Learning from our northern neighbors?

Mitch Kokai | May 30, 2012

If the federal government wants to get its fiscal house in order, the Cato Institute's Chris Edwards suggests in a new report (PDF link) that lawmakers look at the Canadian example from the 1990s.

By the early 1990s combined federal, provincial, and local spending peaked at more than half of gross domestic product (GDP). In the 1993 elections, Prime Minister Jean Chretien's Liberals gained power promising fiscal restraint, but this was the party of Trudeau, and so major reforms seemed unlikely.
In the first Liberal budget in 1994, Finance Minister Paul Martin provided some modest spending restraint. But in his second budget in 1995, he began serious cutting. In just two years, total noninterest spending fell by 10 percent, which would be like the U.S. Congress chopping $340 billion from this year's noninterest federal spending of $3.4 trillion. When U.S. policymakers talk about "cutting" spending, they usually mean reducing spending growth rates, but the Canadians actually spent less when they reformed their budget in the 1990s.
The Canadian government cut defense, unemployment insurance, transportation, business subsidies, aid to provincial governments, and many other items. After the first two years of cuts, the government held spending growth to about 2 percent for the next three years. With this restraint, federal spending as a share of GDP plunged from 22 percent in 1995 to 17 percent by 2000. The spending share kept falling during the 2000s to reach 15 percent by 2006, which was the lowest level since the 1940s.