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Paul Martin's Permanent Revolution

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A hero's welcome is awaiting The Man Who Killed Big Government.

In delivering small government to Canadians, Paul Martin created a revolution in how the federation works. His reign as the federal Finance Minister from November 1993 to the summer of 2002 brought about lasting change in three ways: shrinking the scope and role of government, neutering funding mechanisms, and deeply cutting spending, even for programs the government was committed to providing. This transformed relations between federal, provincial, and municipal governments, profoundly decentralizing decision-making and balkanizing public provision. It also transformed the budgetary process, turning endless deficits into endless surpluses.

From the outset of the revolution to his taking over the leadership of the Liberal Party, Paul Martin has been consistent in saying he wanted this approach to governance to be permanent, inalterable. In 2000, he locked in the 1995 changes through tax cuts and debt repayment, soaking up the surplus in a way that restricted the possibility of significant re-expansion in government spending. By late 2003, though Paul Martin's rhetoric was starting to lean leftward towards social investments, the specifics were about lower taxes and more aggressive debt repayment.

Now that The Man Who Killed Big Government is taking over the leadership of federal government, the permanency of his small government revolution is in question. An unprecedented string of budgetary surpluses continues alongside a struggling health care system and crumbling infrastructure for water, roads, electricity, schools and hospitals — making it obvious that even when the resources are there, the basics are not guaranteed. Has the public's reduced expectation of government become a lasting feature of Canadian politics or will Canadians ultimately demand a more sustainable approach to governance? Can Paul Martin remain a hero without moving away from the cold comfort of small government?

Tracing the source of the 'revolution'

Catching the wave of small government has been the basis of Paul Martin's credentials as a competent statesman, but he cannot take credit for the genesis of the revolution. In fact, the agenda of smaller government took decades to become the new orthodoxy of mainstream thought.

Its ascent can be traced to the Washington Consensus — a convergence of thought in the IMF (International Monetary Fund), the

World Bank and the U.S. Federal Reserve. The consensus was about "rethinking" the role of the state by testing just how much the market can replace the state's function. It emerged in response to the dual crises of the 1970s: economic stagnation in developed nations and the increasing demand for economic development by Third World nations.

The reasoning went like this: by scaling back the role of the state, we can make more room for the market to do what it's ostensibly good at — making money. Less government leads to more market, which leads to more money, which leads to more prosperity and, ostensibly, reduced poverty. The moral underpinning is that this circuit leads to more prosperity *for all*, at least in theory. Who could be against that?

By the 1980s the Washington Consensus had codified the elements of what could propel a nation into this virtuous circle. By the 1990s, the recipe for revitalizing economic growth had become a one-size-fits-all formula for developing and developed nations alike: increase the economy's export-orientation and reliance on trade; cut program spending and public investments; improve the climate for business investments, including cutting taxes; and place more priority on deficit/debt reduction.

This approach was well underway when Paul Martin took over the reigns of Canada's Finance Ministry, and brought the concept of small government to fruition in Canada with the zeal of a revolutionary. Deficit reduction provided the rationale to reduce the size of government operations to a historically unprecedented degree. Paul Martin bragged about the scale of the cuts, wearing his accomplishments-to-come like a badge of honour.

> "…[O]ver the next three fiscal years, this budget will deliver cumulative savings of $29 billion, of which $25.3 billion are expenditure cuts. This is by far the largest set of actions in any Canadian budget since demobilization after the Second World War. …. Relative to the size of our economy, program spending will be lower in 1996-97 than *at any time* since 1951."
>
> *Paul Martin's Budget speech, February 1995, page 4*

> "Our reductions in government expenditure are unprecedented in modern Canadian history….Our reform of the role of government offers the prospect of much more effective government at substantially lower cost….Constant renewal is what this country is all about. Indeed, it is the essential ingredient of a dynamic federalism."
>
> *Ibid. p.25*

The initiatives of the 1995 budget were about to undo key elements of what had painstakingly been built since the Second World War. The postwar effort was about growth. The 1995 Paul Martin budget was about cuts – but more than just a reduction in spending, these initiatives represented a collapse of both federal supports and national vision.

The heroic language of the Budget Speech was disingenuous in two regards: the comparison with the federal government's post-war efforts, and the significance of small government.

It ignored the fact that the initiatives of the 1995 budget were about to undo key elements of what had painstakingly been built since the Second World War. The post-war effort was about growth – which, in those days, meant building a nation through increased public expenditures and investments. The 1995 Paul Martin budget was about cuts – but more than just a reduction in spending, these initiatives represented a collapse of both federal supports and national vision. It redefined growth to represent the interests of the market, rather than the interests of the nation.

