

# STICKER SHOCK: THE RISING PRICE OF GOVERNMENT IN CANADA

BY WILLIAM B.P. ROBSON

The Will Rogers line, "It's a good thing we don't get all the government we pay for," is still usually good for a laugh. In the wake of the spring budget round, however, the laughter may be somewhat forced. Mounting debt is driving a growing wedge of interest payments between the taxes Canadians pay and the goods, services, and transfers they receive from governments in return. During the second half of the 1990s, Canadians are going to see a sharp increase in the apparent cost in taxes of every dollar of government program spending. The old line will be truer than ever — but it will be nothing to laugh about.

The apparent cost of one dollar of programs from Canadian governments has varied widely over the last 30 years. In the late 1960s, budgets were generally balanced and interest costs were low. A dollar in taxes bought about a dollar in programs. Then, in the 1970s and early 1980s, Canadians enjoyed government on the cheap. Thanks mainly to budgets in Ottawa, the share of program spending financed by borrowing rose, while the share financed by taxes fell to around 90 cents during the late 1970s, and as low as 85 cents in 1983.

But borrowing brings mounting interest costs in its wake. Despite continued deficits, interest pushed the tax cost of one dollar in programs back to one dollar in the late 1980s. A second explosion of federal and provincial borrowing drove it temporarily back to a bargain-basement 90

cents in 1992. But with more debt came more interest and, with budgets moving back toward balance, the tax cost of one dollar in programs is now again above one dollar. By 1997, it will likely pass \$1.10, and by the end of the decade, it will be above \$1.20. A one-third hike in eight years will give Canadians public-sector "sticker shock."

## EXORBITANT FEDS

The federal shock will be the worst. The price tag on Ottawa's programs has usually

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seemed high to most Canadians: for every dollar of direct federal spending over the past three decades, taxpayers have sent about 28 extra cents to Ottawa to cover federal transfers to the provinces. In the 1970s, federal finance ministers started leveraging that price down by borrowing rather than taxing. By the early 1980s, deficits covered not only Ottawa's growing interest payments, but also its transfers to the provinces, pushing the tax cost of one dollar in federal direct programs down from \$1.30 to \$1.00.

Since then, however, mounting interest has forced the price of Ottawa's programs

up again — back up to \$1.30 in the late 1980s and, after a brief deficit-financed dip below \$1.20 in 1993, to \$1.40 this fiscal year. The spring federal budget will likely show that, by 1997-98, Canadians will be sending Ottawa \$1.60 for every dollar in direct federal program spending.

A wildly fluctuating price makes it hard to judge how much government people really want. Worse, pronounced regional differences in federal taxing and spending made the cost of a federal program dollar much higher in some provinces than in others.

In Albertan eyes, Ottawa costs a fortune. Albertans sent \$3.00 or more in taxes to Ottawa for every dollar of federal direct programs they received during the 1973-74 and 1979-81 oil and gas booms, and the figure has been within 10 cents of \$1.80 over the past decade. British Columbians have paid a premium of 50 cents or more per dollar of federal direct programs since the late 1980s. And the cost of a federal program dollar to Ontarians rose dramatically in the 1980s, from \$1.40 in 1982-83 to an Alberta-like \$2.15 at the end of the decade.

At the other end of the scale, Ottawa's programs were available on a two-for-one basis — 50 cents on the dollar — in the Atlantic provinces during the 1970s and early 1980s. Nowadays, they cost around 70 cents. As the cost of federal programs in the region continues to rise, the appetite of Atlantic Canadians for them may become more like that of their counterparts in Alberta and British Columbia.

## NOT-SO-CHEAP PROVINCES

What of the provincial governments? They look less expensive than Ottawa to start with; their interest payments are generally smaller, and

transfers to local governments are pretty well offset, as far as taxes per dollar of direct provincial programs is concerned, by federal-provincial transfers. Exactly what happens in each province over the next few years depends on how the new Canada Health and Social Transfer (CHST) gets distributed, but the provincial sticker shock will be generally less severe.

In Saskatchewan, Alberta, and British Columbia, for example, government on the cheap, financed by borrowing, is largely over with. A dollar of provincial government programs will cost roughly a dollar (a little less in Saskatchewan, thanks to more generous federal transfers) through the rest of the decade. In Quebec, Ontario, and Manitoba, the undoing of past fiscal excesses is incomplete and taxes per program dollar will continue to rise — least in Quebec, if political pressure keeps federal transfers up; and most in Ontario, where the price tag may reach \$1.25 in 1997 (up 40 percent from a deficit-subsidized 90 cents five years before).

