the government is the fact that the provincial net debt reached 47.3 percent of the provincial economy in 1992–93, the first full year of the Romanow government.[6]

The pronounced increase in debt over this period had an immediate impact on the finances of the government in the form of higher interest costs. As readers know from their own finances, interest costs are incurred based on the level of accumulated debt one holds as well as the rate of interest charged on that outstanding debt. As a share of the province's revenues, interest costs skyrocketed from a relatively meagre (and manageable) level of 1.6 percent of revenues in 1981–82 to an almost unimaginable 23.0 percent of revenues by

1993–94. The increase in interest costs for the province was a combination of the mounting debt as well as the generally rising interest rates of this period.

Put differently, almost one in four dollars collected by the Saskatchewan government in 1993–94 was spent on interest payments for existing debt. These are resources not available to maintain, expand, or introduce new programs or offer tax relief. These monies are simply maintaining existing debt. Consider what such a burden would mean for an individual or family if one of every four dollars a person earned were consumed by interest payments on one's mortgage, car loan, credit card debt, etc. It makes basic living incredibly difficult, as it did for the Saskatchewan government in the early 1990s.

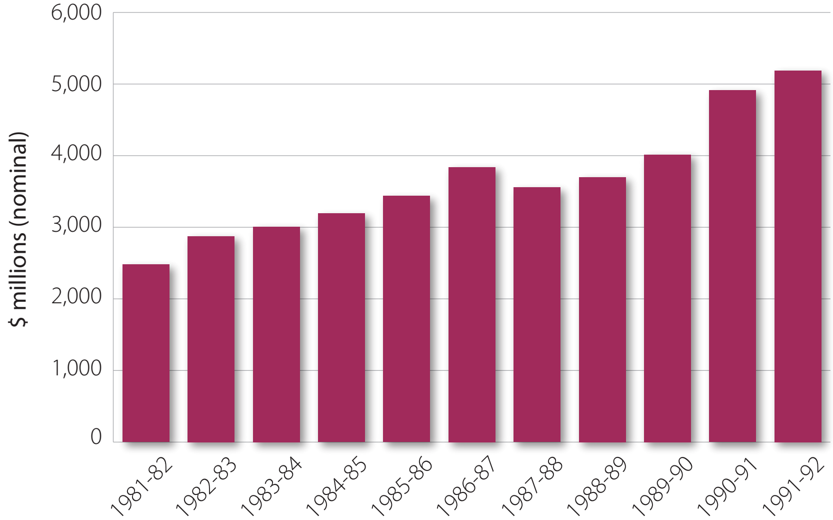
The main cause of the province's annual deficits and accumulating debt was marked spending increases under the Devine PC government (1982 to 1991).[7] **Figure 2** illustrates the total amount of money spent by the provincial government on programs (this excludes interest payments on their debt).

As illustrated in figure 2, program spending (nominal) in Saskatchewan increased 109.1 percent between 1981–82 and 1991–92, rising from $2.5 billion to $5.2 billion.[8] Population, on the other hand, only increased by 2.8 percent during this period,[9] meaning that per-person spending in the province increased dramatically. More specifically, per-person spending in Saskatchewan (adjusted for inflation) increased from $4,109 in 1981–82 to $5,173 in 1991–92, an increase of 25.9 percent.[10] By 1991–92, Saskatchewan had the second highest level of per-person spending (program only—excludes interest costs) among the provinces—behind only neighbouring Alberta, which was dealing with its own problems.

The finances inherited by the Romanow government as they took office in late 1991 were approaching if not already in a crisis. The deficit for the year would reach $1.5 billion and overall debt (net debt) was projected to exceed $10.0 billion the following year. And as noted above, almost one in four dollars collected by the government was being used to simply service existing debt through interest payments.

The accumulation of debt during the previous decade had made the Saskatchewan government more exposed to the discipline of the credit markets. As former NDP finance minister Janice MacKinnon noted, "credit-rating agencies were demanding dramatic, even draconian, action quickly to get our

Figure 2: Saskatchewan Program Spending, 1981–82 to 1991–92



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financial house in order so that we could continue to borrow money."[11] Indeed, MacKinnon provides a stark first-hand recollection of the financial crisis facing Saskatchewan at this time:

> *... the spectre of a fiscal meltdown took concrete form, as Saskatchewan, which was no longer able to borrow money in Canada, even had trouble selling its bonds in New York.*[12]

The mounting crisis and increasing difficulty Saskatchewan was having refinancing existing debt meant that reform was inevitable.[13] The question was not whether reform would occur but rather what form it would take. The first budget of the Saskatchewan NDP led by Premier Roy Romanow was decisive and focused on realistically getting control of the province's finances. The May 1992 budget was the first budget of any government in the country to genuinely deal with deficits and debt. Saskatchewan finance minister Ed Tchorzewski outlined the difficult decisions and reforms needed in his first budget address:

> *Today our Province stands at a critical crossroads. We must choose a path for the future ... we must start to live within our means because it is the only way to rebuild Saskatchewan.*[14]

Unlike so many previous provincial and federal budgets that offered platitudes and slogans about reform, the first Romanow NDP budget set out specific plans and actions needed to reach a balanced budget within the government's mandate. First, the 1992 budget outlined a review process for all government programs and services. The goal was clear: reform and reduce spending to ensure better results using fewer resources.

Indeed, the budget itself stated that the government would start "first with spending cuts" to achieve a balanced budget.[15] Minister Tchorzewski further stated that:

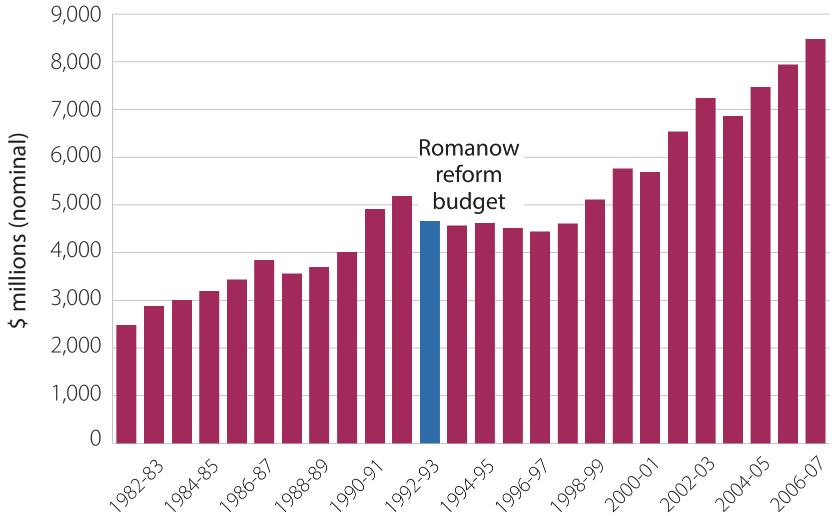
> *We can no longer pay for all the services government provides. Programs that we simply cannot afford will be eliminated.*[16]

The NDP proposed the elimination of one-quarter of all government agencies, boards, and commissions and introduced significant spending cuts to the funding for hospitals, school boards, universities and colleges, and municipalities.[17]

As illustrated in **figure 3**, which extends the data presented in figure 2 regarding provincial program spending in Saskatchewan, the first budget of the Romanow NDP government introduced meaningful reductions in program spending. Specifically, a total of $523.0 million in spending cuts were introduced in the first budget, representing a reduction of a little over 10.0 percent in one year. Consider the magnitude of this reduction in the content of your own household budget and the difficulty you might experience in trying to reduce spending by 10.0 percent.

All told, the provincial government reduced spending in each fiscal year starting in 1992–93 through to 1996–97. The total reduction in program spending amounted to 14.4 percent between 1991–92 and 1996–97. Specifically, program spending dropped from a high of $5.2 billion in 1991–92 to $4.4 billion in 1996–97 (figure 3).[18] To reiterate, the Saskatchewan NDP cut program spending—not slowed its growth but cut it—by 14.4 percent in order to purposefully move towards a balanced budget.[19]

Figure 3: Saskatchewan Program Spending, 1981–82 to 2006–07



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The spending numbers presented thus far do not account for the effects of inflation or changes in the population, which result in an even deeper reduction in real spending. Per-person program spending (excluding interest costs) by the provincial government in Saskatchewan, after adjusting for inflation, was reduced from a peak of $8,457 in 1991–92 to $6,480 in 1996–97, a reduction of 23.4 percent. In other words, the real value of spending by the provincial government on programs, adjusting for the size of the population, declined by almost one-quarter over a five-year period. Saskatchewan went from having the second highest per-person program spending in 1991–92 to the third lowest among the provinces by 1996–97.[20]

Perhaps equally as telling of the depth of the reforms in Saskatchewan, and certainly as challenging politically, were the reductions in government employment enacted as part of the reforms during this period. Remember that the public sector unions in Saskatchewan were a key constituent group of the governing NDP. Over the reform period, which started in 1991 and extended through to 1995, the Government of Saskatchewan reduced total public sector employment[21] by 5,456, which represented a decline of 7.8 percent.[22]

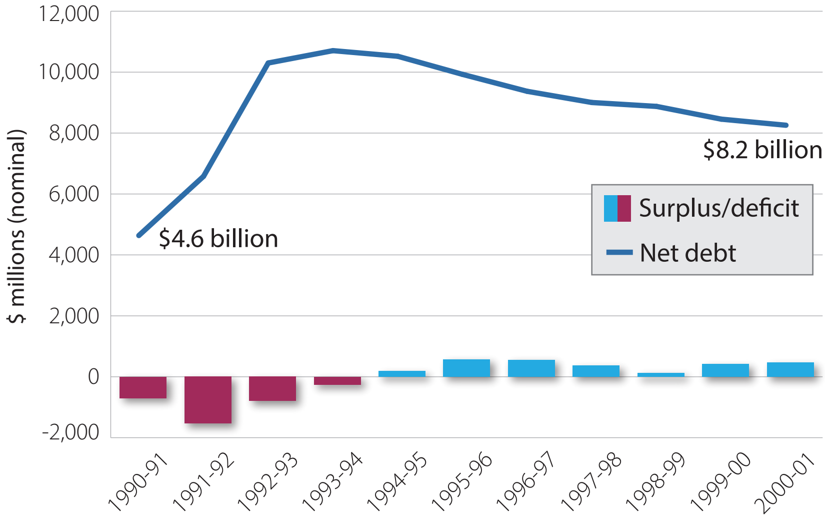
Another way to understand the reform and reduction in program spending in Saskatchewan, which is often ignored, is to consider the reduced role government spending played in the provincial economy. In 1991–92, almost one-quarter of the provincial economy (23.8 percent) was represented by provincial government spending. In other words, roughly $1 in $4 dollars of economic activity in the province was linked to the provincial government. After the reforms, government spending as a share of the economy fell to 15.3 percent (1996–97), meaning that the provincial government played a less prominent role in the economy.[23]

The reforms enacted during this period were not solely based on spending reforms and reductions. They also included tax increases. The Saskatchewan NDP raised both personal and corporate income tax rates and increased the corporate capital tax, which was a particularly damaging tax[24] since it raised the direct cost of investing in and developing a business in the province.[25] A number of other taxes, including liquor, sales, gas, and tobacco taxes were also increased. However, while the rate increases brought in more revenue for the government in the short term, they also had the negative effect of making the province less competitive and increasing the cost of capital investment, both of which have longer-term effects for the province.

Though the NDP's formal commitment was to balance their budget in 1996–97, the decisive actions taken in their first two budgets resulted in a balanced budget by 1994–95, two years ahead of schedule. As depicted in **figure 4**, the combination of deliberate spending reform and reductions coupled with tax increases meant that the province balanced its budget and began reducing its debt in 1994–95. Beginning in 1994–95, the provincial government in Saskatchewan began running consistent budget surpluses, which meant that it was able to reduce its outstanding debt each year.

The consistent surpluses and related reduction in debt also established a more certain business and investment environment, a key aspect of the Chrétien Consensus and one that is again often ignored. The presence of deficits, particularly when there is no clear path to a balanced budget, introduces uncertainty into the business and investment environment with respect to the potential for future tax increases. That uncertainty has clear, adverse effects on the willingness of businesses and entrepreneurs to build their existing businesses or start new ones, which negatively affects the economy. Saskatchewan improved its business environment by creating a more stable and certain environment through balanced budgets. In her recollection of the 1990s reform

Figure 4: Saskatchewan Fiscal Balance and Net Debt, 1990–91 to 2000–01



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era, former NDP finance minister Janice MacKinnon described the set of policies and their benefits this way:

> *Balancing the budget was also important in stimulating the economy. Rising deficits meant to business the probability of future tax increases, while balanced budgets symbolized both current stability and predictability and the prospect of reduced tax rates in future. Strengthening the economy would help us balance the budget, and balancing the budget would help us strengthen the economy.*[26]

By 2000–01, the Province of Saskatchewan had reduced its net debt from a peak of $10.7 billion in 1993–94 to $8.2 billion in 2000–01, a reduction of almost 23 percent (figure 4). Interest costs, which are the immediate cost of debt, also fell by almost 30 percent from a peak of $1.3 billion in 1994–95 to $947 million by 2000–01.[27] The reduction in debt and accompanying decline in interest costs created a virtuous cycle that provided more resources for the province to reduce debt, reinvest in programs, and as discussed next, ultimately offer tax relief to regain competitiveness.

A balanced budget and declining provincial debt were not an end in and of themselves for the Saskatchewan NDP. Balancing the budget and beginning to reduce government debt was a necessary step to stabilize the finances of the province before pursuing other ends. The NDP began, for instance, to restore some of the spending cuts implemented previously. Between 1996–97 (low point for program spending) and 2000–01, total program spending by the province increased $1.2 billion, representing an increase of 27.9 percent. Clearly the Saskatchewan NDP loosened the purse strings of the provincial government after five years of restraint.

Critically, the province also began examining their tax competitiveness and the degree to which taxes impeded economic prosperity rather than supporting it. Indeed, this latter point is an essential characteristic of the Chrétien Consensus. That is, a central tenet of the Chrétien Consensus is the use of balanced budgets and declining debt as a foundation by which to achieve improved tax competitiveness, leading to a more robust and prosperous economy.

The Romanow NDP government announced in their 1999–2000 budget[28] that they would begin reviewing and assessing the province's personal income tax system.[29] They created the Personal Income Tax Review Committee, which was led by Professor Jack Vicq of the University of Saskatchewan. The Committee, which quickly became known as the Vicq Committee, was tasked with analyzing the province's personal income taxes and submitting their recommendations by early 2000.

The report[30] of the Vicq Committee, submitted in March 2000, called for flatter, simplified personal income tax rates, integrated exemptions, and inflation-proofing of the tax brackets. The report also called for changes to the province's sales tax. Like many of the spending reforms and reductions, the tax reform proposals were opposed by much of the NDP's core support in the province.[31] Complicating matters further, Premier Romanow retired in February of 2001 just before the provincial budget was to be delivered, which would confirm or reject the committee's recommendation.

Notwithstanding the enormous pressure on the NDP to reject their own committee's report, the government led by the newly elected leader of the NDP and thus also the premier, Lorne Calvert, announced in its 2001 budget[32] that most of the core recommendations of the committee would be implemented over the following three years.

It is difficult to downplay the resilience and determination of the provincial NDP during this period both to undo the personal tax increases introduced as part of the deficit reduction plan in the 1990s and to introduce a more competitive, pro-economic growth set of personal taxes. The result of the reforms was a flatter and much simpler personal income tax system in the province. For instance, Budget 2001 eliminated the high-income surtax and the debt reduction surtax. Budget 2002[33] completed the implementation of the recommended reforms including the achievement of a three-rate personal income tax system with tax rates ranging from 11 percent to 15 percent, which were lower than prior to reforms and generally more competitive, particularly with respect to neighbouring Alberta.

Unlike much of the tenure of the Romanow government, the Calvert NDP began increasing program spending quite markedly, as illustrated in figure 3. For instance, between 2001–02, the first year of the Calvert government, and 2006–07, the year before the government would go to the polls again, total program spending increased from $6.5 billion to $8.5 billion, an increase of 29.7 percent.

However, Premier Calvert and his NDP government did something quite unexpected and incredibly important for the future prosperity of Saskatchewan. Late into the Calvert government's first term, the NDP forged ahead with an even more controversial set of tax reforms than the personal income tax changes introduced in Calvert's first year in office. Based on the success of the Vicq Committee on personal income taxes, the Calvert NDP government asked Professor Vicq to lead another commission to investigate the province's business taxes. The committee and the NDP government were again heavily criticized by many of their traditional constituents.[34]

To its credit, the NDP government provided the Vicq Committee with the independence to genuinely review, assess, and make recommendations on how best to improve the business tax environment for the province. Through its investigation, the Vicq Committee determined that Saskatchewan struggled with the highest corporate income tax rate in the country and the heaviest use of the corporate capital tax,[35] and that the structure of the provincial sales tax included capital investments. In April 2006 the Vicq Committee submitted its report, which included the following key recommendations:

> *Key components of the reform include eliminating the general CCT and significantly reforming the provincial CIT structure. These initiatives*

> *will help to create an improved business climate for the province, promote sustainable economic development and expand employment opportunities for all Saskatchewan residents. A stronger, expanding and more diversified economy will be better able to support the public programs that Saskatchewan people depend on …*[36]

To the NDP's great credit, its 2006 budget announced the complete elimination of the general corporate capital tax within 2 years and a marked decrease in the corporate income tax from 17 to 12 percent by 2008. The business investment tax credit was made fully refundable on budget night, and in October the retail sales tax was cut from 7 percent to 5 percent.[37] The importance of these tax reforms in terms of achieving a more competitive, attractive environment for businesses, entrepreneurs, and investors cannot be understated. In addition, it is important to acknowledge how these positive reforms ran counter to the preferences of many of the NDP's core supporters.[38]

The economic foundation created by the Romanow-Calvert NDP reforms, which included balanced budgets, declining government debt (and lower interest costs), smaller and smarter government spending, and markedly more competitive taxes ushered in an era of pronounced prosperity in the province. It also was the first example of the power of the Chrétien Consensus to not only deliver positive fiscal news to a government but more importantly to create a foundation for broad economic prosperity.

Improving Economic Performance in Saskatchewan Post-Reform

The aim of this subsection of the chapter, as well as similar subsections in the following chapters on Alberta and the federal government, is to demonstrate how the respective economies of Saskatchewan, Alberta, and the national economy responded to the reforms enacted under the implementation of the Chrétien Consensus. There are those who would predict a meaningful, if not marked economic slowdown, from the reductions in spending enacted in all of these jurisdictions. And yet, what we consistently observe is stronger, not weaker economic performance post-reforms.[39]

There are a number of potential indicators of economic performance that could be employed to demonstrate the strength of the Saskatchewan economy in the wake of reform, and indeed the other jurisdictions examined in this book. For ease of access and readability, a few key indicators have been selected that will be consistently used throughout the book to illustrate economic performance.

Specifically, individual measures of income, employment, and investment were chosen to illustrate the broad economic performance of the governments analyzed. A brief description of each indicator is presented in this section, which can be referred back to when readers are exploring other sections. Please note also that detailed footnotes including technical information and references are also provided in this section for each of the economic indicators used.

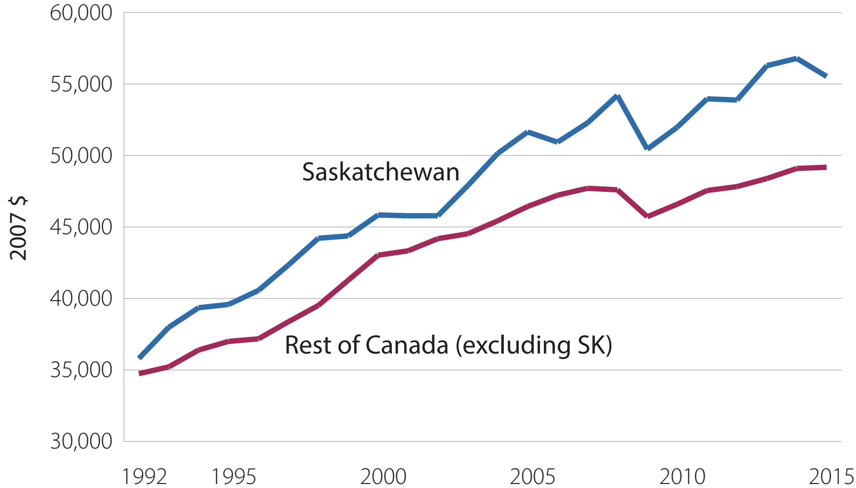
Income is an important measure of economic performance since it indicates the extent to which individuals and families can purchase basic necessities and improve their standard of living. This latter aspect of measuring income is important since increases in income allow for improved standards and quality of life by allowing individuals to purchase more (and/or better) goods and services and/or to save more. Rising incomes also allow individuals and families to more readily make other non-financial decisions that improve one's quality of life, such as deciding to work less and enjoy more leisure.

The specific measure of income used is gross domestic product (GDP) per person,[40] adjusted for inflation, which is the broadest measure of income available.[41] This measure includes the value of all goods and services (GDP) produced in a region in a particular year adjusted for population.[42]

Figure 5 illustrates both the level of and change in GDP per person in Saskatchewan as well as for the rest of Canada between 1992 and 2015. (In this comparison, the rest of Canada excludes Saskatchewan so that it is a comparison of the province with the remaining nine provinces.) The first year of analysis, 1992, was selected since it was the first year of reform under the Romanow NDP. The latest year of available data at the time of writing was 2015.

In 1992, Saskatchewan's per capita GDP was $35,801 (in real 2007 dollars), which was $1,061 higher than the rest of Canada. Over the ensuing decade, GDP per person growth rates in Saskatchewan (1.9 percent) were slightly less than the rest of Canada (2.2 percent). Growth in per-capita GDP in Saskatchewan remained fairly stable between 2003 and 2015 at 1.5 percent compared to its previous growth rates. This is interesting given that Saskatchewan, like other provinces with large resource-related sectors, benefited from the strengthening of commodity prices during the early part of this period.

Figure 5: GDP Per Person, Saskatchewan and Rest of Canada, 1992 to 2015



Sources: Statistics Canada, Table 051-0001 (Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual), Table 384-0037 (Gross domestic product, income-based, provincial and territorial, annual), Table 380-0064 (Gross domestic product, expenditure-based, annual); calculations by authors.

Note: The figures shown are in chained 2007 dollars.

However, while Saskatchewan's growth rate remained fairly stable, the growth rate in the rest of Canada dropped to 0.8 percent, which meant that the gap between Saskatchewan and the rest of Canada grew substantially over this period. Indeed, by 2015 Saskatchewan's per-capita GDP exceeded the rest of Canada by $6,348 (figure 5). In other words, since 2000, the level of income in Saskatchewan, adjusted for population, grew substantially more than the rest of Canada.