Looking at the future through the rear view mirror

Using 1951 as a benchmark of success may illustrate the inner logic of the Paul Martin approach to budget making, but this comparison to half a century ago, again, is deeply misleading.

While Paul Martin slashed the level of program spending as a share of the economy to what it was in 1951, there are fundamental differences between what the federal government did in the 1950s and what it did in the 1990s. The federal government of the 1950s did not provide costly but cherished programs such as Medicare or a comprehensive system of elderly benefits. Those social gains were only won after prolonged campaigns on the part of civil society. Nor did the federal government of the 1950s face chronically high unemployment rates. Unemployment rates in the 1990s were more than double the rates of the post-war period, putting pressures on governments on both sides of the ledger: more income supports flowing out, less income tax paid in.

The "actions" of the 1995 budget altered the political landscape through massive cuts and privatization of public services. By 2002-03 federal spending was down to 11.5% of GDP, a rate last seen in 1949-50. The clock was being turned further back than 1951.

The scale of withdrawal of federal funds has triggered cascading devolution, from federal to provincial governments, from provincial to municipal governments. Downloading was accompanied by off-loading, shifting services from public to private provision, or eliminating services. The impact of these changes regionalized the federation, created growing inequalities between and within regions, and threw the nation's major urban centres into disarray as they struggled to do more with less help from the more senior levels of government.

Instead of building a nation, Paul Martin's battle plan was taking it apart.

Make it permanent

One revolutionary aspect of this massive downsizing was the notion that no program was *a priori* a fundamental element of the public good. Everything was up for review, and could be classified as no longer "core" to the mission and purpose of government. The utility of all government functions would henceforth be subject to institutionalized review, a permanent feature of the new era ushered in by Martin.

> "Let me just say one thing before leaving Program Review, and that is, we have accomplished much, but getting government

right does not end with this budget. For the essence of good government is, in fact, *permanent* ongoing program review. And that is our intention…..If government doesn't need to run something, it shouldn't. And in the future, it won't."

Paul Martin's Budget speech, February 1995, page 14

Martin's Program Review cut the departments of transportation, regional development, and natural resources by half. The biggest cuts, in dollar amounts, came from HRDC (Human Resource Development Canada, which was cut by more than a third), Transport, and Defence/Emergency Preparedness. Business subsidies were cut by 60% – to be replaced by sizable tax cuts. Program Review also raised money through cost-recovery in departments that did not previously charge fees for public service or by revenue generation through privatizing those activities.

Downloading the revolution

Relations with the provinces were unilaterally changed with the introduction of the Canada Health and Social Transfer – a potent symbol of the permanent revolution.

The CHST combined two previous funding mechanisms into a single pot of money with fewer conditions on how to meet a range of social needs, from health care and post-secondary education, to social services and social assistance. The loss of conditions most affected supports to the poor, who lost whatever weak guarantees for support had previously existed. This new incarnation of unconditional federal support was kicked off with a $7 billion cut in funds transferred to the provinces for these programs. The reason given for the cuts was that the provinces needed more flexibility, especially with regard to welfare programs. Under the logic of small government, guaranteed funding was too 'restrictive'.

"…[W]e believe that the restrictions attached by the federal government to transfer payments in areas of clear provincial responsibility should be minimized. At present, transfers under the Canada Assistance Plan come with a lot of unnecessary strings attached. They limit the flexibility of the provinces to innovate. They increase administrative costs. In short, the cost-sharing approach of the past no longer helps the provinces, who have clear responsibility to design and deliver social assistance programs, to do so in a way that is as effective as possible and in tune with local needs.

Budget speech 95 p17

In reality, Martin burdened the provinces with the most restrictive tool of all: funding cuts. The provinces were left to decide whether they would maintain service levels in these programs or offload costs by downloading services to municipalities, by reducing qual-

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ity or access to services, or by letting the market decide who gets what based on a person's ability to pay. This exacerbated the already existing balkanization of services, with provinces using the loss of funds and the loss of conditionality of federal funding as their rationale to reduce or offload service provision. It was truly a step back in time.

