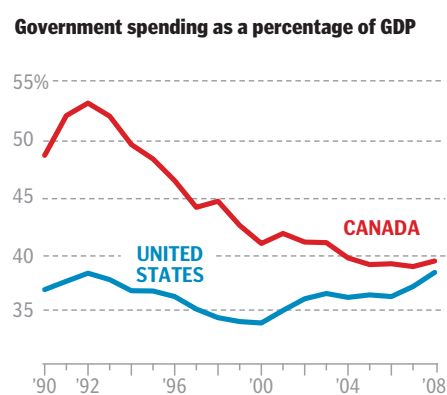


# Great Right North

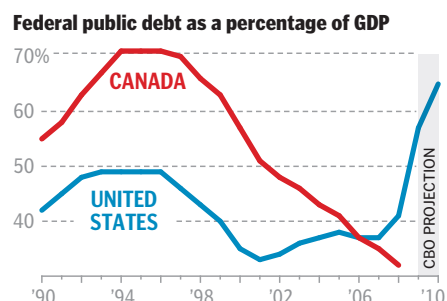
By CHRIS EDWARDS, JASON CLEMENS AND NIELS VELDHUIS

Reports last week that the recession is draining Social Security and Medicare funds were just one more reminder that the United States needs to fix its finances. For inspiration, why not look to Canada? Long derided by American conservatives as “socialist” and praised by the left for its generous government spending, Canada is casting off those stereotypes. Over the past few years, while U.S. politicians presided over huge increases in spending and debt, the Canadian government tightened its belt, slashed tax rates and balanced budgets. Consider these trends:

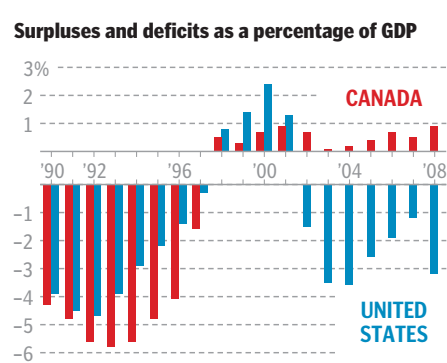
**Spending:** Spending by all levels of the Canadian government peaked at 53 percent of the country's GDP in the early 1990s, then plunged to 40 percent in 2008. U.S. government spending has risen, reaching 39 percent of GDP in 2008. And with the stimulus package, that number is likely to jump even higher.



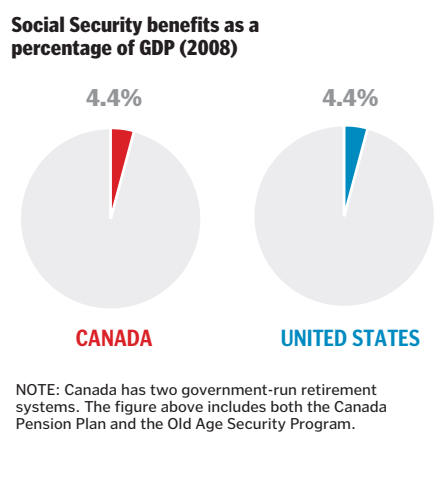
**Debt:** The Canadian government cut its debt from 71 percent of GDP in 1995 to 32 percent in 2008. Under President Obama's budget plan, U.S. federal public debt will jump from 41 percent of GDP in 2008 to more than 60 percent next year.



**Deficits:** Canada has balanced its budget every year since 1998 — not by raising taxes, but by cutting spending. The United States balanced its budget for four years in the late 1990s, but now deficits are so large that it's difficult to imagine that ever happening again.

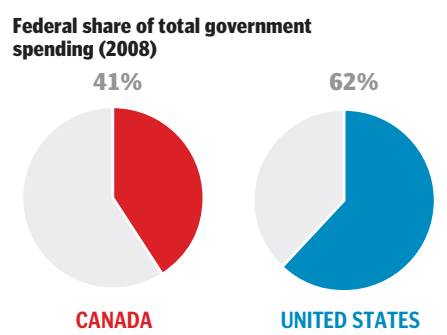


**Social Security:** While Canada and the United States spend the same percentage of their GDP on retirement benefits, the U.S. program has a large unfunded liability that policymakers have done little to fix. Canada began putting aside money in the 1990s to pre-fund future benefits, just as private pension plans do. The Canada Pension Plan is now fully solvent.

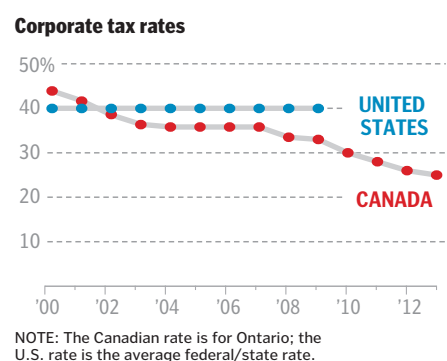


NOTE: Canada has two government-run retirement systems. The figure above includes both the Canada Pension Plan and the Old Age Security Program.

**Federalism:** While the U.S. government grew more centralized in recent decades, Canada's federal government ceded power. President Bush's education policies increased federal control over American schools; in Canada, K-12 education is left to the provinces.

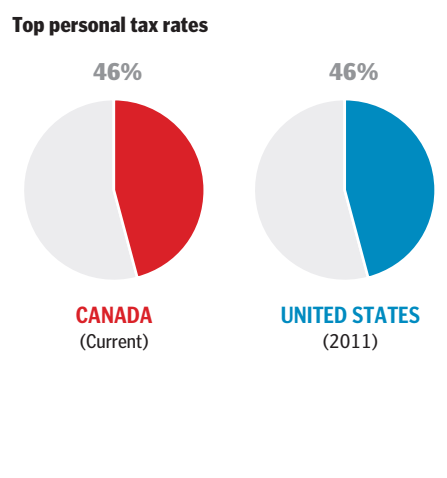


**Corporate Taxes:** Canada has cut the corporate tax rate from 28 percent to just 15 percent, and most provinces have trimmed corporate taxes as well. The U.S. federal-state rate stands at about 40 percent, and the Obama administration is planning to increase corporate taxes.



NOTE: The Canadian rate is for Ontario; the U.S. rate is the average federal/state rate.

**Individual Taxes:** Canada has had higher individual income taxes than the United States, particularly in the top brackets. However, if current tax cuts expire at the end of 2010 as scheduled, the top U.S. federal-state rate will average 46 percent — the same as in Canada. Also, Canada's federal capital gains tax rate is lower than the one U.S. investors pay.



Too often in the United States, Democrats reject cuts in taxes and spending because they consider them Republican causes. Yet in Canada, center-left governments implemented many of the reforms that made these impressive numbers possible. Perhaps we have something to learn from those “socialists” to the north.

SOURCES: Organization for Economic Cooperation and Development; Statistics Canada; Bureau of Economic Analysis; National Income and Product Accounts; Public Accounts of Canada; Social Security Trustees Annual Report, 2009; U.S. OMB/CBO; authors' calculations

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