



Can they pay for what they say?

A pre-election comparison of the Conservative, Liberal, and New Democratic platforms

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Promises, promises – it's election time again. But can the three major parties pay for what they are promising in their electoral platforms?

This paper is not intended to evaluate the various policies that each party supports, or to dispute the price tags that each party attaches to its promises.

We ask only one question: based on the costing that each party has provided, can each party pay for what it claims it will do, and still balance its budget?

Methodology

The platforms referred to in this study are from the official Liberal, Conservative, and New Democratic Party websites as of June 8, 2004. In this analysis, we accept the costs that each party provides for its platforms. Any questions about whether a given tax or spending measure has been accurately costed have been set aside.

To facilitate our analysis, we have produced a "status-quo" federal budget projection for the next five years (see below), which represents a projection of what the federal finances might look like if no changes were made in the federal taxing and spending behaviour. This status-quo forecast excludes major policy commitments of the Health Accord and the 2004 Budget.

We then make adjustments to this status-quo forecast to reflect any changes to either taxation or spending that the political parties' wish to implement.

Because each party presents the costing of its

platform promises a little differently, we had to compare their platforms consistently across parties. To derive the appropriate revenue and spending estimates for each party, we add platform commitments on spending and taxation as well as the portions of the prior government commitments for future years that each party has stated it would honour. In this way, we can assess the ability of the Conservatives, Liberals and NDP to balance their budgets and deliver on their promises (both within and outside their platform documents).

Status quo budget projections

The status-quo budget is an attempt to project federal finances into the future if government taxation and spending behavior remains unchanged. It thus represents a "base case" which we use to compare all three parties' campaign promises.

In creating the status-quo budget, we have had to make a number of assumptions. Our intention was to make the most uncontroversial assumptions whenever possible.

Revenue Assumptions

The three parties largely adopt the budgetary revenue estimates presented in the 2004 Federal Budget, so we have also built Federal Budget '04 projections into our status-quo budget out to 2005/06. For each fiscal year after that, we assume budgetary revenues grow at the same rate as 2005/06, an average annual rate of 4.6%. We acknowledge that this revenue

growth is low by historical standards, but since each party seemed comfortable with these estimates, we also adopted them.

Program Expense Assumptions

Both the Liberals and New Democrats appear to have assumed program spending for 2003/04 is \$143.1 billion (as was estimated in the 2004 Budget.). However, the Conservatives argue that the Liberal government has consistently “padded” its spending, and claim that a more accurate estimate of 2003/04 program spending is \$139.6 billion.

On this issue we are persuaded by the Conservative party’s argument, but in deference to the other Parties estimates for 2003/04 program spending we elect to be slightly more cautious than the Conservative Party and round this program spending estimate up. We derive a 2003/04 program spending estimate of \$140 billion by increasing 2002/03 program spending by 5%.

For the fiscal years after 2003/04, we increase program spending by 3.2% per year. We use this figure to maintain real per capita spending and to account for legislated increases in costs such as the impact of an aging population on elderly benefits. This includes an estimate of inflation at just under 2% and population growth at just over 1% per year.

It should be emphasized that this 3.2% increase in program spending represents the minimal increases in government expenditure that would be required to maintain the existing level of government services in light of both inflation and population growth. If the political parties want to expand or contract status-quo spending in real terms they should explicitly cost it out rather than assuming that the existing government budget can magically cover it.

Public debt charges

We adopt the estimates for public service debt charges in the 2004 Federal Budget. For the fiscal years after 2005/06, we assume that public debt charges remain fixed at their 2005/06 levels.

Using these assumptions, we note that the status-quo budget shows a cumulative surplus of \$78 billion between 2004/05 and 2008/09. This is equivalent to saying that any political party could balance its budgets for its platform as a whole so long as their mixture of tax and spending changes did not cost more than \$78 billion over four years.

The Conservative platform

The Conservatives adopt the same revenue projections depicted in the status-quo budget. They treat all of their platform proposals as “spending proposals” despite the fact that some are actually provisions that affect tax revenues. For the purposes of this paper, we will accept the Conservatives’ practice of considering all of their measures as spending impacts.