Cities feel the impact of downloading

Many public provisions, including social housing, were simply abandoned. By the end of the 1990s, the mayors of the biggest cities from coast to coast found themselves overwhelmed by the magnitude of the mismatch between supply and demand at the low end of the housing market. The widespread inadequacy of affordable shelter and the growing ranks of the homeless brought to mind the Great Depression, and just like during Dirty Thirties, the mayors descended on Ottawa in 1998, proclaiming a "National Housing Disaster", begging the federal Finance Minister Paul Martin for some support and relief. The plea went unanswered, though it was heard by a great listener.

As with other impassioned supplications for infrastructure maintenance, secure potable water, public transit, reduction of child poverty, early child education, and environmental protections, Martin responded with sympathy and encouragement: the need was real, the cause was great. But, despite record financial prosperity in the late 1990s, he was never able to move forward. He would if he could, he would perpetually assure the supplicants, but the cupboard was perpetually bare. The revolutionary principles of small government came first, as Paul Martin was apt to say "come hell or high water".

The following retrospective on Paul Martin's decade of revolution offers a "program review" of sorts. It reviews how the agenda of small government/big business played itself out in the period 1993 to 2002. These include: spending cuts; increased reliance on trade and foreign investment; cuts in inflation and borrowing costs; tax cuts; and debt repayment. What has been the impact of the revolution, and can it be permanent?

The defining features of the revolution

1) Reduce the Size of Government

Among the G-7 nations, Canada implemented the most aggressive reduction in the size of government over the 1990s.[1] Federal program spending shrank by 30% between 1993-94 and 2000-01, from 15.7% of GDP to 11% of GDP.[2] In 2002-03, federal program spending increased to 11.5%, but this was more than half a percentage point lower than what the government allocated in the 2002 budget, a shortfall in promised spending of $5.2 billion. This may be symptomatic of future budgets, as the Finance Minister of the day, John Manley, recently indicated:

> "There are many reasons that our surplus last year was higher than projected. But one reason was that our program spending was lower than budgeted. That's a good sign and a portent for the future."
>
> *Economic and Fiscal Update, October 29, 2003, page 7*

The 2003 budget – under a new Finance Minister – simply shows how permanent the Martin commitment to small government has become. It said there would be a small bump-up in spending due to renewed investments in health care, raising the spending to GDP ratio to 12.2%. As seen above, though increased investments in health care took place, other spending did not, leaving the ratio at 11.5%, a rate last seen in 1949-50.

The 2003 budget shows the ratio of program spending to GDP is projected to continue its downward trajectory after the 2002-03 fiscal year. It promises to not exceed 12% of GDP over the next two years.[3] One can only wonder if this means a commitment to not exceed the 11.5% mark.

Paul Martin's Program Review is now permanently institutionalized. A central feature of the Martin budgets right up to 2002, Budget 2003 states:

> To demonstrate its commitment to reallocating spending and improving efficiency, the Government will reallocate $1 billion from existing spending beginning in 2003–04 to fund higher government priorities. This reallocation will be permanent and represent about 15 per cent of the cost of the new initiatives announced in this budget over the next two years….As part of its ongoing review of programs, the Treasury Board will continue to examine the scope for reallocating from lower to higher priorities and may adjust departmental and agency budgets accordingly.
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> *The Budget Plan 2003, Page 177*

2) Increase Reliance on Trade

The key policy initiative for economic growth since the mid-1980s has been to increase Canada's openness to trade, particularly making economic production more export oriented. Canadian exports have more than doubled since. Exports rose as a share of the economy, from 26% in 1990 to almost half the economy's output in 2001 (45.6%). During this time the U.S. share of total Canadian exports grew from 74% in 1990 to around 87% since 1999, making the government's strategy of export orientation even more vulnerable to economic conditions in the U.S.[4]

Between 1990 and 2002 exports more than doubled from $175 billion to $473 billion. The value of exports peaked in the first quarter of 2001, at $512 billion. The U.S. remains the most important market for our exports, accounting for 87.4% of all Canadian merchandise exports in 2002.[5] Since the events of 9/11, a slowing economic climate globally, and with a strengthening Canadian dollar, exports declined to 38% of the economy by the second quarter of 2003.

Imports followed the same pattern, more than doubling from $175 billion in 1990 to $429 billion in 2000, then declining to $408 billion by the second quarter of 2003. Whereas Canadians imported more than they exported a decade ago, today the relationship is reversed.

