



**CORNERSTONE
GLOBAL**
Tackling the intractable.™

T: + 44 (0) 203 178 2525
F: + 44 (0) 203 178 2526
www.cstoneglobal.com

BLUE PAPER

Adapting the Canadian experience to help resolve the UK's problems

By **Professor David Cook**, Senior Consultant, Cornerstone Global Associates Ltd

Biography: <http://www.cstoneglobal.com/assets/files/CS%20Bio%20DC.pdf>

contact@cstoneglobal.com

29 June 2010

With contributions by Ghanem Nuseibeh, Co-founder, Partner and Director, Jordan MacLeod, Co-Founder, Partner and Director Lucian J. Hudson, Partner and Managing Director and – all at Cornerstone Global Associates Ltd.

As Britain prepares to tackle and confront the realities created by the recession, the Canadian solution used in the 1990's to tackle Canada's difficulties is being cited as one appropriate for the UK. Cornerstone's team, which includes experts in both the UK and Canada, warn that while the Canadian model is worthy of thorough consideration, a **"copy-and-paste" approach could be counter-productive. There are lessons to be learnt from Canada, but the model itself cannot be imported. The UK needs a British solution with adaptation of some of the Canadian strategic mechanisms.** Cornerstone Global Associates can help to design strategies and approaches drawing on the Canadian experience but that are crafted to the circumstances of Britain today. Please contact contact@cstoneglobal.com for further information.

EXECUTIVE SUMMARY

Confronted with the legacy of the 2008-2009 recession, the UK Government is aiming to put government finances on a sound footing within the next few years. The challenge of restoring fiscal probity and ensuring economic growth require a delicate balance among key factors. One successful model in approaching such an enormous task is that of Canada in the 1990sⁱ.

Canada's dangerous fiscal condition raised fears that the IMF might be called upon to bail out the country. The Canadian dollar was already being called the "Peso of the North"ⁱⁱ. Despite the dire circumstances, the new government, led by Prime Minister Jean Chrétien with Paul Martin at the helm as Finance Minister, eliminated the C\$42 billion budget deficit in the four-year period to 1998.

The Liberal campaign platform of 1993 had included elimination of the Canada/US Free Trade Agreement, and repealing the unpopular Goods and Services Tax (GST). Once elected however the new Liberal government did neither. Prime Minister Jean Chretien, having won a massive majority, pressed for a trilateral free trade agreement including Mexico, which led to the negotiation of the North American Free Trade Agreement (NAFTA), and entrenched the GST. Both of these initiatives provided a significant advantage to the deficit fighting measures yet to come.

The government took early steps to reduce and eliminate many spending programs that had



outlived their usefulness, and made a number of key structural changes in the budgetary process that raised the chances of success.

As the UK Government embarks on the path to budgetary integrity, it should recognise the limits of applicability of the Canadian model while drawing on the lessons that are pertinent.

