

### November 2008

Are government deficits always terrible? This is a question many people have been asking lately, as the federal government hinted at the “D” word in the November 19<sup>th</sup> Speech from the Throne. It seems as if deficits are a real possibility, as rumors of a national recession loom and tough times are forecast for Nova Scotia, with an estimated 0.8% growth in 2009<sup>1</sup>.

In the Speech from the Throne, Prime Minister Harper indicated that his government would run a deficit in the short term in order to avoid spending cuts, which in his view, would hurt Canadians. This is a much different stance than the one touted by Finance Minister Flaherty in April, which was simply “No deficit — balanced budget.”<sup>2</sup>

Provincial Premier Rodney MacDonald on the other hand, has taken a stronger line, saying that he is committed to a balanced budget for Nova Scotia. After meeting with economists in mid November, the Premier stated that he believes deficits are a slippery slope and one or two years of debt can quickly become twenty.<sup>3</sup>

To gain further insight, we scanned the opinions of some of Canada’s leading economists and think tanks to see how they weigh in on the deficit debate.

***Ontario said it will face a \$500 million deficit as the provincial economy slows.***

<sup>1</sup> <http://www.dailycommercialnews.com/article/id31236>

<sup>2</sup> <http://www.cbc.ca/money/story/2008/10/21/f-deficit.html>

<sup>3</sup> <http://www.novascotiabusinessjournal.com/index.cfm?sid=191255&sc=107>

## On the “Yes” side

### The Conference Board of Canada

In the Conference Board’s publication “Fending off a Canadian Recession: What More Can Be Done”, their economists propose that the Canadian government should run short-term fiscal deficits in order to stimulate the economy.<sup>4</sup>

### The Canadian Centre for Policy Alternatives

Economist Marc Lee of the CCPA argues that the world credit crisis reduces the ability of the Bank of Canada to jump-start the economy, which in turn, makes expansionary fiscal policy (spending more or taxing less) on the government’s part, increasingly important.<sup>5</sup>

**An October Ipsos Reid poll found that 82% of Canadians support government spending cuts, while 83% oppose raising taxes.**

### APEC (Atlantic Provinces Economic Council)

Economists from APEC attended a meeting with Premier MacDonald on November 17<sup>th</sup>, during which they stated that a deficit would not be “the worst thing that could happen.”<sup>6</sup>

### Economics Professors

*Livio Di Matteo, of Lakehead University, Thunder Bay, Ontario, stated that at this stage “The only other option might be some deficit financing.”<sup>7</sup>*

*Jack Mintz, of the Palmer Chair of Public Policy at the University of Calgary School of Policy Studies, believes that laws should be put in place to mandate the shorter-term repayment of new borrowing, in order to avoid long-term deficit budgets.*

<sup>4</sup> <http://www.conferenceboard.ca/documents.aspx?DID=2779>

<sup>5</sup> <http://www.thestar.com/News/article/296195>

<sup>6</sup> <http://www.novascotiabusinessjournal.com/index.cfm?sid=191255&sc=107>

<sup>7</sup> <http://www.cbc.ca/money/story/2008/10/21/f-deficit.html>

According to *Ron Kneebone of the Institute for Advanced Policy Research, University of Calgary*, "Far from being a sign of fiscal mismanagement, the deficit the federal government will realize as a result of the financial crisis is, in fact, a sign of sound fiscal policy. Any decision to increase tax rates or cut spending to prevent the deficit would not only be misguided but also would slow our recovery from the current crisis."<sup>8</sup>

*Atif Kubursi, McMaster University* states his opinion as "My God. You can run a deficit in your budget or a deficit in your economy."<sup>9</sup>

**The federal government spends more than \$240-billion a year, \$210-billion on programs alone, a sum that has increased by more than 13% since 2006.<sup>1</sup>**

## **On the "No" Side**

### The Canadian Taxpayers Federation

The position of the CTF is that the federal government should do as Prime Minister Jean Chretien did in 1993 (when the deficit was \$42 billion dollars), which is to cut government spending instead of running a deficit.<sup>10</sup> CTF's federal director Adam Taylor says that the danger in running a short term deficit is the difficulty in holding politicians to the commitment to return to a non-deficit position, once the economy recovers.

### Canadian Federation of Independent Business

"We believe a balanced budget is the right thing to do," Leanne Hachey, Atlantic Canada VP.<sup>11</sup>

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<sup>8</sup> <http://www.theglobeandmail.com/servlet/story/RTGAM.20081118.wcobudget19/BNSStory/specialComment/home>

<sup>9</sup> <http://www.cbc.ca/money/story/2008/10/21/f-deficit.html>

<sup>10</sup> <http://www.economicnews.ca/cepnews/wire/article/158438>

<sup>11</sup> <http://www.cbc.ca/money/story/2008/10/21/f-deficit.html>

### Professor Greg MacKinnon, Saint Mary's University

Greg MacKinnon, a professor at the Sobey School of Business at Saint Mary's University, said in the Chronicle Herald on December 3<sup>rd</sup> that balancing the budget is the best thing Nova Scotia could do during the economic crunch. "It provides stability and allows them to spend on a continuous basis in the future rather than face a crisis down the road of our own making."

### The Chamber's View

The Halifax Chamber has continuously advocated for all levels of government to produce balanced budgets. However, we realize in these trying times our governments will be forced to make difficult decisions. Controlling expenditures must be the province's top priority. Spending must be kept in line with inflation, population and economic growth.

Currently, law in Nova Scotia requires that the provincial government produce balanced budgets. Let's not plan for failure; responsible policies must be implemented today, that will ensure balanced budgets for Nova Scotia and a strong future the entire province.