3) Attract more Foreign Investment

Foreign direct investment in Canada (inward FDI) grew dramatically in the 1990s, from $130 billion in 1990 to $292 billion in 2000, and to $349 billion by 2002.[6] Two-thirds of this flow came from the United States. As a share of the economy, inward FDI grew from 19.6% of GDP in 1990 to 30% of GDP by 2002. Compared to other G-7 nations the Canadian economy is highly open to foreign investment: the G-7 average over the same period also grew, but from 6.3% of GDP to 13.6% of GDP.[7]

Canadian investors are also spending more overseas. Since 1990, outward FDI from Canadian companies grew by more than four times, to reach $432 billion in 2002.[8] Clearly the growing reliance on foreign capital is not due to Canada's ability to generate its own capital for the purposes of investment.

4) Lower Inflation, Lower the Costs of Borrowing Money

Starting in 1990, the primary objective of the Bank of Canada has been to reduce inflation and maintain it in the target range of 1% and 3%. The Bank has been highly successful. Canada's annual inflation rate averaged 1.7% between 1993 and 2002, one of the lowest in the G-7 countries.[9] This vies with only two other protracted periods of low inflation in Canada: from 1934 through to the end of the Second World War, and from 1952 to 1965.[10]

While the costs of borrowing also dropped dramatically over the 1990s, the economic slowdown – which started in 2001 and was exacerbated by the events of 9/11 in New York – triggered a series of interest rate cuts over the course of 2001 which were unparalleled in the central bank's history. In January 2002, the Bank of Canada set the prime lending rate for business at 3.75%, the lowest nominal rate in our history.[11] The previous low was between November 1944 and March 1956, when interest rates were set to service the economy at 4.5%. The prime rate has been 4.5% since September 2003.

The Results

1) A Vastly Larger Economy …

From 1993 to halfway through 2003 the Canadian economy grew by 66% in nominal terms and 41% in inflation-adjusted terms.[12] By halfway through 2003, Canadians were producing $1.2 trillion in goods and services. This is $480 billion more on an annual basis than a decade before, and growing. There is vastly greater capacity to finance social development initiatives, should that be a political priority.

There are more poor children today (786,000) than in 1989 (765,000), the year when a campaign to eliminate child poverty was unanimously endorsed by all parties in the federal Parliament.

2) But We're Moving Further Away From Covering the Human Basics

At the same time, the cuts that took place mean virtually all social development initiatives to cover the human basics identified in the 1948 Universal Declaration of Human Rights – clean water, shelter, food, health care and education – are increasingly in jeopardy for growing numbers of Canadians. Though there is more economic capacity to meet these needs than at any other time in our history, there are fewer resources devoted to these purposes. The aggressive redistribution of resources has resulted in unprecedented wealth coinciding with the following miserable facts in our nation:

Deepening Poverty

The proportion of families defined as poor decreased from 1996 to 2001 from 14% to 10.4% of all Canadians. However, there are more poor children today (786,000) than in 1989 (765,000), the year when a campaign to eliminate child poverty was unanimously endorsed by all parties in the federal Parliament.[13] Furthermore, the depth of poverty continues to increase among those who remain defined as poor. The average low income family would now require more than $7,200 in after-tax dollars to reach the “low income” threshold. In 1995 it would have taken $6,800.[14] Young men’s earnings have not returned to the levels of the 1980s, in inflation-adjusted terms, though single female parents continue to improve their economic position by getting more employment and working longer hours.

Poverty is more prevalent for the single elderly, the disabled, visible minorities, aboriginal populations (both on and off reserve) and recent immigrants; and in all these groups women are the most disadvantaged.

Inequality (in market and in after-tax terms) has grown more rapidly since 1995 than at any other time since records have been kept. The top 20% of families were, on average, five and a half times more affluent than the bottom 20% of families after taxes and transfers were taken into account. From the 1970s to 1995 the relationship between rich and poor was somewhat stable, the top 20% of families averaging $4.80 for every $1 in after-tax income of the bottom 20%.[15]

More People Precariously Housed, More Homeless

A high proportion of families spend a disproportionate amount of their income on rent. In 2001, almost 20% of Canadian renters paid *more than half* of their income towards shelter costs. Forty percent paid more than 30% of their income toward shelter.[16]

Between 1991 and 2001 Ontario – which houses almost 40% of Canada’s population – lost 24,300 existing rental units. Not surprisingly, rents have been rising at twice the inflation rate.[17]

While there are no official statistics on the number of homeless, it has been reported that about 250,000 people will be without shelter over the course of the year.[18] In Toronto alone, 44 homeless people died – most from exposure — in 2001. By the middle of 2003, Toronto’s regular vigils for the homeless mourned the deaths of 308 people.

