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Jeffrey Simpson: Beware the deficit fix. It's easy to get hooked

By Jeffrey Simpson

It is dangerous for politicians to say that we have likely entered another extended period of low growth

Deficits make sense when economies are weak. The questions surrounding deficits are about their size, what they are used for, and how long they should, or will, last.

It is easy to slide into deficits, even deep deficits. It is much harder to climb out. The Justin Trudeau Liberals will discover this. Their budgets will blow past all their campaign's deficit projections.

They can't bring themselves to say it openly, but, four years from now, the federal government will still have a large deficit mocking the Liberals' campaign promise to balance the books in four years.

The only questions in four years – and the response to them today must perforce remain unknown – are by how much the Liberals will have blown past their initial deficit targets, and for how long the budget will be in deficit. This iteration of the Liberal Party is devoted much more to spending, and spending heavily, than restraint.

The ease of entry into deficits and the difficulties of extrication can be illustrated by the 1970s, with Trudeau *père* in office. The 1970s had high inflation, whereas inflation today is very low. Oil prices were skyrocketing then, whereas today they have fallen. China was then an economic basket case. So was the Soviet Union. The world economy, in other words, looked very different. So the comparisons between now and the 1970s have to be tentative, except in one respect.

Growth was stubbornly slow in the 1970s. That slow growth eroded government revenue and automatically increased spending. Pierre Trudeau's government, trying to stoke the engines of growth, poured money into the economy through social and regional development programs and physical infrastructure. The efforts didn't work. The best that could be said was that policies prevented things from getting worse. With the yearly deficit already

high, a fierce economic downturn in the early 1980s raised it to around \$36-billion, where the deficit remained for the better part of a decade.

Those years of deficits pushed up national indebtedness both in absolute dollars and as a share of the national economy. Once the deficit train had left the station around 1973, it kept on rolling for more than two decades.

It is dangerous for politicians to say that we have likely entered another extended period of low growth, or at least lower growth than we experienced in previous decades. Politics, at least as now being practised, is about "sunny ways" and hope, not sobering forecasts.

The reasons for slow growth are multiple. An aging population drives up public costs for health care and old age security, while reducing the growth of government revenue with a smaller share of the population in the work force.

It is a fallacy, although a comforting one, that stiffer environmental policies will not cost money. Coal and oil are baddies for the environment; they are also the least costly energy sources.

Replacing them with something else will likely cost money, as will carbon pricing, unless, as in British Columbia, governments recycle the money back to taxpayers. This recycling is something neither the federal Liberals nor their provincial cousins in Ontario nor the NDP in Alberta is ideologically inclined to do. Give these governments money, and they will spend it, usually on the causes of rent-seeking interest groups.

The world economy is very unstable, what with Europe stuck in a prolonged slump, Russia and China run by authoritarian governments barnacled to oligarchs, the Arab world engulfed in political chaos and/or economic lethargy, Japan aging fast, and the United States ensnared by its ramshackle political institutions made dysfunctional by severe ideological cleavages and grotesque sums of money to influence decisions.

Recent waves of immigrants to Canada have been less successful in reaching average national incomes. (Hot money from overseas buying real estate in Vancouver and Toronto does nothing for long-term prosperity.) More numbers of recent immigrants are landing in poverty, and remaining there.

Productivity remains slow, with private-sector research and development low by international standards. Public sector unions and rules stifle flexibility and initiative in these vast spheres. And the country has almost completely lost the capacity to make timely decisions on resource projects, snarling them in court decisions, aboriginal claims, environmental objections and a disregard for scientific and regulatory expertise.

Under these circumstances that lead to slow growth, it will be easy to justify running deficits, even large ones. Breaking the habit, however, will be very hard indeed.

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