Conservative party spending impacts are of two types. Page 43 of the platform details “total new spending.” On the following page is detailed “total items in current fiscal framework” (i.e. prior commitments that the current government has made which the Conservatives intend to honour). Since we have stripped spending announced in the Federal Budget 2004 and the Health Accord out of the status-quo budget, this second type of program spending from the “current fiscal framework” must be added back in. This means that the total program spending promised by the Conservatives is equal to the status-quo program spending, plus “new program spending,” plus “total items included in current fiscal framework.”

When the impacts of the Conservative platform are added to our status-quo base case, the Conservative party platform costs a cumulative total of \$89.4 billion. Since our status-quo budget projects only a cumulative surplus of \$78 billion, the Conservative party would run a cumulative deficit of \$11.4 billion over five years. The Conservatives cannot pay for what they say.

While the Conservatives claim that they have significant unallocated funds for contingency, prudence and other priorities, we disagree. They have based this claim on their assertion that a sizeable portion of the

Table 1: Status-quo budget 2002/03 – 2009/10

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|---------|---------|--------------|---------|---------|---------|---------|---------|
| Revenues | 177.6 | 181.1 | 187.2 | 195.8 | 204.8 | 214.2 | 224.1 | 235.1 |
| Program expenses | 133.3 | 140.0 | 144.4 | 149.1 | 153.8 | 158.8 | 163.8 | 169.1 |
| Public debt charges | | 35.8 | 35.4 | 35.7 | 35.7 | 35.7 | 35.7 | 35.7 |
| Balance | 7.0 | 5.9 | 7.4 | 11.0 | 15.3 | 19.8 | 24.5 | 30.3 |
| Cumulative surplus 2004/05 - 2008/09 | | | 78.0 | | | | | |
| Cumulative surplus 2004/05 - 2009/10 | | | 108.3 | | | | | |

Table 2: Conservative revenue and spending impacts

| (billions) | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---|-------------|---------|---------|---------|---------|
| Revenue impact | 0 | 0 | 0 | 0 | 0 |
| Expenditure impact | | | | | |
| New spending in platform | 3.7 | 6.5 | 10.6 | 15.1 | 21.8 |
| "Total items in current fiscal framework" | 4.4 | 7.5 | 8.7 | 10.3 | 0.8 |
| Total expenditure impact | 8.1 | 14 | 19.3 | 25.4 | 22.6 |
| Cumulative cost of platform | 89.4 | | | | |

Table 3: Conservative budget

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---|---------|---------|--------------|---------|---------|---------|---------|
| Status quo revenues | 177.6 | 181.1 | 187.2 | 195.8 | 204.8 | 214.2 | 224.1 |
| Status quo program expenses | 133.3 | 140.0 | 144.4 | 149.1 | 153.8 | 158.8 | 163.8 |
| Conservative spending impacts | | | 8.1 | 14.0 | 19.3 | 25.4 | 22.6 |
| Total expenditure | | | 152.5 | 163.1 | 173.1 | 184.2 | 186.4 |
| Public debt charges | | 35.8 | 35.4 | 35.7 | 35.7 | 35.7 | 35.7 |
| Balance | 7.0 | 5.9 | -0.7 | -3.0 | -4.0 | -5.6 | 1.9 |
| Cumulative deficit 2004/05 - 2008/09 | | | -11.4 | | | | |

spending they would undertake is already included in the "current fiscal framework." However, when they present their forecast of federal finances, they have held total program spending increases to such modest levels that these increases cannot credibly be paid for without spending cuts. In fact, in order to accommodate their spending commitments in the "current fiscal framework" in 2004/05, nominal spending on all other areas would have to decrease by 1%. (Over the following three years, spending exclusive of these "current fiscal framework" commitments would increase by only 2% per year from that lower base, a rate of increase that is well below the 3.2% we have assumed is necessary to avoid real cuts to current government programs.)

In implementing their promises, the Conservatives would run annual deficits of \$0.7, \$3, \$4 and \$5.6 billion in years 1, 2, 3 and 4 of their platform. If they wish to balance their budget in each fiscal year, they would need to find an additional \$11.4 billion to deal with the discrepancy between their proposed spending and taxation measures and their ability to pay for these measures.

If the Conservatives wish to balance the budget each year, they confront two potential scenarios in finding the extra \$11.4 billion avoid falling into deficit: 1) they could choose not to fulfill all of their promises; 2) they could cut other forms of government spending in order to fulfil their promises. We believe they should inform voters of what choices the party will make.

