When it Comes to Finances, Canada is No Role Model

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by Christopher Sands

If Justin Bieber came by my office and gave me singing lessons and fashion advice, I still would not be able to replicate his teen idol success: I'm too old, and honestly, I don't have enough hair left to adopt his look. He and Jaden Smith can sing "Never Say Never" forever, but I'll still stick with never.

That is also how I feel about the recent series of events and articles from Washington think tanks claiming that the United States can fix its fiscal and economic problems by imitating Canada.

The latest arrived this week from Chris Edwards, the director of tax policy analysis at the CATO Institute. Edwards argues the United States can cut government, since Canada did. He cites the Chrétien government's spending cuts in the 1990s, tax reforms by Liberal and Conservative governments in the 2000s, and the salutary effects of federalism that encourage provinces to compete to offer more attractive tax rates to businesses as sources of Canadian advantage.

Yet Chrétien cut federal spending because Canada is a small economy that markets punish for high debt-to-GDP ratios of the sort that plagued Ottawa in the early 1990s. He did so largely on the backs of the provinces, by unilaterally cutting revenue transfers for health, education, and transportation. And he was able to do this because he had a majority government in a parliamentary system, and could pass his budgets with limited debate and no opposition support.

In 2011, Fred Barnes offered a more practical perspective in an article for National Affairs titled "Lessons from Canada." Barnes noted that entitlement spending was one cause of Canada's fiscal crisis, and Chrétien's centrist Liberal Party had the courage to cut social program spending. This mattered, because the Liberal Party had historically been the architect of Canadian social programs, and voters accepted the cuts as a legitimate necessity when Liberals proposed them. For Barnes, the chief lesson to be taken from Canada's experience is that U.S. Democrats must lead, or at least join

Republicans, in efforts to reform entitlement programs in order for such cuts to be acceptable to voters and therefore durable.

But was it Liberal courage or economic crisis that led Chrétien to act? Unlike Canada, the United States is the world's largest economy and its dollar is the leading reserve currency, and this allows the country latitude from the markets that other countries simply don't get. Of course, Washington politicians have exploited and abused this latitude to such an extent they've nearly wrecked the global economy in the process. Until there is a credible alternative, global markets may downgrade U.S. credit and scold American leaders, but U.S. Democrats will not feel the same kind of pressure that Canada did in the mid-1990s when its debt-to-GDP ratio was more than 65 per cent -- even though the United States passed 100 per cent this year.

In the wake of the 2008 financial crisis, the strength of Canadian banks has been touted as an example for the United States to follow. However, former Deputy Governor of the Bank of Canada, Malcolm Knight, noted in a lecture at Johns Hopkins University in May that Canadian banks face serious challenges in the months ahead.

The point is not that Canada isn't doing well, and hasn't taken action to address its economic challenges in ways that are admirable. All that is true.

But when analysts suggest that the United States could solve its current problems by trying to imitate Canada's economic policies? I'll stick with never.

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