



Practical and Authoritative Analysis of Key National Issues

**SPECIAL BUDGET REPORT**

**THE FIRST MARTIN BUDGET**

by Fred Lazar

**BUDGET GOALS**

On February 22, Paul Martin tabled his first budget. The budget speech sounded more like a throne speech since it outlined many important areas (social, economic, environmental) that were being studied, and for which major reforms, with significant budgetary implications, would be introduced during the next 18 to

24 months. Although the overview in the budget plan stated that "[t]his budget represents the first phase of a two-stage process which will culminate in the 1995 budget," this budget more likely represents the easy first stage of at least a three-year process. The budget, however, did appear to

*Continued, see "The First Martin Budget" on page 86.*

**SOCIAL PROGRAMS**

by Janine Brodie

Paul Martin may have worn workboots instead of Bay Street brogues to deliver his first budget but his footwear did not change the message that has become all too familiar to Canadians. The new Liberal government, like its Conservative predecessor, announced that it was going to put even more stress on Canada's fraying social safety net. In fact, Martin told Parliament that, "for years, governments have been promising more than they can deliver, and delivering more than they can afford. That has to end. We are ending it."

With that, Martin embraced what critics are now calling "the politics

of stealth." This politics, which was perfected by the Mulroney Conservatives, enables governments to enact major changes in social policy incrementally and silently through complex changes to regulations and a succession of budget cuts. Both unemployment insurance and federal transfers to the provinces fell under Martin's knife. At the same time, he gave Canadians notice that "the days of government simply nibbling at the edges" of the social security system are over. Within two years, the federal government intends to completely overhaul Cana-

*Continued, see "Social Programs" on page 88.*

VOLUME 2, NUMBER 6  
MARCH 1994

**SPECIAL BUDGET REPORT**

The First Martin Budget  
by Fred Lazar ..... 85

Social Programs  
by Janine Brodie ..... 85

The Defence Cuts  
by Keith Krause ..... 89

Martin Budget Puts off Tough Choices to Next Year  
by Patrick J. Monahan ..... 90

No Room To Manoeuvre  
by Kenneth McRoberts ..... 91

**REGULAR FEATURES**

*Western Report*  
by Roger Gibbins ..... 93

*Quebec Report*  
by Alain Noël ..... 94

*Legal Report*  
by Jamie Cameron and Bruce Ryder ..... 95

*CW Update*  
The Month in Review ..... 99

Parliamentary Update ..... 100

Supreme Court Watch ..... 100

*Canada Watch* is a publication of the York University Centre for Public Law and Public Policy and the Robarts Centre for Canadian Studies of York University.

**"The First Martin Budget,"  
continued from page 85.**

set out the financial constraints for the various reforms. But an expenditure projection for fiscal years beyond 1994-95 is not a fixed commitment, and history suggests that revisions are more than likely.

This budget had three objectives: enhance growth and job creation, improve the efficiency of government services, and secure the interim target of a 3 percent deficit-to-GDP ratio by 1996-97. Although it is difficult to assess whether the measures announced in this budget would, indeed, improve the performance of government, it is not difficult to determine that this budget will accomplish little on the job creation front or in significant deficit reduction. But these last two goals are incompatible with one another in the short run.

Strong attacks on the deficit would destroy jobs. Sharply accelerating the rate of job creation would push the deficit to record highs. Nevertheless, in the light of the Liberal's commitment to lowering the deficit-to-GDP ratio to 3 percent within three years, the finance minister should be commended for selecting the deficit reduction path of gradualism this year. This will provide the government with some breathing space to reconsider its deficit target and for the public, in particular the financial markets, to re-evaluate for a steep deficit reduction path.

#### **JOB CREATION**

The following measures were introduced in the budget to sustain economic growth and create jobs: funding for the initiatives in *Creating Opportunity*, funding for innovative approaches for social security and adjustment assistance programs, funding for the space sector, and freezing UI premiums at 1993

levels. As noted in the budget, "\$1.7 billion is being provided in 1994-95 and \$7.5 billion over three years."

Even assuming that each dollar devoted to these initiatives does lead directly to job creation, and taking into account that for every dollar the federal government will spend in infrastructure the province and municipalities will spend an additional two, in a \$700 billion economy, the amounts are trivial. Moreover, deficit reduction measures adopted by the provinces will overwhelm any possible job creation impacts of these federal measures. But the federal government could have made matters worse by not even pursuing these programs.

A more careful look at the initiatives suggest that the dollar amounts that will have a direct effect on jobs are much smaller than the figures cited in the budget. For example, the budget just reverses the December 1993 decision to increase UI premiums. The net effect will be to keep premiums at their levels when the Liberals came to power and so, at best, the impact on jobs is neutral. The *Creating Opportunity* initiatives contain several measures that have great social value but little, if any, job creation potential. At this time, it is unclear what exactly the new approaches to social security and adjustment will look like, whether they will be in place before the end of the fiscal year, and whether they will have any job creation effect. As for the funding on the space plan, only \$14 million will be spent during the 1994-95 fiscal year.

#### **GRADUALISM IN DEFICIT REDUCTION**

The budget describes why the deficit projections made in the April 1993 budget will prove to be dramatically off the mark. The principal factor appears to be the gross overestimation of revenues. The revised deficit forecasts for 1994-95

and 1995-96 have been increased from \$29 and \$21 billion to \$41.2 and \$40.6 billion, respectively. But the new forecast for 1995-96 seems to contain a "fudge" factor of \$2.8 billion for failure to pass legislation to cap growth in the Canada Assistance Plan transfers to non-equalization-receiving provinces. If one removes this particular adjustment, the revised deficit forecast for 1995-96 stands at \$37.8 billion.