More Hunger

The first food bank opened in Canada in 1981. By 2003 there were at least 639 food banks, with an additional 2,213 agencies helping hungry people across the country, more than the number of MacDonald’s outlets in the country.[19]

With rising rents and stagnant or falling incomes, the squeeze-play for too many households has resulted in increased hunger. Food bank use has reached 778,000 people in one month alone and has doubled since 1989. More than 40% of the users are children. Every year, whether the economy is booming or slowing, the use of food banks increases. Just since 2002, the number of people in food bank lines has risen by 5.5%. The CAFB (Canadian Association of Food Banks) survey shows that 12.9% of food bank users are people with jobs. An astounding 7.03 million pounds of food is distributed in one month, but shelves are often bare at month’s end. [20]

Insecure Access to Clean Drinking Water

Poor maintenance of infrastructure and the intensification of agri-production has resulted in more frequent instances of unsafe drinking water in communities from coast to coast. In 2001, 7,000 people were infected by a cryptosporidiosis outbreak in North Battleford, Saskatchewan; half the 500 communities in Newfoundland had a boil-water advisory during the summer; and one of the biggest cities in the country (Vancouver) issued a water safety warning to its residents in early 2002. These most recent developments occurred despite the fact that in 2000, seven people died and thousands became seriously ill in Walkerton, Ontario when E-coli found its way into the water system. The report of the public inquiry into Walkerton, released in January 2002, cited two factors as the cause of this debacle: incompetence of local authorities and funding cutbacks by the provincial government to its environmental protection branch.[21]

Rising Student Debt, Decreased Returns on Investments in Education

Funding to post-secondary education has still not been restored to the pre-cut levels despite an historic budgetary surplus. These cuts, combined with deregulation of fees, have resulted in large tuition increases, with fee increases for professional schools only limited by what the market will bear. On average, students completing a four-year program will have $25,000 in debt, an increase of 300% from 1990.[22]

Shifting job opportunities mean the returns on investment in post-secondary credentials may be uncertain, especially among the growing number of young graduates who are precariously employed. According to the 2001 Census, half of all employed Canadians between 25 and 35 years of age earned less than $26,822 in 2000. Their average annual income was $29,876. (The average Canadian worker earned $31,757 in 2000, while median earnings – the half way point of all workers' earnings – was $25,052.)[23]

Rising Problems of Access to Health Care

Canada has one of the lowest doctor-to-population ratios in the western world: 2.1 doctors for every 1,000 patients.[24] Labour shortages among health professionals is a global problem, but was exacerbated in Canada by reductions to enrolment in medical and nursing schools in the 1990s in order to deal with funding cutbacks, cuts that originated with the federal government.

In 2003, 3 million Canadians do not have a family doctor, overburdening acute care services such as emergency rooms and keeping waiting lists for diagnostics and treatment stubbornly high.

The result is that in 2003, 3 million Canadians do not have a family doctor[25], overburdening acute care services such as emergency rooms and keeping waiting lists for diagnostics and treatment stubbornly high. Almost one in five Canadians requiring health care for themselves or a family member in 2001 encountered some form of difficulty in gaining access to services.[26]

The one harsh lesson from the small government revolution is: Economic growth does not necessarily lead to prosperity for all. It requires political will to ensure "more prosperity for all" is an explicit objective, so that it can be an outcome of economic growth, through more jobs with better wages and working conditions and more abundant social provisions.

3) Record Budgetary Surpluses at the Federal Level

There is no reason for such hardship in Canada. This nation has outperformed all other G7 nations in GDP growth since 1993. What have we done with all this new wealth?

Continued constraints on federal public spending combined with relatively strong economic conditions resulted in the fiscal year 2002-03 as the sixth consecutive year in which the federal government recorded a budget surplus. This feat has only been accomplished once before, in the six-year period immediately after World War II, 1946-57 to 1951-02.

The scale of the current surpluses has, however, not previously been seen. The growing size of the surplus created enormous pressure to make it disappear before Canadians started to expect more from their governments. If the small government revolution was to be permanent, the cupboard had to appear bare.

By October 2000, the solution was to introduce an explicit and aggressive tax cut agenda and accelerate the campaign of vigorous debt repayment. In the build-up to the federal election in November 2000, calculations of the projected size of the federal budget surplus over the following five-year horizon ranged between $150 billion and almost $200 billion.[27] Most of this ($100 billion) was devoted to tax cuts. Debt reduction, until recently, has never been an explicit objective of this government – yet the second largest amount turned out to be debt repayment, not program spending ($52 billion in debt repayment since 1997-98, of which only $18 billion had been paid down by the time of the October 2000 announcements).[28]

Lock in the Change

1) Deep Tax Cuts

The federal government's initiatives in the October 2000 *Economic Statement and Budget Update* outlined a program for $100 billion in tax cuts over the next five years as the key way of distributing and eliminating the projected budgetary surplus.