It's worth noting a second measure of income, disposable income per person, since it reinforces Saskatchewan's strong performance. Disposable income is a narrower measure of income than GDP per person. Specifically, disposable income adjusts for direct taxes paid and thus is a measure of the income available to individuals and households after taxes are paid. During the 1990s, Saskatchewan trailed the rest of Canada with respect to per-person disposable income. However, disposable income in the province began increasing relative to the rest of Canada in the early 2000s. From 2002 (the year after the income tax reforms in Saskatchewan) to 2015, disposable income per person (after adjusting for inflation) increased by a total of 52.8 percent in Saskatchewan, almost double the rate of increase for the rest of the country (27.7 percent).[43]

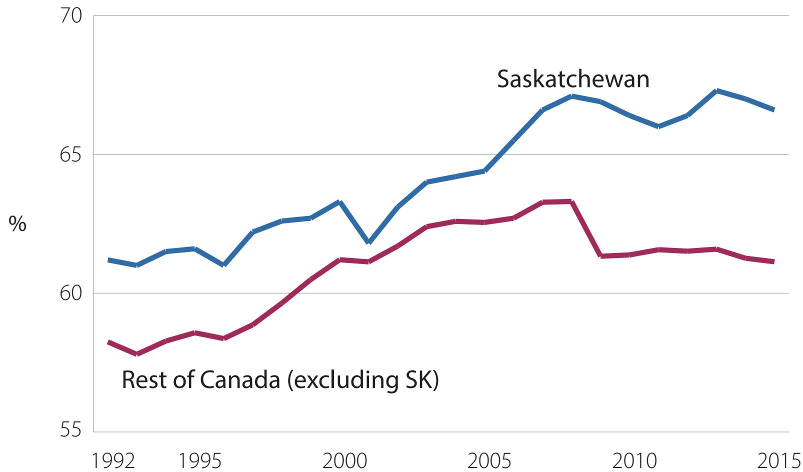
In addition to measuring income, it's important to gauge the health of the labour market, since it ultimately determines the ability of individuals to earn labour income through employment. The primary employment measure used is the employment rate, which measures the degree to which eligible workers are gainfully employed.[44] It is a better indicator of economic health than the more traditionally used unemployment rate. The reason the unemployment rate is becoming a less useful gauge of labour market performance, particularly when compared to the employment rate, is because the unemployment rate does not count people who have given up looking for work as unemployed.[45] As the population continues to age and Canada like many industrialized countries experiences a decline in the number of potential workers engaged in the labour market, the unemployment rate could falsely depict a high-functioning labour market simply because it excludes so many people no longer actively looking for work.

One of the reasons income (GDP and disposable income) were on the rise in Saskatchewan during this period was simply that more people were finding jobs. **Figure 6** depicts the employment rate in Saskatchewan as well as the rate for the rest of Canada. In 1992, Saskatchewan's employment rate (61.2 percent) was slightly higher than in the rest of Canada (58.2 percent). Saskatchewan has traditionally maintained a low unemployment and high employment rate relative to most other provinces.[46] However, beginning in 2003, and particularly starting in 2006, which coincides with the business tax reforms in the province, Saskatchewan's employment rate increased both in absolute terms and relative to the rest of the country (figure 6).

For example, the province's employment rate in 1992 was 61.2 percent. This means that 61.2 percent of people in Saskatchewan of working age were gainfully employed. By 2002 that number had increased to 63.1 percent. In 2015, employment in Saskatchewan reached 66.6 percent.

In comparative terms, on average, between 1992 and 2002, Saskatchewan's employment rate was 2.5 percentage-points higher than the rest of Canada. From 2003 to 2015, Saskatchewan's employment rate was 4.0 percentage-points higher than the rest of Canada. Clearly Saskatchewan's labour market and its economy more broadly were generating enormous employment opportunities that were being filled by Saskatchewan workers.

Figure 6: Employment Rate, Saskatchewan and Rest of Canada, 1992 to 2015



Sources: Statistics Canada, Table 282-0002 (Labour force survey estimates (LFS), by sex and detailed age group, annual); calculations by authors.

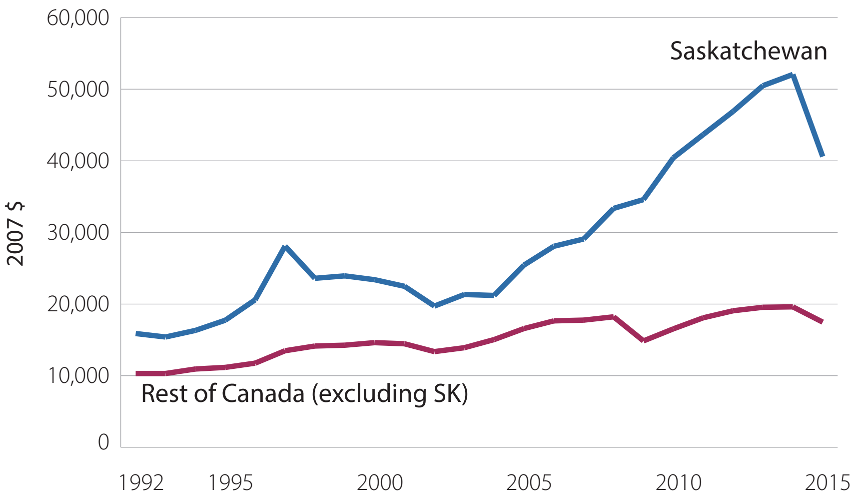
Note: The employment rate (formerly the employment/population ratio) is the number of persons employed expressed as a percentage of the population 15 years of age and over. Estimates are percentages, rounded to the nearest tenth.

The final measure of economic performance is private business investment.[47] It is a critically important measure of economic performance because investment sets the stage for long-term economic growth and allows workers to be more productive, meaning that it boosts economic output and ultimately workers' wages. Notably, business investment "is the main component of GDP that is influenced by political risks and expectations, as capital is highly mobile and investment can be easily accelerated or delayed."[48] In other words, because business investment is sensitive to political changes and investor expectations and can easily be ramped up or down, it is an especially useful measure for evaluating government policies.

In addition to superior income growth in Saskatchewan relative to the rest of Canada, as well as high employment rates, there was also a significant increase in private sector business investment. Saskatchewan has historically enjoyed a higher level of investment (adjusting for the number of workers) than most other provinces, resulting in an historical performance above the national average.

However, as figure 7 illustrates, private sector business investment increased significantly both in absolute terms as well as compared to the rest of Canada in 2005, which again links with the move by the province to introduce business tax reform. Beginning in 2005, Saskatchewan enjoyed nine consecutive years of increased business investment (after controlling for the number of private sector workers). For instance, Saskatchewan's per-worker private business investment for the ten years prior to 2005 was 63.5 percent higher on average than the rest of Canada. For the following ten years beginning in 2005 (through to 2015), Saskatchewan's average business investment per private worker was 116.3 percent higher than the rest of Canada.

Figure 7: Business Investment Per Private Sector Employee, Saskatchewan and Rest of Canada, 1992 to 2015



Sources: Statistics Canada, Table 282-0002 (Labour force survey estimates (LFS), by sex and detailed age group, annual), Table 384-0038 (Gross domestic product, expenditure-based, provincial and territorial, annual); calculations by authors.

Notes: Business investment includes non-residential structures, machinery and equipment and intellectual property. It excludes residential structures.

The figures shown are in chained 2007 dollars.

Summary

The NDP provincial government in Saskatchewan led by Premier Roy Romanow and then Premier Lorne Calvert introduced a number of critically important fiscal and economic reforms beginning with spending reform and reductions that in large measure delivered balanced budgets. The continued restraint in spending after the initial two years of reform and reductions meant that the province was able to reduce its provincial debt. The fiscal room made available by lower levels of spending and lower interest costs enabled the province to reform and reduce taxes, particularly those that made the province uncompetitive for entrepreneurs and businesses.

This combination of policies, namely balanced budgets, falling provincial debt, lower and more prioritized spending, and competitive taxes, or what we have termed the Chrétien Consensus, ushered in a period of strong economic growth, increasing levels of employment, and marked increases in business investment. The favourable fiscal and economic environment allowed Saskatchewan to take advantage of the resource commodity boom that picked up steam in the early 21st century. In short, Saskatchewan prospered from the policies introduced in the mid-1990s and continued through most of the 2000s. Put simply, the policies of the Chrétien Consensus that Saskatchewan started served the people of the province well. Perhaps more importantly for the country, they started a larger process of reform that would eventually form the Chrétien Consensus.

Chapter 2

Alberta Extends and Deepens the Chrétien Consensus

As in Saskatchewan, Alberta's fiscal situation was rapidly deteriorating in the early 1990s. Like its neighbour, Alberta found itself in a terribly difficult financial position after a decade-plus period of unrestrained growth in government spending. Between 1981–82 and 1992–93, for instance, the year before reforms were introduced, program spending nearly doubled.

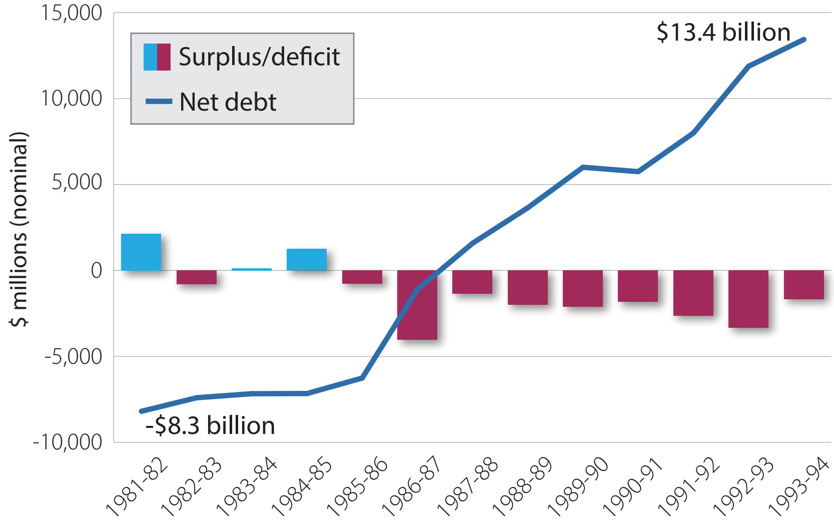
During the early 1980s, energy prices were booming and the Alberta government neglected to control spending, relying instead on energy-related revenues to fill its "budget gap" and avoid deficits.[49] In other words, the province was relying on volatile energy-related revenues, some of which were one-time revenues such as leases, to finance large-scale increases in government spending.

This was an unsustainable strategy, especially given how large the spending increases were compared to the growth in revenues. For example, from 1980–81 to 1985–86, the Alberta government increased program spending by 85 percent, while revenues increased by only 49 percent.[50] The reliance on volatile and to some extent non-recurring revenues was sure to catch up to the province.

Figure 8 illustrates the annual surplus or deficit as well as the province's accumulated net debt between 1981–82 and 1993–94. The bar charts represent the annual deficit or surplus while the solid line represents the level of accumulated net debt in the province.

The continued run-up in government spending, which regularly outstripped growth in revenues, eventually resulted in a $761 million deficit in 1985–86. The following year, the deficit grew to over $4 billion, as oil prices collapsed in 1986 and with them government revenues.

Figure 8: Alberta Fiscal Balance and Net Debt, 1981–82 to 1991–92



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Note: Data are not fully comparable due mainly to various changes to accounting standards. Major breaks in the series include:

1990-91 to 1992-93: expense excludes change in unfunded pension liabilities; net financial debt / (assets) does include unfunded pension liabilities;

1993-94 to 2003-04: SUCH sector (school boards, universities and colleges, health entities) own-source revenue and expense, and assets and liabilities not included in numbers (grants to these entities are included in expense);

2004-05 to 2007-08: SUCH sector included on "net equity" basis (net revenue included in revenue; net assets included in assets);

2008-09 to 2015-16: SUCH sector included on "line-by-line" basis (revenue, expense, assets and liabilities reported in revenue, expense, assets and liabilities).

Resource revenues in 1986–87 fell by over 60 percent and total revenues by almost 30 percent.[51] Tellingly, then-Premier Don Getty, who was elected in 1986, said famously that his government "inherited an economy and budget based on $40 oil—and the price of oil was $13."[52]

As illustrated in figure 8, the finances of the Alberta government in terms of running deficits (i.e., borrowing when spending exceeds revenues) did not recover even after oil prices started increasing. The consistent deficits depicted in figure 8 resulted in a marked decline in the province's net debt position. Recall that net debt is a measure of total debt adjusting for financial assets. Alberta went from having more financial assets than debt ($8.3 billion) in 1981–82 to owing $13.4 billion above and beyond its financial assets by 1993–94 (figure 8). In other words, if Alberta sold all its financial assets in 1993–94, it would still have owed $13.4 billion.

Like any government that accumulates debt, interest costs will rise as the province's debt increases. The interest cost rise due to debt accumulation was exacerbated by the generally rising interest rate environment of this period. The provincial government was spending 10.7 percent of its revenues on interest payments in 1993–94 compared to a negligible 0.5 percent just eleven years earlier.[53] This meant that it went from spending almost nothing on interest costs to spending just over one-tenth of provincial government revenues on servicing its debt, money that was unavailable for government programs or tax relief.

Unlike Saskatchewan, however, reform in Alberta was much less influenced by external factors—such as pressure by lenders for reform—than it was by the political preferences and culture of the province. Put differently, the people of Alberta were demanding that their politicians solve the fiscal problems of the province because they did not support deficits and debt. The political preferences of Albertans were further emboldened by the reforms being undertaken by the neighbouring Romanow NDP government.

Premier Don Getty resigned in 1992 and was eventually replaced by Ralph Klein as the leader of Alberta PC Party and thus also Premier of the Province. In Ralph Klein's first budget in May 1993, the Deficit Elimination Act was announced and Provincial Treasurer Jim Dinning declared that the Alberta government would balance the budget by 1996–97 based on aggressive spending reforms and reductions.[54]

Premier Klein then called a provincial election for June 1993. As noted University of Calgary scholars J. C. Herbert Emery and Ron Kneebone chronicled, all the political parties in the 1993 election called for the elimination of the deficit:

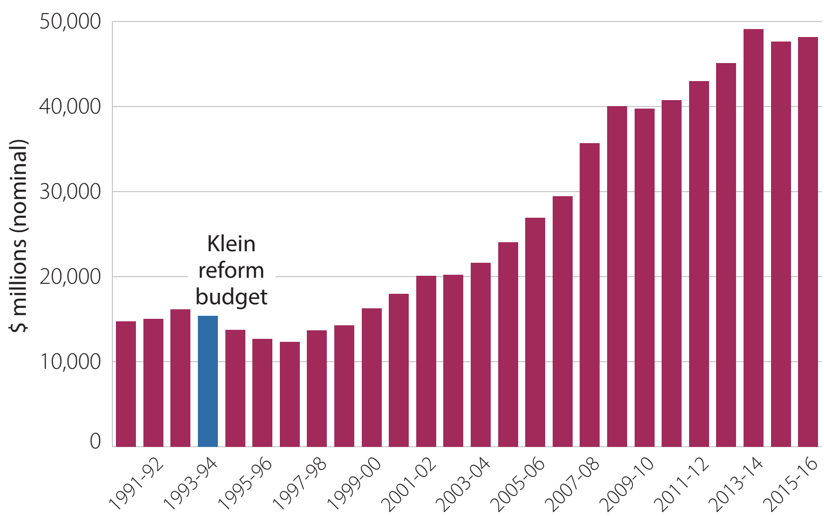
> *All three major political parties supported taking strong steps to eliminate the deficit, and both the Liberal and Progressive Conservative parties advocated deep cuts to government spending in order to achieve it. The Progressive Conservatives, under new leader Ralph Klein, were elected to a majority government in June 1993 on a platform of a 20% cut to spending.*[55]

This is a clear sign of the political culture of the province, as represented by the views and preferences of citizens and in particular voters: they wanted the deficit and ultimately the debt of the province eliminated. In other words, unlike Saskatchewan where the lenders to the province were a driving force in reform, it was the citizens and voters in Alberta that demanded reform.

Premier Klein's first budget (1993) was one of deep cuts (**figure 9**). The first budget introduced spending reductions in excess of $750 million, representing a one-year reduction of 4.7 percent. And even though the budget featured cuts to 14 government departments and the reduction of 2,575 government jobs,[56] the Treasurer Jim Dinning emphasized that yet more cuts would be required in subsequent years:

> *But the expenditure cuts will have to go deeper. This year's budget contains tough but fair measures that will curtail some government services. Our work has just begun.*[57]

Figure 9: Alberta Program Spending, 1990–91 to 2015–16



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Note: Data are not fully comparable due mainly to various changes to accounting standards. See note to figure 8 for major breaks in the series.

The following year's budget (1994–95) would implement additional spending cuts of $1.7 billion, representing a reduction of almost 11 percent (figure 9). Additional spending reductions were implemented in the following budget (1995–96) of $1.1 billion. Over the three budgets, provincial program spending was reduced by a total of $3.5 billion, representing a reduction of 21.6 percent.

The Klein government was adamant that the budget would have to be balanced quickly, and that the gap would be closed by spending cuts as opposed to tax hikes. The rationale for this was explained by Jim Dinning in his 1994 budget speech:

> *Mr. Speaker, it comes down to a choice between two actions: cutting spending or raising taxes. Both actions have a negative impact on the economy in the short run, but raising taxes is much worse over the long term. Higher taxes slow economic growth by damaging incentives to work and to invest, and raising taxes hurts the future prosperity of Albertans.*[58]

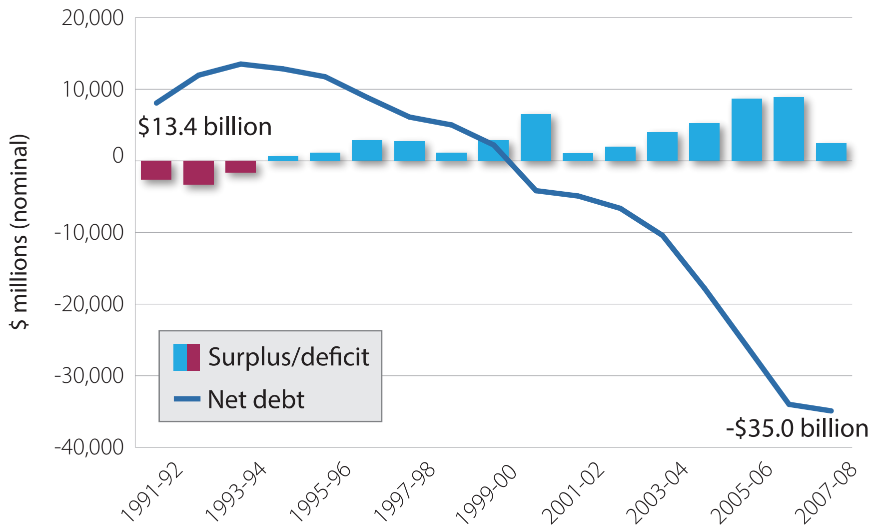
This is an important consideration in that, unlike Saskatchewan, Alberta achieved its balanced budget without tax increases. The entirety of the fiscal reforms aimed at achieving a balanced budget were targeted at spending reforms and reductions.

As a result of the aggressive spending cuts, the Alberta government achieved a surplus in 1994–95, meaning it had eliminated the deficit two years earlier than originally planned. It's worth noting that this achievement was realized with relatively low oil prices (see figure 23, for instance). **Figure 10** illustrates the annual surplus or deficits as well as the accumulated net debt (or financial assets) of the Alberta provincial government between 1991–92 and 2007–08.

As figure 10 shows, the Alberta government transitioned from deficit to surplus in 1994–95 and then proceeded to record surpluses consistently thereafter. The consistent surpluses meant that the province was able to reduce its outstanding debt.[59] Specifically, the Klein government reduced their net debt (gross debt minus financial assets) from a peak of $13.4 billion to a position of having $31.5 billion more in financial assets than debt. Put differently, by 2007–08, Alberta had more financial assets than debt.

The quick achievement of balanced budgets in Alberta coupled with a clear commitment to tax competitiveness meant that the province improved its business environment rapidly. Specifically, businesses, investors, and

Figure 10: Alberta Fiscal Balance and Net Debt, 1991–92 to 2007–08



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Note: Data are not fully comparable due mainly to various changes to accounting standards. See note to figure 8 for major breaks in the series.

entrepreneurs understood that there was no longer a threat of future tax increases due to prolonged deficits and borrowing. This certainty is a key aspect of a positive business environment, which is central to the Chrétien Consensus.

One of the features of the Klein reforms, which form an integral part of the Chrétien Consensus, is that the government was a much smaller player in the overall economy. The reform and reductions in provincial spending implemented under the Klein government meant that government program spending went from being 21.1 percent of the economy in 1992–93 to 12.3 percent by 1996–97.[60] In other words, the Klein government had reduced the imprint of the provincial government on the economy of Alberta by more than 40 percent. Simply put, the Klein government believed that economies do better when governments are focused on core responsibilities, leaving more of the economic decisions to individuals, families, entrepreneurs, and businesses. Like Saskatchewan, the purposeful result of the spending reform and reductions was not only to balance its budget but also to reduce the role of the provincial government in the economy.

Notably, Klein's austerity program not only achieved budget surpluses, but also paved the way for tax cuts, which are also a key element of the Chrétien Consensus. As in Saskatchewan, after the Alberta government got its finances under control it turned its attention to cutting first personal income taxes, and then business taxes. The government's commitment to tax reduction was especially evident in Treasurer Stockwell Day's first budget address in 1997:

> *Albertans pride themselves on having the lowest overall taxes in the country. It's a key advantage we hold over our competitors. And it's an advantage we can't afford to lose. Other provinces are taking Alberta's lead and moving ahead with their own fiscal plans. Across the country, we're hearing more about tax breaks. Clearly other provinces see the importance of low taxes as a strong competitive advantage.*[61]

Throughout his tenure as Provincial Treasurer, Stockwell Day emphasized the importance of lowering taxes to maintain Alberta's tax advantage.[62] These words were backed up with decisive actions that greatly improved Alberta's tax competitiveness.

In 1998, the Alberta government lowered income tax rates by 3.3 percent by reducing personal income tax rates from 45.5 percent of the federal tax to 44.0 percent, and among other tax reductions also lowered provincial property taxes.[63] The next year, Stockwell Day announced in his budget address a more dramatic and fundamental reform to the personal income tax system:

> *Mr. Speaker, this government will blaze a new trail across the taxation frontier, becoming the first to move to a simple, single rate of tax on income and the first to end the invisible penalty of tax bracket erosion through inflation.*[64]

While the plan was to implement a single tax rate of 11 percent (with a basic exemption of $11,600) by 2002,[65] the Alberta government accelerated its implementation to 2001, when the single rate tax was adopted with a lower than planned rate of 10 percent and a higher than planned basic exemption of $12,900.[66] In other words, the single tax rate was not only implemented a year early, the tax rate was lower and people could earn more money before beginning to pay provincial income tax.

In addition to announcing the income tax reform in 1999, the Alberta government also reduced the financial institutions capital tax rate, an economically damaging tax applied to the level of capital (debt and equity) of a financial institution.[67]

In 2000, the Alberta government appointed the Alberta Business Tax Review Committee to make recommendations on further improving the province's business tax competitiveness.[68] At the time, its general corporate tax rate was 15.5 percent, which while lower than most provinces was higher than in Newfoundland and Labrador and Ontario.[69]

Noting that without business tax reform the province would "risk losing increasingly mobile capital and highly skilled people,"[70] the 2001 budget adopted most of the reforms recommended by the Committee. These reforms included the elimination of the financial institutions capital tax and a phased-in cut in the general corporate tax rate, which fell from 15.5 percent to 10 percent by 2006. There was also a reduction in the manufacturing and processing tax rate.[71]

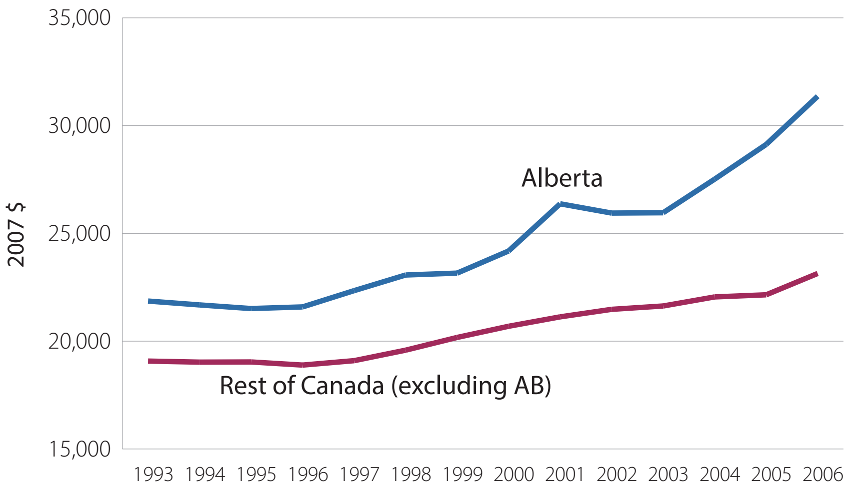
These tax reforms formed the base of what was called the Alberta Advantage—a name given by many to Alberta's tax advantage over other jurisdictions and its strong fiscal position following the reform years.[72] As with Saskatchewan, these reforms also paid off for Alberta in the form of superior economic performance.

