

New spending and tax cuts don't win votes

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[JAMES DAW](#)

Prime Minister Paul Martin may learn a lesson that comes too late to many of us: Spend less and save more if you want to live it up later.

Polls and pundits predict his Liberals face an electoral backlash on Monday.

One contributing factor may be the long list of election promises that will cut into Ottawa's budget surplus.

Pollster Frank Greaves of Ekos Ltd. says voters are not generally aware of the state of Ottawa's finances, but do fret that the good times that Martin boasts about will not last.

Meanwhile, a new international study of election results suggests governments that woo voters with new spending and tax cuts before ballots are cast are more likely to taste defeat than victory.

"We find that, in developed countries and established democracies, election-year deficit spending and tax cuts are punished at the polls," write economists Allan Drazen and Adi Brender. "A worsening of the government's fiscal balance in the election year actually reduces the probability that the leader is re-elected."

On the flip side, the chances of re-election are improved by 7 to 9 per cent when governments raise their budgetary surplus by 1 per cent of the gross domestic product in an election year.

Drazen of the University of Maryland and Brender of the Bank of Israel know little about Canadian politics, and less about our current election campaign. Their research applies to groups of countries, and not to any one in particular. Yet Drazen says their findings may give a partial explanation for the Liberal downfall, if it comes.

The researchers write in a paper for the National Bureau of Economic Research in Massachusetts that they have looked at national election results for 72 countries over a period of 44 years. They found a strong connection between rising budgetary surpluses and an increased probability of re-election.

"Voters, especially in developed countries and established democracies, do not like deficits, particularly in election years," they say in their paper. Martin has made much of Ottawa's eight consecutive budgets surpluses, starting when he was minister of finance. Yet his party might have squandered the potential feel-good effect by allowing those surpluses to shrink.

The Liberals came to power in 1993, a year after the federal deficit jumped from about 6 per cent to 8 per cent of the country's gross domestic product under the former Progressive Conservative government.

The deficit had fallen to less than 2 per cent of GDP by the time former prime minister Jean Chrétien was re-elected in 1997. By the 2000 election year there was a surplus of more than 2 per cent of GDP,

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rising to 4 per cent by 2001.

Since then, however, annual surpluses have been shrinking and almost disappeared in fiscal 2005, leaving less money to pay down the \$500 billion federal debt.

Economist William Robson of the C.D. Howe Institute says Ottawa's spending on various programs began burgeoning around 2000 and "has exploded in the past couple of years.

"Canadians have not seen real per-person increases like this since the early 1970s, the heyday of interventionism that sowed the seeds of unsustainable deficits and high taxes in the following two decades. ... The spring 2004 budget projected a spending increase of \$4.5 billion, or 3.1 per cent. The actual increase was \$22.2 billion, or 14.5 per cent."

While private-sector economists figured there was a potential for a \$13.4 billion surplus in fiscal 2006, the Liberals committed to new tax and spending measures totalling \$10.8 billion in the budget. They intend to apply most of the potential surpluses for the next four years, rather than take a larger chunk out of the national debt.

The Liberals are not alone in that, of course. Stephen Harper's Conservatives have committed to hold a portion of federal spending programs to increases of no more than inflation, plus population growth. Yet his party has also promised to use up most of the projected surpluses for tax cuts and different spending priorities, including an unspecified amount of support for provinces.

The Conservatives compounded the potential for voter backlash by targeting spending and tax cuts at particular voting constituencies such as stay-at-home moms, transit riders, pensioners, cottage owners and investors. Had Harper announced more spending cuts, he might have gotten further.

Drazen said Liberals could be getting a harsher assessment because of the whiff of scandal surrounding the sponsorship program in Quebec and allegations of a leak before a November announcement about income trusts and reduced taxes on dividends.

"They have been pictured as fishy, electorally motivated, and moving from continued surpluses to suddenly spend, spend, spend in an election year," said Drazen.

Monday's vote could be a lesson for all parties.

James Daw, CFP, appears Tuesday, Thursday and Saturday. He can be reached at Business, 1 Yonge St., Toronto M5E 1E6; at 416-945-8633; 416-865-3630 by fax; or by email at jdaw@thestar.ca.

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