Tax cuts in 2000-01, the first fiscal year of the plan, cost federal coffers $7 billion. That cost rose to $16 billion in 2001-02 and $20.5 billion in 2002-03. The projected costs of the final two years of these tax cuts would reduce federal revenues by $25 billion in 2003-04 and $31 billion in 2004-05. If anything, these projections, made in mid-2000, underestimate the value of these cuts, and the ones that have been added in budgets since 2000. The federal government has not publicly kept track of the growing cost of the tax cut agenda to the public purse.

Even the events of 9/11 and the deepening economic slowdown would not alter government commitments to tax cuts – even as Canadians began to question the wisdom of the permanently small governments.

The federal Finance Ministers, both Martin and his successor John Manley, have repeated that though downturns may result in cuts to other programs, the promise to reduce taxes by $100 billion remains sacrosanct. Indeed these cuts have been augmented, with the elimination of the capital tax on corporations and raising the tax-exempt threshold for RRSP (Registered Retirement Savings Plans) contributions, a move that only benefits those earning more than $75,000 a year. The implications of those cuts have not been fully costed in budget documents.[29] Budget 2003 introduced these and other tax cuts, the total of which will cost an additional $2.3 billion by 2004-05.[30] Martin's recent speeches indicate still more tax cuts lie ahead.

Together, the federal and provincial governments have foregone at least $40 billion in revenues in 2002-03, $48 billion in 2003-04 and $61 billion in 2004-05, making tax cuts a far greater priority of governments than any other initiative in this period.

2) Reduce the Debt

Net federal public debt fell from a high of 68.4% of GDP in 1995-96 to 44.2% of GDP in 2002-03, the fastest and deepest rate of reduction within the G-7 nations.[31]

Between 1996-97 and 2002-03, Canada's public debt was reduced by $52.3 billion, making debt reduction the second biggest priority (behind tax cuts) in new spending since the late 1990s.[32] A record $17.1 billion was paid by the federal government in the 2000-01 fiscal year alone which Finance Minister Paul Martin called "the real fiscal dividend" of the budgetary surplus.

The good news about a rapidly falling debt to GDP ratio is that Canadians taxpayers spend less on servicing the debt than before. In the 1995-06 fiscal year, 37 cents of every tax dollar received by the federal government went to debt charges. By 2002-03 it was only 23 cents on the dollar. That translates to many billions of dollars in freed-up resources. In 2002-03, alone, the Budget estimates public debt charges will fall by $2.1 billion.[33]

But even when significant "new" resources are available for other priorities, that doesn't guarantee the money will be spent on enhancing public provisions. Just as in a household budget, the "windfall" could go to more spending or paying off debt. In the case of the government, however, there is a third choice of where the money could go – lowering taxes.

The Government of Canada has been aggressively paying off the debt while watching the deterioration of our road and transit systems, water and sewage systems, and the existing stock of public housing, hospitals and schools.

Prudent Choices?

One of the most common, though not most heroic, words in Paul Martin's lexicon is "prudent".

Low-balling revenues and under-spending budgetary allocations is prudent. Contingency reserves for the unforeseen event is prudent. Debt repayment is prudent.

Indeed all these things would be prudent, even admirable, in a household budget.

But no household would pay off the mortgage while the foundation of the house crumbled, the pipes threatened to burst, and someone was going hungry or without enough winter clothes. Certainly no household would launch on such an undertaking while, at the same time, volunteering to get paid a lower hourly rate.

That is, however, exactly what the Government of Canada has been doing. It has been aggressively paying off the debt while watching the deterioration of our road and transit system, water and sewage systems, and the existing stock of public housing, hospitals and schools. It has held the line on spending while paying down the debt, knowing that Canadian children and adults go hungry and even die from lack of shelter. And, at the same time it decided to tackle the more than $500 billion in debt – half a *trillion* dollars — it has chosen to forego significant amounts of its own income, by cutting some tax rates and entirely eliminating others. And the game is about to escalate.