Alberta's booming economy

As with the previous section on Saskatchewan's economic performance, this section again looks at measures of income growth, the employment rate, and growth in business investment (adjusting for the number of private sector workers) to evaluate how well Alberta's economy performed after the reform years.[73] The period of analysis for Alberta starts in 1993, when the Klein government began implementing reforms, and ends in 2006. The reason for the shorter time period is that Alberta began diverging from the principles of the Chrétien Consensus around that time. For our purposes, which focus on the benefits of the Chrétien Consensus, it is important to examine the period when those policies were actively maintained.

In terms of income, specifically GDP per person, Alberta's performance over this time period is roughly in line with the rest of the country. However, Alberta experienced pronounced growth in disposable income per person during this period (**figure 11**). Specifically, Alberta's per-person disposable income grew from $21,862 in 1993 (in real 2007 dollars) to $31,362 in 2006, an increase of 43.5 percent. During this same period, the rest of Canada experienced an increase in per person disposable income of 21.3 percent, less than half the rate of growth enjoyed in Alberta. In other words, the disposable income that on average Alberta enjoyed had markedly increased between the time of reform (1993) and when the province began to diverge from the Chrétien Consensus in 2006 (or so).

Figure 11: Disposable Income Per Person, Alberta and Rest of Canada, 1993 to 2006



Sources: Statistics Canada, Table 051-0001 (Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual), CANSIM Table 384-0039 (Implicit price indexes, gross domestic product, provincial and territorial, annual), Table 384-0040 (Current accounts - Households, provincial and territorial, annual); calculations by authors.

Note: The figures shown are in chained 2007 dollars.

In 1993, Alberta's employment rate, which measures the share of working age Albertans employed, was 64.9 percent compared to 57.2 percent for the rest of Canada. By 2006, Alberta's employment rate reached 70.9 percent, the highest in the country and a 9.2 percent improvement over its rate in 1993. It also increased the spread between itself and the rest of Canada: a 7.7 percentage point difference in 1993 versus 9.0 percentage points in 2006. The employment rate in Alberta peaked in 2008 at 72.1 percent before starting to fall; in 2015, it sits at 68.6 percent, which is still above the 1993 level of 64.9 percent.[74]

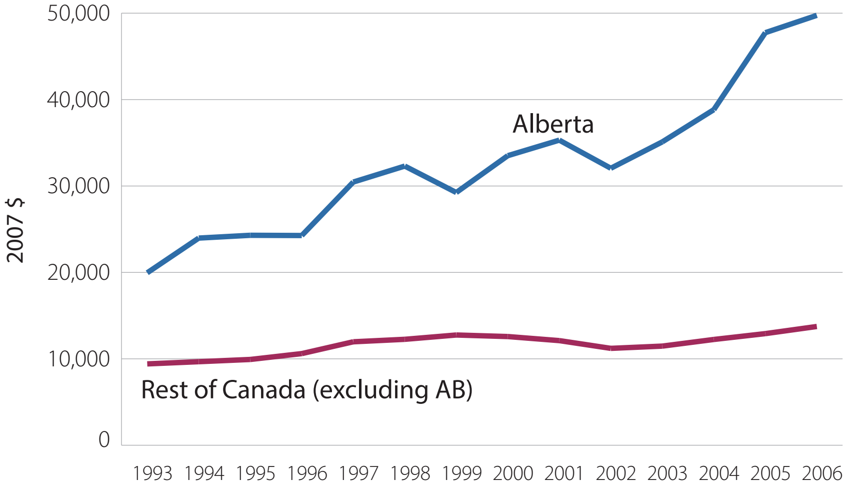
Simply put, Alberta's economy was able to produce employment opportunities not only for Albertans but also for the vast number of Canadians who migrated to the province during this period.[75] This is an important aspect of Alberta's prosperity that is often overlooked, which is that its success allowed the nation to prosper. As noted University of Calgary economist Ron Kneebone pointed out in a recent study, the job creation in Alberta and migration to the province allowed the national unemployment rate to be much lower than it otherwise would have been. For example, Kneebone calculates that in 2014, Canada's unemployment rate would have been 2.2 percentage points higher than it was without Alberta's job creation.[76] In addition, the income measures mentioned above indicate that the jobs produced in the economy were experiencing higher levels of compensation as both GDP per person and disposable income per person were also rising.

The final measure of economic performance, private business investment (adjusted for the number of workers) is perhaps the strongest indicator of the strength of the Albertan economy during this period. Alberta, like Saskatchewan, has traditionally enjoyed a higher level of capital investment by businesses compared to the rest of the country. As illustrated in **figure 12**, which depicts per-private-sector-worker business investment in Alberta and the rest of the country for the period 1993 to 2006, the traditional advantage enjoyed by Alberta was extended during this period as capital investment in the province exploded.

In 1993, Alberta enjoyed a $10,543 (in real 2007 dollars) advantage in business capital investment per private sector worker compared to the rest of the country (figure 12). In other words, in 1993, Alberta was able to attract business investment on a per-worker basis that was $10,543 higher than the rest of the country. That represents a 112.0 percent advantage over the average level of business investment (per private sector worker) in the rest of the country.

Alberta took an already envious position in terms of business investment and established a marked advantage over the rest of the country. In 2006, for instance, Alberta enjoyed a $36,009 (in real 2007 dollars) per-worker advantage over the rest of the country in terms of business investment. That represents a 262.0 percent advantage over the rest of the country.

Figure 12: Business Investment Per Private Sector Employee, Alberta and Rest of Canada, 1993 to 2006



Sources: Statistics Canada, Table 282-0008 (Labour force survey estimates (LFS), by North American Industry Classification System (NAICS), sex and age group, annual), Table 384-0038 (Gross domestic product, expenditure-based, provincial and territorial, annual); calculations by authors.

Note: Business investment includes non-residential structures, machinery and equipment and intellectual property. It excludes residential structures. The figures shown are in chained 2007 dollars.

The strong income growth, job creation, and investment growth was exactly what the Alberta government intended to accomplish when it began to deal with its deficits in the 1990s. Recall the Klein's government's insistence that the deficit be closed with spending cuts, as opposed to tax hikes, since the latter would have much more damaging long-term economic effects.

By cutting spending, the Alberta government was able to get its deficit under control, leading to budget surpluses that reduced the province's debt. The reformed and reduced spending that led to balanced budgets created the platform for tax relief. As former provincial Treasurer Jim Dinning noted in 1994, high taxes damage incentives to work and invest. The corollary is that tax relief—in particular the adoption of the single rate personal income tax and the reductions in the corporate tax rate—enhanced incentives to work and invest. As we have seen, as these reforms were introduced, Alberta experienced rapid income and business investment growth. In other words, the Alberta government had brought an increased level of prosperity to the province, accomplishing exactly what it had set out to do when the province began its journey to the Chrétien Consensus under Ralph Klein.

Chapter 3

Prime Minister Chrétien Introduces the Chrétien Consensus to Ottawa

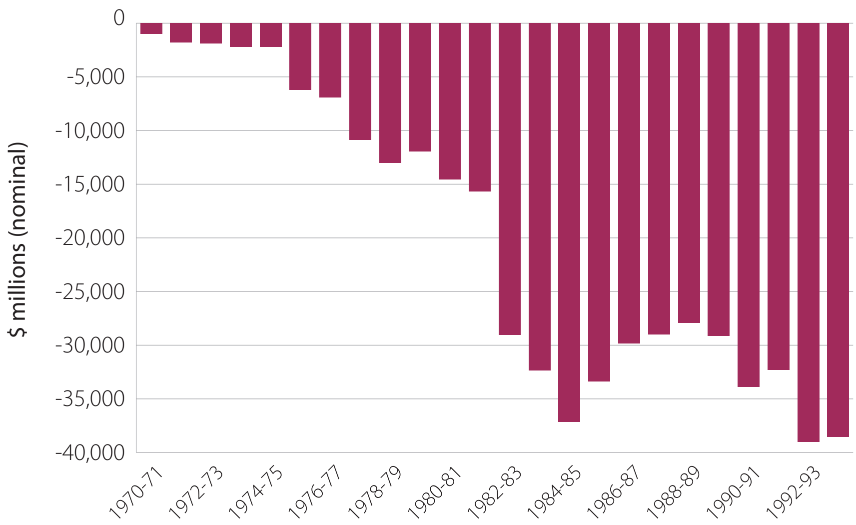
The Liberal Party of Canada led by Jean Chrétien was elected to government in October of 1993 with what only can be described as a unique alignment of opposition parties. The Official Opposition in parliament was the separatist party, the Bloc Quebecois with 54 seats. The third party in parliament was the upstart Reform Party of Canada led by Preston Manning with 52 seats. For context, the Reform Party had no sitting members prior to the 1993 election. The previous governing Progressive Conservative Party was reduced to two seats after the 1993 election.

The finances of the federal government were, put simply, in shambles. The annual deficit, the amount the federal government borrowed to cover spending not financed by revenues, reached $38.5 billion the year the Chrétien Liberals were elected. To put that figure in context, the federal government spent $122.3 billion that year on transfers and programs (excludes interest costs), which meant that almost one-third of its active spending was financed by borrowing.

As depicted in **figure 13**, deficits were not a new phenomenon in Ottawa, which had consistently operated in deficit for decades. Indeed, the last time the federal government had recorded a surplus was in 1969–70, and it amounted to a mere $140 million.[77] However, the size of deficits, that is annual borrowing, had increased in the early 1980s and did not recede despite efforts by the Mulroney Progressive Conservatives during their tenure.

The continued, relentless deficit financing over the years meant that federal debt had accumulated to worrying levels by the time the Chrétien Liberals arrived in Ottawa. Specifically, total federal debt had increased from $20.3 billion in 1970–71 to $527.9 billion in 1993–94.[78]

Figure 13: Federal Fiscal Balance, 1970–71 to 1993–94



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

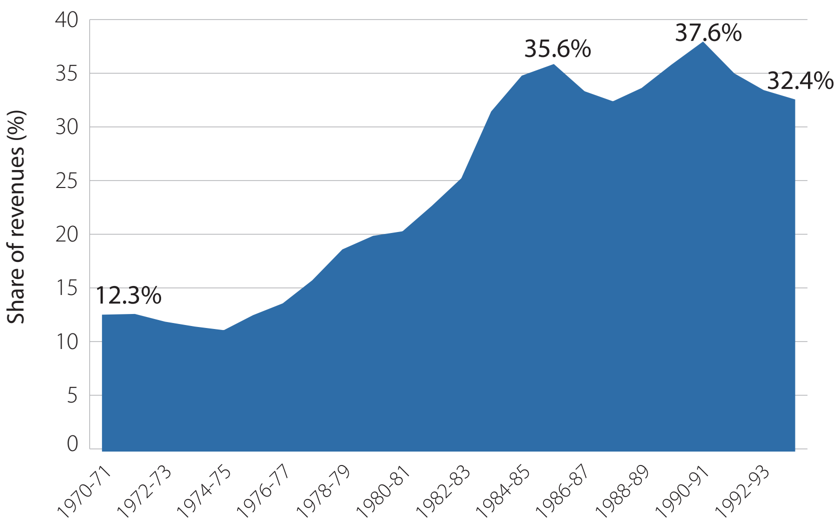
Note: Due to a break in the series following the introduction of full accrual accounting, data from 1983-84 onward are not directly comparable with earlier years.

As discussed previously, debt relative to the size of the economy is an important gauge of a country's ability to manage and maintain its debt. At $527.9 billion, the federal government's net debt in 1993–94 amounted to 70.9 percent of GDP.[79] This means that the accumulated debt of the federal government amounted to the equivalent of 71 percent of every dollar produced in the economy in 1993–94.

And this figure is exclusive of provincial and municipal debt. Given that most provinces had accumulated debt in excess of 30 percent of their respective provincial economies, it meant that including provincial debt, the total combined federal-provincial debt for most provinces was almost 100 percent. This is important since recent research indicates that government debt in excess of 90 percent of the economy imposes costs on the economy in the form of reduced economic growth.[80] In other words, the research suggests that the costs of the accumulated debt observed in Canada exceeded just the direct costs of interest payments and were likely imposing indirect costs in the form of reduced economic growth.

The direct costs of debt accumulation, namely interest costs, were an increasing problem for Ottawa. **Figure 14** illustrates the share of federal revenues consumed by interest costs starting in 1970–71 through to 1993–94, the first year of the Chrétien Liberal government. Interest costs to the federal government begin a steady increase relative to revenues beginning in 1974–75 when they stood at 10.8 percent. By 1985–86, federal interest costs as a share of federal revenues reached 35.6 percent (figure 14). In other words, roughly \$1 in \$3 collected in revenues by the federal government was being spent on interest costs. Interest costs as a share of revenues remained above 30 percent through to 1993–94 when the Chrétien Liberals assumed power.

Figure 14: Federal Interest Costs as a Share of Revenues, 1970–71 to 1993–94

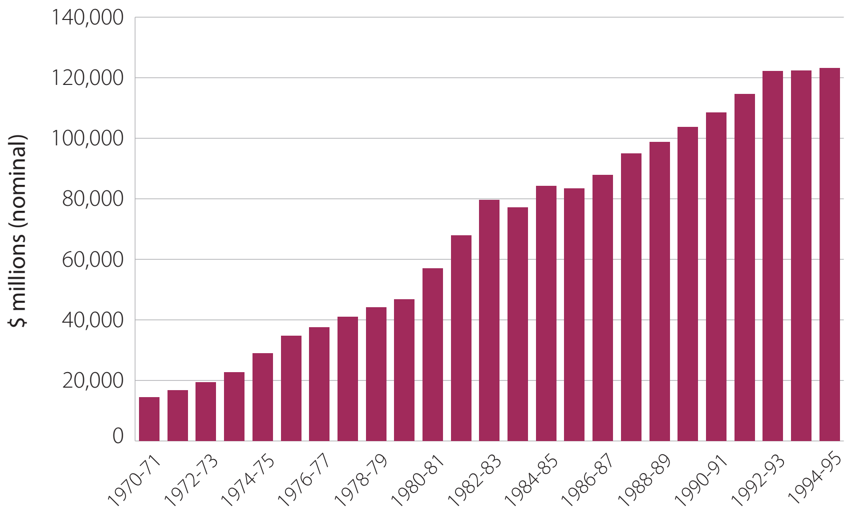


Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp>. Accessed on November 10, 2016.

Note: Due to a break in the series following the introduction of full accrual accounting, data from 1983-84 onward are not directly comparable with earlier years.

The Chrétien Liberals' first budget, delivered in the spring of 1994, was a status quo budget. Federal spending on programs was stabilized in 1994–95 (**figure 15**), with program spending essentially held at the same level as the previous year: proposed program spending increased by 0.8 percent or \$934 million. However, that stabilized level of program spending occurred after a substantial and continuous increase in federal program spending. The

Figure 15: Federal Program Spending, 1970–71 to 1994–95



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Note: Due to a break in the series following the introduction of full accrual accounting, data from 1983-84 onward are not directly comparable with earlier years.

constant march towards ever-higher levels of program spending by the federal government, save for 1983–84, is evident in figure 15.

The Liberals did, however, initiate a process of reviewing spending across the entire federal government. The federal government required every ministry and every minister to evaluate their current spending based on six explicit tests:

1. Serves the public interest.
2. Necessity of government involvement.
3. Appropriate federal role.
4. Scope for public sector / private sector partnerships.
5. Scope for increased efficiency.
6. Affordability.

The implication of the spending review, which at least symbolically was similar to the reforms enacted in Saskatchewan and Alberta, was that the federal government was considering a retrenchment of both federal spending and the federal government's role in the economy.

A number of factors coalesced in late 1994 and early 1995 to create the incentives for fundamental reform in Ottawa and indeed place heightened pressure on the Chrétien government to enact meaningful change. First, the positive results of both the Saskatchewan (NDP) and Alberta (PC) reforms were becoming clear. The purposeful reform and reductions in spending were leading to balanced budgets. In addition, neither of the provincial economies seemed to be suffering from the retrenchment in government spending and indeed there were signs that both provincial economies were actually strengthening.

Second, the Reform Party offered a clear, cohesive, and focused criticism of past fiscal policies that relied on borrowing to finance an ever-expanding federal government. Put simply, the Reform Party helped to explain to Canadians why fiscal and economic reforms were absolutely needed in Ottawa.

Third, the capital markets were clearly beginning to respond to Ottawa's continuing inability to gain control of their finances. While the worry about losing access to credit markets wasn't as pronounced as in Saskatchewan, there were clearly worries about the credit markets including the increasing pressure on the interest costs Ottawa was paying. The upward pressure on interest costs was a sign of the increasing risk perceived by lenders with respect to Ottawa's finances. Short-term rates, for instance, increased from 3.6 percent in January 1994 to 8.2 percent in March 1995,[81] while bond yields on Canada's 10-year bonds increased from 6.39 percent in January to 9.36 percent in July of 1994,[82] both indicators of marked concerns by the credit markets about Ottawa's finances.

Perhaps more telling of the credit market concerns regarding Canada's national finances is the spread between 3-month treasury bills in Canada and the United States. This measure indicates the relative riskiness of the two countries' government finances. The spread increased from basically 0.0 in early 1993 to a high of 0.81 percent in December of 1994, indicating increasing concerns about Canada's finances compared to the US.[83]

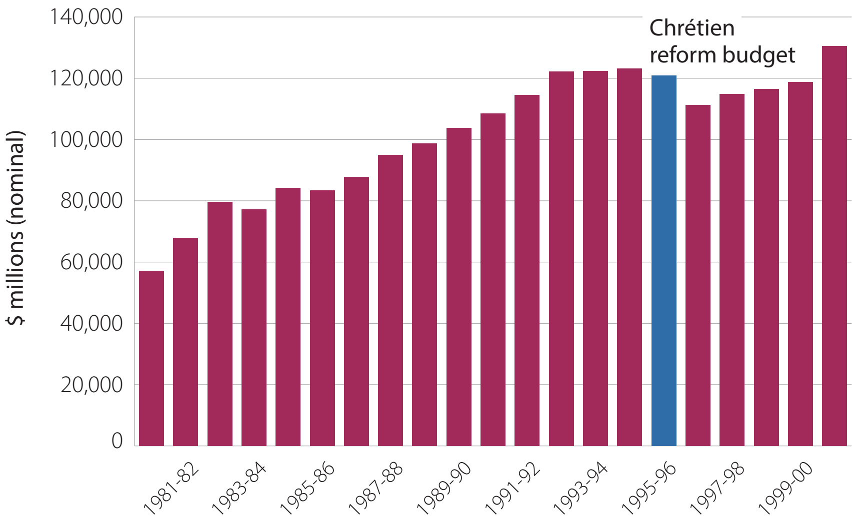
Fourth, an influential editorial appeared in the *Wall Street Journal* in January of 1995 calling into question the long-term stability of the country's finances. The headline of the editorial was "Bankrupt Canada;" it argued that the country had become "an honorary member of the Third World in the unmanageability of its debt problem."[84]

There are a host of other factors that also influenced and ultimately motivated the federal government to act decisively in its second budget, released in the spring of 1995. Finance Minister Paul Martin announced in his budget speech in 1995:

> *The debt and deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is* real*.*
>
> *The* last *thing Canadians* need *is another lecture on the dangers of the deficit.*
>
> *The* only *thing Canadians* want *is clear action.*[85]

The Chrétien government's 1995 budget took real action to finally gain control of federal finances. Over a two-year period, federal program spending was reduced by $11.9 billion, representing a reduction of 9.7 percent (**figure 16**).[86] To reiterate, this was not a reduction in the growth rate of federal spending but rather a direct reduction in the amount of actual program spending done by the federal government.

Figure 16: Federal Program Spending, 1980–81 to 2000-01



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Note: Due to a break in the series following the introduction of full accrual accounting, data from 1983-84 onward are not directly comparable with earlier years.

Critically, nothing was exempted from review, reform, and reductions. The federal government implemented deep reductions in direct spending, including a 51 percent reduction in the Ministry of Transportation, a 38 percent reduction in the Ministry of Industry, a 19 percent reduction in Foreign Affairs, and a 14 percent reduction in Defence.[87] The government also reformed a number of transfer programs to individual Canadians, most notably implementing reforms to the Employment Insurance program.[88] The federal government also introduced reductions to the transfers to the provinces that partially financed social programs and health care, which necessitated reforms by the provinces. However, the federal government also provided the provinces with much more flexibility with respect to how to deliver social programs.[89]

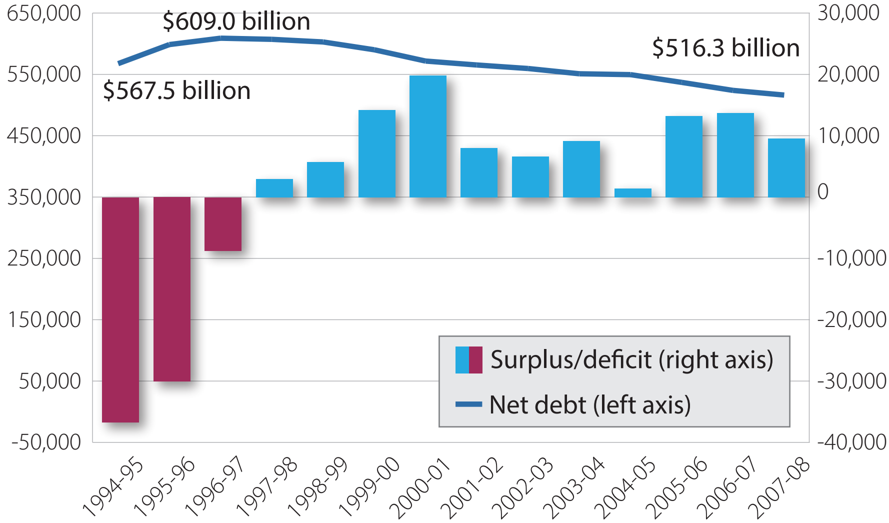
In addition, the federal government constrained the increases in program spending for the following three years after the two-year period of spending cuts. Specifically, the annual increases in program spending in 1997–98, 1998–99, and 1999–00 were limited to 3.1 percent, 1.4 percent, and 2.0 percent.[90]

The figures above do not account for population growth or inflation. The reduction in per-person spending accounting for inflation was much larger than the 9.7 percent reduction in overall program spending. Specifically, the federal government reduced per-person program spending (adjusted for inflation) from \$6,306 in 1993–94 to \$5,329 in 1999-00, which represents a reduction of 15.5 percent.[91]

Like the reforms in Saskatchewan and Alberta, the spending reforms and reductions in Ottawa meant that the federal government was playing a smaller role in the national economy. Federal program spending as a share of the economy (GDP) fell from 16.4 percent in 1993–94 (first year of the Chrétien government) to 12.7 percent in 1997–98.[92]

It would be difficult to overstate the immense importance of the spending reforms and reductions implemented by the federal government in 1995. The federal government went from running a deficit of \$36.6 billion in 1994–95 to achieving a \$3.0 billion surplus in 1997–98 (**figure 17**). In other words, it only took two years of spending reforms and reductions coupled with one year of restraint to achieve a balanced budget. Notably, though the deficit reduction plan did include some tax hikes,[93] the bulk of the action undertaken to achieve a balanced budget consisted of spending reform and reductions.

Figure 17: Federal Fiscal Balance and Net Debt, 1994–95 to 2007-08



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

The consistent surpluses recorded by the federal government beginning in 1997–98 allowed it to reduce federal debt. Federal net debt was reduced from a high of $609.0 billion in 1996–97 to $516.3 billion in 2007-08 (figure 17). This represents a 15.2 percent reduction in the federal government's net debt, which recall is a measure of total debt adjusted for any financial assets.

The decline in the debt as a share of the economy was even more pronounced. From a peak of over 70 percent of the economy, the federal debt was reduced to 32.8 percent of the economy (GDP) by 2007–08. In other words, the real burden of the federal government's debt as measured by its relative size to the economy was reduced by more than 50 percent.

