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Building A Public Consensus For Action – Canada's Fiscal Turnaround in the 1990's

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The success that Canada's government had in eliminating the deficit in the mid 1990s was remarkable in many ways.

Previously, the last overall budget surplus was recorded in 1974. Revenues from a structurally weaker economy failed to match expenditures for the past 20 years, despite rising tax rates. Total government debt - the accumulation of each year's deficit on a National Accounts basis - had consequently increased from 18 per cent of GDP in 1974 to 70 percent in 1993. By 1994, interest payments on the federal portion of public debt accounted for roughly 35 per cent of federal revenue, up from 11 per cent in 1974, when the era of chronic deficits began. By 1994, the compounding effect of debt service cost was now the sole factor driving up the ratio of federal government debt to GDP.

This chapter reviews Canadian finance minister Paul Martin's communications strategy for the deficit elimination policy of the Liberal government, led by Prime Minister Jean Chrétien. The communications strategy chosen helped the government accomplish its deficit reduction policy and its political goals at the same time. Balancing the budget rebuilt trust in the competence of government by dealing with a problem that Canadians had come to believe was intractable and could not be solved by government. It helped usher in a long period of growth and prosperity.

By 2001, the Department of Finance was able to say "The Canadian economy enjoyed strong economic performance over the past four years: gross domestic product (GDP) growth averaged 4¼ per cent, over 1.5 million jobs were created, the unemployment rate fell significantly to 6.8 per cent in 2000, productivity growth improved, and real per capita personal disposable income rose 2.9 per cent last year."

In summary, what is clear is that all of the available facts and figures show that, albeit at a slower pace than last year, the longest Canadian economic expansion since the 1960s – some 22 quarters of growth – is continuing.

It attracted voter support for spending cuts that would previously have been considered political suicide, and it redefined the Liberal Party, bringing it a managerial credibility it had not enjoyed since the 1950s.

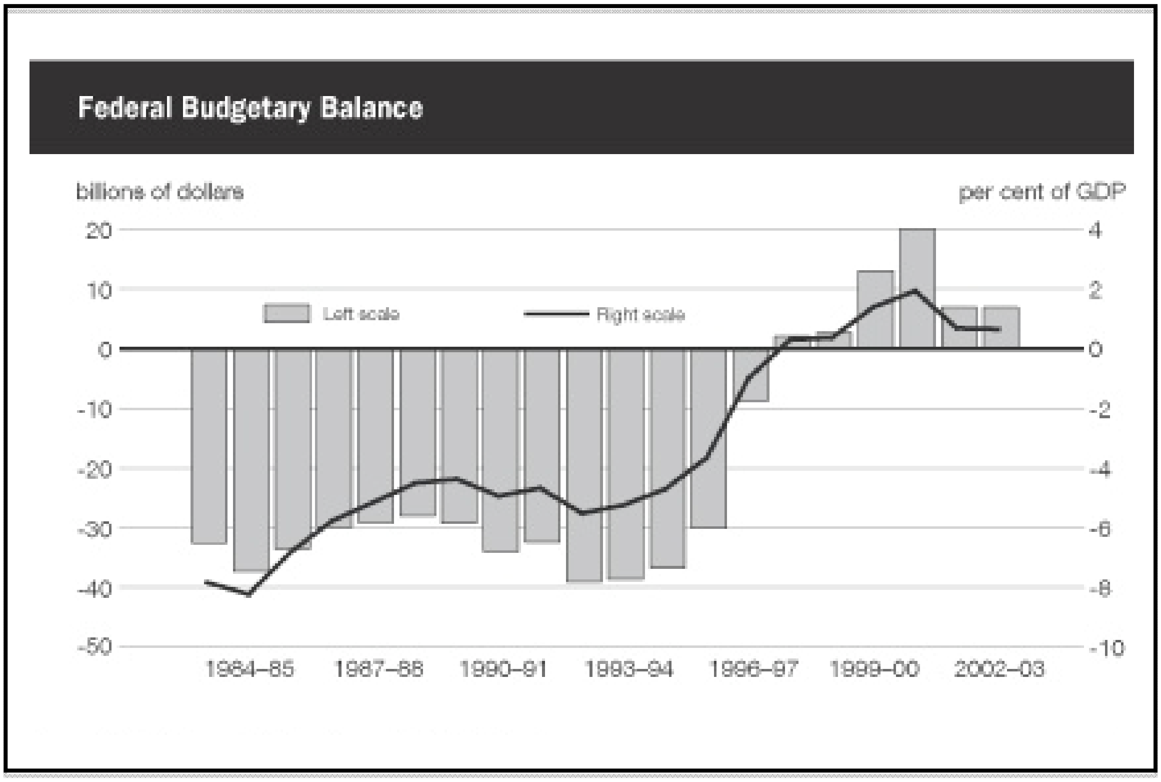
And like all success stories, it has a thousand authors. There are, however, particular policies that were essential to its success, some inherited by the Liberal government that took office in 1993; and some actions of that government. The analysis of this paper is centred on two Canadian Budgets, delivered in 1995 and 1996, as well as the years of required planning prior to them. The 1995 Budget was the second delivered by that Liberal government. The first had been produced just months after the government had assumed office and was really a placeholder for what was to come.

