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The Dismal Economic Legacy of the 1990s

In recent months, Canada's economy has slowed dramatically. Growth in output, incomes and tax revenues are either stagnant or declining.

As a result of the deterioration in economic conditions, governments at all levels are faced with intensified fiscal pressures.

Current fiscal problems are compounded by changes in institutional arrangements that became entrenched in Canada during the 1990s.

First, the federal government assumed greater responsibility for advancing the interests of corporations through such measures as trade deals and corporate tax cuts. For all intents and purposes, responsibility for the interests of citizens (which the federal government had previously promoted through the use of its spending power) was relegated to the provinces. The federal government's tax and spending policy is a reflection of this shift.

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Second, the wars on deficits at both the federal and provincial levels were accompanied by the entrenchment of a powerful lobby calling for tax cuts (on personal and corporate incomes) and debt reduction. The corollary to this was a systematic, long-term shrinking of the public sector. Business interests, right-wing think tanks and many in the media clamoured for tax cuts. Jean Chretien and his provincial counterparts, most notably Ralph Klein, Mike Harris and more recently Gordon Campbell, delivered them. The federal finance minister has taken credit for lowering program spending to a fifty year low, while cutting corporate and capital gains taxes as well as income taxes, and these disproportionately at the top. The BC government made unprecedented provincial tax cuts and then introduced unprecedented civil service layoffs.

Finally, some governments, including the Filmon government in Manitoba in 1995, created a fiscal straitjacket in the form of balanced budget legislation and the prohibition of increases to major taxes without prior approval in a referendum. As the *Winnipeg Free Press* noted (September 23, 1995) the legislation was stupid and irresponsible. The NDP was opposed at the time, but subsequently endorsed the legislation.

The implications of this new institutional regimen are now becoming evident.

No Stimulus

We needed a spending stimulus from the federal government in November, but there was none. Under the new orthodoxy, we must rely on monetary policy to influence the level and pace of economic activity. The central bank has cut the bank rate by 3.75 percentage points from 5.75 to 2.0 per cent in the last 12 months. The resulting fall in interest rates provided a major impetus to housing construction and, in the last quarter, automobile sales. A spending stimulus would have reinforced the positive impact of monetary policy. But these sorts of initiatives are now precluded by a zero tolerance mentality. This is not true of the US government, which will be running multi-billion dollar deficits over the next few years.

The Provinces

What about the provinces? They are being advised to cut taxes and balance budgets. When revenues are declining, this prescription requires cuts in expenditures. If net tax cuts are not covered by economic growth, then the only choices are to cut public spending or run deficits. The approach of the BC government was also to declare that government programs spending is out of control and unsustainable.

Recently, the proponents of tax (and expenditure) cuts have concentrated their attacks on health care spending. Alberta (following Mazankowski) has proposed to make the health care system sustainable by raising regressive premium taxes, introducing more taxes on the sick (user fees/medical savings accounts), forcing citizens to purchase more services privately (de-listing) and opening up the public system to the less efficient for-profit private sector. The evidence shows that making the poor pay more for their health care does not reduce overall health expenditures but shifts health resources from the poor and more needy to the more well-to-do and healthier.

Provincial government spending on health care as a percent of GDP has declined since 1992-93 in all provinces except Manitoba (where the proportion increased form 7.6 per cent to 8.1 per cent in 2000-01). For all provinces, the proportion dropped from 6.9 per cent in 1992-93 to 5.9 per cent in 2000-01. The biggest declines were in Alberta (6.0 to 4.7 per cent), Saskatchewan (7.7 to 6.4 per cent) and Ontario (6.6 to 5.5 per cent).

There were similar trends in provincial transfers to school boards, universities and municipalities. The BC governments tax cuts are, among other things, a mandate to increases in class sizes.

Tragedies

The millions of dollars of losses caused by the Walkerton tragedy has been linked by the inquiry to government cutbacks and the ethos that often accompanies such cutbacks. Will the 11,000 removed from the BC civil service payroll be tied to future tragedies?

The resulting deterioration in social and economic infrastructures will likely undermine Canada's economic prospects over the longer haul. The overwhelming evidence suggests that the kind of tax cuts promulgated at the federal and provincial level in Canada are a weak instrument for promoting growth and higher productivity. Toxic water, larger class sizes and making the poor pay for their health care are not the answer—they are part of the dismal legacy of policies enacted in the 1990s.

— Errol Black and Robert Chernomas

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