The last aspect of the virtuous cycle of fiscal policy implemented by the federal government was the reduction in interest costs. Recall from the previous discussion that prior to the reforms Ottawa was spending roughly one-third of its revenues on interest costs. By 2007–08, interest costs had declined to 13.6 percent of revenues. In other words, the government went from spending 32.4 cents of every dollar in revenue on interest payments in 1993–94 to spending only 13.6 cents in 2007–08.[94]

Lower interest costs and the elimination of the deficit meant that, as was the case in Saskatchewan and Alberta, the federal government was able to turn its attention to improving the country's tax competitiveness.[95] Finance Minister Paul Martin noted as much in his 1997–98 budget address when he stated that the government could only consider tax reduction because "of the progress we have made in reducing the deficit and restoring responsible financial management over the last three years."[96] In 1997–98, for the first time in almost three decades, the federal government achieved a surplus and Minister Martin stated unequivocally in his budget speech:

> *Mr. Speaker, let me set out our policy and our commitment on the issue of taxation.*
>
> *Our goal is straightforward. It is to reduce taxes.*[97]

Over the following years, a number of critically important tax reductions were implemented that both made Canada more competitive with other industrial countries and improved the incentives within Canada for work effort, investment, savings, and entrepreneurship.

A number of reductions were made to personal income taxes. In 1999, the 3 percent general surtax[98] on personal income was eliminated and in 2001 the 5 percent high-income surtax was also eliminated. In addition, the middle personal income tax bracket was reduced from 26 percent to 25 percent in 2000 and the following year it was further cut to 22 percent. In 2001, a new tax bracket was also established to reduce the tax rate on income between $61,510 and $100,000 from 29 percent to 26 percent. In later years, the tax rate in the first income tax bracket would be reduced from 16 percent to 15 percent and the personal exemption increased.[99]

The federal government of Prime Minister Chrétien displayed incredible leadership on beginning a process that lasted well into the next government of reducing business taxes. Like Saskatchewan and Alberta, the federal government recognized the need to achieve better business tax competitiveness.

Interestingly, like Saskatchewan and Alberta, the federal government relied on an independent commission[100] to review Canada's business taxes and make recommendations, most of which were adopted and implemented by the federal government.

Specifically, the federal government reduced the corporate income tax rate from 29.12 percent in 2000 to 22.12 percent[101] in 2004 (and then to 15 percent by 2012), making Canada a more attractive place for businesses to invest and expand. The corporate income tax reductions were complemented in 2006 by the elimination of the federal general corporate capital tax, which was a particularly damaging tax.[102]

The capital gains tax, which while not representing a material amount of revenue to the federal government has been demonstrated to be a particularly costly tax with respect to entrepreneurship and thus economic growth,[103] was also reduced. In 2000, the proportion of capital gains income that was counted as taxable income was reduced from 75 percent to 66.7 percent, and in 2001 it was reduced further to 50 percent.

The various tax reforms and reductions implemented by the Chrétien government, which in many ways exactly paralleled the changes in Saskatchewan and Alberta, solidified the consensus about the benefits and wisdom of fiscal policy based on balanced budgets, declining debt (and interest costs), smarter and smaller government spending, and tax competitiveness. Like the economic experience of Saskatchewan and Alberta, the Canadian economy benefited markedly from the establishment of the Chrétien Consensus at the national level.

Prior to delving into the performance of the national economy versus other countries, it is helpful to understand the breadth of the Chrétien Consensus across Canada during this period. Detailed information has been presented regarding the reforms in Saskatchewan and Alberta, but it is important to understand that the Chrétien Consensus existed across the entire country. **Table 1** contains summary information regarding the spending reform period for each of the provinces during the 1990s.

Several aspects of table 1 are worth noting and considering. First, every province except for British Columbia introduced some level of spending reform and reductions in the 1990s; BC introduced their Chrétien Consensus reforms starting in 2001. The reductions ranged from 0.9 percent in New Brunswick to 21.6 percent in Alberta.

Table 1: Provincial Reductions in Total Nominal Program Spending

	Total Reduction	Period of Reform[1]	Number of Years	Government in Power
NL	-3.5%	1992-93 to 1993-94	1	Liberals
PEI	-5.0%	1994-95 to 1995-96	1	Liberals
NS	-3.0%	1992-93 to 1994-95	2	Progressive Conservatives & Liberals[2]
NB	-0.9%	1992-93 to 1993-94	1	Liberals
QC	-4.6%	1994-95 to 1996-97	2	Parti Québécois
ON	-3.8%	1995-96 to 1998-99	3	Progressive Conservatives
MB	-3.1%	1992-93 to 1993-94	1	Progressive Conservatives
SK	-14.4%	1991-92 to 1996-97	5	NDP
AB	-21.6%	1992-93 to 1995-96	3	Progressive Conservatives
BC	N/A	N/A		N/A

Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Notes:
(1) The period of reform refers to the fiscal periods of the provinces, which run from April to March.
(2) The reform period included the PC government of Premier Cameron and the Liberal government of Premier Savage.

Second, the period of spending reform and reduction ranged generally from 1 to 3 years. This is important since there is often a belief that such reforms take decades when in fact the data and experience tell us that periods of reform are actually rather short.

Third, and quite critically, the Chrétien Consensus reforms were implemented by governments of all political parties and ideological predispositions. Liberals, the New Democratic Party (NDP), Progressive Conservatives (PC), and the Parti Québécois (PQ) all introduced some mix of balanced budgets, reductions in debt, smaller and smarter government spending, and tax relief.

Canada outperforms other industrialized countries

Canada's strong economic performance following the reforms went contrary to the predictions of many economists and critics who based their expectations on a Keynesian understanding of how economies function and prosper. They believed that cutting back government spending, particularly over such a truncated period, would result in slow or even negative economic growth.

Instead, the austerity measures implemented by the governments following the Chrétien Consensus resulted in stronger, not weaker economies.

Like the economic assessments presented in the Saskatchewan and Alberta sections, what follows examines gains in income, employment, and investment compared to other industrialized countries for Canada as a whole. The comparisons are based on data provided by the Organisation of Economic Co-operation and Development (OECD).[104] The OECD is an international organization for industrialized countries and thus the data for OECD countries tends to only include prosperous, industrialized countries.

Between 1997 and 2007, average annual real GDP growth (after adjusting for inflation) among the 30 industrialized countries that made up the OECD was 2.7 percent compared to 3.2 percent for Canada.[105] In other words, over this ten-year period, Canada grew, on average, a half-percentage point more than the average for all the other industrial countries in the world. This may seem like a small difference, but such differences mean quite a bit both in the short term and particularly over the longer term. For instance, small differences in the short term tend to result in stronger job markets and employment gains.

Over the longer term, these small differences compound to result in large differences in income gains. For example, over the ten-year period, total real GDP growth was 36.6 percent in Canada compared to 30.9 percent among the OECD as a whole. Notably, during this time Canada achieved a higher rate of GDP growth than all of the other six countries in the G7—France, Germany, Italy, Japan, the United Kingdom, and the United States.

These figures do not, however, account for the effects of changes in population. Of the richest seven countries in the world, the G7, Canada outperformed every country except the United Kingdom between 1997 and 2007 for gains in per-person GDP adjusted for inflation. Specifically, Canada experienced an average annual increase in per-person GDP (adjusted for inflation) of 2.2 percent while the OECD average was 2.0 percent.[106]

Given Canada's comparatively strong income growth (GDP growth), it is no surprise that Canada recorded incredibly strong job creation during this period. The average annual increase in employment growth from 1997 to 2007 was 2.0 percent in Canada, which was the sixth best among the thirty OECD countries.[107] It was nearly double the rate of employment growth across the OECD (1.1 percent) as well as in the United States (1.3 percent).[108]

Canada's economic performance was also better than most other OECD countries in terms of business investment.[109] As noted previously, business investment forms the foundation for future economic growth and is one of the keys for workers to be more productive and thus earn higher wages. From 1997 to 2007, Canada experienced an average annual increase of 5.0 percent in business investment (after adjustment by inflation), which was higher than any G7 country during this period and markedly higher than the 4.6 percent average annual increase in the United States.[110]

The superior economic growth, job creation, and business investment enjoyed by Canada during this period allowed real gains to be made with respect to poverty rates in the country. The poverty rate in Canada fell from 7.8 percent in 1996 to 4.9 percent in 2004 and the child poverty rate declined from 10.9 percent to 5.8 percent.[111]

The Chrétien Consensus, which spread across the country throughout the 1990s, meant a fairly consistent set of policies existed from coast to coast based on balanced budgets, declining government debt, smarter and smaller government spending, and competitive taxes. This mix of policies, what we have termed the Chrétien Consensus, established a notably positive environment in Canada for business investment and entrepreneurship. The results, contrary to many who predicted dire economic times, were strong economic growth, large-scale job creation, strong business investment, and falling poverty rates. In short, the Chrétien Consensus delivered the economic results for the better part of a decade that most Canadians agree we want more of—and yet, as the next section shows, we as a country have markedly moved away from this consensus.

Chapter 4

Myths of the Chrétien Consensus

Previous chapters have described how, despite detractors insisting that reductions in government spending would hurt economic growth, the Canadian economy flourished during and following the adoption of the Chrétien Consensus.[112] It is also more than just a coincidence that Canada and indeed many countries are now suffering from slow economic growth as both Canada and many other countries, particularly the United States, moved away from the successful policies of the 1990s and early 2000s.

In order to appreciate the importance of the Chrétien Consensus policies as a platform for prosperity, it is important to respond to some of the key criticisms and alternative explanations for the prosperity enjoyed throughout the 1990s and early 2000s. The key explanations offered to minimize the role of the Chrétien Consensus are a strong American economy that lifted up Canada as essentially a bystander, changes in the exchange rate that favoured Canada and our export sector, falling interest rates, and rising commodity prices. While each of these factors contributed positively to the economic success enjoyed by Canadians during and after the period of reform, they cannot by themselves explain the depth or longevity of the prosperity. Each of these explanations is dealt with individually in this section.

1) Canada Outperformed the United States

While some point to global economic conditions and in particular a robust American economy as making strong economic growth in Canada inevitable,[113] the primary failure of this claim lies in the fact that, as described in the previous chapter, Canada actually outperformed the United States and most other industrialized countries from 1997 to 2007. During this period, Canada enjoyed larger increases in GDP per capita, employment, and business investment than the United States and most other OECD countries.

Furthermore, if it were indeed true that Canada's economic success during this decade could be attributed to economic growth in other countries, it would be expected that Canada's economic growth during this time was driven by growth in exports to other countries, and in particular to the United States. The logic is that increased prosperity in the United States and in other countries increased their demand for Canadian goods and services, which in turn would result in increased Canadian exports to those countries. The available empirical evidence does not, however, support this view of Canada's prosperity.

First, as a share of the economy, exports increased only slightly—from 33.2 percent in 1997 to 34.2 percent in 2007.[114] If the theory of a booming export market driven by success in other countries was a strong argument explaining Canada's prosperity, we would expect to see a larger proportional share in exports relative to the rest of the economy, which we simply don't see in the data.

In addition, the slight increase in exports as a share of the economy observed during this period was not driven by exports to the United States. According to Statistics Canada, which provides information on large exporting firms,[115] the United States accounted for 81.4 percent of Canadian exports in 1997 but by 2007 this figure had actually dropped slightly to 79.1 percent.[116] Again, if we assume that the strong US economy was the source of Canadian prosperity during this period, then at the very least we would expect to see exports to the US increase as a share of the total, which they didn't.

Finally, while Canadian exports did increase slightly relative to the size of the economy as noted above, imports from other countries grew even faster. As a result, net exports (exports minus imports) actually fell to 2.1 percent of the economy by 2007, down from a high of 9.3 percent in 2001 and lower than the 6.1 percent of GDP it represented in 1997. This data signals a strong domestic market within Canada rather than prosperity being driven by factors outside of the country such as a booming US economy.

The claims that Canadian economic growth was driven solely by global and/or American economic growth fail to account for the fact that Canada actually outperformed the United States and most other industrialized countries following its period of reforms. These claims are also contradicted by the fact that net exports shrank to 2.1 percent of GDP by 2007, which indicates that it was not net export growth that fueled Canada's economic prosperity from 1997 to 2007. While Canada would have no doubt benefitted from an American economic boom, we likely would not have been able to outperform the US and thus enjoy even greater prosperity without the foundation of the Chrétien Consensus.

2) The Loonie's Decline—And Subsequent Rise

Some skeptics of the role played by the Chrétien Consensus attribute Canada's fiscal and economic turnaround in the 1990s to a depreciation of the Canadian dollar, principally with respect to the US dollar. Currency fluctuations, specifically the depreciation of the Canadian dollar, can make Canadian goods and services cheaper to foreigners, which boosts Canadian exports. This is in fact what happened for part of the 1990s. Indeed, the data does show that increased net exports contributed to Canadian GDP growth during the 1990s.[117]

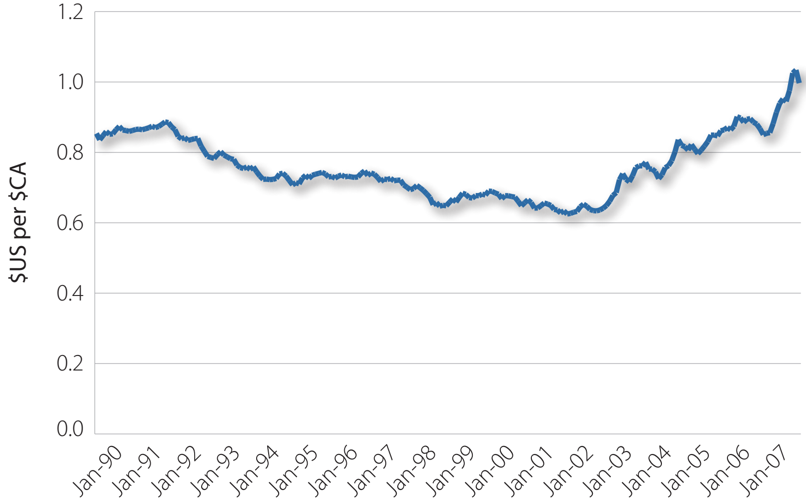
However, such currency fluctuations do not in any way improve the long-term prospects for economic growth and prosperity because they don't alter the underlying fundamentals of the economy. In other words, they don't make the economy inherently more productive. Indeed, currency fluctuations can often shelter an economy from making structural changes that actually improve the fundamentals of the economy and thus the long-term prospects for economic growth and prosperity.

However, the exchange rate and net exports explanations fail to explain Canada's superior economic performance during the entire period in question: 1997 to 2007.[118] As **figure 18** demonstrates, the Canadian dollar began to appreciate in 2002 and continued to gain value against the US dollar for the entire remaining period covered by figure 18. Indeed, the Canadian dollar was essentially at parity by the end of 2007.

If the "lower Canadian dollar equals prosperity" argument held, then the Canadian economy should have experienced material or even severe contradictions when the Canadian dollar appreciated precipitously against the US dollar, the currency of our chief trading partner. But the data already presented shows how Canada prospered throughout the 1997 to 2007 period, which includes both periods of appreciation and depreciation of the Canadian dollar.

That is not to say the appreciation of the Canadian dollar did not adversely affect some sectors of the Canadian economy, particularly certain sectors of Ontario's manufacturing sector. As Philip Cross, former Chief

Figure 18: US-Canada Foreign Exchange, 1990 to 2007



Source: Statistics Canada, Table 176-0064 (Foreign exchange rates in Canadian dollars, Bank of Canada, monthly). Accessed on July 21, 2016.

Analyst of Statistics Canada, has demonstrated, there were several sub-sectors of manufacturing in Ontario that expanded based on the depreciating currency in the late 1990s.[119] These sectors were adversely affected by the appreciation of the Canadian dollar beginning in 2002 since almost all of their competitive advantage was based on a depreciating currency. However, the argument that the depreciating currency broadly explains Canada's prosperity during this period is not supported by the data or analysis available.

While the currency depreciation in the early 1990s may have boosted exports in the short term, it cannot explain the longer-term success of the Canadian economy. In addition, the appreciation of the currency did not result in dire economic performance for Canada. Again, the root of the success of the Canadian economy was the sound fundamentals achieved through the Chrétien Consensus.

3) What About the Interest Rate?

Claims that a falling interest rate as opposed to strong fiscal policy was the cause of Canada's superior economic performance relative to other industrialized countries are also misplaced. Firstly, the decline in the interest rate should be seen at least in part as a result of the successes of the Chrétien Consensus, as opposed to something used to diminish its importance.

When governments run deficits (borrow money to cover the excess of operating spending over revenues), they compete with private borrowers for limited funds, which drives up the cost of borrowing money (interest rates).[120] In this way, government borrowing actually "crowds out" private borrowing. The corollary is that reducing government borrowing makes it easier for individuals, business, and entrepreneurs to borrow and invest. In addition, economist Robert Murphy has noted the following:

> *Moreover, beyond the simple reverse crowding out effect, is the fact that international investors became reassured that the Canadian government was good for its bonds; in 1995 it was actual* crisis*—people were beginning to worry that the Canadians would default. So it's not shocking that yields on Canadian debt would fall amidst the belt tightening.*[121]

It was the attack on deficits and the reduction in debt, therefore, that helped in part to lower the interest rate in the 1990s. By repairing the federal government's finances, the Chrétien government made Canadian debt less risky, which meant that buyers of this debt would not demand as high interest rates since the risk had declined.[122] The declining riskiness of Canadian debt is shown by the improvements in the government debt credit rating following the reforms implemented by the Chrétien government (**table 2**). Across all three major credit rating agencies, Canada's assessed risk declined over the course of the Chrétien Consensus period.

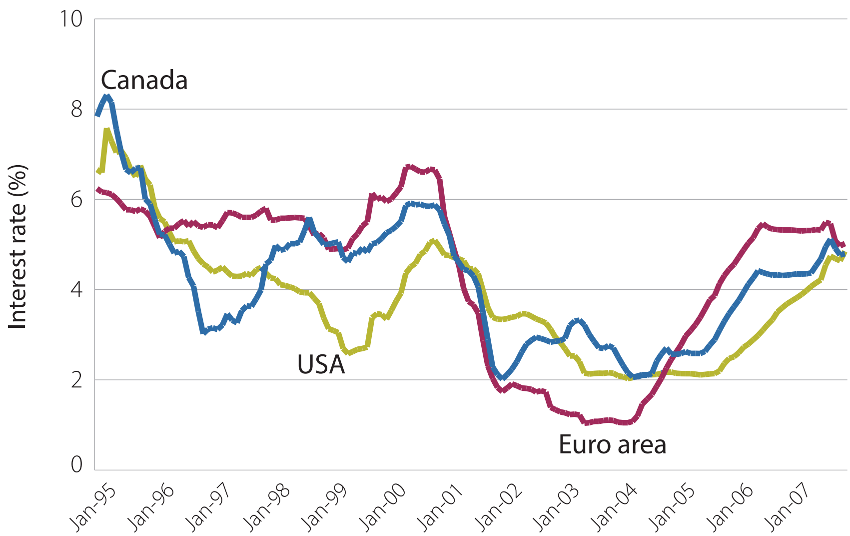
Table 2: Canada's Credit Rating

Agency	Credit Rating	Outlook	Date
Moody's	Aa2	Stable	April 12, 1995
	Aa2	Positive Watch	April 6, 2000
	Aa1	Stable	June 21, 2000
	Aaa	Stable	May 3, 2002
Standard & Poor's	AA+	Negative	March 3, 1995
	AA+	Stable	February 24, 1997
	AAA	Stable	July 29, 2002
Fitch	AA	N/A	August 10, 1994
	AA	Stable	September 21, 2000
	AA+	Stable	April 3, 2001
	AA+	Stable	September 20, 2002
	AAA	Stable	August 12, 2004

Source: Trading Economics (undated). *Canada Credit Rating*. <http://www.tradingeconomics.com/canada/rating>. Accessed on July 18, 2016.

Secondly, while a declining interest rate may provide an explanation for strong economic performance from 1997 to 2007, it cannot explain superior economic performance, given that other countries also benefited from the same general decline in interest rates. On average, from 1997 to 2007 the short-term interest rate in Canada was not much lower than in the United States and was higher than in the Euro area (19 countries),[123] and the movement in the interest rate in Canada was similar to that in the United States (**figure 19**).

Figure 19: Short-Term Interest Rates for Canada, the US, and the Euro Zone, 1995 to 2007



Source: OECD, Monthly Monetary and Financial Statistics (MEI), <http://stats.oecd.org/Index.aspx?DataSetCode=MEI_FIN> (accessed July 21, 2016).

Notes: Short term rates are usually either the three month interbank offer rate attaching to loans given and taken amongst banks for any excess or shortage of liquidity over several months or the rate associated with Treasury bills, Certificates of Deposit or comparable instruments, each of three month maturity. For Euro Area countries the 3-month "European Interbank Offered Rate" is used from the date the country joined the euro.

Euro area is referring to the evolving composition of the Euro area. Data prior to 2001 refer to EU11 (Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland). Data from 2001 to 2006 refer to EU12 (EU11 plus Greece). Starting in January 2007, data refer to EU13 (EU12 plus Slovenia).

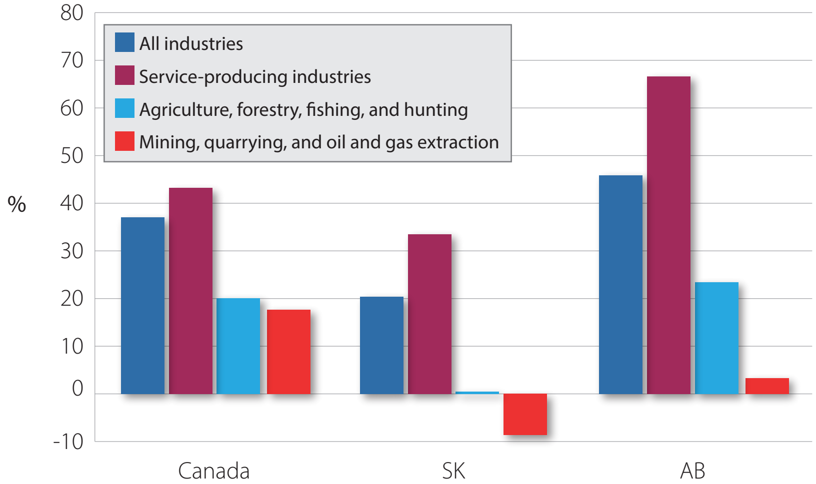
As the data shows, changes in the interest rate cannot explain Canada's superior relative economic performance from 1997 to 2007. So like previous sections, the declining interest rates can explain part of the country's success but not all of it. The sound fiscal and economic policies embedded in the Chrétien Consensus created an environment supportive of economic prosperity and success.

4) Services-Producing Industries, Not Commodities, Drove GDP Growth

Lastly, claims that rising commodity prices were the sole source of economic growth in Canada following the reform years are also contradicted by the data. The key commodities produced in Canada fall into four areas: agriculture and fisheries products, forestry, metals and minerals, and energy.[124] There are two considerations in this argument. One, how fast did each relative sector of the economy grow during this period. And two, did the proportion of the economy overall change over the period. If the claim that commodity-oriented sectors of the Canadian economy drove prosperity during this period is true, we would expect them both to experience higher rates of growth and to represent a larger share of the economy over time. As the following data will show, neither of these things happened.

Figure 20 illustrates the cumulative growth in select sectors of the economy as well as overall for Canada, Saskatchewan, and Alberta, two of the more commodity-oriented economies in Canada. There are several aspects of figure 20 worth noting in regard to the assertion that it was high commodity prices and growth in these sectors that drive the Canadian economy.[125] First, for Canada as a whole as well as Saskatchewan and Alberta, the two commodity-oriented sectors (namely agriculture, forestry, fishing, and hunting, and mining, quarrying, and oil and gas extraction) grew more slowly than the economy as a whole. Second, in all three jurisdictions it was the service-producing sector that grew more strongly relative to the total growth in the economy.[126] And third, in all three jurisdictions, the mining, quarrying, and oil and gas extraction sector grew the least of the sectors analyzed, including the other commodity-oriented sector (agriculture, forestry, fishing, and hunting). The comparative growth rates of the commodity-oriented sectors of the economy did not experience pronounced growth relative to other sectors of the economy. This is the exact opposite of the outcome one would expect if commodity-oriented sectors of the economy were driving economic growth and prosperity during this period.

