

Canada's economy**Breaking the deficit taboo**

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The provinces plead for cash

KEEPING the budget in surplus has been a near-obsession in Canada ever since a Liberal government felt obliged to slash public spending in the mid-1990s to end almost three decades of deficits and rising public debt. In the campaign for last month's general elections, all five party leaders vowed to maintain a budget surplus. Yet within days of winning a second term at the head of a minority government, Stephen Harper, the Conservative prime minister, admitted that "global economic instability" meant that next year's budget might involve a deficit.

That makes sense: governments across the world are resorting to deficit spending as their economies slide into recession. For much of this year, Canada seemed aloof from financial turmoil, but its exports are feeling the effects of plunging commodity prices and falling demand in the United States, its main trading partner.

Yet breaking the taboo against deficits still involves a political risk. Mr Harper must persuade Canadians that the government is only temporarily going into the red, and not because of its own mistakes, says Darrell Bricker of Ipsos-Reid, a polling firm. Paul Martin, a former Liberal prime minister who as finance minister eliminated the deficit, is one of many opposition figures who insist that Canada could stay in surplus if the Conservatives had not mismanaged the public finances.

After taking office in February 2006 the Conservatives broke their own promise to keep spending increases broadly in line with economic growth. They also ended a Liberal tradition of keeping at least C\$3 billion (\$2.4 billion) in reserve to cover contingencies. Only a windfall of C\$4.3 billion from an auction of wireless spectrum in July will prevent a deficit in the current fiscal year ending in March.

Still, there is no shortage of supplicants for public money. The queue is headed by the provincial premiers, most of whom met Mr Harper this week. Jean Charest of Quebec, who is seeking a third term at an election next month, turned up with a detailed list: a high-speed train link between Quebec City and south-western Ontario (costing at least C\$23 billion); federal aid for manufacturing and forestry; and the transfer to the province of C\$4 billion of federal money for infrastructure.

Ontario's Dalton McGuinty wants a federal bail-out for his province's car industry like the one being mounted across the border. Unless Canada matches America's largesse, Ontario plants will close, he says. He is emboldened by Ontario, long the richest province, having recently been designated as eligible for top-up federal funding under the complicated formula to ensure parity of public spending per head.

With the economy forecast barely to grow next year, and oil royalties and petrol taxes raising less money, tax revenues are set to fall quite sharply. Nevertheless, Mr Harper told the premiers that he is willing to consider higher spending, especially on infrastructure. He will reveal his budget plans before Christmas and meet the premiers again in January. He is quietly cutting other spending commitments: he has axed plans for a national portrait gallery announced by a previous Liberal government. That is unpopular. But voters are likely to support Mr Harper if he takes decisive action to mitigate recession, even at the cost of a deficit.

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