Moving the Goal Posts of Success

The ratio of debt to GDP has taken on a new gravitas as the leading indicator of economic success for the federal government. Even in the unlikely event that not one more cent is dedicated to debt repayment, this measure will continue to fall. Success – in these terms – is guaranteed, it's just a matter of degree. As Finance Minister Manley pointed out in late 2003, "assuming no incremental debt reduction, [the debt to GDP ratio] would fall to about 33 per cent by 2008–09. If the Contingency Reserve [worth $3 billion annually] is not needed and is used to reduce federal debt, the federal debt-to-GDP ratio would decline to 31.5 per cent in 2008–09."[34]

But a constant downward trajectory is not sufficiently dramatic for a conquering hero. As the new leader of the Liberal Party – and Prime Minister in waiting – Paul Martin wants more.

In his only speech in recent months where he spelled out specific elements of his vision for leading the nation, Paul Martin clearly signaled there would be no fundamental shift in approach from the past decade. In fact, he suggests deepening the revolution, to guarantee its permanency.

> First, it is absolutely essential that we lower our national debt load, in order to keep our interest rates low, continue to lower taxes, and keep the flexibility we need to respond to an unpredictable international economy. In concrete terms, that means continuing to cut the debt-to-GDP ratio from 71 per cent, where it was in 1997, past 40 per cent, where it is today, back towards the 25 per cent level that Canada had in the late 1960s. Governments must never forget the lessons of prudent fiscal management. That means always keeping a firm grip on spending – especially in the uncertain times now facing the global economy. It means a commitment to an ongoing program review.
>
> *Paul Martin's Speech to the Board of Trade of Metropolitan Montreal, September 18, 2003*

There is no economic significance to bringing debt levels to 25% of GDP, but it has plenty of significance historically and politically, especially in the context of the "absolutely essential" need to continue to lower taxes.

The last time federal debt to GDP ratios were around 25% was in the 1960s, when federal program spending as per cent of GDP ranged between 14% and 16%. If the goal was to have the entire scale of government go back to the 1960s, then the feds would be spending at least 2% to 4% of GDP more in programs – between $24 and $48 billion more a year at the current level of GDP.

Returning to the governance style of the 1960s is not the goal, however.

The real purpose behind Martin's flagging the 25% mark is to shift the goal posts of government objectives, precluding significant action on other priorities until that goal is met or redefined.

If, as expected, Martin is elected as Prime Minister next spring, he has served notice that the goal of a debt ratio of 33% or 31% will not be enough for his own definition of success. It will be much lower. A hero does not coast. He wages war. But what are the implications of such a war?

What's next? A Peek at Paul Martin's Leadership Style for Canada

> We stand together on the edge of historic possibility. At a moment that comes rarely in the life of a country. It is a time when destiny is ours to hold. A time of new opportunity which must be seized upon in a conscious, determined effort….It is a time to turn an historic circumstance into transformative change – to summon a new national will. ... We have to build a 21st century economy in Canada for Canadians. We succeeded in the last 10 years because we did not deviate from course – balanced budgets, a continually dropping debt ratio, lower taxes. We must stay that course.
>
> *Paul Martin's Leadership Convention speech, November 14, 2003*

Will Paul Martin the Prime Minister be any different than Paul Martin the Finance Minister? Other than the occasional rhetorical flourish, there is little indication that we will get something fundamentally different than the same old Paul Martin we've seen for the past ten years.

Paul Martin is yesterday's man. He wants the size of government of 1951 (or earlier), the size of the debt from the '60s. He is looking backwards to offer a future whose trajectory may include a bigger economy but will guarantee a less integrated and healthy society.

This is indeed a historic moment for the nation. It is a moment that calls not for nation building but for nation *re*building.

After more than a decade of deferring the costs of construction and repair of infrastructure that supports businesses and communities across the country, we are faced with two needs: 1) maintain the infrastructure we have, much of which was built half a century ago, in the post-war reconstruction era, and is in desperate need of repair; and 2) expand and upgrade infrastructure to meet the needs of a larger, aging population, a more knowledge-intensive economy, and a productive system that must also contend with the clearly emerging limits of taking the environment for granted.

In closing his Budget Speech in 1995, Paul Martin said:

> "Government must begin to plan ahead – not timidly, not tentatively – but boldly, imaginatively and courageously." Those words were spoken by my father in 1957 – for his time. That is what I believe we have done today, for ours.

Can Paul Martin focus on the future, boldly making the investments that this generation needs? Will his unwavering focus on what came before, in the 1960s, in the 1950s, also eventually acknowledge that the hallmark of that generation was the expansion of public goods, and the enhancement of social security?