Figure 20: Growth in Select Sectors of the Economy, 1997 to 2007



Sources: Statistics Canada, Table 379-0030 (Gross domestic product at basic prices, by North American Industry Classification System, provinces and territories, annual), Table 379-0031 (Gross domestic product at basic prices, by North American Industry Classification System, annual); calculations by authors.

Notes: The numbers reflect the overall growth in real terms over the period selected.

The second aspect of the argument is the relative share of the economy represented by the different sectors over the time period covered. Again, one would expect the commodity-oriented sectors to represent a larger share of the overall economy over time. However, the data shows the exact opposite result. Mining, quarrying, and oil and gas accounted for 9.8 percent of the Canadian economy in 1997 but by 2007 this had fallen to 8.4 percent. The same sector accounted for 32.5 percent of Saskatchewan's economy and 39.9 percent of Alberta's economy in 1997, but ten years later it had dropped to only 24.7 percent in Saskatchewan and 28.2 percent in Alberta.[127]

Meanwhile, service-producing industries grew as a share of the Canadian economy from 65.0 percent in 1997 to 67.9 percent in 2007. Similarly, in Saskatchewan and Alberta, service-producing industries as a share of the economy grew from 49.4 percent to 54.8 percent and from 45.2 percent to 51.6 percent, respectively.

That economic growth in Canada was actually slower in the industries associated with Canada's key commodities than in the services-producing industries demonstrates that Canada's strong economic performance was not solely dependent on commodity prices.

Not External Factors That Drove Canada's Economy

As we have shown, a strong US economy, changes in the exchange rate, a decline in the interest rate, and rising commodity prices cannot *by themselves* explain Canada's superior economic performance from 1997 to 2007. Canada outperformed the United States and most other industrialized countries during this period in part because the domestic economy was strong. The environment created by the Chrétien Consensus allowed for stronger economic growth and prosperity by focusing government spending on areas of high priority and leaving individuals, businesses, and entrepreneurs to make more decisions within the economy.[128] In addition, the combination of balanced budgets and declining debt made for a more certain business environment, which is more conducive to and supportive of investment and business development. Finally, the focus on tax competitiveness meant that the incentives for work effort, investment, and entrepreneurship were stronger both in absolute terms and compared to many of our competitors. That is not to say that the factors covered in this chapter did not influence or affect economic performance, but rather to say that they are not the sole or even primary explanations for the prosperity enjoyed by Canadians for the better part of a decade and a half.

Chapter 5

Ontario and Alberta Move Away from the Chrétien Consensus

The previous chapters summarized how the policies of the Chrétien Consensus, namely balanced budgets, declining government debt, focused and prioritized government spending, and competitive taxes established a foundation for prosperity across the country. This chapter and the next pose the question for which the book is named: has the Chrétien Consensus ended? Several governments, particularly Ontario, Alberta, and more recently the federal government, have noticeably and purposefully moved away from the principles of the Chrétien Consensus. Deficit-financed increases in government spending, rising government debt, and tax increases have been the consensus policies for a number of Canadian provinces and the federal government. This section chronicles the decisions of both Ontario and Alberta in terms of how they moved away from the Chrétien Consensus.

1) Ontario: First to break from the Chrétien Consensus

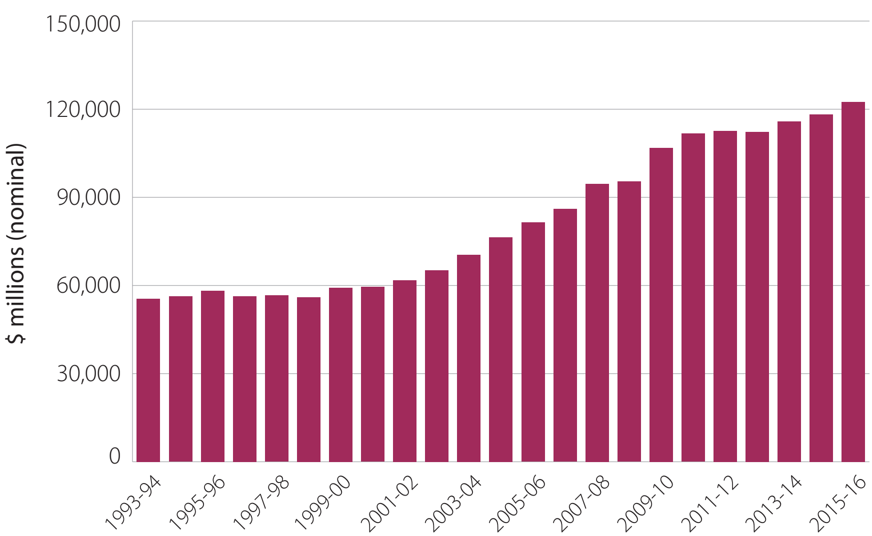
The departure from the Chrétien Consensus began in Ontario between roughly 2002 and 2004. While identification of when the Chrétien Consensus was adopted in most jurisdictions is fairly straightforward, determining the exact timing of the departure is much more tenuous, particularly when the move away from the Chrétien Consensus was incremental.

It's first important to understand that the 2002–2004 period in Ontario's political history is one of transition. Two-term Premier Mike Harris of the Progressive Conservatives, who led the introduction of Chrétien Consensus policies in the province, resigned in April of 2002. His former finance minister, Ernie Eves, ascended to the premiership by winning the leadership of the PC Party. However, Premier Eves and the PCs lost the election in October 2003 to the Liberal Party of Ontario, installing Dalton McGuinty as Premier.

Figure 21 shows the level of provincial program spending in Ontario from 1993–94 to 2015-16. The period of restraint in the growth in program spending from 1993–94 through to 2000–01 is fairly evident. The average annual growth in program spending during this period was only 1.0 percent, which was less than population growth and inflation. In other words, during this period the provincial government in Ontario was increasing program spending but at a rate that was less than the rates at which the population was growing and prices increasing (inflation), such that per-person program spending was declining.

Beginning in 2001–02, the growth in annual program spending started to increase. It reached 4.0 percent in 2001–02, 5.3 percent in 2002–03, and 8.1 percent in 2003–04 (figure 21). From a government spending perspective, it's clear that by 2003–04 restraint on the growth in government program spending had ended. Indeed, from 2003–04 to 2010–11, when the provincial government began to genuinely try to restrain spending again, average annual growth in program spending was 7.0 percent.

Figure 21: Ontario Program Spending, 1993–94 to 2015–16



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

Notes: Starting in 1993-94, all numbers are presented based on the Public Sector Accounting Board accounting system.

Due to a break in the series, data from 2001-02 onward are not directly comparable with earlier years. Notably, education property taxes are reported as revenue, whereas previously they were netted against expenditures.

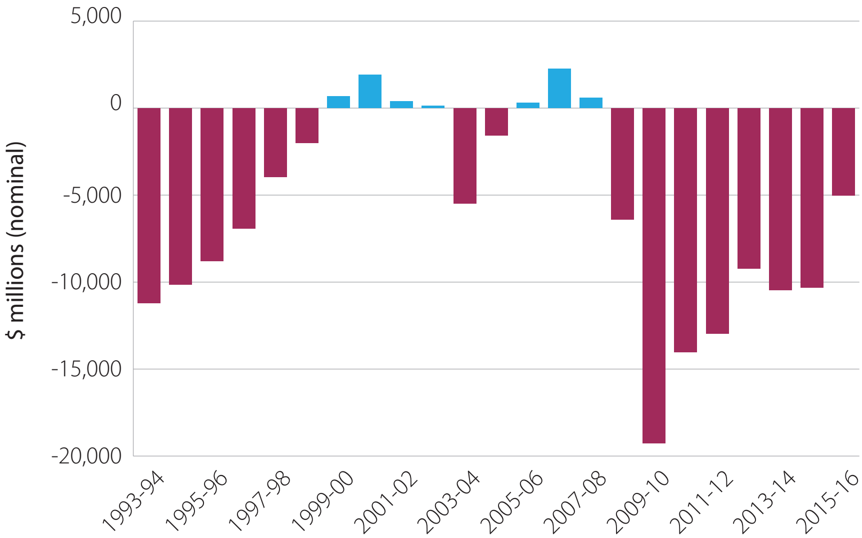
To understand the extent of the spending increases, consider that the per-person spending by the provincial government, adjusting for inflation (in real 2015 dollars), increased from $6,757 in 2001–02 (a low point during this period) to a peak of $9,300 in 2010–11, which is an increase of 37.6 percent.[129] Put simply, the Ontario government rapidly increased spending between 2001–02 and 2010–11. This type of rapid increase in spending, particularly when it was not well prioritized or targeted, is antithetical to the principles of the Chrétien Consensus.

As discussed in previous chapters, one of the central tenets of the Chrétien Consensus was a smaller, smarter role for government in the economy. The exact opposite is seen in Ontario during this period. The increase in government program spending meant that as a share of the economy, the provincial government would play a larger, more active role. Specifically, the share of the Ontario economy represented by the provincial government increased from 13.2 percent in 2002–03 to 15.7 percent in 2008–09. It spiked further in response to the global recession in 2008 and 2009, reaching 17.9 percent in 2009–10. It has since fallen slightly to 16.4 percent, which is still markedly above the 13.2 percent recorded in the early 2000s.[130] Simply put, the Ontario government comes to play a larger, more prominent role in the provincial economy.

A second sign of the deterioration of the Chrétien Consensus in Ontario was the willingness to finance its growing spending with deficits, as illustrated in **figure 22**. The Progressive Conservative government of Ernie Eves was the first government during this period to operate in deficit. The first term of the McGuinty Liberal government saw improvement, moving from a deficit of $5.5 billion in 2003–04 to a surplus in 2007–08 of $600 million. However, the combination of the 2008–09 recession[131] and an unwillingness on the part of the provincial government to restrain spending growth (figure 21) resulted in a string of large deficits beginning in 2007–08. Specifically, deficits between 2007–08 and the projections for 2015–16 ranged between $6.4 billion and $19.3 billion (figure 22).

Given the deficits, particularly the large deficits post-2007–08, there has been a pronounced increase in government debt in Ontario, which is yet another sign of the departure from the Chrétien Consensus. In 2002–03, the provincial net debt stood at $132.7 billion, or about 26.8 percent of the provincial economy. The estimate for 2015–16 is that the province's debt will

Figure 22: Ontario Fiscal Balance, 1993–94 to 2015–16



Source: Department of Finance, *Fiscal Reference Tables* (October 2016), retrieved from <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> on November 10, 2016.

reach $305.2 billion, an increase of 130.1 percent. As a share of the economy, the province's debt now stands at 40.0 percent, which is second behind only Quebec in terms of the size of the provincial debt.[132]

One important aspect to note about Ontario's debt burden is the nature of the debt. Readers know from their own finances that it is often reasonable or even prudent to take on debt, for example, to buy a house, since the benefits of the purchase will last for decades over which time the money can be paid back. Similarly, it can make sense for government to borrow money to build roads and other infrastructure so as to spread the cost of these assets over the multiple generations that benefit from their use, assuming that multiple generations will indeed benefit from such spending.[133]

However, most of the recent debt accumulated by the Ontario government has not been of this kind. Rather, the government has been running operating deficits—in other words, borrowing money to finance current spending. Operating deficits were responsible for two-thirds of the increase in Ontario's debt from 2009–10 to 2014–15 and, according to University of Calgary professor Jean-François Wen, would account for about 52 percent of the increase in debt over the 2002–03 to 2017–18 period.[134]

The final component of the Chrétien Consensus to unravel in Ontario was tax competitiveness. Interestingly, the Liberals campaigned in 2003 on not raising taxes "without the explicit consent of Ontario voters."[135] In other words, the soon-to-be-governing Liberals were signaling to Ontario voters that any deficit would be dealt with through spending reductions or tax increases that would be approved by referendum.

This promise was quickly broken as Premier McGuinty immediately moved the province away from the core principle of the Chrétien Consensus of competitive taxes. In fact, the day after the CBC reported that the "government has no intention of raising taxes"[136] based on comments made by the Ontario finance minister, Premier McGuinty announced he would reverse the corporate tax cuts and cancel the proposed future income tax cuts proposed in the 2003 budget.[137]

In the very first budget of the Liberal government, the corporate tax rate, which stood at 12.5 percent and was scheduled to be reduced to 11 percent (and eventually to 8 percent by 2006),[138] was increased to 14 percent.[139]

The 2004 budget also introduced a new tax, called the Ontario Health Premium, which when fully implemented would require each Ontarian to pay up to $900 a year, depending on their taxable income.[140]

In addition, income tax rates applied to the province's top earners were increased in 2012 and again in 2014. The income tax change in 2012 increased the marginal tax rate on income over $500,000 by 1.56 percentage points, to 18.97 percent. In 2014, the income threshold for the 18.97 percent tax rate was lowered to $150,000 and a new tax bracket of 20.53 percent was established and applied to income over $220,000.[141] These changes exacerbated other damaging policies that worsened Ontario's tax competitiveness.[142]

Ontario's deteriorating fiscal situation and its slow recovery from the 2008–09 recession are in part the result of its shift away from the Chrétien Consensus.[143] The policies now dominating Ontario are the exact opposite of the Chrétien Consensus: continued deficits, worsening debt, large-scale increases in government spending, and increasingly uncompetitive taxes. This set of policies creates an unstable environment for businesses, investors, and entrepreneurs that ultimately leads to a less prosperous economy.

2) Ending the Alberta Advantage by Discarding the Chrétien Consensus

Alberta's departure from the Chrétien Consensus was more gradual than in Ontario. The initial signs that the Alberta government was moving away from the principles of the Chrétien Consensus began to emerge in the early 2000s. It was during this period that restraint in the growth in government spending by the provincial government began to weaken.

Figure 9 (page 24) shows the program spending of the Alberta government between 1990–91 and 2015–16. It is fairly clear that the period of restraint in the growth of program spending, which began in 1993–94, ended sometime around 2000–01 to 2003–04. For example, annual growth in program spending reached 11.7 percent in 2001–02, 6.9 percent in 2003–04, and 11.2 percent in 2004–05. Examining changes in per-person program spending, adjusting for inflation, also points to 2003–04 or so as a break point where a steady increase in government spending begins.

Tellingly, by 2004 the government itself was aware of the risks associated with its recent spending increases. As then Finance Minister Patricia L. Nelson noted in her 2004 budget address:

> *Mr. Speaker, another concern some may have about today's budget is the level of spending. It's a lot of money. And for someone like me who keeps a careful eye on the bottom line, I have to admit it gives me some pause for thought.* [144]

In 2005, the government again acknowledged its concerns about increases in spending. For example, then-Treasurer Shirley McClellan stated that the government needs to "avoid the temptation to let temporary spikes in oil and gas prices drive our spending decisions."[145]

By 2007, the government fully recognized the unsustainability of its existing spending path. Lyle Oberg, then finance minister, stated:

> *We too need to manage our expenses. We just can't keep raising our spending at these levels—even if strong energy prices and economic growth continue.*[146]

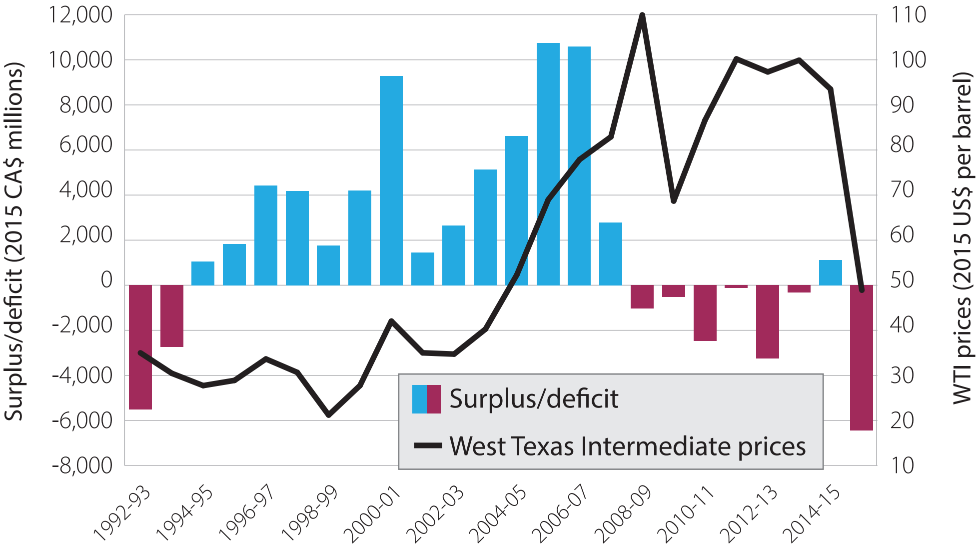
And yet as illustrated in figure 9 (page 24), provincial program spending during this period increased significantly. For example, provincial program spending increased 11.2 percent in 2004–05, 12.1 percent in 2005–06, 9.3 percent in 2006–07, and 21.1 percent in 2007–08. These rates far exceeded population growth and inflation, meaning that per-person spending in the province was increasing, one of the clearer signs of a move away from the Chrétien Consensus. Specifically, from 2003–04 to 2007–08, program spending per Albertan (adjusted for inflation) increased by 32.4 percent.[147] Despite repeated warning by successive provincial treasurers, the province continued to ratchet up program spending at unsustainable rates.

It seems somewhat clear that once the province had achieved a debt-free status in the late 1990s / early 2000s (figure 10), it experienced increasing difficulty in restraining the growth in program spending. Indeed, the province displayed almost no restraint in spending growth once the energy price boom of the mid-2000s arrived.[148]

Figure 23 illustrates the dollar value of the province's annual surplus or deficit, adjusted for inflation, from 1992–93 through to 2015–16, as well as the real price of West Texas Intermediate (WTI). Figure 23 is meant to both present the government's fiscal balance over this time as well as providing some context to the deficit by presenting the average annual price of oil. Please note that both series are adjusted for inflation.[149] As depicted in Figure 23, the recession of 2008-09 caused the Alberta government to go from a surplus of $2.8 billion (2007–08) to a deficit of $1.0 billion despite record high prices of oil.[150] The turn from a surplus to a deficit during a recession is not all that surprising given that government revenues are designed to decline by a greater percentage than the economy and certain spending programs are also designed to increase during periods of economic slowdown or recession.

The Alberta government's finances did not, however, recover as the economy recovered. Despite returning to economic growth, and experiencing strong job creation and record high prices for oil, the Alberta government failed to consistently balance its budget post-2007–08. Indeed, between 2008–09 and 2015–16, the government only balanced its budget once, in 2014–15. To reiterate, the government's failure to balance its budget during this period occurred in parallel with a boom in energy prices (figure 23). The deficits incurred by the government during this period simply cannot be blamed on low commodity prices. By contrast, the Klein government was able to balance its budget and indeed run substantial surpluses during the late 1990s and early 2000s with much lower oil prices. Again, the problem was provincial spending.

Figure 23: Alberta Fiscal Balance and Oil Prices, 1992–93 to 2015–16



Sources: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> (accessed November 10, 2016); Statistics Canada, Table 326-0020 (Consumer Price Index); Government of Alberta (2016, June 3), *Oil Prices*, <http://economicdashboard.alberta.ca/OilPrice> (accessed June 8, 2016); US Bureau of Labor Statistics, *Consumer Price Index*, <http://www.bls.gov/cpi/> (accessed November 15, 2016); US Energy Information Administration, *Petroleum and Other Liquids: Spot Prices*, <https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm> (accessed November 15, 2016).

Notes: Fiscal balances are presented on a fiscal plan basis before 2000-01 and on a consolidated basis in 2000-01 and after. Oil prices are in calendar years.

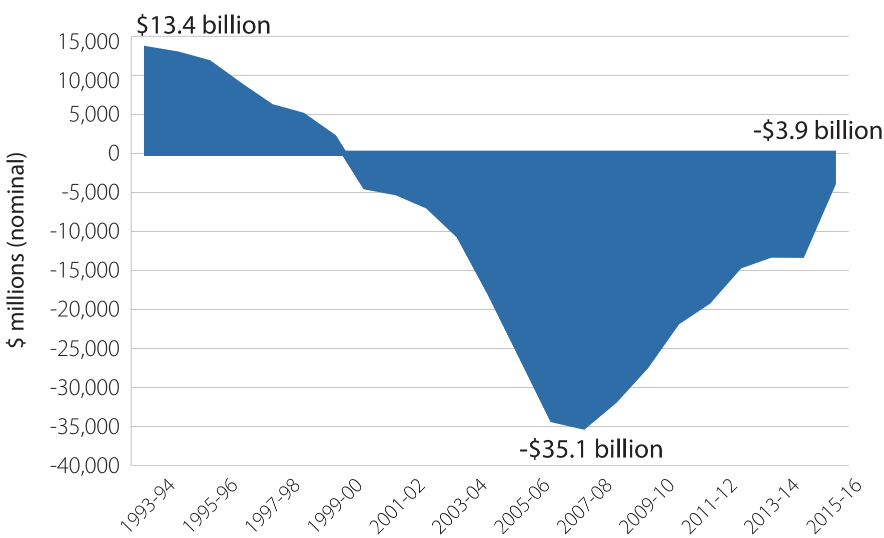
Unfortunately, oil and gas prices collapsed in 2015 and caused the province's finances to worsen further as resource revenues plummeted.[151] However, the underlying cause of the deficit is not the collapse of resource revenues since, as illustrated in figure 23, previous governments were able to achieve balanced budgets with much lower oil prices. The main cause of the persistent deficits is the inability of the provincial government to control spending growth during good times. For example, as our colleagues have pointed out in a series of studies:

> *Had the provincial government restrained program spending growth to keep pace with inflation plus population growth since 2004/05, the government would be looking at a $4.4 billion surplus rather than a deficit of $5.9 billion for the 2015/16 fiscal year.*[152]

Simply put, the Alberta government let spending increase at unsustainable rates during the boom years only to realize that the base of their spending could not be supported in a more "normal" economy. The governing NDP have now formally abandoned any commitment to balance the province's budget during their current mandate, which reinforces the expectation that the current government intends to operate in deficit for the foreseeable future.[153]

The consistent deficits post 2007–08 have resulted in a material deterioration in the province's overall financial position. Figure 24 illustrates the net debt/financial position of the province between 1993–94 and 2015–16. In 1993–94, the province was in a net debt position of $13.4 billion. Recall that net debt is a measure of indebtedness that accounts for not only debt (gross debt) but also the financial assets owned by a government. Thus, in 1993–94, the government of Alberta owed $13.4 billion more in debt than it held financial assets. The fiscal reforms of the Klein era and the subsequent surpluses and debt reduction resulted in a net financial asset position by 2007–08 of

Figure 24: Alberta Net Debt, 1993–94 to 2015–16



Source: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> (accessed November 10, 2016).

Note: Data are not fully comparable due mainly to various changes to accounting standards. See note to figure 8 for major breaks in the series.