The Liberal platform

The Liberal platform differs from both the Conservatives' and the New Democrats' in that it is over the period 2004/05 to 2009/10. The Liberal platform includes no new taxation changes. On the expenditure side, the Liberals have committed to between \$26.3 and \$28.3 billion in additional spending between 2005/06 and 2009/10. We have elected to assume the higher bound of their spending estimates.

To derive the total spending above status-quo levels that is implied by the Liberal platform, we added the Liberals' explicit new spending commitments to their previous spending commitments in the 2003 Health Accord and the 2004 Federal Budget.

The Liberal platform is not explicit on the pattern of that spending over the five years. As a result, we have assumed a spending pattern that meets the party's commitment to stay out of deficit in each year. This constrains spending in 2005/06 and 2006/07. For the next three years, the remaining spending is equally distributed.

The Liberal platform in combination with its government's previous commitments in the Health Accord and 2004 Budget would cost \$53.8 billion between 2004/05 and 2008/09.

When the impacts of the Liberal platform are added to our status-quo base case, we generate the following projection for federal finances:

Between 2004/05 and 2008/09, the Liberal party platform would produce surpluses of \$24.2 billion. This

Table 4: Liberal revenue and spending impacts

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|--|---------|---------|---------|---------|---------|---------|
| Revenue impact | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Spending impact | | | | | | |
| Previous spending commitments for 2004/05 onward | 6.8 | 8.8 | 7.9 | 9.5 | 0.0 | 0.0 |
| New platform spending | 0.0 | 2.0 | 4.0 | 7.4 | 7.4 | 7.4 |
| Total spending impact | 6.8 | 10.8 | 11.9 | 16.9 | 7.4 | 7.4 |
| Cumulative costs of Liberal platform | | | | | | |
| over six years | | 61.2 | | | | |
| over five years | | 53.8 | | | | |

Table 5: Liberal budget

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|---------|---------|---------|---------|---------|---------|---------|-------------|
| Revenues | 177.6 | 181.1 | 187.2 | 195.8 | 204.8 | 214.2 | 224.1 | 235.1 |
| Status quo program expenses | 133.3 | 140.0 | 144.4 | 149.1 | 153.8 | 158.8 | 163.8 | 169.1 |
| Liberal spending impacts | | | 6.8 | 10.8 | 11.9 | 16.9 | 7.4 | 7.4 |
| Total spending | | | 151.3 | 159.8 | 165.7 | 175.6 | 171.2 | 176.5 |
| Public debt charges | | 35.8 | 35.4 | 35.7 | 35.7 | 35.7 | 35.7 | 35.7 |
| Balance | 7.0 | 5.9 | 0.5 | 0.3 | 3.4 | 2.9 | 17.1 | 22.9 |
| Cumulative surplus 2004/05 - 2008/09 | | | | | | | | 24.2 |

is consistent with the Liberal party's practice while in government of generating sizable surpluses to provide a windfall for debt reduction.¹

The NDP platform

The NDP platform consists of provisions that affect both budgetary revenues and program expenditures.

The revenue impacts in the NDP platform come in several forms. The New Democrats propose to generate substantial revenue recovery by improving the collection of taxes owing to the federal government. In year 2004/05 they reduce revenues by a one-time amount of \$2 billion to reflect their decision not to sell the government's Petrocan shares. In addition, they make several changes in tax policy, some of which lower and some of which raise tax revenue. The net impact of these "fair tax" tax measures is presented in the line on Table 6 entitled "net fair taxes."

Since the New Democrats explicitly cost of all their proposed measures, there is no need to make adjustments to the status-quo budget to reflect measures that are implicitly paid for out of the status-quo budget. Instead, the spending impacts of all of the measures contained in the NDP platform are taken

from the line "total new program expenses" in Table 1.9 of its platform-costing document.

The cumulative cost of NDP spending measures is \$79.4 billion, while they propose to increase revenues by a cumulative total of \$16 billion. Thus the net cumulative cost of the NDP platform is \$63.4 billion. This cumulative cost is \$2 billion higher than the cost of "new program initiatives" claimed in Table 1.10 of their platform costing document. This is the result of a methodological difference in dealing with the NDP's promise to refrain from selling the \$2 billion in Petrocan shares owned by the government. While the New Democrats account for this decrease in revenues by adjusting their "base revenue" amounts in 2004/05, we elect to portray this as an explicit platform revenue impact. Table 7 presents the overall impact when the status-quo budget is adjusted to reflect the net impact of the NDP platform.