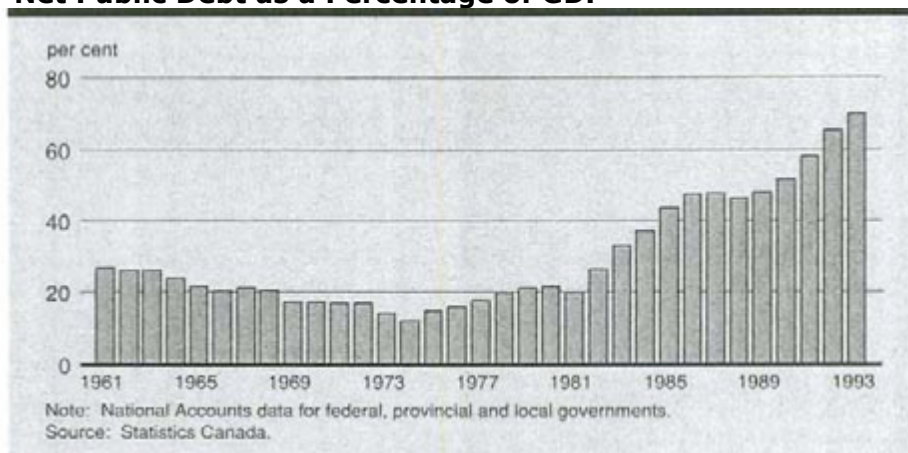
BACKGROUND: CANADIAN ECONOMIC CONTEXT

Canada entered the 1990s with a set of economic problems that had been building since the early 1970s. It was in the context of long term deterioration in the country's finances that the Liberal Party of Canada made specific commitments in their campaign platform document (the Liberal Party's Red Book) to eliminate the deficit and the more specific target of reducing the debt to 3% of GDP by 1996-97ⁱⁱⁱ.

When the new Liberal Government took office in September 1993, they faced a \$41 billion deficit, which grew to \$42 billion the following year. Moody's downgraded the country's credit rating on June 2, 1994. Approximately 36 percent of the government's revenue went toward servicing debt.

Fundamentally, Canada was not producing sufficient growth to pay for the standard of living Canadians expected. As a result total government debt rose from 18% of GDP in 1974 to 70% in 1993.

Net Public Debt as a Percentage of GDP



Source: A New Framework for Economic Policy, page 12, 1994

The Canadian provinces were faring no better. Between 1982 and 1994, 21 credit rating down grades occurred. These affected eight of the ten provinces and took place in a context of rising provincial debt-to-GDP ratios. By 1994, many provinces had their lowest ever ratings^{iv}. Overall, the combined federal and provincial debt-to-GDP ratio was over 100%.

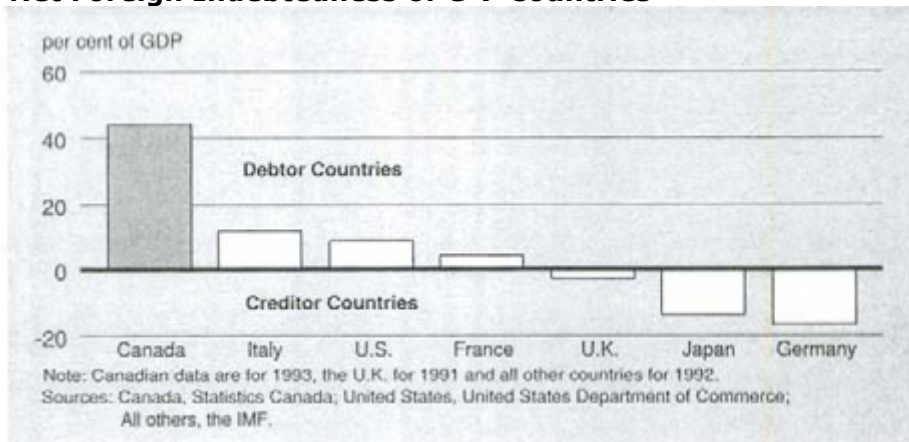
Despite rising tax rates, interest payments on the federal portion of public debt in 1994 accounted for roughly 35 per cent of federal revenue, up from 11 per cent in 1974 when the era of chronic



deficits began. The compounding effect of debt service cost was the sole factor driving up the ratio of federal government debt to GDP^v.

By 1993, Canada's net external debt had reached \$313 billion, or 44 per cent of GDP. This was the highest relative foreign indebtedness among the G-7 countries at the time^{vi}.

Net Foreign Indebtedness of G-7 Countries



Source: A New Framework for Economic Policy, page 13, 1994

There were significant impacts on the labour force and employment, sufficient to have some observers making comparisons to the Great Depression^{vii}. More than 13 per cent of those without jobs in 1993, or approximately 200,000 Canadians, had been unemployed for over a year^{viii}. This problem has been noted recently by Ben Bernanke, Governor of the US Federal Reserve because as the duration of unemployment increases the opportunity to find employment is impacted negatively. This arises in part because acquiring new job skills is not occurring, and marketability goes down.

