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Canada's Free-Market Reforms Provide Model for U.S.

Nick Gillespie | May 29, 2012

The Cato Institute's Chris Edwards analyzes the way in which Canada shrunk federal spending, opened up its markets, and pursued other reforms in the 1990s.

Canada's economic reforms since the 1980s...included free trade, privatization, spending cuts, sound money, large corporate tax cuts, personal tax reforms, balanced federal budgets, block grants, and decentralizing power by cutting the central government....

Canadian federal spending was cut from 23.3 percent of GDP in 1993 to 16.5 percent by 2000. Keynesians and their macro models would predict a crushing economic blow from such a spending reduction. They would argue that the "austerity" would slash "aggregate demand" and "take money out of the economy."

Yet Canada's spending cuts of the 1990s were coincident with the beginning of a 15-year economic boom that only ended when the United States dragged its neighbor into recession in 2009. As the government shrank in size during the 1990s, the Canadian unemployment rate plunged from more than 11 percent to less than 7 percent....

Edwards notes that things are far from perfect in the Great White North, but I think he's right that the Canadian experience shows ways in which government spending can be cut and, perhaps more important, how power can be decentralized. That's generally a good thing in markets and politics alike.

Well worth reading.

Reason's November 2010 issue (published in 3D!) covered three examples of significant government spending cuts in developed economies. Read "It Can Happen Here."