



One Lesson America Could Learn from Canada: A Balanced Budget

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Canada just reported a budget [surplus](#) for the third consecutive month.

As of February, the U.S. neighbor to the north had \$5.1 billion more revenue than expenditures, up from \$2.2 billion in January and \$1.9 billion in December. The surplus has shrunk the country's fiscal year deficit to \$5.4 billion, half of the \$10.7 billion deficit previously forecasted. As a result, many analysts believe the budget could be [balanced](#) this year, much earlier than predicted by late Finance Minister Jim Flaherty.

This fast path to a balanced budget is the result of the responsible fiscal discipline Stephen Harper's Conservative government has introduced. While the Conservatives have [increased](#) expenditures more quickly than the preceding Liberal government (1993-2006), the fact that Conservatives – and not Liberals or New Democrats – were the minority government until 2011 helped [control](#) the rate of increase. As a result, the [deficit](#) was at most 3.6 percent of GDP, significantly lower than the U.S.' [12.1 percent](#) with no surplus in sight projected by the [Congressional Budget Office](#), Rep. Paul [Ryan](#) (R-Wis.), or even President Barack [Obama](#).

As another testament to the Conservative's fiscal discipline, there has been no tax increase in Canada under their administration – the countrywide Government Sales Tax has even [decreased](#) from 7 percent to 5 percent. In the U.S., there have been some 13 federal tax increases just in 2013 according to [Heritage](#). Again, Canadian Conservatives controlled the [temptation](#) to [increase](#) taxes even with big budget deficits in 2008.

Furthermore, unbeknownst to many, Canada has lower federal taxes than the U.S. The top federal individual income bracket is 29 percent in [Ottawa](#) of only four brackets, compared to 39.6 percent in Washington, [D.C.](#) of seven brackets – making it the most [progressive](#) income tax in the OECD. Canadian corporate taxes are also lower at [26 percent](#) compared to 39 percent in the U.S., the highest rate in the [world](#).

Canada's turn towards fiscal discipline is unusual considering its constitutional structure compared to the U.S. In Canada, residual powers are given to the [federal](#) government whereas the Tenth Amendment in the U.S. gives such powers to the states. Despite many past constitutional violations like issuing grants to [universities](#) in the 1950s despite education being

under provincial jurisdiction, [provincial](#) and local governments spend [more](#) in Canada than [states](#) do in the [U.S.](#)

As a result, the U.S. federal government is soon expected to spend more as a percentage of the GDP than Canada according to [OECD projections](#). This is no surprise considering programs like the [Affordable](#) Care Act, [Medicaid](#) and [Medicare](#) will keep digging the deficit. In Canada, healthcare spending is done by provinces, and federal [oversight](#) and [funding](#) is minimal compared to that in the [U.S.](#)

However, Canada still has its share of problems. To name a few, its housing [bubble](#) hasn't popped, many basic [agricultural](#) products are shielded from foreign competition thereby resulting in [higher](#) prices, and provinces don't even have a [common](#) market. Also, provincial income tax rates even in conservative [Alberta](#) are much higher than most states in the U.S.

Nevertheless, our northern neighbor can teach Uncle Sam a thing or two about good fiscal policies — namely, decrease taxes, control expenditures, and, most importantly, respect your constitutional powers.

Thanks to its respect for federalism, Ottawa is not directly involved in domains like education and healthcare, which were explicitly given to the provinces. While doing the same would be very hard in D.C. – Medicare and Medicaid take [25](#) percent of the budget – there are still ways to downsize government like abolishing the Department of [Energy](#), and the [TSA](#) or end agricultural [subsidies](#).

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