But first, some background.

Historical Background

Canadian monetary policy in the 1980s and early 90s was focused on managing inflation. As the Bank of Canada Report on monetary policy by Virginie Tracelet notes, however, the policy aimed at low inflation "lacked any explicit anchor or any specific path for this objective." So though the Bank was successful at keeping the Consumer Price Index (CPI) stable and preventing wage-price spirals – especially from the mid-80s onward – this inflation reduction came at a price.

As economists know, the flip side of price stability is the contractionary monetary policy required to maintain it, and as expected, high interest rates promoted savings and hampered investment and general spending; so as inflation remained low, so did growth.

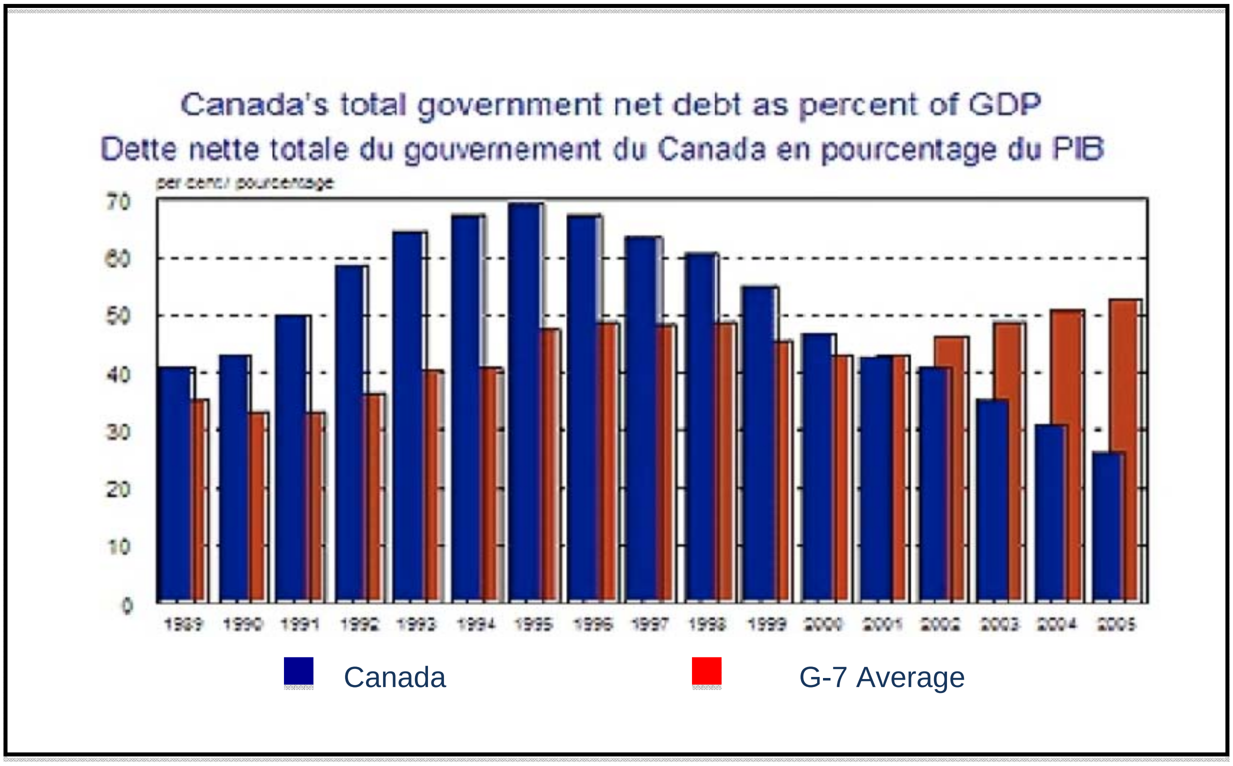


Unlike the current recession, the recession of 1990-91 hit Canada worse than other countries. There was a severe contraction of economic activity, followed by an extended period of very weak growth, including 1992. This recession took what was a substantial, but manageable, amount of government debt and turned it into a crippling fiscal crisis.

Two of the central villains in this unique Canadian economic weakness were high interest rates dampening economic growth and a fiscal situation that constrained the use of fiscal policy in response to the recession. As long as Canada was looking ever shakier to foreign debt holders, interest rates had to be high to attract the money. As long as interest rates were high, the growth in the debt could not be brought under control, nor could economic activity grow significantly.