The Canadian government's analysis of the labour market and impediments to productivity and jobs growth concluded that there was a variety of policy reforms needed to address unemployment and job creation. It is not possible to delve into this aspect of the government's program in detail here, but the implications fell squarely on education and training (skills development), removing disincentives in employment support programs, and reversing payroll taxes^{ix}.

But the path was not a smooth one. One analyst notes that, "From the beginning of 1990 to the end of 1993 Canada experienced a long slide in economic activity and employment that was followed by a short-lived recovery in 1994 and a relapse in 1995 and 1996."^x

NEW FISCAL DIRECTIONS: FRAMEWORK PRINCIPLES

One of the initial articulations of the impending direction for government was set out in the 1994 document, *A New Framework for Economic Policy*. This approach not only addressed the economics of governance, but also the broader expectations on the role and responsibilities of government. The reassessment of policy framework was signaled in the February 1994 budget



and focused the debate on how policy reform would contribute to the objective of creating an economy that could provide more and better jobs for Canadians^{xi}.

In effect, the government offered long term gain (extending the promise of jobs in the future) for short term pain (the relative hardship of deficit elimination). The government's strategy to promote economic growth and job creation centred on five broad themes^{xii}:

- Acquisition of job skills to raise productivity and foster better job opportunities and incomes for individual;
- Adaptation to new opportunities, to minimize long-term and repeated joblessness and to ensure that businesses and individuals face the right incentives to take advantage of more productive opportunities;
- Getting government right, to ensure that government itself, through efficient management and appropriate policies, contributed to a more productive economy;
- Providing leadership in the economy, to build a more innovative and outward-looking economy through actions that government is in the best position to take, in partnership with the private sector; and
- Creating a healthy fiscal and monetary climate, to establish the broad economic conditions for sustained growth and job creation and to ensure that the government will have both the resources and the degree of public trust needed to succeed in the other four theme areas.

STRUCTURAL INNOVATION: BUDGET PLANNING PROCESS

The Liberal government made significant changes to the budget process early in their mandate. A key change was the introduction of prudent budget planning, and an associated Contingency Reserve. The second was a focus on reduction and reallocation of program spending, beginning with its 1994 Program Review initiative.

Prudent Planning

The government consciously adopted prudent fiscal planning as a principal element of its approach to budget planning and decision-making, as well as to its budget communication strategy. As the 1995 budget described it,

Economic assumptions drive fiscal forecasts and determine the budget action needed to achieve deficit targets. Overly optimistic assumptions lead to missed fiscal targets and damaged credibility. Using prudent economic assumptions and taking sufficient fiscal action will ensure that deficit targets are met.

Prudent budget planning was introduced as the principle means of managing planning and forecasting risks associated with budget process. The government's focus on annual budget performance targets, rather than on multi-year ones, brought discipline to the process. Annual deficit reduction targets contained in successive budgets established clear budgetary performance benchmarks^{xiii}.



Contingency Reserve

From the 1995 budget onward, the government included a C\$3 billion Contingency Reserve. Because the Contingency Reserve was treated as an expenditure, the planned deficit included this item. If the reserve fund was not needed it could not be spent but rather was to be applied to reducing the deficit. In the event the budget ran a surplus, the contingent funds were to be applied to pay down the debt. In effect this was a guarantee that if the prudent forecast was met, these monies would be used for fiscal management purposes, and not to create new spending programs^{xiv}.

Program Review

Perhaps the central mechanism to bring discipline to spending cuts was the introduction of Program Review. Program Review was announced in the 1994 budget "to ensure that the government's diminished resources are directed to the highest priority requirements and to those areas where the federal government is best placed to deliver services."

Its main objective was to review all federal programs in order to bring about the most effective and cost-efficient way of delivering programs and services that are appropriate to the federal government's role in the Canadian federation.

Ministers were asked to review their own portfolios and provide their view on the federal government's future roles and responsibilities^{xv}. This approach proved wanting as meaningful cuts were not generated. Subsequently, this process was reinforced with each department and agency being handed expenditure reduction targets ranging from roughly 8% to 50% to be implemented over the next three years from 1995-96^{xvi}.

