The Paul Martin guide to cutting deficits

**By Jesse Kline, National Post**May 31, 2011

**Photograph by:** Lucas Jackson, Reuters, National Post

Last week, the U.S. government hit its debt ceiling of $14.3-trillion -the legal limit on the amount of money the government can borrow. While the Treasury Department is using a number of accounting tricks to give lawmakers until early August to resolve the situation, both Republicans and Democrats agree that America's fiscal situation is fundamentally unsustainable.

The national debt is now about 62% of gross domestic product (GDP) up from 36.2% in 2007. In other words, the amount of money the government owes is equal to about two-thirds of the value of all the goods and services that America produces in a year. In the fiscal year 2010, the U.S. government spent about $1.5trillion more than it took in. By comparison, the total U.S. debt in 1980 was just under $1trillion. That amount of debt, which America now burns through every eight months, was enough to fight two world wars, split the atom, rebuild Europe and land a man on the moon.

Canada faced a similar situation in the mid'90s. In 1994, Canada's debt-to-GDP ratio was around 67%, but thanks to sound fiscal management, deep spending cuts and sustained economic growth, this number was reduced to 29% by 2009. A report released earlier this month by the Mercatus Center at George Mason University urges America's political leaders to look to the Canadian experience as a guide for getting out of the hole they've dug themselves.

The Liberal government under former prime minister Jean Chrétien and finance minister Paul Martin began a concerted effort to balance the budget in 1995. Between 1995 and 1998, the government cut spending by a whopping 14%. As the report's authors note, "if the U.S. government were to cut real spending by 14% over the next three years, the budget in [fiscal year] 2013 would be US$473-billion (in 2010 dollars) less than the FY 2010 budget."

Most importantly, the Chrétien-era Liberals were able to balance the budget, "not with large tax increases, but with substantial cuts in government spending." Federal spending as a percentage of GDP went from 18% in 1993 to 13% in 2009. And the Canadian economy prospered because of it.

During this period, the unemployment rate fell from a high of 11.4% in 1993 to 6% in 2007, according to Statistics Canada. Moreover, as the government cut spending, more resources were freed up for the private sector. As a result, Canada experienced high growth rates of 4-5% between 1997 and 2000.

For the report's authors, the Canadian experience shows that government can balance the books by making significant spending cuts, and that can be done without having an adverse effect on economic growth and levels of employment.

For Canadians, it highlights one of the benefits of our parliamentary democracy: It's much easier to get big things done when unencumbered by the checks and balances that are built into the U.S. presidential system. (Whether or not that's an advantage, of course, depends very much on the big thing in question). The Liberals were able to make significant spending cuts without the political infighting we have seen in the budget negotiations down south.

This case also highlights the culmination of a concerted effort on the part of the right-wing in Canada to educate the public about government spending and make "deficit" a bad word in the minds of Canadians. In the United States, groups like Bankrupting America have only recently been able to make headway on this issue.

The Americans can learn a lot from the Canadian experience. One hopes that our current Conservative government will learn a lesson from their predecessors as well.

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