

Conservatives Can't Claim Triumph Yet

Christopher Ragan

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Despite a clear shift toward “conservative” economic policy over the past 25 years, I suggested in last week’s column that it is too soon for conservatives to claim a real triumph. Why? At least four important policy areas deserve conservative-minded reforms before any such triumph can be claimed.

Throughout the disappointing Doha round of WTO trade talks, Canadian governments have come to the negotiating table with a hypocritical position. Canada has sensibly argued the need for reducing large agricultural subsidies in the United States and Europe. Simultaneously, Canada has fought to protect its “supply management” systems which coddle dairy, poultry and egg producers. This bizarre negotiating position has damaged Canada’s negotiating credibility and contributed to our marginal position at the WTO trade talks.

A consistent conservative position would recognize that it is time for Canada to sacrifice its systems of supply management for the greater good—not just within Canada but also around the world. Canada could play a central role in the WTO trade talks as an “honest broker”, working hard to resolve the impasses. Yet a precondition for being an effective broker is credibility, and no country can expect to be taken seriously when arguing against subsidies and tariffs for some products while arguing in favour of quotas and tariffs for others.

Now turn to tax reforms. Canada still has a dizzying array of tax credits and income supports, an unfortunate consequence of which is that various policies work at cross purposes. Particularly damaging are the “welfare traps” in which low-income individuals have no incentive to increase their earned income because of the transfers they would subsequently lose. Effective marginal tax rates are well in excess of 100 percent for a surprisingly large number of low- and middle-income earners. A conservative-minded reform would begin by emphasizing the need to alter the tax-and-transfer system so that individuals face appropriate incentives to work and save.

Despite their attraction to free markets, conservatives need to recognize the many situations in which markets genuinely fail. Environmental degradation is the clearest case of market failure, where the fundamental problem is that the polluting parties do not bear the full costs of their actions. Global climate change is probably our biggest environmental challenge, and it is no surprise that Canadian policies in this area over the past dozen years have been so ineffective, based as they were on encouraging *voluntary* actions by firms and consumers.

A more conservative and sensible approach would ensure that polluters face high enough costs for their actions that they are led to change their behaviour. It now appears that Canadians will have an interesting debate between a Liberal carbon tax and a cap-and-trade system as proposed by both the Conservatives and the NDP. Both approaches would create direct costs for polluters and are well within the domain of conservative economic policy.

The fourth area requiring conservative-minded reform is “corporate welfare”, the plethora of government subsidies, grants, and loan guarantees that Canadian governments continue to

shower on Canadian firms. Recent estimates place these gifts at roughly \$20 billion per year, one-third of which comes from the feds. Yet there is no evidence of economic benefits for Canada. Politicians will naturally claim that hundreds of jobs are created when money is given to Canadian firms, but such claims reveal a deep ignorance of how labour markets actually work. The lucky firms will likely expand their operations and hire more workers, but most of these new workers will come from a previous job at some other firm. What appears as job creation to the politician is thus little more than a redistribution of existing jobs.

A conservative reform here would recognize the large opportunity costs associated with the billions of dollars dished out. Whether the alternatives are tax reductions, debt repayment, or more and better spending on education, health, defence, or public infrastructure, Canadians would surely benefit from an elimination of this misplaced government generosity.

Any government committing itself to making genuine progress in these four areas will face real challenges. Success requires policies to be designed with technical competence and creativity. It also requires the government to implement complex policies involving tradeoffs between various groups. An essential element is communication: the government must be able and willing to explain the fundamental problem that needs to be solved and how a new policy would be desirable for Canada and Canadians.

Good economics *can be* the basis of good politics—if only the effort is made to explain more of the complex issues to the voting public. This truth was well understood by the Conservatives during the 1988 electoral fight over free trade and also by the Liberals in the mid 1990s when fighting the budget deficit. In recent years, however, Canadian governments on both sides of the aisle have often chosen political expediency over economic probity.

A genuine triumph of conservative economics will require hard work and clear, honest communication. It is both possible and well worth the effort. Will any Canadian government rise to the challenge?

Christopher Ragan is an Associate Professor of economics at McGill University. This is a much-condensed version of a paper by the same title soon to be published in *Policy Options*. Christopher.ragan@mcgill.ca.