In other areas, there was fundamental change in how the government delivers programs and services. Many departments developed innovations in program delivery and client services to increase efficiency and improve services.

ACTION IN KEY POLICY FIELDS

The paradigmatic budget that set the course for the country was in fact the 1995 budget. **In February 1995, the government presented a budget with a hard edge designed to restore balance within three years. In many respects the 1995 budget set both the tone and strategy for success. Ironically, not all the credit rating agencies were convinced it would work^{xvii}.**

Central to shielding criticism from the right, the budget did not provide for increases in personal income tax rates. To help meet the deficit targets, the budget announced increases in taxes on business and in the excise tax on gasoline.



**1995 Budget
Key Actions and Impacts**

- Key interim deficit target met: 3 per cent of GDP by 1996-97 – \$24.3 billion
- Debt-to-GDP ratio – size of debt relative to the economy – begins to decline in 1996-97
- Three-year savings of \$29 billion; \$25.3 billion from expenditure cuts
- Almost \$7 in expenditure reductions for every \$1 in new tax revenues
- No increases in personal income tax rates
- Dramatic cuts in departmental budgets – some halved in three years
- Smaller public service – 45,000 fewer positions
- Major reform of programs: agriculture, transport
- Business subsidies cut 60 per cent
- Programs merged, consolidated, commercialized
- Increased cost recovery, including \$975 immigration fee per adult immigrant
- New Canada Social Transfer to provinces in 1996-97
- Unemployment insurance reform intended to be in place July 1, 1996
- Course charted for public pension system reform
- Tax fairness improved: tighter rules for tax deferrals, foreign and family trusts, R&D incentives
- New measures to ensure collection of taxes owed
- RRSP contribution limits reduced; retiring allowance rollovers phased out; overcontribution allowance cut
- Higher taxes for corporations, large banks
- Federal excise tax on gasoline increased by 1.5 cents per litre to help reduce the deficit

However, it was Program Review and the reduction of governmental expenditures that had the greatest contribution to make in fighting the deficit. Program Review encompassed about C\$52 billion worth of spending, excluding only

major statutory programs. Departmental spending was cut by C\$3.9 billion in 1995-96, C\$5.9 billion in 1996-97 and C\$7.2 billion in 1997-98 relative to what would have been the case without Program Review.

The resulting expenditure reductions for the three year period from fiscal 1995-96 to 1997-98 amounted to C\$16.9 billion. Additional reductions brought the total direct impact of spending reductions to C\$25.3 billion over three years. In contrast, tax increases, which largely fell on the corporate sector and better tax enforcement, brought total tax increases over three years to C\$3.7 billion.

In almost all cases the cuts were on top of planned spending levels that were already declining as a result of decisions in the February 1994 budget. The overall impact on spending subject to the Program Review across government had the effect of reducing spending in 1997-98 relative to 1994-95 by 18.9%.

Economic and Industrial Sector

The impact was not even across the bureaucracy. Over the three year forecast period, the Ministry of Transport budget was reduced by more than 50%. The natural resource departments



**CORNERSTONE
GLOBAL**
Tackling the intractable.™

T: + 44 (0) 203 178 2525
F: + 44 (0) 203 178 2526
www.cstoneglobal.com

BLUE PAPER

(Agriculture, Fisheries and Oceans, Natural Resources, Environment) collectively experienced a budget reduction of more than 31%.

The Department of Industry, science and technology agencies (such as the Canadian Space Agency) and the regional development agencies had a combined reduction of 38%.

Spending on science and technology by the science agencies of Industry Canada's portfolio were reduced by proportionally less than the average decline in the department's Industrial, Regional and Scientific-Technological programs, reflecting the government's priority for support to R&D.

The regional economic development agencies lost more than 49% of their budgets. A specific target for sharp reductions was business subsidies which were to be reduced by 60% between 1995 and 1998, and the elimination of programs providing out right grants to businesses. The assistance that would be available was to be largely in the form of loans and other repayable contributions.