$35.1 billion. In other words, by 2007–08, the province of Alberta had $35.1 billion more in financial assets than it owed in any remaining debt. Post 2007–08, the asset position of the province has steadily deteriorated (figure 24). Indeed, the current estimates suggest that Alberta will owe more in debt than it has in financial assets in 2016–17. In fact, the net debt is forecast to reach $19.8 billion by 2019–20, a figure well in excess of the debt accumulated before Premier Klein assumed leadership of the province in the early 1990s.[154]

Perhaps one of the most singularly striking departures from the Chrétien Consensus in Alberta and certainly a mark of the end of the Alberta Advantage was the 2015 provincial budget submitted by newly minted Premier Jim Prentice. The 2015 budget eliminated the single rate personal income tax, which was among Premier Klein's greatest achievements and the hallmark of what was called the Alberta Advantage. The increase in the personal income tax along with a new healthcare tax and several other revenue measures totaled a proposed $2.2 billion in new or higher taxes for the 2016–17 fiscal year.[155]

The Prentice Progressive Conservative government was short-lived, however, as the Alberta NDP recorded a historic election victory in May 2015 ending decades of PC rule in the province. The new NDP government quickly ended any pretense of adherence to the principles of the Chrétien Consensus by introducing a slew of tax increases that noticeably reduced the province's competitiveness.[156] For instance, the NDP implemented a five-bracket personal income tax system with a top tax rate of 15 percent, which is a 50 percent increase over the pre-existing single-rate personal income tax. The government raised the corporate income tax rate from 10 to 12 percent and signaled a fairly strong anti-business ethos in the budget by calling the lower rate a "failed experiment in undercharging our largest and most profitable corporations."[157]

The NDP government also introduced a carbon tax, which will reach $30 per tonne by January 2018. Apart from neighbouring British Columbia, no other jurisdiction in North America has a carbon tax that approaches this level,[158] and unlike in British Columbia, Alberta's carbon tax is not revenue neutral.[159] In other words, the revenues from the carbon tax in NDP will be used to finance additional government spending rather than to reduce other taxes. This is a fairly important policy issue since most economists that favour carbon taxes also recommend using the resulting revenues to reduce more economically harmful taxes such as personal and corporate income taxes. The NDP government in Alberta has increased all of these taxes.

The move away from the Chrétien Consensus in Alberta was more gradual than in Ontario. It started under the Progressive Conservatives in terms of a reduction in the willingness to make difficult decisions during good economic times to restrain the growth in government spending. The strong economy masked the underlying spending problems for several years until the recession of 2007–08. Since the recession, neither the Progressive Conservative governments nor the recently elected NDP have been successful in getting the province's fiscal house in order. The continued borrowing to finance day-to-day spending has meant a marked deterioration in the province's indebtedness, which it worked so hard and for so long to establish. The last pillar of the Chrétien Consensus has fallen most abruptly since the election of the NDP government, which has substantially raised existing taxes and introduced several new taxes making the province markedly less competitive.

A final observation before moving onto the next chapter is the degree to which the other provinces not detailed in this chapter have also, to varying degrees, moved away from the Chrétien Consensus.

Table 3 chronicles the state of budgets in all of the provinces. It measures the number of balanced budgets each province recorded from 2008–09 to 2014–15. Of the 74[160] budgets presented by the 10 provinces during this period, only 15 were balanced. Indeed, Saskatchewan performed the best on this measure and it only balanced 4 of the 7 budgets during this period.

More worrying is that only two provinces, British Columbia and Quebec, have balanced operating budgets as of 2015–16. We qualify the operating budget as opposed to the total budget because British Columbia continues to borrow to finance capital spending even though its operating or day-to-day budget is balanced. In addition, as noted in table 3, the plan for balanced budgets for most provinces is well into the future and many of those plans are tenuous at best.

The past decade has seen a significant shift away from the core principles of the Chrétien Consensus. This shift was most evident in Ontario and Alberta, though as summarily detailed in table 3, most of the provinces have also moved away from the Chrétien Consensus, though thankfully to varying degrees.

Table 3: Balanced Budgets by Province, 2008–09 to 2015–16

	Number of balanced budgets from 2008-09 to 2014-15	Budget balanced in 2015-16?	Projected/targeted date of balanced budget
NL	3	No	2022–23
PEI	0	No	2017–18
NS	2	No	2016–17
NB	0	No	2020–21
QC	1	Yes	Currently balanced
ON	0	No	2017–18
MB	1	No	2023–24
SK	4	No	2017–18
AB	1	No	No plan to return to balanced budget
BC	3	Yes	Currently balanced

Source: Department of Finance, *Fiscal Reference Tables* (October 2016), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> (accessed November 10, 2016); RBC Economics (2016, November 14), *Canadian Federal and Provincial Fiscal Tables*, <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf> (accessed November 15, 2016).

Chapter 6

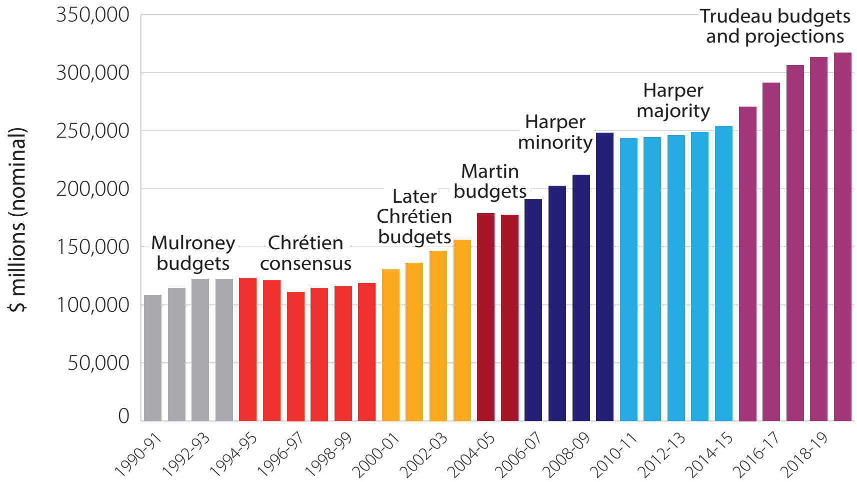
A New Liberal Government in Ottawa Rejects the Chrétien Consensus

Perhaps the most telling and surprising rejection of the Chrétien Consensus has been by the new Liberal government in Ottawa. The successor Liberal government to the Chrétien government has without any ambiguity rejected the entirety of the Chrétien Consensus. However, the departure from or perhaps weakening of the Chrétien Consensus has its roots in the Martin-led Liberal government and the Liberals' successor, the Harper Conservative government.

Figure 25 illustrates federal program spending (total federal spending minus interest payments) starting in 1990–91 through to 2019–20. The program spending amounts for 2016–17 and beyond are based on projections included in the federal government's November 2016 economic update.[161] The colouring used in the figure is based on different periods of spending and/or political leadership, each of which is discussed below. The nuances in figure 25 are important in terms of understanding how the incremental move away from the Chrétien Consensus chipped away at its core principles and ultimately resulted in the total rejection of the consensus by the Trudeau government.

The era of the Chrétien Consensus is coloured in bright red and represents both the period of spending reductions (1995–96 to 1996–97) and the periods of restraint in program spending growth (1994–95, and 1997–98 to 1999–00). This period of spending restraint and reductions laid the foundation for the balanced budget in 1997–98, the subsequent declines in federal government debt, and critically important tax relief.

Figure 25: Federal Program Spending, 1990–91 to 2019–20



Sources: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp>; Department of Finance, *Fall Economic Statement* (2016), <http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf>.

Note: Figures for 2015-16 and beyond are projections based on the Department of Finance's Fall Economic Statement, released in November 2016.

From 2000–01 to 2003–04, however, the Chrétien government started increasing program spending at much higher rates than had previously been recorded. This period is coloured in yellow even though it was still a Chrétien-led government. Federal program spending increased 9.9 percent in 2000–01, 7.7 percent in 2002–03, and 6.3 percent in 2003–04, the last year of Chrétien's Prime Ministerial tenure. By contrast, the average increase in program spending by the Chrétien government between 1993–94 and 1999–00 was -0.3 percent.

Paul Martin, Chrétien's finance minister for most of this period, assumed leadership of the Liberal Party and thus the government in December of 2003. Quite surprisingly to many observers, Prime Minister Martin's first budget (2004–05) aggressively increased program spending by 14.6 percent (figure 25). The Martin Liberal government went to the polls in June of 2004 but only secured a minority government. The two years that Prime Minister Martin led the government before going to the polls again in 2006 are coloured dark red.

The Martin Liberals went to the polls again in January of 2006 hoping to secure a majority mandate. Instead, the Conservative Party led by Stephen Harper won a minority government. The Harper Conservatives did not, however, exercise constraint in program spending. The initial years of the Conservative government, in which program spending increased substantially, are coloured in dark blue. Program spending increased by 7.5 percent in 2006–07, 6.2 percent in 2007–08, and 4.7 percent in 2008–09 (figure 25). The nominal increases in spending by the Conservatives were substantial: \$13.3 billion in 2006–07, \$11.9 billion in 2007–08, and \$9.5 billion in 2008–09. The *National Post* characterized the 2007 Conservative budget as follows:

> *The \$200-billion Mr. Flaherty proposes to spend this year works out to about \$5,800 for every citizen. Even after you adjust for increases in prices and population, that's more than the Martin government spent at its frenetic worst, when it was almost shoveling the stuff out the door. It is more than the Mulroney government spent in its last days, when it was past caring. It is more than the Trudeau government spent in the depths of the early 1980s recession.*[162]

The cumulative increases by successive Liberal and Conservative governments set the stage for a substantial ratcheting up of spending once the recession took hold. In 2008, as the depth of the global recession became clearer, the Conservatives went to the polls but like the Liberals before them did not receive a majority mandate. Instead, the Canadian electorate provided the Conservatives with another minority mandate. The 2009 budget by the Harper Conservatives increased program spending by \$36.2 billion, which represents an incredible 17.1 percent increase. This is the largest single-year increase in program spending for any year covered in figure 25. Importantly, as the Conservatives markedly increased program spending, the opposition parties were actually calling for even more spending.[163]

It's important, however, to recognize several factors regarding the spending increase in 2009–10. First, there was a global recession and a growing consensus that governments needed to stimulate their way out of the recession. The Harper Conservatives were not immune to the political pressures calling for action. Second, the Harper Conservatives were in a minority position and therefore needed at least one opposition party to accept the proposed budget, otherwise Canadians would be heading to the polls yet again.

And third, which is almost always ignored, the spending increases implemented by the Harper Conservatives were on top of considerable increases implemented in the years prior by both Liberal and Conservative governments (see figure 25).

Much of the new spending announced during this period was in the form of so-called discretionary stimulus spending.[164] The intent of the surge in spending was to stimulate economic activity in order to move the economy out of the recession. The logic of this approach is that if the government spends more money on goods and services, the total demand for goods and services in the economy will increase, resulting in higher economic output and job creation.

Before proceeding, it's worthwhile to consider that there is no general agreement on the effectiveness of the stimulus spending undertaken by the Conservatives in 2009. For example, an empirical analysis of the stimulus spending demonstrated that it was detached from the actual explanation for why the Canadian economy emerged from recession. In other words, the "stimulus" provided by the increase in government spending was not the reason the Canadian economy emerged from recession.[165] Economist and *Maclean's* national editor at the time, Andrew Coyne, agreed, writing that the stimulus spending "besides ineffective, was unnecessary" and that it was "plain as day" that the stimulus spending "had nothing to do with the recovery."[166]

To their credit, the Harper Conservatives reduced program spending in the following budget by 2.0 percent. The Conservatives captured a majority mandate in 2011. As is evident in figure 25, the Conservatives constrained growth in program spending for the entirety of this mandate. Program spending increased, on average, 0.5 percent between 2010–11 and 2014–15. This latter period of the Conservative government is coloured in light blue and highlights a prolonged period of restraint in government spending growth.

The constraint in program spending growth imposed by the Harper Conservatives during this period (2010–11 to 2014–15) meant that, as a share of the economy, federal spending was declining. The reason is that the Harper Conservatives restrained growth in federal spending below the rate of growth in the economy every year during this period. Federal program spending as a share of the economy declined from 15.8 percent in 2009–10, the year before the constraint was introduced, to 12.9 percent in 2014–15, which is the last full year of the Harper Conservatives' mandate.[167]

However, the Harper government's approach to achieving a balanced budget was noticeably different from the Chrétien Liberals and the general approach of the Chrétien Consensus. Their approach was to slow the growth in program spending (figure 25, light blue bars) and allow revenues to catch up. Recall that the Chrétien Liberals reformed and reduced spending for two years and then constrained its growth for the third year in order to achieve a balanced budget and smaller government. The Conservative approach meant larger deficits for a longer period. All told, the Conservative government accumulated $157.1 billion in net debt between 2008–09 and 2013–14. The Tories delivered a balanced budget in 2014–15 in advance of the fall 2015 election.

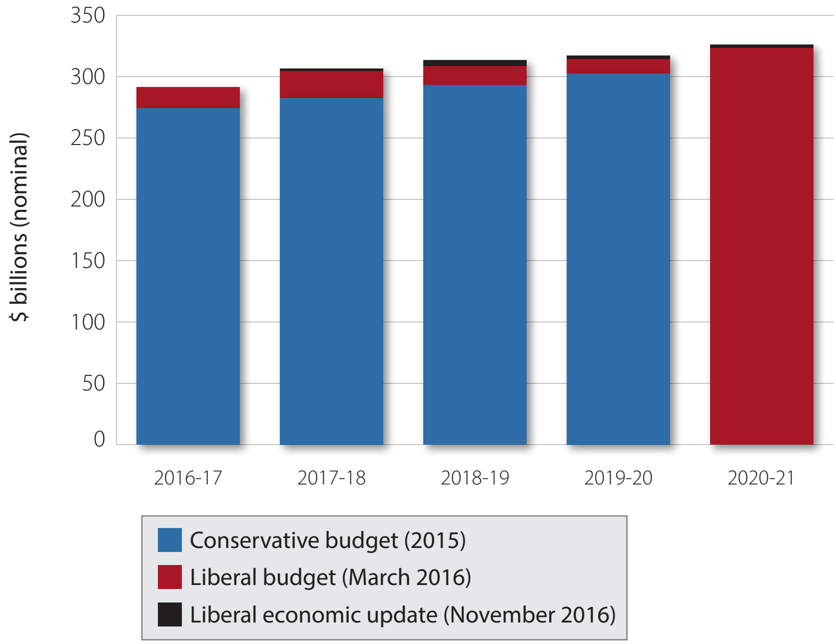
The election of the Trudeau Liberals in the fall of 2015 is a clear and unmistakable rebuke of the Chrétien Consensus since they campaigned on and are now implementing policies entirely in contradiction to the principles of balanced budgets, declining debt, smaller and smarter government spending, and competitive taxes.

The Trudeau Liberals ran on a promise to increase federal government spending financed largely by deficits in order to improve economic growth. Part of the platform called for higher taxes on higher income earners and lower taxes for middle-income earners. There was also a proposal for both more infrastructure-type spending and more redistribution to the middle-class.[168] Put simply, the Trudeau Liberals called for a larger, more prominent and active federal government.

Figure 25 shows the total increase in proposed program spending by the federal government starting in 2015–16 (coloured in purple) while **figure 26** breaks down the proposed spending plans of both the Conservatives and the Liberals in order to better illustrate the large, incremental increases in spending planned by the Liberals. Note that 2015–16 is somewhat of a transition year in that the Conservatives lost the election in October 2015 and the Liberals began increasing spending almost immediately, even though they didn't deliver their first full budget plan until the spring of 2016.

Figure 26 is instructive in terms of understanding the totality of the increases in spending planned by the Liberal federal government. The bottom part of each bar up to 2019-20 shows the base level of program spending proposed by the Harper Conservatives in their 2015 budget. The Tories proposed for program spending to increase from $274.3 billion in 2016–17 to $302.6 billion in 2019–20, an increase of 10.3 percent.

Figure 26: Growth in Planned Federal Program Spending, 2016–17 to 2020–21



Sources: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp>; *Fall Economic Statement* (2016), <http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf>; *Budget 2015*, <http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>.

The first Trudeau Liberal budget (March 2016) implemented increases above and beyond those proposed by the Conservatives. Specifically, the 2016 Liberal government budget increased federal program spending by $17.1 billion in 2016–17, $21.9 billion in 2017–18, and $15.7 billion in 2019–20. In other words, the Trudeau Liberals plan to take program spending from an initially proposed level of $274.3 billion in 2016–17 to $326.0 billion by 2020–21.[169]

Between the spring 2016 budget and the economic update in November of 2016, the Trudeau Liberals have further increased their spending plans. The annual increases recognized in the fall update are illustrated in figure 26 by the top of the bar graphs. The fall update indicates that federal program spending will reach $317.2 billion by 2019-20.[170]

One of the central tenets of the Chrétien Consensus has clearly been discarded in Ottawa. Not only is there a lack of restraint with respect to increases in program spending but there is now an active and purposeful push for even more spending. The concept of limited, prioritized, and smarter government spending has been rejected and replaced with a more activist, expansionary, and interventionist federal government.

The Trudeau Liberals have also called for and are now implementing an expansion in the role of the federal government relative to the Canadian economy. Budget 2015, the last budget presented by the Harper government, estimated that federal program spending would represent 12.9 percent of the Canadian economy in 2017–18.[171] The increases, both implemented and planned for by the Trudeau government, will see federal program spending increase to 14.6 percent of the economy in 2017–18.[172]

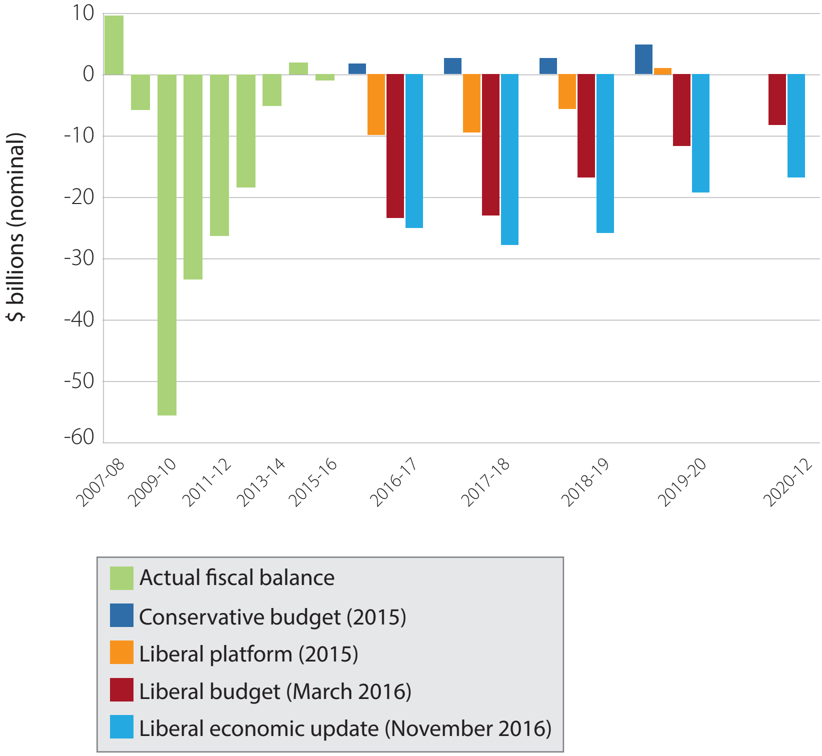
The marked and purposeful increases in federal spending have by design been financed by deficits. **Figure 27** shows the annual fiscal balance (surplus or deficit) of the federal between 2007–08 and the projections to 2020–21 (based on the November 2016 economic update). As already discussed, the unwillingness of the Harper Conservatives to reduce program spending meant a slower return to a balanced budget and thus more debt accumulation starting in 2008–09 through to 2013–14.

However, the Trudeau Liberals have now deliberately placed the federal finances back in deficit. The baseline for fiscal balance, that is surpluses or deficits from the Conservative budget in 2015, showed small surpluses in 2016–17 through to 2019–20. The Liberal Platform called for deficits of $9.9 billion in 2016–17, $9.5 billion in 2017–18, $5.7 billion in 2018–19, and a modest return to surplus ($1.0 billion) in 2019–20 (figure 27).[173]

The 2016 Budget, the Liberals' first budget as government, showed much larger deficits and no return to a balanced budget in their mandate. Specifically, the annual deficits were projected to reach $29.4 billion in 2016–17, $29.0 billion in 2017–18, $22.8 billion in 2018–19, $17.7 billion in 2019–20, and $14.3 billion in 2020–21 (figure 27).[174] These figures, however, included difficult to see contingencies of roughly $6 billion per year.[175] Thus, the actual cumulative deficits proposed in the 2016 Budget from 2016–17 to 2020–21 were $30 billion lower than presented.

The November 2016 update indicates even worse deficits than originally presented in the 2016 budget and the revised forecast has discarded the contingency. Specifically, the federal government now plans to accumulate $114.9 billion in deficits over the 2016–17 to 2020–21 period, with no plan for a return to a balanced budget.[176]

Figure 27: Federal Fiscal Balance, 2007–08 to 2020–21



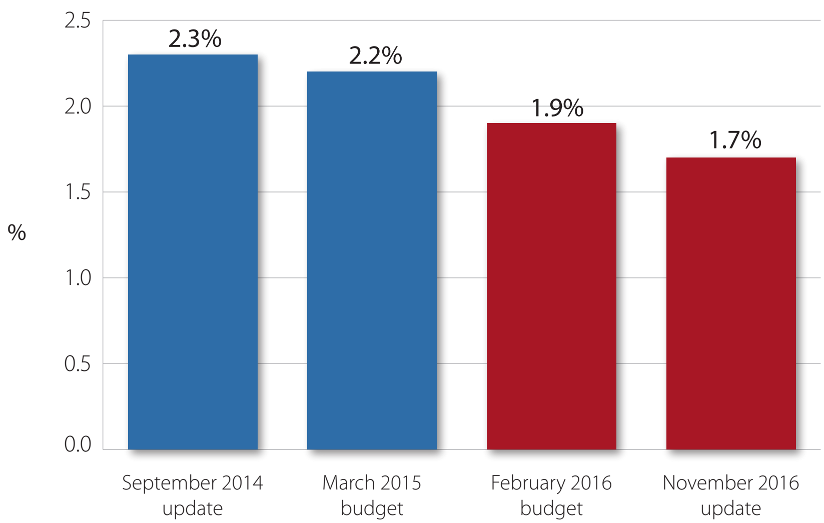
Sources: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp>; *Fall Economic Statement* (2016), <http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf>; *Budget 2015*, <http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>; Liberal Party of Canada, *A Plan for a Strong Middle Class* (2016), <https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf>.

Neither the Harper Conservatives nor the Trudeau Liberals will maintain a positive record on indebtedness, though the Conservatives at least have the global recession of 2008 to partially blame for their accumulation of debt. The current estimate from the federal government is that the federal debt (or accumulated deficit, defined as net debt minus non-financial assets) will reach $731.8 billion by 2020–21.[177] That represents an 18.8 percent increase in the national debt during a single term of the federal government with no recession.

It's interesting to consider the rationale offered for the substantial increase in spending by the federal government, which is financed almost entirely by borrowing. The Liberals campaigned in 2015 on the need to improve economic growth and prosperity, a goal the authors wholeheartedly agree with. Annex 2 of the Liberals' first budget (2016) has an extended discussion and analysis of the growth-improving measures introduced in the budget. Simply put, the budget calculates increases in economic growth based on the increased spending by the federal government. To the Liberals credit, their analysis is quite specific. For instance, in Table 2.3 on page 256 of the 2016 Budget, they calculate that economic growth will improve by 0.5 percent in 2016–17 and a full 1.0 percent in 2017–18. In addition, they expect these measures to create a net 43,000 new jobs in 2016–17 and another 100,000 jobs in 2017–18.[178]

The problem for the federal government and Canadians more broadly is that the expectation is for lower economic growth, not higher economic growth as predicted and expected by the Liberals' 2016 budget. Figure 28 illustrates the consensus expectations of the economists involved in the federal government's planning process. In the fall update in 2014, the panel's consensus view was that future economic growth (2015–2019) would average 2.3 percent. That consensus was lowered to 2.2 percent in the spring budget of 2015. The consensus for future economic growth, specifically for the 2016 to 2020 period included in the spring budget 2016, the Liberals' first, was 1.9

Figure 28: Forecast for Future Economic Growth



Source: Department of Finance, *Fiscal Reference Tables* (2016, October), <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp>; *Fall Economic Statement* (2016), <http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf>; *Budget 2015*, <http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>.

percent. That consensus view was downgraded further to 1.7 percent in the November update (figure 28).[179] Simply put, the federal government is spending a considerable amount of money, almost all of which is being borrowed to achieve lower, not higher rates of economic growth.[180]

The Harper Conservatives incrementally moved away from the Chrétien Consensus with respect to how best and how quickly to balance the budget after entering into deficit. These principles were jettisoned entirely by the Trudeau Liberals, who both ran on and are now implementing large-scale increases in government spending and are financing almost all of the increase through deficits.

