

End of the Chrétien Consensus?

by Jason Clemens, Matthew Lau, Milagros Palacios, and Niels Veldhuis

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 opportuni-

ties 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.



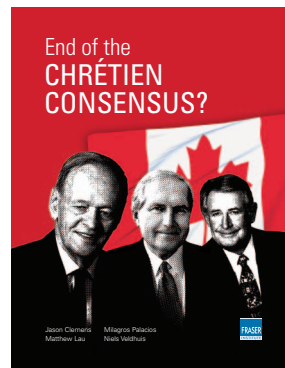
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The increases in spending have often been haphazard and without much attention paid to prioritization or importance. Governments have taken a much more active, larger role in the economy of the nation and most provinces. And finally, many governments 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.



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