Foreign Affairs, International Assistance and Defence

The international program portfolio was also subjected to deep cuts with both the foreign relations establishment and the international assistance envelope subject to 17.3% and 20.5% reductions, respectively.

The Defence and Emergency Preparedness envelope budget saw a C\$1.6 billion or 14.2% reduction over the three year period. The cuts in defence spending were associated with the 1994 Defence White Paper, and were in addition to large reductions announced in the 1994-95 budget.

Social Programs

The smallest percentage reductions were in departments dedicated to social programs, justice and corrections. The federal government's justice and legal programs were only lightly touched to the tune of a collective 5% reduction, and a broad array of social programs had a combined reduction of 7.6%. Some social departments such as Human Resource Development were not spared: HRD saw its budget reduced by 34.8% over three years.

In a related area, the Employment Insurance program was running a surplus. The program was raising C\$18 billion annually in premiums though payouts in the form of benefits were C\$12 billion. Beginning in 1995, the surplus or "excess" premiums of about C\$5 billion to C\$6 billion annually were taken into the general revenues of the government.

Health & Education

By virtue of the Canadian Constitution's division of legislative jurisdiction, education and health are provincial responsibility areas in which the federal government plays a role through the spending power. In the context of reassessing federal cost-sharing in areas of provincial responsibility, and recognising that provincial transfers accounted for as much as 16% of federal spending, it was no surprise that the government targeted intergovernmental transfers^{xviii}.



Accordingly, these policy fields were affected by a reduction in transfers of funds to the provinces. This cut was given effect through the introduction in the 1995 budget of a new federal transfer program known as the Canada Health and Social Transfer (CHST). As the largest federal transfer to provinces and territories, the CHST is a block funded transfer to replace the Canada Assistance Plan, which cost-shared social assistance and social services, and the Established Programs Financing that provided support for healthcare and post-secondary education^{xix}.

The new program did not begin immediately; the 1995 budget gave one year notice that the new block grant to the provinces would begin in 1996-97. From 1996 to 1998, about C\$7 billion was cut from annual CHST cash transfers, of which C\$2.5 billion was allocated to health care^{xx}.

Other Initiatives

There were a number of other measures implemented that affected retirement savings, business tax calculation, and other smaller regulatory actions. Among the more significant of these measures are the following:

Public Service Complement Reduction

Not surprisingly, a more efficient and focused government would need less employees to deliver programs. The government also took action to reduce the size of the public service. Budget 1995 anticipated federal employment would decline by about 45,000. In the event, almost 50,000 positions or about 22% were eliminated in the public service.

Privatisation and Commercialisation

The government carried out a number of initiatives to privatise and commercialise government operations. Across government operations, non-essential equity holdings, assets and services were reviewed for privatization possibilities, or placed on a more commercial basis, where such a step could improve service and reduce costs while continuing to protect the public interest.

CONSIDERATIONS

In examining areas in which the UK might adopt Canadian measures and strategy, there are several considerations to bear in mind.

- **As important as it was to set appropriate fiscal policy, budgeting alone would not have been sufficient to overcome the country's financial problems.** In the 1990s, Canada was facing a policy environment in which fiscal and monetary policy needed to be mutually reinforcing^{xxi}.
- **Coming out of the recession in the early 1990s, the US economy was in one of the strongest expansionary phases since the Second World War.** With 40% of Canada's GDP derived from exports, and over 80% of the country's exports destined for the US, the Canadian federal treasury was an indirect beneficiary of the US economic growth. The weakness of the Canadian currency and low interest rates also contributed to export



competitiveness. In the 1998 budget the government estimated that about 55 percent of the deficit reduction came from economic growth and 35 percent from spending cuts.