Unfortunately, the rejection of the Chrétien Consensus in Ottawa doesn't end there. Both the Conservatives and the Liberals have, to different extents and in varying ways, rejected the principle of tax competitiveness.

The Tories' record is a mixed one on taxes. Most importantly and positively, the Conservatives continued the corporate income tax reductions initiated under the Chrétien Liberals. They also reduced the overall tax burden, bringing it more in line with competitors.

Unfortunately, much of the reduction in the tax burden was achieved through a reduction in the national sales tax, the GST, and increases to existing tax credits and the creation of new ones. The GST, which taxes consumption and is fairly transparent and comparatively low-cost to maintain, is generally seen as one of the better taxes in Canada's mix of taxes and other revenues.[181] Many economists criticized the Conservative government for reducing the GST while maintaining personal income tax rates, which are generally not competitive with most of the countries Canada does business with, which places the country at a competitive disadvantage.[182]

The proliferation of tax credits, also known as tax expenditures, damaged the country's tax competitiveness by complicating the tax code and impeding meaningful broad-based personal income tax reductions.[183] During the Conservative Party's time in power, over 100 tax expenditures "were introduced or substantially amended" according to an article published by the Canadian Tax Foundation.[184] As UBC economist Kevin Milligan observed, it is "relatively clear that the motivation behind these tax credit changes was to exercise interest group politics rather than to implement a consistent tax policy."[185]

As proposed during the 2015 campaign, the Liberals increased the top marginal personal income tax rate to 33 percent by creating a new tax bracket for those with income over $200,000.[186] Repeated analyses have shown that one of the key areas in which Canada continues to be uncompetitive is with respect to personal income taxes for upper-income earners. Specifically, our rates tend to be uncompetitive and they're effective at comparatively low levels of income. The Liberal tax increase makes Canada even less competitive on personal income taxes.[187]

The Trudeau Liberals in conjunction with the provinces have also agreed to expand the Canada Pension Plan (CPP), which will raise payroll taxes on both low- and middle-income workers.[188] Specifically, the combined employer-employee contribution rate will increase from 9.9 percent to 11.9 percent over the 2019 to 2025 period. In addition, a new second bracket for the CPP tax will be introduced for workers earning above the maximum level, which in 2016 was $54,900. The new tax will apply to income between the old maximum and roughly $83,000. The purpose of this book is not to question the merits of this expansion[189] but simply to document that it represents yet another tax increase that runs contrary to the principles of the Chrétien Consensus.

The federal government has also announced that it will impose national pricing on carbon. Again, the intent of this book is not to question the particular economic benefits of such a policy but rather to raise the issue of competitiveness. Given the dearth of action on carbon pricing by other countries, particularly other energy-producing countries like the United States, such a policy would place Canada's various carbon intensive sectors at a marked disadvantage to their competitors.[190]

The clarity of the rejection of the Chrétien Consensus in Ottawa is unparalleled relative to the experiences in the provinces, since not only did the Trudeau Liberals campaign on policies in direct contradiction to the Chrétien Consensus but once achieving government have deepened the rejection of the policies and principles that served the nation so well in the 1990s and 2000s. Specifically, the federal government has purposefully increased spending substantially and financed almost all of the increase through borrowing, which will markedly increase the national debt. The federal government has also worsened the country's tax competitiveness with respect to personal income taxes, which is an area the country was struggling with even before the Liberal tax increases were implemented. Simply put, the federal government has embraced deficits and rising debt, substantial increases in spending and a more active role for the federal government in the economy, and higher taxes.

Chapter 7

Conclusion and Recommendations

This project is chiefly about clarifying how the Chrétien Consensus was achieved across political parties and geographically during the 1990s, as well as detailing the economic results both for governments and citizens. The policy combination of balanced budgets, declining debt, smarter and smaller government spending, and competitive taxes established the foundation for prolonged economic prosperity and success. It created an environment where businesses and entrepreneurs could flourish, which meant that workers also prospered. This allowed Canada to take full advantage of the opportunities brought about by fluctuations in the exchange rate, the commodity price boom, and lower interest rates which without the sound policies of the Chrétien Consensus would have yielded fewer economic benefits.

A question emerging from this analysis is whether Canada and the provinces are doomed to repeated cycles over time of embracing the principles of the Chrétien Consensus, enjoying the benefits that emanate from the sound policy foundation provided by the Chrétien Consensus, and then moving away from it as citizens become complacent and forget the costs of rejecting the policies of the Chrétien Consensus, only to be forced to return to these principles after either recognizing the folly of the alternatives or from the financial crises that often accompany the policies being pursued currently.

The main answer to this question is that vigilance and persistence in educating Canadians about the benefits of the Chrétien Consensus are ongoing and never truly end. Whenever Canadians become complacent about sound policies like balanced budgets, smart government spending, and competitive taxes, those policies will be questioned and, as we're now experiencing, undone. In other words, constant efforts have to be forthcoming to ensure that the political culture of Canada is one that values and indeed demands the sound policies of the Chrétien Consensus.

A second alternative, which is still contingent on a political culture supportive of the Chrétien Consensus, is the introduction of binding laws that limit the ability of governments to deviate from the principles of balanced budgets, smarter and smaller government spending, and competitive taxes. The introduction of such laws is a complicated undertaking and one that extends beyond the scope of this book, but it should nonetheless be considered as one method by which to avoid the cycle discussed above.[191]

Returning to the principles of the Chrétien Consensus will require first and foremost that citizens demand such policies. Only then will governments start to make the difficult decisions needed to reign in government spending, achieve balanced budgets, begin reducing debt, and start to refocus on tax competitiveness. Such policies delivered strong economic prosperity in the 1990s and 2000s, and given the opportunity will do so again.

Endnotes

1 This book is an extension of the original analysis of this period presented in Crowley, Brian Lee, Jason Clemens, and Niels Veldhuis (2010). *The Canadian Century: Moving Out of America's Shadows*. Key Porter. That original analysis was further extended in Veldhuis, Niels, Jason Clemens, and Milagros Palacios (2011). *Learning from the Past: How Canadian Fiscal Policies of the 1990s Can be Applied Today*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/learning-from-the-past.pdf>

2 Department of Finance (2016a). *Fiscal Reference Tables*. <http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp> (accessed November 10, 2016).

3 For a discussion and analysis of the difference between deficits (and debt) related to current day-to-day spending versus long-term capital spending (such as bridges and highways) please see the following: J. F. Wen (2014). *Capital Budgeting and Fiscal Sustainability in British Columbia*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/capital-budgeting-and-fiscal-sustainability-in-british-columbia.pdf>; J. F. Wen (2015). *Ontario's Debt Balloon: Source and Sustainability*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/ontarios-debt-balloon-source-and-sustainability-rev.pdf>; Lammam, Charles, Milagros Palacios, Hugh MacIntyre, and Feixue Ren (2016). *The Cost of Government Debt in Canada, 2016*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/cost-of-government-debt-in-canada-2016.pdf>

4 Net debt, however, does not include unfunded liabilities, which are future promises (such as pensions) that do not currently have sufficient income earmarked for them. In other words, unfunded liabilities occur when a government has committed to a program or benefit in the future but lack the resources to provide such a benefit. For more information on unfunded liabilities please see Palacios, Milagros, Hugh MacIntyre, and Charles Lammam (2014). *Canadian Government Debt 2014: A guide to the Indebtedness of Canada and the Provinces*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/canadian-government-debt-2014-rev2.pdf>

5 Department of Finance, *op. cit.* (2016a).

6 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Table 384-0038; calculations by authors. Please note that the spending data from 1981–82 to 1989–90 is reported for the General Revenue Fund only for Saskatchewan, while data from 1990–91 and onwards is reported on a consolidated financial statement basis. Thus, some of the marked spending increases noted between 1989–90 and 1990–91 are a result of the change in the underlying reporting.

7 A comparison of revenue and spending growth was undertaken for this period to determine that the main driver of the deficit was indeed spending growth rather than a lack of available revenues.

8 Department of Finance, *op. cit.* (2016a). ; Statistics Canada, CANSIM Table 384-0038; calculations by authors. Please see footnote 6 regarding two different data sets used in this analysis.

9 Statistics Canada, CANSIM Table 051-0001; calculations by authors.

10 Department of Finance, *op. cit.* (2016a). <http://www.fin.gc.ca/frt-trf/2016/frt-trf-1604-eng.asp#tbl25> (accessed November 28, 2016); Statistics Canada, Table 051-0001 (Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual), accessed February 24, 2016; Statistics Canada, Table 326-0020 (Consumer Price Index, annual), accessed April 15, 2016.

11 Janice MacKinnon (2003). *Minding the Public Purse: The Fiscal Crisis, Political Trade-offs, and Canada's Future*. McGill-Queen's University Press. See page 59.

12 Janice MacKinnon, *op. cit.* (2003). See page 97.

13 There is a substantial amount of research related to the link between crises, particularly financial crises, and economic reform by government. Specifically, the research shows that in times of crisis, governments of all political and ideological persuasions are more open to and perhaps forced to enact large-scale reform. See for example Drazen, Allan and Vittorio Grilli (1993). The Benefits of Crisis for Economic Reform. *American Economic Review* 83, 3. <http://www.nber.org/papers/w3527>; Alesina, Alberto, Silvia Ardagna, and Francesco Trebbi (2006). *Who Adjusts and When? On the Political Economy of Reforms*. National Bureau of Economic Research, No. w12049. <http://faculty.arts.ubc.ca/ftrebbi/research/reforms.pdf>; Alesina, Alberto, Roberto Perotti, and José Tavares (1998). *The Political Economy of Fiscal Adjustments*. Brookings Papers on Economic Activity, 1 Brookings Institution. <https://www.brookings.edu/wp-content/uploads/1998/01/1998a_bpea_alesina_perotti_tavares_obstfeld_eichengreen.pdf>; Abiad, Abdul and Ashoka Mody (2005). Financial Reform: What Shakes It? What Shapes It? *American Economic Review* 95, 1. <https://www.imf.org/external/pubs/ft/wp/2003/wp0370.pdf>

14 Tchorzewski, Ed (1992). *Budget Address: Rebuilding Saskatchewan Together.* Saskatchewan Department of Finance. Pages 5, 9.

15 Tchorzewski, Ed, *op. cit.* (1992). Page 5.

16 Tchorzewski, Ed, *op. cit.* (1992). Page 9.

17 Funding for hospitals was set to decrease by 3 percent in 1993–94 and by 2.8 percent in 1994–95; funding for K–12 and university education was set to decrease by 2 percent in 1993–94 and by 4 percent in 1994–95; and funding for urban and rural municipalities was set to decrease by 5 and 3.3 percent, respectively, in 1993–94 and by 8 percent for both in 1994–95. Tchorzewski, Ed, *op. cit.* (1992). Page 14.

18 Department of Finance, *op. cit.* (2016a).

19 Department of Finance, *op. cit.* (2016a).

20 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Table 051-0001; calculations by authors.

21 Provincial public sector employment includes provincial and territorial general government, health and social service institutions, provincial and territorial, universities, colleges, vocational and trade institutions, provincial and territorial, and provincial and territorial government business enterprises.

22 Statistics Canada, CANSIM Tables 183-002 and 183-004; calculations by the authors.

23 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Table 384-0038; calculations by authors.

24 For a discussion of the comparative costs of corporate capital taxes versus other types of taxes please see Clemens, Jason, Joel Emes, and Rodger Scott (2002). *The Corporate Capital Tax: Canada's Most Damaging Tax*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/CorporateCapitalTaxSec1.pdf>

25 Tchorzewski, Ed, *op. cit.* (1992). Pages 32–33.

26 Janice MacKinnon, *op. cit.* (2003). See page 76.

27 Department of Finance, *op. cit.* (2016a).

28 Government of Saskatchewan (1999). *Budget 1999*. Saskatchewan Department of Finance. <http://www.finance.gov.sk.ca/budget/budget99/99budget.pdf>

29 The 1999 provincial election saw the NDP re-elected but their numbers dropped from 42 of 58 seats in the previous election to 29 seats in the 1999 election.

30 Vicq Commission Report (2000). *A Plan for Growth and Opportunity: Personal Tax Reform in Saskatchewan*. Saskatchewan Finance. <http://finance.gov.sk.ca/budget/budget00/brochure.pdf>

31 The Saskatchewan Federation of Labour, for instance, vigorously opposed the proposed personal income tax reforms suggested by the Vicq Commission and ultimately adopted by the provincial NDP government. See for instance <http://www.sfl.sk.ca/public/images/documents/TAXCUT.pdf>.

32 See Saskatchewan Budget 2001 for more information. <http://finance.gov.sk.ca/budget/budget01/ConnectingtotheFutureBudgetBook.pdf>

33 See Saskatchewan Budget 2002 for more information. <http://finance.gov.sk.ca/budget/budget02/0203budgetbook.pdf>

34 The Canadian Centre for Policy Alternatives, for instance, published several highly critical evaluations of the Vicq Committee's report and subsequent reforms in the province. See for example <http://www.policyalternatives.ca/sites/default/files/uploads/publications/Saskatchewan_Pubs/2005/money_for_nothing1.pdf> and <http://www.policyalternatives.ca/sites/default/files/uploads/publications/Saskatchewan_Pubs/sk_taxcuts.pdf>.

35 See Clemens, Jason, Joel Emes, and Rodger Scott, *op. cit.* (2002).

36 Vicq Commission Report (2006). *A Plan for Growth and Opportunity: Business Tax Reform in Saskatchewan*. Saskatchewan Department of Finance. Page 13. <http://finance.gov.sk.ca/budget/budget06/SKBusinessTaxReform.pdf>

37 Treff, Karin and David B. Perry (2007). *Finances of the Nation 2006*. Canadian Tax Foundation. Pages 2:12–2:13.

38 For a thorough discussion and analysis of how the Saskatchewan reforms pitted different interest groups within the NDP party against one another, please see Janice MacKinnon, *op. cit.* (2003).

39 An increasing body of research is showing positive economic results from retrenchment in government spending, or what has come to be called austerity measures. At the heart of much of this work is Harvard economist Alberto Alesina. See for instance Alesina, Alberto, Omar Barbiero, Carlo Favero, Francesco Givazzi, and Matteo Paradisi (2014). *Austerity in 2009–2013*. Presented at the 60th panel meeting of Economic Policy. <http://scholar.harvard.edu/files/alesina/files/austerity_in_09-13_2014.pdf>

40 A parallel analysis was completed using disposable income and similar results were observed across the country. GDP per person was used since it is one of the more commonly used economic measures.

41 Ott, Mack (2007, December). National Income Accounts. In David R. Henderson (ed.), *Concise Encyclopedia of Economics*. <http://www.econlib.org/library/Enc/NationalIncomeAccounts.html>

42 Specifically, chain-weighted GDP per capita is used, which takes into account both changes in prices and changes in population over time. The chain-weighted method is considered superior

to the traditional fixed-weight method of evaluating GDP growth. Whereas the latter method takes into account only changes in prices, the former also accounts for shifts in the structure of the economy. For a more detailed discussion, see Steindel, Charles (1995, December). Chain-weighting: The New Approach to Measuring GDP. *Current Issues in Economics and Finance* 1, 9. New York Federal Reserve. <https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci1–9.pdf>

43 Statistics Canada, CANSIM Tables 384-0040, 384-0039, 051-0001; calculations by authors.

44 The employment statistic used here is the employment rate, which measures the percentage of adults (ages 15 and up) with paid employment.

45 Those who are unwilling or unable to work are not counted among the unemployed; in other words, those who are not looking for work because they have given up are not captured by unemployment statistics. The definitions of employment and unemployment are available on the Statistics Canada website at <http://www.statcan.gc.ca/pub/71-543-g/2010001/part-partie2-eng.htm>.

46 For a discussion of Saskatchewan's traditional labour market performance, please see Clemens, Jason, Joel Emes, and Nadeem Esmail (2002). *Saskatchewan Prosperity: Taking the Next Step*. Fraser Institute. Pages 20–25. <https://www.fraserinstitute.org/sites/default/files/SaskatchewanProsperity.pdf>. Please also note the recent and quite marked changes in interprovincial migration patterns with respect to Saskatchewan: Clemens, Jason, Yanick Labrie, and Joel Emes (2016). *Interprovincial Migration in Canada: Quebecers Vote with their Feet*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/interprovincial-migration-in-canada.pdf>

47 For business investment, our measure is the inflation-adjusted growth in private sector investment per private sector worker, which includes private sector investment in non-residential structures, machinery and equipment, and intellectual property products.

48 Mullins, Mark and Mark Milke (2015, September). *Premier Class: Canada's Best and Worst Leaders*. Aha! Beyond News. Page 27. <https://aha.world/wp-content/uploads/2015/09/Premier-Class-Report-from-Aha.pdf>

49 As noted on page 2 in Emery, J. C. Herbert and Ronald D. Kneebone (2009, April). *Will It Be Déjà Vu All Over Again?* The School of Public Policy, University of Calgary. <http://www.policyschool.ucalgary.ca/sites/default/files/research/spp-briefing-paper-kneebone-emery-final-apr-09.pdf>

50 Milke, Mark (2011, August). *The Rhetoric and the Reality of Alberta's Deficits in the 1980s, 1990s, and Now*. Fraser Institute. Page 25. <https://www.fraserinstitute.org/sites/default/files/rhetoric-and-reality-of-albertas-deficits.pdf>

51 This can be seen on page 19 of the Government of Alberta Annual Report 2005–06, available at <http://finance.alberta.ca/publications/annual_repts/govt/2005-06/goa-2005-06-annual-report-complete.pdf>.

52 Quoted in Emery, J. C. Herbert and Ronald D. Kneebone, *op. cit.* (2009).

53 Department of Finance, *op. cit.* (2016a); Department of Finance, Fiscal Reference Tables 2003–2011. <https://www.fin.gc.ca/pub/frt-trf/index-eng.asp>; calculations by authors.

54 Dinning, Jim (1993, May 6). *Alberta Hansard*. Page 2605. <http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_22/session_4/19930506_2000_01_han.pdf>

55 Emery, J. C. Herbert and Ronald D. Kneebone, *op. cit.* (2009).

56 Dinning, Jim *op. cit.* (1993). Page 2607.

57 Dinning, Jim *op. cit.* (1993). Page 2605.

58 Dinning, Jim (1994, February 24). *Alberta Hansard*. Page 256. <http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_23/session_2/19940224_1330_01_han.pdf>

59 Provincial debt in this situation refers to accumulated deficit, which is a broader measure of debt than the net debt used previously. It does include, for example, Heritage Fund assets or borrowing intended for arms-length government corporations such as municipalities.

60 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Table 384-0038; calculations by authors.

61 Day, Stockwell (1997). *Budget '97 Post-Election Update Speech*. Government of Alberta. Page 7. <http://finance.alberta.ca/publications/budget/budget1997-2000/1997/SPEECH.pdf>

62 For example, see Day, Stockwell, *op. cit.* (1997). Page 7.

63 Treff, Karin, and David B. Perry (1998). *Finances of the Nation 1998*. Canadian Tax Foundation. Page 2: 17.

64 Day, Stockwell (1999, March 11). *Budget '99 Speech*. Government of Alberta. Page 12. <http://finance.alberta.ca/publications/budget/budget1997-2000/1999/speech.pdf>

65 Day, Stockwell, *op. cit.* (1999).

66 Government of Alberta (2001). *Budget 2001: The Future ... Meeting Priorities, Sharing Benefits*. Page 17. <http://finance.alberta.ca/publications/budget/budget2001/fiscal-plan-complete.pdf>

67 For more information on this tax (and the corporate capital tax) see Clemens, Jason, Joel Emes and Rodger Scott (2003). *The Corporate Capital Tax—Canada's Most Damaging Tax*. In Herbert G. Grubel (ed.), *Tax Reform in Canada: Our Path to Greater Prosperity*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/TaxReforminCanadaCorpCapitalTax.pdf>

68 Government of Alberta (2000). *Budget 2000: New Century, Bold Plans*. Pages 120–21. <http://finance.alberta.ca/publications/budget/budget1997-2000/2000/fiscal-plan-complete.pdf>

69 Treff, Karin and David B. Perry (2001). *Finances of the Nation 2000*. Canadian Tax Foundation. Page 4: 4.

70 Government of Alberta (2001). *Budget 2001: The Future*. Page 19. <http://finance.alberta.ca/publications/budget/budget2001/fiscal-plan-complete.pdf>

71 Some provinces apply a lower tax rate than the general corporate tax rate to manufacturing and processing businesses.

72 One major aspect of Alberta's public finances that was not reformed during this period was the use of non-renewable resource revenues as general revenue without requiring transfers to the province's Heritage Fund. Indeed, no meaningful reforms were enacted during this period with respect to the province's Heritage Fund. For additional information please see Murphy, Robert P. and Jason Clemens (2013). *Reforming Alberta's Heritage Fund: Lessons from Alaska and Norway*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/reforming-albertas-heritage-fund.pdf>; Poelzer, Greg (2015). *Global Lessons from Norway for Managing Energy-Based Economies*. Macdonald-Laurier Institute. <http://www.macdonaldlaurier.ca/files/pdf/MLICommentaryPoelzer02-15-V7-WebReady.pdf>

73 While Alberta's economy excelled following its reform years, it was not without slumps. For example, Alberta's economic performance in 2002 was sub-par, due to falling natural gas prices that reduced profits and to severe drought. See Wilkinson, J. (2003, May). Provincial Growth in 2002. *Canadian Economic Observer*. Statistics Canada. <http://www.statcan.gc.ca/pub/11-010-x/00503/6518-eng.htm>

74 Statistics Canada, CANSIM Table 282-0002; calculations by authors.

75 Clemens, Jason, Yanick Labrie, and Joel Emes, *op. cit.* (2016).

76 Kneebone, Ron (2014). *The Canadian Unemployment Rate—With and Without Alberta's Boom*. The School of Public Policy, University of Calgary. <http://www.policyschool.ca/wp-content/uploads/2016/03/kneebone-unemplfinal.pdf>

77 Department of Finance, *op. cit.* (2016a).

78 Department of Finance, *op. cit* (2016a).

79 Department of Finance, *op. cit* (2016a); Statistics Canada, CANSIM Table 384-0038; calculations by authors.

80 Economists Carmen Reinhart and Kenneth Rogoff have argued that a debt-to-GDP ratio above 90 percent is associated when lower real GDP growth. Reinhart, Carmen M. and Kenneth S. Rogoff (2010, May). Growth in a Time of Debt. *American Economic Review* 100, 2): 573–78. <http://www.nber.org/papers/w15639>; also included in Reinhart, Carmen M. and Kenneth S. Rogoff (2009). *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press.

81 Bank of Canada. *Treasury Bill Auction – Average Yields – 3 Month*. <http://www.bankofcanada.ca/wp-content/uploads/2010/09/selected_historical_v122541.pdf>

82 Bank of Canada, Data and Statistics Office. *Selected Government of Canada Benchmark Bond Yields – 10-Year*. Bank of Canada. <http://www.bankofcanada.ca/wp-content/uploads/2010/09/selected_historical_v122543.pdf>

83 Bank of Canada, Data and Statistics Office. *Covered Differential: Canada-U.S. 3-Month Treasury Bills*. Bank of Canada.<http://www.bankofcanada.ca/wp-content/uploads/2010/09/selected_historical_v122507.pdf.>

84 Quoted in Michael Walker (1998, March 27). Canada, the Country That Keeps on Taxing. *Wall Street Journal*. <http://www.wsj.com/articles/SB890957015280369500>

85 Martin, Paul (1995, February 27). *Budget Speech*. Government of Canada. Page 2. <http://fin.gc.ca/budget95/speech/speech.pdf>

86 Department of Finance, *op. cit.* (2016a).

87 See Table 2 (page 32) in Veldhuis, Niels, Jason Clemens, and Milagros Palacios, *op. cit.* (2011).

88 A summary of the elements of the employment insurance (EI) reform contained on Bill C-12 (1996) is available at <http://www.esdc.gc.ca/eng/jobs/ei/reports/mar2011/annex1.shtml>. The Employment Insurance Act (S.C. 1996, c.23) can be found at <http://laws-lois.justice.gc.ca/eng/acts/E-5.6/FullText.html>.

