

Economics 101: How to Make Progress on Deficits

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If you had a debt of, say, \$200,000 due to a mortgage, would you be shopping for several new cars, and hiring a gardener or butler? What about if you weren't keeping up with your current payments? Silly question, right?

Canadian Governments have been doing this on and off for years, and even when (in those rare years) they managed to run balanced budgets, they didn't use much of the surplus to pay down the debt.

As sorry a fiscal record as this is, it is wonderful compared to that of some other countries. Prime Minister Trudeau recently visited one such country: Japan. Japan has the largest per-capita public debt of any country in the world, at over ten trillion US dollars.

Now Japan knows it has a problem and it is working on shrinking its deficit; since 2009 they have been reducing their deficit, now at around 89 billion dollars¹. An annual deficit of 89 billion?? That's a lot more than Canada's current \$30 billion deficit, so maybe we shouldn't be so concerned about ours?

This may be what our Prime Minister is thinking, but that approach is badly flawed. Japan did not suddenly go from balanced budgets to a ten trillion dollar debt overnight, they accumulated it gradually, year over year. They tried to cover some bad spending decisions with more bad spending decisions, and on and on it went. Other countries have made similar mistakes, and to varying degrees, many of them are now trying to lower their deficits. They have learned the hard way that you cannot spend your way into prosperity.

Canada learned that lesson too. Back in the early 1990's, a Liberal government under Jean Chretien took drastic measures and cut spending—drastically, enough to actually balance the budget and produce a surplus. This was progress. When the global financial crisis of 2008 came along, Canada was practically the envy of the world because we had less debt at the outset. We had a good thing going, but we soon lost it. While it may not be fair to lay the entire blame for the deficits of the next few years at Prime Minister Harper's feet, his administration must take responsibility for going back into deficit territory and adding approximately \$154 billion to Canada's debt over the following seven years. While Conservatives who worked in the Harper administration are shy about taking credit for the deficits they ran, they were very happy to take credit for re-balancing the budget in 2015. Of course, it's too soon to know whether the actual figures for 2015 show a deficit but the 2015 budget was balanced by dipping into Canada's contingency fund for \$2 billion to artificially show a balanced budget.

Balancing the budget was a good goal but seven years of deficits left their toll. Remember that 2007, before the economic crisis hit, the last year of surplus, was also Canada's highest-spending budget year up to that time. Instead of being used to pay for increased spending, that surplus could have been used to further pay down debt...before the recession hit.

Other economies are now trying desperately to lower their debt to GDP ratio; demonstrating that they've learned their lessons about debt and deficits the hard way.

To say let's not repeat their mistakes from the past sounds simple, but Prime Minister Trudeau is doing just that. When he was in Japan at the G-7 meeting, he was talking about all the great stimulus spending he was doing—but no one was listening, because they saw that as regress. According to Brian Lee Crowley's recent article in the National Post², "Many of them were present for the previous debate about growth versus austerity and saw first-hand the positive effects of curbing spending and reducing deficits." Mr. Trudeau should do likewise!

CHP's economic policy is based on the moral principle that it is wrong to spend money that is not yours. That policy would deter deficit spending and would lead to a government that would be both morally honest and also clearer about the long-term consequences of any economic decisions it might make.

Right now, Parliament is debating a word-change in our National Anthem, going from "true patriot love, in all our sons command," to "true patriot love, in all of us command." Without changing the long-understood gender-inclusive nature of the original "sons" another verse might add: "true fear of debt, in all thy sons command." As it stands, all of our sons and daughters will inherit a significant debt that is still growing daily. Until some courageous politicians again recognize the insidious and destructive nature of deficit spending, our sons and daughters will pay the price.

Many countries are desperately moving away from debt-based financing. The Canadian Taxpayers Federation is doing another Debt-Clock tour to remind Canadians about the rising levels of Canadian government debt. The CHP continues to advocate fiscal restraint and prudence.

Please join CHP³ if you have not done so. If you are a member help us keep our own books balanced through the dry summer months with a timely donation. Every little bit helps. Automatic, ongoing monthly donations will help your party immensely in our battle to restore righteousness and common sense to Canadian politics. If you have not already done so, please show your support by signing up for a regular monthly contribution or a one-time donation at CHP.ca⁴.

Footnotes

¹ <http://asia.nikkei.com/Politics-Economy/Policy-Politics/Tokyo-makes-slow-progress-on-deficit-reduction>

² <http://business.financialpost.com/fp-comment/the-g7-didnt-buy-trudeaus-big-deficit-growth-plan-neither-should-we>

³ www.chp.ca/get-involved

⁴ www.chp.ca/donate