Even in the Atlantic provinces, where heavy federal-provincial transfers kept the apparent tax cost of one dollar of provincial programs at around 55 cents a decade ago, changes are under way. federal transfers — whatever the rejigging under the CHST — are in decline, while interest wedges are growing. As a result, by the end of the 1990s, the price of a provincial program dollar will be higher than at any time since the 1960s — above 60 cents in Newfoundland, around 70 cents in New Brunswick and Prince Edward Island, and above 80 cents in Nova Scotia.

Although irritating to Atlantic Canadians, the conver-

gence of the apparent tax cost of programs around the country as Ottawa reduces inter-regional transfers has a positive side. There is nothing wrong if Canadians in various regions differ in their appetites for government programs, as long as those differing tastes are not driven by transfer-distorted price tags. More comparable government program prices across the country may make future national debates about public finances more reasonable.

### GETTING LESS THAN WE PAY FOR

The other striking trend over the next few years, however, will be a dramatic switch from bargain-basement to premium-priced government programs in Canada. Canadians suffering from government program sticker shock will be irritable and increasingly ill-disposed toward all public sector services.

It may be a good thing not to get all the government we pay for — but this may be too much of a good thing. ♦

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## THE EXERCISE OF PUBLIC POWER UNDER THE SAVINGS AND RESTRUCTURING ACT, 1995 (BILL 26)

BY LORRAINE E. WEINRIB

In proposing to concentrate vast, largely unreviewable powers in ministers of the Crown, Bill 26 raises important questions as to the exercise of public power in late 20th-century liberal democracy.

In our system of government, legislatures notionally make the law, which the executive then carries out. The complexity and range of modern governance requires, however, that legislatures delegate extensive power to ministers of the Crown, administrative tribunals, and other specialist or local bodies. These delegates create sublegislative rules and exercise discretion to apply legislation and sublegislative rules to particular circumstances. In so doing, they are constrained by specific legislative directive and by legislative reliance on judicial oversight to assure legality as well as to promote fair and informed decisions. These constraints constitute the legitimation of modern governance.

Democratic legitimation is essential because ours is a system of self-government, built on the idea of equality of all members of society, and not simply on the provision of equal voting power at election time. Elected governments must represent all the people, not just their supporters. Indeed, it is the legislative process, in its full complexity, that transforms a victorious political party into a government. In Bill 26, however, we see a nar-

rower idea of both the constituency and the democratic process. It vests power in the executive, with minimal or vague directives from the legislature, and provides a reduced role for administrative officers or bodies that operate

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*We must ask: Does the Harris government believe that we can no longer afford a fully developed democratic process?*

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in a quasi-independent fashion, and even ministerial authority to act free from legislative prescription and to override court decisions.

### SELF-GOVERNMENT AT RISK

Bill 26 places in jeopardy the legitimacy of our democratic system of self-government, the link between good process and good substance in law-making and its application, and our opportunity, as citizens, to observe and participate in our governance. It precludes the necessity of prior public explanation, justification, or debate of new policy and, thus, forecloses the additions, modifications, exceptions, qualifications, or transition measures that such a process induces. It eliminates the requirement of formal committee proceedings that provide the input of members of

the public, including experts, those particularly affected by the local impact of decisions, as well as those who can inform us how to consider questions of age, gender, social class, race, colour, religion, disability, and poverty. Such participation, whether it changes policy or merely registers concerns, makes change more widely acceptable. Bill 26 assures consideration by only one political party — indeed, only its elite. Such closed-door executive policy determination will mean less depth in media and academic commentary, the analysis by which we come to understand complex public issues, their interaction with other measures, and their long-term significance.

When cabinet ministers, rather than quasi-independent local or expert bodies, apply rules to particular instances, there are additional losses of specialized expertise, accumulated expertise, research, and wide consultation. We also lose institutional memory — long-term familiarity with the substantive and administrative history of a particular policy, knowledge of the workings of government, and finely honed intuitions as to the imperfect fit between purpose and effect. We lose the dignifying benefits of wider participation by members of the public, particularly those who use, rely on, and benefit by programs in jeopardy, and who have no access to cabinet ministers or their political entourage.

At risk is a deep understanding of the long-term value of public policy choices beyond what we can count and measure as immediate expenditure — an understanding that includes concerns about things such as personal well-being, quality of social life, the

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