



On getting out of debt, Canada shows way

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In the general debt and spending crisis that envelops Europe and is spilling across the Atlantic, we can find inspiration in unlikely places: this time, Canada. The recent Canadian experience shows what's wrong with the rhetoric of both major American political parties, the benefit of sequestration, and the parallel to the recent New Hampshire experience.

Although some of us have been caterwauling about debt for the last 30 years, the potential collapse of Europe has finally pushed debt to the front pages. At this point, everyone agrees we can't keep borrowing money from our great-grandchildren to pay our bills.

With total debt significantly larger than the size of their entire economy, Greece has become the poster nation for debt disaster, but a handful of countries wait in the wings to follow along. The United States used to be well away from the basket case countries. But we've been accumulating more debt since 2002 and have seen an explosion in the last few years.

Lucidly, a neighbor has already blazed a path to a solution. I have written before about emulating the Canadian example to get our fiscal house in order. Chris Edwards of the Cato Institute has done much to publicize Canada's sensible reforms recently.

In the middle of the 1990s, Canada's debt had risen to levels seen as ridiculous and burdensome. Canadian debt was 68 percent of gross domestic product (GDP). For comparison purposes, our public debt is now 73 percent of GDP. The difference is that Canada decided to do something about it.

Canada was governed by the Liberal Party, not some sort of right-wing cabal. To reduce debt, they reduced spending. They did not cut just a small program here or there. To make a difference, everyone had to be on the team. Every area of government was cut without exception. Some were cut more and some were cut less, but every area was cut. This way, no minister felt like his ox was being gored to pass the savings along to some other minister who escaped helping out.

The results were impressive. The budget was balanced and Canada's debt was reduced from 68 percent of GDP down to 34 percent of GDP. As a result, the economy boomed and Canada was able to cut corporate taxes from 29 percent to 15 percent and create more jobs.

Budget cuts can be difficult because everyone has a favorite program or area that he or she believes ought to be spared. When New Hampshire faced the enormous potential deficit in 2011, I told any policymaker I could find that the only way to accomplish such a Herculean task would be to make everyone pull on an oar. If any department was exempt, every department would fight to be exempt. We're either all in this together or we fight

Our federal task looks just as Herculean, but it is no more impossible than New Hampshire's or Canada's were. The difference is that there are few voices arguing that we're all in this together.

Instead, people in each area of the federal government warn that while the budget ought to be balanced and cuts are necessary, their area should be exempt. For more liberal analysts, every transfer program is a burden on states and recipients. There are more than 1,000 different programs that transfer money from the federal government to the states, but eliminating even one or perhaps combining a few is attacked as impossible.

Conservatives are no better. Conservatives talk a lot about cutting the budget, but they are just as likely to count a slowed increase as a cut as if reducing the rate of increase from 4 percent to 3 percent is somehow devastating. More important, some conservatives have their own exempt categories — notably defense. Some subset of conservatives wants to cut the budget, but not the 19 percent of the budget spent by the Defense Department.

Is this because of previous massive cuts? No. Over the last 10 years, defense has gone from 17.3 percent of the budget to 18.9 percent — a significantly greater percentage of a budget that itself increased from \$2 trillion to \$3.8 trillion.

The federal budget sequester has focused Congress's collective mind. If they can't reach a deal, the sequester is an automatic reduction in every bit of discretionary spending. If it didn't exist, disagreement would lead to more spending by default. It changes so that disagreement now leads to less spending by default.

Balance needn't be draconian. Spending will increase by 4.4 percent each year if we do nothing. The budget can be balanced in 10 years if we grow spending at 3.8 percent instead. If every department grows just a little less, we can be more like Canada, and that's a good thing.

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