Have Conservative Economics Won Out?

Christopher Ragan
Montreal Gazette, August 21, 2008

Listening to today's political discussions about economic policy choices, one might claim that Canada has seen a triumph of "conservative" economics over the past 25 years. Is this true?

Small-c conservative economics is supported by five pillars. First, there is a general appreciation for free markets and a scepticism regarding both regulation and government ownership. Second, economic conservatives recognize the benefits of liberalizing international trade. A concern for large government budget deficits and debt is the third pillar, including a concern for the disincentives caused by high tax rates. Fourth, economic conservatives advocate monetary policy directed toward low and stable inflation. The final pillar is the approach to social-policy issues, based on an appreciation for the functioning of markets and individual incentives.

What have we seen over the past 25 years of economic policy in Canada?

A wave of privatization and deregulation was initiated by the Mulroney Conservatives in the mid 1980s, and the Chrétien Liberals maintained the momentum after coming to office. Canadian National, Air Canada, and PetroCanada were the notable sell-offs, and the prominent deregulation occurred in the railway, airline, and gas and oil sectors. After a few slow years, some momentum has returned under the Harper Conservatives, with the CRTC having recently outlined the conditions under which it will fully deregulate local telephone markets.

The passage of the Canada-U.S. Free Trade Agreement in 1989 and its expansion to NAFTA firmly established the second pillar. The FTA was negotiated and implemented by the Mulroney Conservatives, as was the design of the NAFTA. The Liberals, under both Turner and Chrétien, argued against both agreements, but after their rise to power they ensured that the NAFTA came into effect. No political party today denies the importance of these agreements to the Canadian economy, and none speaks seriously of undoing them.

As regards fiscal discipline, Canada has become a poster boy for sound policy. The initial moves against the federal budget deficit began under the Mulroney Conservatives, and though they made real headway in slowing program spending, the overall deficit barely budged because of a rise in interest rates and a reduction in economic growth. Under the Chrétien-Martin Liberals, however, continued fiscal tightness was accompanied by an economic turn-around with lower interest rates and faster growth, and the result was a dramatic reduction in the deficit. As a result, the federal debt-to-GDP ratio declined sharply, from just under 70 percent in 1997 to 32 percent today; the current Conservative government is well on track to achieving its 25-percent target by 2012.

The move to fiscal discipline was also accompanied, especially with the Mulroney Conservatives, by efforts at tax reform—streamlining of the personal income-tax system, better integration of the personal and corporate systems, and the introduction of the GST. As efficient a tax as the GST is, with few economists denying its merits, it quickly became the most-hated tax

in Canada. The Chrétien Liberals promised to do away with it during the 1993 election campaign, though realized once in office that this was neither easy nor desirable. They have since become staunch defenders of the GST; curiously, it is the Harper government that has chosen to oppose conservative economic thought by reducing the GST by two percentage points.

Canada has also become a leader in monetary discipline, the fourth pillar of conservative economics. A formal target for inflation, first adopted in 1991 under the Mulroney Conservatives, has been firmly in place ever since. One result has been lower and more stable inflation than was the case in the previous 20 years, as well as more stability in overall Canadian economic growth. The Bank of Canada's commitment to low inflation, even in the face of major international shocks, continues to receive strong support from all sides on Parliament Hill.

The final pillar of conservative economics is the design of social policy with a greater appreciation for the functioning of markets and individual incentives. This is undoubtedly the domain where conservative policies have made the fewest inroads. For example, some reforms have been introduced to both the employment-insurance system and the overall tax-and-transfer system, yet highly distortionary elements remain. At the provincial level, only a few provinces have introduced any real elements of school choice; and in the realm of public health care the provinces continue to muddle through with only marginal changes to their respective systems.

Many of the successful conservative economic policies from the past 25 years were initially implemented by the federal (Progressive) Conservatives, but the Liberals played more than merely supporting roles. Even more important is how the political acceptability of these policies has changed: despite the fact that each of these major policy initiatives was immensely controversial at the time, today they all receive broad-based political support.

Looking back, one can easily claim—whatever one’s own political leanings—that the past 25 years in Canada has witnessed a significant rise in the influence of conservative economics. Yet it is too soon for conservatives to claim a “triumph”. In next week’s column, I’ll explain why.

*****

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.