89 For more information on the reductions in federal transfers and the changes in federal regulations on affected programs please see: Eisen, Ben, Bacchus Barua, Jason Clemens, and Steve Lafleur (2016). *Less Ottawa, More Province: How Decentralization is Key to Health Care Reform*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/LessOttawaMoreProvince-HowDecentralizationisKeytoHealthCareReform.pdf>; Clemens, Jason (2011). R*eforming the Canada Health Transfer: Applying the Welfare Reform Lessons of the 1990s to Healthcare Today*. Macdonald-Laurier Institute. <www.macdonaldlaurier.ca/files/pdf/Reforming-the-Canada-Health-Transfer-October-2011.pdf>

90 Department of Finance, *op. cit.* (2016a).

91 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Table 051-0001 and 326-0020; calculations by authors.

92 Department of Finance, *op. cit.* (2016a).

93 The 1995 budget included tax changes that were expected to raise $940 million that year, and $1.275 billion and $1.44 billion in the following two years. These tax changes included the introduction of a tax on investment income received by Canadian-controlled private businesses, an increase of the corporate capital tax from 0.2 to 0.225 percent, an increase in the corporate surtax from 3 to 4 percent, and an increase in the capital tax imposed on financial institutions. Source: Treff, Karin and Ted Cook (1995). *Finances of the Nation 1995*. Canadian Tax Foundation. Pages 2:7–2:8.

94 Department of Finance, *op. cit.* (2016a); calculations by authors.

95 At the time, the common language used was not competitiveness but rather how best to use the "fiscal dividend." The Fraser Institute held a major conference and commissioned a series of essays exploring different priorities for the fiscal dividend of the late 1990s. See Grubel, Herbert (ed.) (1998). *How to Use the Fiscal Surplus: What is the Optimal Size of Government?* Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/HowtoUseFiscalSurplustblContents.pdf>

96 Martin, Paul (1997, February 18). *Budget Speech*. Government of Canada. Page 26. <http://fin.gc.ca/budget97/speech/speeche.pdf>

97 Martin, Paul op. cit. (1997).

98 The surtax was an additional tax paid on income taxes paid.

99 The increase in the personal exemption raised the threshold at which the first income tax bracket started. The increase referred to here was an increase in the threshold that was greater than what inflation would have called for.

100 Specifically, the federal government created the Technical Committee on Business Taxation, which was led by noted tax economist Professor Jack Mintz. The various reports and final recommendations are available at <https://www.fin.gc.ca/toc/1998/brie_-eng.asp>.

101 These numbers (29.12 percent CIT rate in 2000 and 22.12 percent in 2004) include the corporate surtax, which was eliminated in 2008. The surtax rate was four percent of the 28 percent corporate income tax rate in 2000, or 1.12 percentage points.

102 The corporate capital tax is an economically damaging tax applied to a business's capital (debt and equity). For more on this tax see Clemens, Jason, Joel Emes, and Rodger Scott, *op. cit.* (2003).

103 For a discussion on capital gains taxes and their negative economic effects please see Grubel, Herbert (ed.) (2000). *Unlocking Canadian Capital: The Case for Capital Gains Tax Reform*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/UnlockingCanadianCapital.pdf>; Grubel, Herbert (ed.) (2001). *International Evidence on the Effects of Having No Capital Gains Taxes*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/IntlEvidenceNoCapitalGainsTaxTable.pdf>; Clemens, Jason, Joel Emes, and Niels Veldhuis (2015). *Entrepreneurship, Demographics, and Capital Gains Tax Reform*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/entrepreneurship-demographics-and-capital-gains-tax-reform.pdf>; Lammam, Charles and Jason Clemens (eds.) (2014, November). *Capital Gains Tax Reform in Canada: Lessons from Abroad*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/capital-gains-tax-reform-in-Canada.pdf>

104 Data in this section will not exactly align with what was presented in earlier sections, due to differences in data sources. In the Saskatchewan and Alberta sections, Statistics Canada data was used while OECD data is used in this section.

105 OECD (2016, June). Economic Outlook No. 99. <http://www.oecd.org/eco/economic-outlook-june-2016.htm>

106 OECD, *op. cit.* (2016); OECD.Stat. *Population*. <http://stats.oecd.org/Index.aspx?DataSetCode=POP_FIVE_HIST>; calculations by authors.

107 Since 2007 the OECD has expanded to 35 countries. These additional 5 countries (Latvia, Estonia, Israel, Slovenia, Chile) are not included in this ranking.

108 OECD.Stat. *Short-term Labour Market Statistics*. <https://stats.oecd.org/index.aspx?queryid=35253>; calculations by authors.

109 OECD, *op. cit.* (2016).

110 Italy is not included in this figure as the data published online in the OECD's Economic Outlook No. 99 (June 2016) did not include private non-residential gross fixed capital formation, volume, for Italy. However, were Italy included in this figure, it would be shown that Canada outperformed Italy in terms of business investment growth during this time period, as data from earlier OECD Economic Outlooks (such as No. 89, published in May 2011) indicate.

111 Sarlo, Chris (2006, November). *Poverty in Canada: 2006 Update*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/PovertyinCanada2006.pdf>

112 For example, according to research by economists Alberto Alesina and Francesco Giavazzi, spending cuts (as opposed to tax hikes) are a less economically costly way of reducing deficits than are tax increases, and spending cuts "accompanied by an appropriate set of related policies" can actually increase economic growth, "even in the short run." Notably, Alesina points to Canada in the 1990s as an example of "expansionary austerity." Sources: Alesina, Alberto and Francesco Giavazzi (2015). *The Effects of Austerity: Recent Research*. NBER Report 2015 Number 3: Research Summary. National Bureau of Economic Research. <http://www.nber.org/reporter/2015number3/alesina.html>; Alesina, Alberto and Russ Roberts (2016, April 15). *Alberto Alesina on Fiscal Policy and Austerity*. EconTalk, Library of Economics and Liberty. <http://www.econtalk.org/archives/2016/04/alberto_alesina.html>

113 As noted by Nicholson, Peter J. (2003). The Growth Story: Canada's Long-run Economic Performance and Prospects. *International Productivity Monitor* 7 (Fall): 3–23. Centre for the Study of Living Standards. <http://www.csls.ca/ipm/7/nicholson-e.pdf>

114 Statistics Canada, CANSIM Table 380-0064; calculations by authors.

115 The Exporter Register Database only includes firms whose exports exceed $30,000 in a given year. For more details, see: Mei, Lili and Naser Jan (October 2011). *A Profile of Canadian Exporters, 1996 to 2009*. Canadian Trade Review. Statistics Canada. <http://www.statcan.gc.ca/pub/65-507-m/65-507-m2010010-eng.pdf>; calculations by authors.

116 Mei, Lili and Naser Jan, *op. cit.* (October 2011); calculations by authors.

117 Economist Stephen Gordon accurately notes that net exports did contribute positively to GDP growth from 1991 to 2000, suggesting that growth during this period was fuelled in part by a decline in the Canada dollar. However, he also notes that net exports contributed negatively to GDP growth from 2000 to 2008 (during which time the Canadian dollar rose relative to the US dollar) . See Gordon, Stephen (2012, September 18). Why the US Can't 'Just

Do It' and Implement Austerity. *Maclean's*. <http://www.macleans.ca/economy/economicanalysis/why-the-us-cant-just-do-it-and-implement-austerity/>

118 The period of 1997 to 2007 is chosen because it falls after the federal and provincial reforms were first initiated and before the 2008–09 economic recession.

119 Cross, Philip (2013). *Dutch Disease, Canadian Cure: How Manufacturers Adapted to the Higher Dollar*. Macdonald-Laurier Institute. <http://www.macdonaldlaurier.ca/files/pdf/Dutch-Disease-and-manufacturing-January2013.pdf>

120 This point is made by Crowley, Brian Lee and Robert P. Murphy (2012, September). *Truth in Labeling*. Macdonald-Laurier Institute. <http://www.macdonaldlaurier.ca/files/pdf/Northern-Light-Commentary-September-2012.pdf>

121 Murphy, Robert P. (2014, September 28). *More Evidence That Canadian Success Story Didn't Rely on Loose Money*. Ludwig von Mises Institute of Canada. <https://www.mises.ca/more-evidence-that-canadian-success-story-didnt-rely-on-loose-money/>

122 This point was also argued by Peter J. Nicholson (*op. cit.*, 2003): "Canada's fiscal turnaround, combined with credible control of inflation, has largely erased the risk premium in Canadian interest rates relative to those in the United States, contributing to an improved investment climate."

123 The average short-term interest rate, according to numbers published at a monthly frequency by the OECD, from January 1997 to December 2007, was 3.89 percent per annum in Canada compared to 4.08 percent in the United States and 3.39 percent in the Euro area. For the long-term interest rate, it was 5.05 percent per annum in Canada compared to 4.99 percent in the United States and 4.60 percent in the Euro area.

124 Statistics Canada (2016, March 31). *Resources: Long-term Shifts in Commodities*. <http://www.statcan.gc.ca/pub/11-630-x/11-630-x2014003-eng.htm> (accessed July 11, 2016).

125 Statistics Canada, CANSIM Table 379-0031; calculations by authors.

126 The services-producing industries are those industries which are not goods-producing industries. Goods-producing industries, in addition to agriculture, forest, fishing and hunting, and mining, quarrying, and oil and gas extraction, also includes utilities, construction, and manufacturing. For more details, see Statistics Canada (2016, April 1). *National Monthly Gross Domestic Product by Industry, Industry Code Concordances*. <http://www23.statcan.gc.ca/imdb-bmdi/document/1301_D2_T9_V1-eng.htm> (accessed July 11, 2016).

127 Statistics Canada, CANSIM Table 379-0030; calculations by authors.

128 There has been a wealth of research examining the relationship between the size of government, as measured by government spending compared to the size of the economy, and economic growth. The research has tended to show a strong relationship between the two, indicating an optimal or "right" size of government. For one of the latest studies on this issue, please see Di Matteo, Livio (2014). *Measuring Government in the 21st Century: An International Overview of the Size and Efficiency of Public Spending*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/measuring-government-in-the-21st-century.pdf>. For a succinct summary of this research study, please see <http://theprovince.com/opinion/columnists/livio-di-matteo-size-of-government-affects-economic-performance>.

129 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Tables 051-0001, 326-0020, 384-0038; calculations by authors.

130 Department of Finance (2015a). *Fiscal Reference Tables*. <http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp>; Department of Finance, Fiscal Reference Tables 2003–2011; calculations by the authors.

131 Interestingly, some commentators as well as the current Ontario government have argued that Ontario's woes are in large part due to the global restructuring of manufacturing underway. Many analyses have refuted these claims by showing the much stronger recoveries enjoyed by other jurisdictions that, like Ontario, have large manufacturing sectors. See for instance Murphy, Robert P., Joel Emes, and Ben Eisen (2016). *Ontario vs. Michigan: Lessons from the Wolverine State*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/study-ont-vs-mich.pdf>; Murphy, Robert P., Joel Emes, Jason Clemens, and Niels Veldhuis (2015). *Ontario vs. the US "Rust Belt": Coping with a Changing Economic World*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/Ontario-vs.-Rust-Belt-States-rev.pdf>

132 RBC Economics (2016). *Canadian Federal and Provincial Fiscal Tables*. RBC Economics. <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf> (accessed November 16, 2016).

133 See Dahlby, Bev and Michael Smart (2015). *The Structure and Presentation of Provincial Budgets*. The School of Public Policy, University of Calgary. <http://www.policyschool.ca/wp-content/uploads/2016/03/provincial-budgets-dahlby-smart.pdf>

134 Wen, Jean-François (2015, February). *Ontario's Debt Balloon*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/ontarios-debt-balloon-source-and-sustainability-rev.pdf>

135 Fildebrandt, Derek (2011, August). *Ontario Debt, Spending & Taxes*. Canadian Taxpayers Federation. <https://www.taxpayer.com/media/OntarioDebt_Backgrounder.pdf>

136 CBC News (2003, October 29). *Ontario Liberals Inherit $5.6-Billion Deficit*. <http://www.cbc.ca/news/canada/ontario-liberals-inherit-5-6-billion-deficit-1.374657>

137 Office of the Premier (2003, October 30). *A Responsible Approach, For A Change*. Government of Ontario. <https://news.ontario.ca/opo/en/2003/10/a-responsible-approach-for-a-change.html>

138 Government of Ontario (2003). *Budget 2003*. Page 84 <http://booksnow1.scholarsportal.info/ebooks/ebooks2/ogdc/2014-02-21/5/10310447/10310447.pdf>

139 Treff, Karin and David B. Perry (2006). *Finances of The Nation 2004*. Canadian Tax Foundation. Page 2:14.

140 When fully implemented in 2005, for those with taxable incomes under $20,000 the health premium would be $0; for those with taxable incomes from $20,000 to $36,000 it would be $300; for those with taxable incomes from $36,000 to $48,000 it would be $450; for those with taxable incomes from $48,000 it would be $600; for those with taxable incomes from $72,000 to $200,000 it would be $750; and for those with a taxable income over $200,000 it would be $900. Source: Government of Ontario (2004). *Budget 2004*. Page 115. <https://www.poltext.org/sites/poltext.org/files/discours/ON/ON_2004_B_38_01.pdf>

141 This analysis includes surtaxes. Source: Lammam, Charles, Hugh MacIntyre, Feixue Ren, Ben Eisen, and Milagros Palacios (2016, March). *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness*. Fraser Institute. Pages 5, 7. <https://www.fraserinstitute.org/sites/default/files/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness.pdf>

142 The business environment in Ontario has also been severely harmed by mismanagement of energy policies. For example, a recent report from the province's Auditor General found that between 2006 and 2014, Ontario ratepayers overpaid for electricity by $37 billion, and that they

will pay another $133 billion in extra costs from 2015 to 2032. See Cross, Philip (2015). *Ontario: No Longer A Place To Prosper*. Fraser Institute. Page 8. <https://www.fraserinstitute.org/sites/default/files/ontario-no-longer-a-place-to-prosper.pdf>

143 For a broad review of Ontario's declining competitiveness, see Cross, Philip, *op. cit.* (2015).

144 Nelson, Patricia L. (2004, March 24). *Budget 2004, Budget Speech*. Government of Alberta. Page 4. <http://finance.alberta.ca/publications/budget/budget2004/speech.pdf>

145 McClellan, Shirley (2005, April 13). *Budget 2005, Budget Speech*. Government of Alberta. Page 3. <http://finance.alberta.ca/publications/budget/budget2005/speech.pdf>

146 Oberg, Lyle (2007, April 19). *Budget 2007, Budget Speech*. Government of Alberta. Page 12. <http://www.finance.alberta.ca/publications/budget/budget2007/speech.pdf>

147 Department of Finance, *op. cit.* (2016a); Statistics Canada, CANSIM Tables 051-0001, 326-0020, 384-0038; calculations by authors.

148 As noted by Emery, J.C. Herbert and Ronald D. Kneebone, *op. cit.* (2009, April).

149 Please note that unlike previous series, figure 20 is depicted in inflation adjusted dollars with 2015 as the base year. This was done in order to ensure compatibility between the oil price data and the annual surplus/deficit.

150 For reference, the nominal values of Alberta's fiscal balance were a surplus of $2.5 billion in 2007–08 and a $931 billion deficit in 2008–09.

151 Tellingly, Alberta's fiscal performance is quite poor in comparison to most other energy producing provinces and states in North America, which are also obviously subject to the swings in commodity prices for energy. Please see: Eisen, Ben, Steve Lafleur, and Joel Emes (2016). *One Energy Boom, Two Approaches: Fiscal Restraint Has Left Texas in Better Shape than Alberta*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/one-energy-boom-two-approaches-fiscal-restraint-has-left-texas-in-better-shape-than-alberta.pdf>; Milke, Mark (2015). *A Tale of Two Energy Booms*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/a-tale-of-two-energy-booms.pdf>; and Di Matteo, Livio, Jason Clemens, and Joel Emes (2014). *An Economic and Fiscal Comparison of Alberta and Other North American Energy Producing Provinces and States*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/economic-and-fiscal-comparison-of-alberta-and-other-north-american-energy-producing-provinces-and-states.pdf>

152 Lafleur, Steve, Milagros Palacios, Ben Eisen, and Charles Lammam (2015). *Alberta's Budget Deficit: Why Spending is to Blame*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/albertas-budget-deficit-why-spending-is-to-blame.pdf>. See also Milke, Mark and Milagros Palacios (2015). *Fumbling the Alberta Advantage*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/fumbling-the-alberta-advantage-rev.pdf>; Milke, Mark (2014). *Post-Boom Spending in Alberta: A $41 Billion Splurge and Lost Opportunities*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/post-boom-spending-in-alberta.pdf>

153 As reported in March 2016 by *The Globe and Mail*: "Alberta's Finance Minister says he has no idea when the province's budget will be balanced, months after promising the deficit would be eliminated before the end of the decade." See Giovannetti, Justin and Jeffrey Jones (2016, March 23). Alberta Discards Timeline for Balanced Budget. *The Globe and Mail*. <http://www.theglobeandmail.com/news/national/albertas-finance-minister-discards-timeline-for-balanced-budget/article29374634/>

154 Alternative estimates have indicated that the province's debt could easily reach $31.1 billion if the government's program spending increases at the same rate as GDP growth. See Lafleur, Steve,

Ben Eisen, and Milagros Palacios (2016). *How Much, How Fast? Estimating Debt Accumulation in Alberta Through 2019/20*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/how-much-how-fast-estimating-debt-accumulation-in-alberta-through-2019-20.pdf>

155 See Milke, Mark (2015, March 28). Alberta's Budget: $11.4 Billion in Extra Taxes. *Calgary Herald*. <https://www.fraserinstitute.org/article/alberta%E2%80%99s-budget-114-billion-extra-taxes>

156 It's important to recognize that there's nothing inherent to the NDP that would result in the set of poor policy decisions outlined in this section. Indeed, the study *Fiscal Policy Lessons for Alberta's New Government from Other NDP Governments* clearly illustrated the positive policies enacted by the Saskatchewan NDP and the beneficial effects they had on the provincial economy. See Eisen, Ben, Charles Lammam, and Jason Clemens (2015). *Fiscal Policy Lessons for Alberta's New Government from Other NDP Governments*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/fiscal-policy-lessons-for-albertas-new-government-from-other-NDP-governments.pdf>

157 Ceci, Joe (2015, October). *Budget 2015 October, Budget Speech*. Government of Alberta. Page 5. <http://finance.alberta.ca/publications/budget/budget2015-october/speech.pdf>

158 Bakx, Kyle (2016, April 24). *Alberta's Carbon Tax: What We Still Don't Know*. CBC News. <http://www.cbc.ca/news/canada/calgary/alberta-climate-plan-tombe-carbon-tax-1.3548458>

159 Eisen, Ben and Taylor Jackson (2015, November 26). Alberta's New Carbon Policies Are Not Revenue Neutral. *Edmonton Sun*. <https://www.fraserinstitute.org/article/albertas-new-carbon-policies-are-not-revenue-neutral>

160 This period covers seven years and ten provinces; in addition, BC released two additional budgets (total of nine) due to elections while Ontario released eight.

161 Department of Finance (2016b). *Fall Economic Statement 2016*. <http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf>

162 National Post (2007, March 20). *Flaherty Biggest of the Big Spenders*. <http://www.canada.com/nationalpost/news/story.html?id=bff9fecd-ed7d-47e6-b001-2a638620df42>

163 Clark, Campbell (2009, July 24). Ignatieff Pushes More Stimulus. *The Globe and Mail*. <http://www.theglobeandmail.com/news/politics/ignatieff-pushes-more-stimulus/article4194780/>

164 For an excellent overview of the theory and reality of economic stimulus, please see Cross, Philip (2016). *The Limits of Economic "Stimulus": How Monetary and Fiscal Policy Have Sown the Seeds of the Next Crisis*. Macdonald-Laurier Institute. <http://www.macdonaldlaurier.ca/the-great-economic-stimulus-experiment-could-provoke-the-next-big-financial-crash-mli-paper-by-philip-cross/>; for a short summary see Veldhuis, Niels and Charles Lammam (2010, May). Research or Rhetoric? *Fraser Forum*. Pages 20–22. <https://www.fraserinstitute.org/sites/default/files/fraserforum-may2010.pdf>

165 Karabegovic, Amela, Charles Lammam, and Niels Veldhuis (2010, March). *Did Government Stimulus Fuel Economic Growth in Canada? An Analysis of Statistics Canada Data*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/did-government-stimulus-fuel-economic-growth.pdf>

166 Coyne, Andrew (2010, March 24). News Flash: No Free Lunch After All. *Maclean's*. <http://www.macleans.ca/politics/ottawa/news-flash-no-free-lunch-after-all/>

167 Department of Finance, *op. cit.* (2016a). <http://www.fin.gc.ca/frt-trf/2016/frt-trf-1601-eng.asp#tbl2> (accessed on November 30, 2016).

168 See the Liberal campaign platform for more details: <https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf>.

169 See the federal budget (2016) for details: <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>.

170 Department of Finance, *op. cit.* (2016b).

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172 Department of Finance, *op. cit.* (2016b).

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174 Department of Finance (2016c). *Budget 2016*. <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>. Estimates included in *Moving Targets: Re-Estimating Federal Deficits and Debt-to-GDP through 2020–21* suggest that the annual and cumulative deficits for the federal government could be much larger than stated in the 2016 budget. See Veldhuis, Niels, Milagros Palacios, and Charles Lammam (2016). *Moving Targets: Re-Estimating Federal Deficits and Debt-to-GDP through 2020-21*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/moving-targets-reestimating-federal-deficits-and-debt-to-GDP-through-2020-21.pdf>

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177 Department of Finance, *op. cit.* (2016b).

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185 Quoted in Brooks, Neil, *op. cit.* (2016).

186 Research suggests that the Liberals' hopes for $2.8 billion in revenues from the tax hike will not materialize, as top earners find ways to reduce their taxable income through reduced work effort or through tax planning. For example, the C. D. Howe Institute published a report estimating that the income tax hike on top earners would raise less than $1 billion in revenue. Furthermore, its negative impact on these earners' incentives to maintain or increase their levels of taxable incomes would erode the tax base and cost provincial governments an estimated $1.4 billion. In other words, the tax hike would be so economically damaging as to result in a net loss of about $0.4 billion in combined federal and provincial government revenues. Days after the C. D. Howe Institute's report, the Liberal government rejected the notion that its tax hike would be as damaging as the Institute had suggested, but conceded that their own calculations did not add up. Sources: Laurin, Alexandre (2015, December 3). *Shifting the Federal Tax Burden to the One-Percenters: A Losing Proposition*. C. D. Howe Institute. <https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/e-brief_222_0.pdf>; Leblanc, Daniel (2015, December 6). Liberals to Announce That Changes to Federal Tax Brackets Won't Add Up. *The Globe and Mail*. <http://www.theglobeandmail.com/reporton-business/economy/liberals-to-concede-tax-plan-wont-add-up/article27628146>

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188 *The Globe and Mail* provided a succinct summary of the changes to the CPP, see <http://www.theglobeandmail.com/globe-investor/retirement/cpp-reform-whats-changing-and-how-it-will-affectyou/article30551445/>.

189 Various studies were published by the Fraser Institute over the last few years regarding the reality of retirement savings in Canada and why expansion of the CPP is not justified. Please see *5 Myths of the Canada Pension Plan* at <https://www.fraserinstitute.org/5-myths-of-the-canada-pension-plan>, which provides links and information about different aspects of the expanded CPP.

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