By our calculations, the NDP would run a cumulative surplus of \$14.6 billion, which is considerably in excess of the \$5.3 billion in cumulative surpluses that they claim in their platform. This affords the NDP the opportunity to use this additional buffer to 1) enrich program spending, 2) increase tax cuts or reduce tax increases, or 3) pay off federal debt.

Table 6: NDP revenue and spending impacts

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---|---------|-------------|---------|---------|---------|
| Revenue impact | | | | | |
| Revenue recovery | 0.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Refrain from sale of Petrocan | -2.0 | | | | |
| Net "fair tax" | 1.0 | 3.6 | 3.9 | 2.5 | -1.5 |
| Net revenue impact | -0.5 | 5.6 | 5.9 | 4.5 | 0.5 |
| Net spending impact | 2.3 | 13.0 | 18.3 | 22.0 | 23.7 |
| Cumulative cost of platform | | | | | |
| New spending | | 79.4 | | | |
| New Revenue | | 16.0 | | | |
| Total cumulative costs of platform | | 63.4 | | | |

Table 7: NDP budget

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---|---------|-------------|---------|---------|---------|---------|---------|
| Status quo revenues | 177.6 | 181.1 | 187.2 | 195.8 | 204.8 | 214.2 | 224.1 |
| NDP revenue impact | | | -0.5 | 5.6 | 5.9 | 4.5 | 0.5 |
| Total revenues | | | 186.7 | 201.4 | 210.7 | 218.7 | 224.6 |
| Status quo program expenses | 133.3 | 140.0 | 144.4 | 149.1 | 153.8 | 158.8 | 163.8 |
| NDP spending impacts | | | 2.3 | 13.0 | 18.3 | 22.0 | 23.7 |
| Total spending | | | 146.8 | 162.1 | 172.1 | 180.8 | 187.5 |
| Public debt charges | | 35.8 | 35.4 | 35.7 | 35.7 | 35.7 | 35.7 |
| Balance | 7.0 | 5.9 | 4.5 | 3.6 | 2.9 | 2.2 | 1.4 |
| Cumulative surplus 2004/05 - 2008/09 | | 14.6 | | | | | |

Conclusion:**Can they pay for what they say?**

The Conservatives cannot pay for what they say. We project that the Conservatives will run cumulative budget deficits of \$11.4 billion. This obliges the Conservatives to tell Canadians how they intend to deal with this shortfall. Do they intend to make further cuts to government spending to balance their books? Or are they intending to increase the federal debt?

The Liberals can pay for what they say. However, their cumulative \$24.2 billion surpluses between 2004/05 and 2008/09 are far in excess of the margin that the Liberals typically leave for "contingency reserves." The Liberals usually set aside \$3 billion per year for this contingency fund, or a total of \$15 billion between 2004/05 and 2008/09. Thus the Liberals are again underestimating the fiscal capacity for program spending. As past performance has indicated, this is likely to result in the diversion of these "surprise" surpluses into debt repayment.

The New Democrats can pay for what they say—in fact, we foresee them running higher surpluses than they themselves forecast. This \$14.6 billion in cumulative surpluses provides the NDP extra capacity to enact

further spending increases or tax cuts. Alternatively, this \$14.6 billion surplus may be used to absorb any unanticipated shortfalls in their revenue projections, or overruns in their cost projections.

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Endnote

¹ Readers may notice that the relatively low surpluses in the early years of the Liberal budget appear to be at odds with other publications of the Canadian Centre for Policy Alternatives, which have frequently claimed that the Liberal government is likely to realize large future budget surpluses in the coming years. This discrepancy exists because of the peculiar constraints imposed by our attempt to stick as closely as possible to the debate among the party platforms. This compelled us to accept the revenue projections that were broadly shared by the three parties. However, if we were preparing budget projections that were not constrained in this manner, we would certainly probe further into both the revenue assumptions employed by the Liberals and assess the credibility of their claims to spend the full amount they have budgeted. These factors are critical in producing the relatively low surplus results depicted above.