- **The expenditure reductions carried out under Program Review were aligned with government priorities and the scope for program rationalization and efficiency improvements in departments.** This speaks to the systematic, transparent, and empirically based approach that animated Program Review, and gave it credibility inside and outside the government.
- At the same time, Program Review came into existence at the beginning of the Liberal mandate, and avoided having Ministers develop a defensive posture toward their portfolios.
- **Government strategy for fighting the deficit did not overlook the vital role of public communication.** This took the form of a public education campaign to raise awareness of the precarious state of Canada's finances and the measures needed to secure the future well being of its citizens. The central message was that significant expenditure reduction would be required to eliminate the deficit. The government's decision not to raise personal taxes was also a featured element of the effort^{xxii}.
- Canada has long struggled with low productivity, and the early 1990s were no exception. **The 1994 Economic Policy Framework identified the productivity issue as central to the mission:** "At the root of the economic problem has been the failure of productivity to increase at the rates that prevailed during the post-war years to the middle 1970s" Though the Framework recognised that productivity growth is "the foundation of economic progress and must therefore be the primary focus of economic policy", the government was unable to make sustainable inroads on the problem^{xxiii}.

CONCLUSIONS

Unlike Canada in the 1990s, the UK today faces the difficult act of balancing responsible budgeting with a continuing need for targeted government spending to support and encourage economic growth, especially private sector growth and job creation.

Perhaps the main lessons that can be drawn are that a government needs a profound sense of purpose and political commitment to carry out such a daunting task. It is aided in the clear articulation – and selling – of a set of principles upon which it seeks to act for the good of the nation. In addition, those steering the deficit and debt reduction strategy may find it advantageous **to adopt a nuanced pragmatism that recognises the advantages of rolling out initiatives in a measured way;** not all of them need to be introduced in a single year.

Chancellor George Osborne presented an emergency budget on 22 June which as expected introduced a number of austerity measures. With the country's debt approaching £900 billion or roughly 62% of GDP, the government faces ongoing challenges to cutting the deficit and debt burden. More can be expected in the autumn.

An early success for the UK government can add momentum and conviction to the deficit elimination strategy. **Confirmation of the Liberal government's approach was established in 1997-98 when the government achieved Canada's first budgetary surplus since 1969-70. The importance of this event can not be underestimated because it drew a line in**



the sand regarding deficits. Had the government subsequently lapsed back into an annual deficit, the political consequences could have been severe. In effect, achieving the first surplus “marked a political point of no return and had the effect of introducing an unwritten no deficit budget rule”^{xxiv}.

To increase the chances of an early harvest, the Office for Budget Responsibility could consider undertaking a review of the forecasting approaches in use and **examine whether the Canadian approach to prudent fiscal planning might not be relevant to deficit elimination strategy.** Beyond such an initiative, attention could be placed on the other keys to Canadian success in turning crushing annual deficits into a string of surpluses:

- **Implementation of Program Review based on a comprehensive and mandatory examination of departmental spending.** The identification of spending reduction targets by a mechanism composed of senior ministers with appropriate secretariat support seems essential to success. As a result of the Review, the Canadian government was better focused on key priorities and had designed delivery mechanisms to perform more effectively and efficiently;
- **The articulation of the government’s role in the economy,** a role that included substantial reductions in business subsidies, and a refinement in the role of the federal government vis-à-vis key elements of economic growth and development, including industry, education and training, international trade, and value added processing; and
- **The introduction of major changes in transfers to the provinces** that altered the federal-provincial fiscal regime, making it more effective, flexible and affordable. This general principle likely has application in the UK’s local and regional economic priorities.

Why Cornerstone

Cornerstone’s associates have **considerable experience working in the fields of policy, economics, health sector and other areas, as well as complex systems modeling programme and project management.**

Professor Cook, the author of this paper, has over 30 years of experience working in Canada, both with and for the government. Amongst other activities, he was the Trade Policy Coordinator for the Alberta Government, in the trade negotiations referred to in this paper, that were an essential part of the Canadian experience. He reported directly to the Alberta Trade Representative who had the negotiating mandate from Premier Lougheed.

