

We should be more like the Canadians

By CHARLES M. ARLINGHAUS

Why can't we be more like Canada? Politicians across the political spectrum fret that fiscal responsibility is old-fashioned and not realistic in today's world. But we need only look northward for an example of what to do.

Ten years ago, we and they were in the same boat. Our two paths diverged in the woods, and we took the profligate one.



The recent fiscal history of the United States has shown that politicians will find an excuse not to be responsible if they are not forced to be. A recent study from the Cato Institute contrasts the dismal situation in the United States with what might have been -- what the Canadians did instead.

In the early 1990s, federal governments in both Canada and the United States were running deficits. The Canadian deficits were larger as a percentage of their economy. Both countries slowly worked back to surpluses in the mid-1990s. In Canada, it was the Liberal Party that created what is now a liberal-conservative consensus that balanced budgets are required.

In the United States, a Democratic President and a Republican Congress helped prove that divided government is in the taxpayers' best interest by creating the surpluses. One-time Reagan official William Niskanen wrote "A Case for Divided Government," in which he observed that spending increases three times as fast when one party has control than when divided government checks the impulses of each party.

Canada has maintained a consensus for balanced budgets while one-party control with no fiscal checks has led the United States down the road to ruin. Since the surpluses of the Clinton era, we've gone on a spending spree unchecked by the simple discipline of not spending what we don't have. There is now a bipartisan consensus for piling on debt into the foreseeable future.

When George W. Bush took office, public debt was \$3.3 trillion. We had just finished up four years of surpluses, which saw the public debt decline by about \$400 billion. The Bush years saw the debt grow by \$2.5 trillion. Fiscal year 2009, which covers Bush and

Obama spending, will add another \$2.5 trillion by itself. Then the Obama budget would add another \$5 trillion over the next seven years.

As a percentage of the economy, debt would increase from 40 percent to 80 percent over the next 10 years. In contrast, our Canadian friends don't spend more than they take in. Their debt has declined from 70 percent of gross domestic product to around 32 percent. And to make us look even worse, while our Social Security system has a huge unfunded liability, Canada has been setting money aside, and its system is fully funded.

The incentives that lead us to financial ruin are obvious when you consider the current economic crisis and the state responses to it.

In general, the federal government doesn't balance its budget because it doesn't have to. Politically, there is always a good excuse to spend more money or refrain from the tough decisions required to bring spending and taxes in line with each other. If I can spend just a little bit more, there's every reason to do so and no political points to be scored by saying "we just don't have the money."

In New Hampshire, we face one of the worst budget shortfalls in our state's recent history. The reason the budget deliberations are so difficult is that the law requires the final budget to be balanced. Lawmakers are not permitted to spend just a little more than they have because this year is different. They can't say we'll run a little bit of a deficit this year and fix it the next.

It forces them to make difficult decisions, but we know that if permitted to spend outside the lines this year, every year will turn into an exception, just as it did at the federal level.

Even with an imposed balanced budget discipline, lawmakers turned to bailouts from the federal government in the form of "state fiscal stimulus" programs to fund programs we don't have the money for when the federal deficit financing runs out. The government of California is putting off decisions by looking to the federal government for a \$20 billion bailout, a drop in the bucket of \$10 trillion or \$12 trillion of federal debt. They and we look for that free federal money so we can put off decisions until the next budget.

I remember when those of us who wanted a federal balanced budget amendment to the Constitution were called naive. But we just don't seem to have the discipline of Canadians.

Charles M. Arlinghaus is president of the Josiah Bartlett Center for Public Policy, a free-market think tank in Concord.