Joe Oliver, Canadian Voters and the Fiscal Ouija Board

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Prime Minister Harper and Finance Minister Joe Oliver at the G20 Summit in Australia last November. At the time, the government's fall fiscal forecast was based on $81 oil.
PMO photo, Jason Ransom

National budgets are almost always entirely political, not fiscal, documents. That is especially true of budgets delivered before an election. As veteran political strategist and policy sage Robin Sears writes, the upcoming Harper-Oliver budget—delivered under the fudge-inducing duress of an oil-price crash that followed some pricey marquee election promises—will be especially so. And somewhere, Allan Blakeney will be chuckling.

American sage Yogi Berra offered powerful truths about many things in life, including, "It's tough to make predictions, especially about the future." An exception is national budgets. Today, they are entirely predictable.

They deliver whatever the government that confects them decides they need to deliver. Budgets in developed democracies today have an increasingly tenuous connection to the health of the public "fisc", or its ailments. They are almost entirely political, not economic, documents, and, with the present Conservative government, made up more of pictures and slogans than numbers, fictitious or real.

There may have been a time before politicians and their officials learned how to do expensive digital tricks with numbers, when budgets actually reflected national economies' harsh realities. The claim of finance ministers the world over that they resembled household budgets was always a stretch. It's simply insulting nonsense today.

Two overwhelming factors drag budgets closer to aspirational fiction than fiscal reality. First is the speed with which market realities can shift with little warning, as the Tories have seen twice on their watch. In 2008, Prime Minister Stephen Harper was soon humiliated by his election campaign statement, just days before an election, that the market collapse in what became the Great Recession was a "buying opportunity". Only six months ago, our government was happily coasting toward an election supported by vote-buying goodies, funded by $100 oil. Even after oil prices collapsed in the fall, Ottawa was still projecting a $1.9 billion surplus in the November fall update, and $4.6 billion in new family spending in 2015-16 alone, based on $81 oil.

The second reality is that national budgets are infinitely more elastic than yours. Imagine that you have just had a five per cent increase in your rent or mortgage, or a five per cent pay cut. You could buy cheaper wine and drink less of it. You could leave the car at home and take the bus or subway. But most Canadians would struggle to cut their expenditures by that amount overnight.

The Government of Canada is on a different fiscal planet than you are. It can run up $160 billion in new debt, as it did to stimulate the economy from 2008-14. Don't try that at home.

You could try to tell your car leasing company you'll pay them next month, or Loblaws that you'll let them know when they can expect money for this month's groceries, or your bank that you're cutting the interest rate on your credit card by 10 per cent this month—but I wouldn't recommend it.

Governments do it to their employees, creditors, and fiscal partners all the time.

So a slide of $10 billion in revenue, what may well be the gap between what Joe Oliver thought he had to spend in November and the actual cash in Ottawa's till come April, can be disappeared by Finance department boffins with a few keystrokes.

This government appears to be hoist on an exquisitely painful petard of its own making. In late October, 10 days before the fall update, it announced cheques to millions of Canadian families—income splitting of up to $2,000 for couples on their tax returns, and an increase in the Universal Child Care Benefit from $100 to $160 per month, with the first seven months enhanced benefits of $420 arriving all at once in July, just weeks before the writ drops for the October election. It could do so because of the prevailing narrative of balancing the books and achieving a surplus in fiscal 2015-16.

In those halcyon days, only six months ago, the big policy debate among the parties in Ottawa was how to spend the surplus. That was another era.

How governments almost always get away with bribing voters with their own money in an election year is one of the eternal wonders of democracy. I digress.

The problem for the Harper Conservatives was that the crash in oil prices and the impact on Canada's GDP and tax base mean that money is flowing into government coffers at a much slower rate than planned. For every $5 drop in the price of oil, Ottawa is out $1 billion. And oil has plummeted about $50 since last summer, leaving Ottawa $10 billion short.

If this were you or I, we'd have already explained to our indulged children that the promised summer camp was not going to happen this year. Oh, and with the loonie plunging to 80 cents, the family vacation would be in PEI this summer rather than Maine.

> ***"For every $5 drop in the price of oil, Ottawa is out $1 billion. And oil has plummeted about $50 since last summer, leaving Ottawa $10 billion short."***

The government faces no such pain—at least not immediately. It merely gives its fiscal Ouija board a shake and, just like that, the books are "balanced." In a pinch, the Harper government can use the $3 billion contingency reserve, intended for natural disasters, to avoid the political disaster of breaking its promise to balance the books. Now this type of political shell game with the public fisc is not an infinite or a permanent solution—as governments from Argentina to Ontario have discovered to their cost. Debts are not forever delayed, payments cannot be deferred for long.

The Harper government has become especially adroit at fudging, concealing or delaying the announcement of both revenues and expenditures, to give it the greatest possible flexibility to nudge the bottom line in one direction or another. Mysteriously, in late January, the government was forced to concede that its "fee income"—not to be confused with taxes, you understand—had generated an additional $3.4 billion. This came as a result of Liberal finance critic Ralph Goodale's clever hunch that there was more gold in the dramatic hikes to passports, national park permits and dozens of other government user fees than had been reported. He was right.

Veterans complained loudly when it was revealed last year that more than $800 million of budgeted assistance had not been spent. In his final humiliation before his demotion, Veterans Affairs Minister Julian Fantino attempted to claim there was no reason to be concerned, that it was simply money that was somewhat late in being spent. The governmental equivalent of "the cheque's in the mail," one supposes.

Oliver and his boss can fiddle the numbers in the 2015 budget without anyone being able to scream blue murder. But if the price of oil stays in the ditch, and the Canadian economy slides back into recession over this coming winter, either he or his successor will face a much more painful number crunching challenge a year from now.

Allan Blakeney, one of the greats among Canadian premiers, had a rule of thumb that he suggested every smart government should follow. Blakeney had been raised in the rigorous school of fiscal management that was and is the Saskatchewan Department of Finance.

This was the small group of men and women created in the near-bankruptcy inherited by Tommy Douglas when he took office during the Second World War, following a depression-era that left the province's finances in dire straits. They had to struggle hard to clean up the mess and never forgot the painful lessons. They were passed to legendary mandarins Tommy Shoyama, Al Johnson, Wayne Wouters and many other Saskatchewan exports to the federal civil service.

Blakeney used to say that every incoming government, in its first budget, had to do serious financial housekeeping, cutting expenditures and trimming revenue claims to reflect reality. Why? Because, as he would drolly observe to young staffers, every government's final pre-election budget is full of nonsense.

Oliver's speech laying out his budget claims will be this government's last, as well. Blakeney will be watching from above, no doubt listening to the tall tales with his dry chuckle. P

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