Paul Martin's commitment to continued small government has cast public investments as a drain on capacity, discounting their ability to increase Canada's capacity to grow and prosper more equitably, in both economic and social terms. The commitment to small government has emphasized provincial "flexibility" and decentralization for a decade, making new federal initiatives more difficult to launch and poor program take-up as simply an issue of uncooperative provinces. The commitment to small government understands that, shrugs its shoulders and moves on to aggressive national debt repayment, rather than figuring out what combination of money and politics will prevent our collective foundation and infrastructure from crumbling.

Paul Martin wants these changes, this revolution, to be permanent. But the sustainability of the small government approach is increasingly in question. Another four years of this agenda – or another decade, which is what Paul Martin says he really wants – could easily move us closer to "complete liquidation", the predicted fruit of permanent revolution according to Trotsky.

Will Paul Martin get away with this agenda in the new political environment without the enabling role of Jean Chretien? Without doubt, Jean Chretien's personality humanized the agenda. He kept the show real, rough around the edges with a hint of humour and a street-fighter's style of leadership we could relate to: muddling through and doing the best you can with the hand you are dealt.

Martin without Chretien is a new, untested act. Can Canadians warm up to the cold basics of small government without Chretien to soften the edges? Or will Paul Martin be compelled to shift with the times? In the classic language of the hero, he recently asked us to think forward, to work towards our common destiny.

> Together we have the possibility of translating our recent gains into lasting national advantage. I ask all of you to join me in fulfilling Canada's destiny. Now is the time to come together as a country - in common cause and shared determination; united in purpose and accomplishment.
>
> *Paul Martin's Speech at the Liberal Leadership Convention, November 14, 2003*

The hallmark of Paul Martin's permanent revolution is the permanent devolution of responsibilities: passing the buck (but not the bucks) on to lower levels of government and, ultimately, onto individuals.

The hallmark of Paul Martin's permanent revolution is the permanent devolution of responsibilities: passing the buck (but not the bucks) on to lower levels of government and, ultimately, onto individuals. It implies continued underinvestment in health care, early childhood education, and our cities. It undermines the very nature of the federation. It strangles community capacities and individual opportunities.

> "The permanent revolution, in the sense which Marx attached to this concept, means a revolution which makes no compromise with any single form of class rule a revolution whose every successive stage is rooted in the preceding one and which can end only in complete liquidation."
>
> *Leon Trotsky, first published in St. Petersburg in 1906, first translated to English in 1921*

The federal government's coffers and political support are unusually robust at this point in our history. Given this solid foundation, it is entirely possible for a political leader to launch something truly revolutionary for our times: a different kind of social experiment, a quest for a different type of abundance, starting with re-investment in our own future, the future of our children.

Now, that would be a permanent revolution worth starting.

Endnotes

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6 *ibid*. http://www.ic.gc.ca/cmb/welcomeic.nsf/532340a8523f33718525649d006b119d/012bffa29fcb623885256dc200424073!OpenDocument.

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15 Statistics Canada, *The Daily*, July 28, 2000, Income Inequality.

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19 The Canadian Association of Food Banks, *HungerCount 2003*, p. 3, and Carly Steinman, "A Surplus of Hunger: Canada's Annual Survey of Emergency Food Programs", prepared for the Canadian Association of Food Banks, October 2000. There are more than 1,300 McDonald's in Canada (Source: McDonald's Canada, http://www.mcdonalds.ca/en/aboutus/mcdCanada_facts.aspx).

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[26] *The Daily*, July 15, 2002, Health Services Access Survey 2001 .

[27] Armine Yalnizyan, *What Would They Do with The Surplus?* Ottawa: Canadian Centre for Policy Alternatives, November 2000, pp. iv and 6.

[28] *Annual Financial Report of the Government of Canada, Fiscal Year 2002-3,* Page 9, Table 1.

[29] The capital tax reductions will cost $455 million by 2004-05, but there is no indication what the full elimination of this tax would mean. Federal capital taxes will be eliminated by 2008. Increasing the RRSP/RPP limits to $15,000 from $13,500 will cost a further $295 million until 2004-5.

[30] *The Budget Plan 2003,* Table A1.2, page 229.

[31] Government of Canada, Department of Finance, *Fiscal Reference Tables October 2003, Tables 2 and 57.*

[32] Government of Canada, Department of Finance, *Annual Financial Report, Fiscal Year 2002- 2003, page 7.*

[33] *The Budget Plan 2003*, p.216.

[34] Department of Finance, *Economic and Fiscal Update 2003 Private Sector Five-Year Economic and Fiscal Projections,* October 29, 2003, page 97.

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