The various measures announced in the budget for 1994-95, and promised for 1995-96, are expected to generate budget deficits of \$39.7 and \$32.7 billion respectively. When these figures are compared with projected deficits without any of the proposed expenditures and revenue changes, we notice very little improvement. This budget reduces the deficit for this fiscal year by \$1.5 billion and is expected to reduce the deficit for the next fiscal year by \$5.1 billion. There is no assurance at this time that the 1995-96 target will be achieved. But as suggested above, the finance minister should be lauded for choosing not to be more aggressive in slashing the deficit.

#### **EXPENDITURES STRATEGY**

The budget essentially proposed to freeze total program spending in 1994-95 and 1995-96 at last year's level (approximately \$122.5 billion in 1992-93). These expenditure limits would represent real declines in spending and even larger declines in real spending per capita, so the government has opted for serious spending restraint.

There are three major areas for which expenditures are projected to actually decline in nominal value: UI benefits (from \$19.1 billion in 1992-93 to \$17.3 billion in 1995-96), defence (\$11.2 billion in 1992-93 to \$10.5 billion in 1995-96), and government operations (\$20.1 billion in 1992-93 to \$19.6 billion in 1995-96). The largest expected

spending cuts are to occur in UI payments. Although the reforms proposed in the budget for the UI program are reasonable (reductions in maximum duration of benefits, increases in minimum entrance requirements, restructuring of benefit rates), we must question the wisdom of the magnitudes of the cuts, given the present and projected high unemployment rates, and why these changes have been announced while the government has initiated a review of the overall UI program.

The aggregate budgetary expenditure figures mask a potentially serious problem for the federal and provincial governments. The budget projects a modest increase in federal transfers to the provinces for EPF post-secondary education and the Canada Assistance Plan in 1994-95 and 1995-96. However, table 9 of the budget shows that the total expenditure for these two transfer programs is expected to be scaled back by about \$500 million to the 1993-94 level of spending in 1996-97. The federal government appears to be telling the provinces that the negotiations on transfers are subject to definite spending constraints and that cost savings must eventually be found. This sounds very much like the Ontario government's social contract approach to negotiations. Everything is negotiable as long as total spending is lowered.

## REVENUE STRATEGY

The finance minister announced a number of tax reforms that will broaden the tax base and supposedly will make the tax system fairer. In 1994-95, these changes are expected to increase revenues by \$575 million. But even if the projected increases in revenues, resulting from these tax changes, are removed from the revenue estimates for this and the following fiscal years, the government appears to be relying on a substantial increase in revenues, increases exceeding the growth of nominal GDP.

The anticipated increases in UI contributions and the GST for both these years, and for personal income tax revenues in 1995-96, are problematic. They are out of line with the growth of the economy, and in the case of the UI premiums appear to be inconsistent with the measures to freeze premium rates. It will be interesting to compare the actual figures in 1995-96 with these projections to see whether the Finance Department has once again been too optimistic in projecting revenues.

Furthermore, the UI figures for both contributions and payments seem odd. In theory, the UI system is supposed to be fully self-financing. However, contributions are estimated to exceed payments by \$1

billion in 1994-95 and \$3 billion the following year. Nowhere in the budget is there any explanation of why the UI program will be allowed to generate surpluses and why premium rates will not be lowered to keep contributions in line with the lower payments.

## WRAPPING UP

As in all budgets, there are elements of wishful thinking and creative accounting (especially with regard to the potential savings in future years), loose ends, and the roots for future problems. It is difficult to judge at this time whether this budget is better or worse than its predecessors in these areas. But this budget should be viewed as an interim financial document and outline of government programs and strategies. The real challenges lie ahead and next year Paul Martin may have a more difficult time in walking the fine line between job creation and deficit reduction. Perhaps, the best is yet to come for the finance minister, or maybe, next year's budget will be his last.

*Fred Lazar is an Associate Professor of Economics, Faculty of Administrative Studies and Faculty of Arts, York University.*



### Canada Watch

Practical and Authoritative  
Analysis of Key National Issues

Volume 2, Number 6  
March 1994

Publisher  
D. Paul Emond

Editors-in-Chief  
Jamie Cameron, York Univ.  
Kenneth McRoberts, York Univ.

Senior Editor  
Michael Rutherford, B.A.

National Affairs Editor  
Patrick J. Monahan, York Univ.

Quebec Editor  
Alain Noël, Université de  
Montréal

Western Editor  
Roger Gibbins,  
University of Calgary

Economic Editor  
Fred Lazar, York University

Legal Editor  
Bruce Ryder, York University

Editorial Assistants  
Denise Boissoneau  
Krystyna Tarkowski

Production  
WordsWorth Communications  
ISSN 1191-7733

*Canada Watch* is produced jointly  
by the York University Centre for  
Public Law and Public Policy and  
the Robarts Centre for Canadian  
Studies of York University and  
published by:

Emond Montgomery  
Publications Limited  
58 Shaftesbury Avenue  
Toronto, Ontario M4T 1A3  
Phone (416) 975-3925  
Fax (416) 975-3924.

Subscription Information  
*Canada Watch* is published eight  
times per year. Institutional  
subscriptions cost \$165.00 plus  
GST and include an annual  
cumulative index. Individual  
subscriptions are entitled to a 40%  
discount. Please contact Terry  
Hamilton at Emond Montgomery  
Publications for more information  
or a subscription.

© Copyright 1994 Emond  
Montgomery Publications Limited

Printed in Canada