

N.B.'s fiscal discipline: good but worsening

New Brunswick Telegraph-Journal

Friday, April 13, 2007

Page: A5

Section: Opinion

Byline: WILLIAM B.P. ROBSON AND YVAN GUILLEMETTE COMMENTARY

Source:

Idnumber: 200704130064

Length: 893 words

Keywords: TPOPINION; TP OPINION

The recent provincial budget contained some surprises for New Brunswickers. Because most of the attention to budgets tends to be forward-looking, however, one of the most significant - and disappointing - figures in the budget did not get the headlines it deserved. That figure shows the province is on track for a whopping spending overrun for the fiscal year just ended.

It's a bad precedent for an otherwise fiscally prudent province. The provincial budget in the spring of 2006 projected that spending in 2006/07 would rise by \$108 million, or 1.7 per cent. The spring 2007 budget, by contrast, estimated that spending in 2006/07 had risen by \$522 million, or 8.4 per cent. If the public accounts figures published after the books are closed bear that figure out, New Brunswick's spending over-run in 2006/07 will be its worst in a decade, and will endanger a record that, up to now, has made it one of Canada's best governments for hitting its spending targets.

The competition for that title has not been overwhelmingly strong. Budget season in Canada tends to precede a binge of overspending that sweeps the country like some sort of seasonal flu. Canadian legislators have such a poor record of keeping their budget promises to voters over the past decade that the cumulative overruns deserve a clinical name - say, the "Pinocchio Effect".

Up to now, New Brunswick has had one of the better track records in terms of keeping its spending promises. According to our recent C.D. Howe Institute study, the province had an average spending overrun of barely over one per cent over the past decade. That compares favourably with the national average overrun of three per cent and gives New Brunswick the third best record, behind Quebec and Newfoundland and Labrador, but ahead of the federal government.

Budget season is the one time of year when MPs and MLAs have the big picture in front of them. But now that governments have rolled their 2007 budgets out and legislatures are contemplating the estimates for the 2007/08 fiscal year, it is an apt time to ask: What happens next? Do governments end up doing what legislatures authorize?

The short answer is: Usually not. Governments often miss targets badly and spend more than they said they would. In the past decade, the total overrun by all Canadian governments topped \$57 billion. That

cumulative bill now weighs heavily on Canadian pocketbooks: tens of billions of higher public debts and tens of billions of higher taxes.

Our 2007 "Fiscal Accountability Ranking" looked at every federal, provincial and territorial budget over the past decade. We compared "announced spending increases" with "actual spending increases." (To calculate announced spending, we took the difference between the total spending announced in each budget for the upcoming year and the spending shown in the same document for the fiscal year just ending. To determine the actual spending change, we referred to the public accounts released after the end of the year.)

Here's what we found.

On average, the annual overrun was a little over 3 per cent. Sounds small, but multiplying each jurisdiction's average overrun by its projected spending this year, that margin of error amounts to \$8.3 billion for Canada as a whole, or about half the entire defence budget. And that overspending, of course, means higher taxes down the road.

The second thing we found was that some governments, like New Brunswick, did better on this front than others. Alberta, Yukon and Nunavut were among the worst offenders, with average annual overruns of almost seven per cent. Clearly, those who don't budget well have something to learn from those who do.

It is one thing to have costly government and high taxes because that is what legislators voted for at the beginning of the year. It is another thing entirely to have costly government and high taxes as a result of unbudgeted spending hikes or, worse yet, "end-of-March burnoffs" in which governments splurge at, or even after, the end of the fiscal year. To honour that fundamental democratic principle of No Taxation Without Representation, we need more effective representation by those who tax us. We need elected representatives who will keep their budgetary commitments. We should not accept misleading projections in this spring's budgets. And we should not accept unbudgeted spending increases throughout the year. We will need that money for future fiscal challenges brought on by our aging population. Canada's unfunded fiscal liability related to demographic change amounts to more than \$800 billion, roughly equal to the current combined debt of Ottawa and the provinces. New Brunswick's liability,

at more than \$23 billion, rivals the provincial economy in size. Unless we are prudent today, we will face massive tax increases and/or essential program cutbacks tomorrow.

Effective representation requires that the votes of confidence on budgets must mean something. New Brunswickers are now finding that the vote on the 2006 budget did not. Only when they get the Pinocchio effect under control can Canadians truly hold their governments to account and know that the taxes they pay are under the control of the representatives they elect.

William B.P. Robson and Yvan Guillemette are, respectively, President and Chief Executive Officer and Senior Policy Analyst at the C.D. Howe Institute. They are co-authors, with Reid S. Adrian, of "Missed Targets: Canada's 2007 Fiscal Accountability Ranking," available at www.cdhowe.org.

© 2007 Telegraph-Journal (New Brunswick)