

Conservative budget in name only

commentary

By Niels Veldhuis and Jason Clemens,
The Fraser Institute

The federal budget delivered Monday by Finance Minister Jim Flaherty was conservative in name only.

It increases the size and scope of activity undertaken by the federal government and relies largely on a host of activist economic policies rather than focusing on creating the right environment to encourage economic activity.

The budget plan calls for program spending to increase to just under \$200 billion in 2007-08 -- \$199.6 billion to be exact. That's an increase of \$10.7 billion over this year (2006-07) and comes after a \$13.8-billion increase in program spending implemented last year.

What's more, these increases were initiated by a government that was committed to constraining spending increases to the growth rate of population and inflation.

However, the most important measure to gauge the breadth and depth of government activity is spending as a share of the economy. The share of the econo-

my represented by federal program spending will increase from 12.8 per cent in 2005-06 to 13.3 per cent in 2007-08.

In a time of relative economic strength, Ottawa is increasing its size rather than reducing it. An economic downturn or indeed, even a slowdown, could mean a more pronounced increase in the size of the federal government.

Two areas that highlight the budget's policy approach are the fiscal balance and tax relief.

The centerpiece of the budget was a \$39 billion increase in transfers to the provinces over the next seven years to deal with the fiscal balance between Ottawa and the provinces.

It includes a significant increase in equalization and the Canada Social Transfer (used for post-secondary and social services) along with new transfers for labour market training, infrastructure, and climate change.

The finance minister boldly declared, "The long, tiring, unproductive era of

bickering between the provincial and federal governments is over."

Unfortunately, the bickering and demands will resume shortly if history is any indicator. It's much easier for the provinces to constantly demand more and more money from Ottawa while hiding behind federal mandates like the principles enshrined in the Canada Health Act.

An example of this already exists with health care. Since 1997, the feds have increased cash transfers to the provinces for health care by \$36 billion. Those increases have not stopped the provinces from demanding ever greater sums from Ottawa.

More importantly, the increased transfer of cash has not resulted in better access to medical care. Waiting times for health care in Canada are nearly 50 per cent longer than they

were in 1997 and access to technologies such as MRIs and CT scanners have also decreased.

A conservative approach to fixing the fiscal balance would have seen Ottawa remove itself from these areas, which it readily admits are exclusively provincial responsibility. In other words, the feds should have eliminated transfers, reduced federal taxes and allowed the provinces to increase their own taxes.

This clarifies the role of governments in the mind of citizens since those raising the revenues are also those responsible for providing services.

This so-called conservative government chose instead to follow the tried and tested path of simply increasing the amount of transfers.

Equally as telling were the tax relief measures in

the budget. Overall tax cuts played a relatively small part in the budget -- for every \$1.00 of tax relief, spending was increased by nearly \$2.50.

More revealing than the lack of broad-based tax relief. The government chose instead to pick winners -- if you're a trucker, a manufacturer, energy company, fisherman, farmer, purchaser of a hybrid vehicle, and/or senior -- then you may have benefited from the budget.

For average Canadians, particularly those without children, there wasn't any broad-based tax relief.

The type of broad-based tax relief characteristic of an economic approach focusing on creating the right economic environment for individuals and businesses to flourish was near absent save for a few measures, which are important but were the exception rather than the rule in this budget.

The budget should have included personal and business income tax rate reduc-

tions. Activist economic policies that increase the size and scope of government have failed Canada in the past. Unfortunately for Canadians, the "New" federal government took a page from the previous Liberal government.

That is, rather than focusing on creating the right conditions under which all Canadians can prosper, Monday's budget resorted to picking winners and losers. And that's a mug's game.

Niels Veldhuis is a senior economist and Jason Clemens is the director of fiscal studies at the Fraser Institute in Vancouver.

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