Cornerstone’s team have the expertise to identify and tailor the Canadian experience and make it work in the UK. Lucian Hudson’s (Partner and Managing Director) report: *The Enabling State: Collaborating for Success* provides the ethos and guidance to ensure the right balance is struck between the public, private and non-profit sectors. Our experts have unparalleled experience in public, private and non-profit sectors in the UK. Ghanem Nuseibeh (Co-founder, partner and director) has considerable experience managing projects in the private sector, whilst Jordan MacLeod (Co-founder, partner and director) is a forward thinking economic innovator and author of a highly acclaimed book. Further details about our team and their biographies can be



**CORNERSTONE
GLOBAL**
Tackling the intractable.™

T: + 44 (0) 203 178 2525
F: + 44 (0) 203 178 2526
www.cstoneglobal.com

BLUE PAPER

downloaded from:

<http://www.cstoneglobal.com/people.html>

Cornerstone Global Associates are Strategic Partners with the UK's **Centre for Public Innovation**, with whom we work closely on a number of areas in health, education and social policy.

About Cornerstone Global Associates Ltd

Cornerstone Global Associates Ltd is a strategy and management consulting firm designed for the complexities of the 21st Century. With over 30 associates based in 18 countries, we provide our clients with cutting edge solutions tailored to fit their most complex challenges. Email contact@cstoneglobal.com for a no-obligation discussion.

About Blue Papers

Blue Papers are regularly published by Cornerstone Global Associates Ltd on topics that Cornerstone or its associates are engaged in. Whilst the majority of Blue Papers are directed at stakeholders, selected Blue Papers or Excerpts of Blue Papers will be published on our website, www.cstoneglobal.com/blue_papers.html.

ⁱ In its turn, Canada looked to the earlier experience of New Zealand especially in relation to public sector reform. See *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, Office of the Auditor General of Canada, http://www.oag-bvg.gc.ca/internet/English/meth_lp_e_905.html

ⁱⁱ Remarks by Gordon Thiessen, Governor of the Bank of Canada to the Canadian Club of Toronto, Toronto, Ontario, 22 January 2001. Also see BMO Analysis, June 2010.

ⁱⁱⁱ Liberal Party of Canada, *Creating opportunity: The Liberal plan for Canada*, Ottawa, 1993.

^{iv} Stella Cheung, *Provincial Credit Ratings in Canada: An Ordered Probit Analysis*, Financial Markets Department, Bank of Canada, Working Paper 96-6, April 1996, page 3. The article notes that "Most provinces were upgraded in the 1970s and/or in 1980 and 1981; not a single downgrade took place between 1966 and 1981...Although the general increase in provincial debt-to-GDP ratios during the recessions of the early 1980s and 1990s had an important cyclical component, the continuation of an upward trend in those ratios between the two recessions indicates structural imbalances between spending programs (including debt service) and the revenue-raising capacity of the provinces."

^v *A New Framework for Economic Policy*, Department of Finance Canada, October 1994, page 12.

^{vi} *Ibid*, page 13. The statistic is on a National Accounts basis; on a Public Accounts basis, the total debt was over 100% of GDP. The last overall combined federal/provincial budget surplus was recorded in 1974.

^{vii} Pierre Fortin, *The Great Canadian Slump*, Université du Québec a Montreal, Canadian Journal of Economics, Canadian Economics Association, vol. 29(4), pages 761-87, November, 1996, noted for example, "The cumulative employment loss since 1990 amounts to 30 per cent of the loss suffered during the Great Depression, and twice that of 1982-6."

^{viii} *A New Framework for Economic Policy*, Department of Finance Canada, October 1994, page 22.

^{ix} *A New Framework for Economic Policy*, p. 19-26.



^x Pierre Fortin, *The Great Canadian Slump*, Université du Québec à Montréal, Canadian Journal of Economics, Canadian Economics Association, vol. 29(4), pages 761-87, November.

^{xi} *A New Framework for Economic Policy*, p. vii.

^{xii} *Ibid.*, pp. 47 - 50.

^{xiii} The prudence was elaborate. The following parameters were incorporated: (1) a rolling, two-year planning time-frame within which publicly disclosed budget targets were set; (2) use of an average of private sector economic forecasts as the basis for developing the policy status quo fiscal framework used as the starting point for budget planning; (3) subsequent introduction into the fiscal framework of prudence factors to lower the forecast budgetary balance (i.e. the impact of these factors was to increase any forecast deficit or decrease any forecast surplus); and (4) setting a target level for the planned budgetary balance to determine how much flexibility is available for allocation decisions (i.e. the difference between the forecast budgetary balance and this target established the flexibility available). See Mike Joyce, *The Canadian Federal Government's Experience with Prudent Budget Planning*, Working Paper 42, October 2006, School of Policy Studies, Queen's University, pages 2-4.

^{xiv} Thomas J. Courchene, *Half-Way Home: Canada's Remarkable Fiscal Turnaround and the Paul Martin Legacy*, in *Policy Matters*, Vol. 3, No. 8, July 2002, Institute for Research on Public Policy, page 22.

^{xv} Government programs and activities were reviewed using six tests: serving the public interest; necessity of government involvement; appropriate federal role; scope for public sector/private sector partnerships; scope for increased efficiency; and affordability.

^{xvi} Jon R. Blondal, *Budgeting in Canada*, in *OECD Journal on Budgeting*, 2001, page 46 – 48.

^{xvii} In late February, 1995, Moody's placed Canada's debt "on review for a possible downgrade", signaling concern about the country's finances. In April, 1995, the credit rating agency did downgrade Canada's domestic debt rating to Aa1, a notch below the coveted AAA. The agency also downgraded from AA1 to AA2 the small portion of Canada's debt issued in foreign currencies. Standard & Poor's held Canada's triple-A domestic rating, but revised its outlook on Canada's foreign currency debt to "negative" from "stable." Moody's did not restore Canada's triple-A rating until May 2002, more than seven years later. The triple-A rating has been maintained since May 2002. See http://www.cbc.ca/canada/story/2002/05/04/credit_rating020504.html and <http://articles.latimes.com/keyword/canada-finances>

^{xviii} For a history of federal transfer programs, see *A History of the Health and Social Transfers* at <http://www.fin.gc.ca/fedprov/his-eng.asp>

^{xix} For a social critique of the CHST, see Susan D. Phillips, *The Canada Health and Social Transfer: Fiscal federalism in Search of a Vision*, in *Canada: The State of the Federation, 1995*, Douglas M. Brown and Jonathan W. Rose (editors), Institute of Intergovernmental Relations, Queen's University, pp. 67 – 96.

^{xx} In 1996-97, CHST funding was set at \$26.9 billion, a reduction of \$2.5 billion compared with the projected transfer entitlement under the prior set of programs. In 1997-98, funding was to be reduced further to \$25.1 billion, a reduction of \$4.5 billion, or about 3 per cent of total provincial government revenues. As was the case with both EPF and CAP, the new transfer was a combination of cash and tax points. See *Budget Speech*, The Honourable Paul Martin, P.C., M.P., Minister of Finance, February 27, 1995, Department of Finance.



**CORNERSTONE
GLOBAL**
Tackling the intractable.™

T: + 44 (0) 203 178 2525
F: + 44 (0) 203 178 2526
www.cstoneglobal.com

BLUE PAPER

^{xxi} Monetary policy in Canada had a key role to play in the government's efforts to control inflation, support economic growth and aid economic stability. See Douglas Curtis, *Monetary Policy and Economic Activity in Canada in the 1990s*, Trent University, in *Canadian Public Policy*, Vol. XXXI, No. 1, 2005, pp. 59-78.

^{xxii} Jon R. Blondal, *Budgeting in Canada*, in *OECD Journal on Budgeting*, 2001, page 44. Formal pre-budget consultations also formed part of this initiative. Mr. Martin's famous and public "come hell or high water" commitment to meet deficit targets was high art at its finest.

^{xxiii} *A New Framework for Economic Policy*, Department of Finance Canada, October 1994, pp. 15 - 16.

^{xxiv} Mike Joyce, *Prudent Budget Planning and Budgetary Process Effectiveness: The Canadian Federal Government's Experience*, Working Paper 47, October 2008, School of Policy Studies, Queen's University, page 4.