High interest rates that had hampered growth also increased the cost of servicing the national debt, and with chronic, large deficit budgets through the late 80s and early 90s, these mutually reinforcing economic factors created a snowball effect, or what the Bank of Canada referred to as a "debt spiral."

Source: Canadian Department of Finance, Statistic Canada.



Though the federal government under Prime Minister Brian Mulroney made two significant policy changes to battle the recession's debt crisis – the 1991 Spending Control Act and imposition of the Goods and Service Tax (GST) – these pieces of legislation would not go far enough, nor would they be palatable to Canadian voters.

The Spending Control Act aimed to keep government spending in check, but with little or no specific plan for how or where to make reductions. The Canadian GST, a sales tax not quite as simple as New Zealand's but with far less exceptions or complications than most European versions of the Value-Added-Tax, was originally intended to be 9%. It was finally implemented, however, at 7% at the request of the House of Commons Standing Committee on Finance. Regardless, the public backlash was swift and strong. As government economic analysts Jean Soucy and Marion Wrobel wrote in the 2000 report *Federal Revenues: Changing Trends and the Quests for Tax Reform*, the GST was problematic politically and productively:

> Tax reform by the Progressive Conservative government of Prime Minister Brian Mulroney cannot be viewed independently of the desire to control and reduce the deficit, a problem which plagued that government since it first came to power in 1984. The abandonment of full indexation, the introduction of a variety of surtaxes and the increased sales and excise tax rates are all examples of this policy. Indeed, the GST was dubbed a new money machine by some commentators, and was viewed by the government as a necessary tool for deficit reduction. It proved to be neither.

By 1995, Canadian federal governments had produced twenty consecutive years of deficits, culminating in a deficit for the 1993/94 fiscal year that was the largest in the history of the country; this after nine years of government by Prime Minister Mulroney, leader of the right leaning and market oriented Progressive Conservative Party no less. The fiscal problem facing the country was becoming unsustainable. That year, Canada had a debt to GDP ratio of 75 per cent. The government deficit was 6 per cent of GDP. The cost of servicing the surging national debt was consuming a third of all tax revenues. Services were being cut, taxes were being raised and deficits kept climbing.

With that historically understanding as our launching point, this paper will explain how the successor Liberal government, who won a significant majority in the 1993 general election, chose to build a multi-level strategy – political, bureaucratic, and fiscal – to salvage the country’s books, and do so with widespread public support.

Source: Statistics Canada.

The remainder of this article will outline the political and public opinion dynamics following the 1993 election that allowed for the national debt reduction discussion, and then detail the subsequent preparation and implementation of the 1995 and 1996 budgets.

Detailed Context

Public Opinion

As it became clear that Canada was on shaky fiscal ground, public opinion started to converge with policymakers, economists and the media about the necessity of dealing with the deficit. People will demand and support action in a policy area when they see it as both highly important and urgent. Canadians had long been largely ambivalent about government deficit spending, and certainly preferred it to any of policy alternatives for a very long time. By the mid 1990s, though, Canadians had come to believe that the debt and deficit problems were linked to the recession and the high rates of unemployment in Canada. That did not, however, make deficit reduction – much less elimination – easy to do politically.

In Canada, the provincial governments were the first over the parapet, because they encountered the debt wall before the federal government did. Spending had grown fast in their areas of jurisdiction – social services, education, and health. In the early 90s social services were growing at a rate of as high as 17% in some regions.

Most of those governments suffered grave political damage from their attempts to rein in their deficits. Much of provincial spending declined in absolute terms from 1990 onward in areas such as culture and recreation, resource development, transportation, and communications; the public reaction was not positive. Though election outcomes are based a complexity of issues, economic tumult certainly played a role in provincial general elections results between 1990 and 1993 when the governments in British Columbia, Manitoba, Saskatchewan, Ontario, and Nova Scotia were all defeated.

At the federal level, public resistance to deficit reduction was being replaced with public cynicism that governments could get deficits under control. The previous government had been clear that deficit reduction was a policy objective. Governments federally and provincially declared victory prematurely several times, and became known for missing their deficit targets, sometimes by shocking amounts. One such provincial example was the 1990 Saskatchewan Conservative government deficit target of $226 million; the actual deficit was 73% higher. Federally the government failed several times, but most notably in its estimate to be presented in the 1992-93 budget. The deficit targets for 1992-93 through to 1996-97 were a full $53,600 million higher than what had been originally forecast in the 1992 budget.

Polling after the 1993 election that defeated the Progressive Conservatives found that Canadians expected the incoming Liberals to do a better job on reducing the deficit, even though the Liberals had promised a much less ambitious deficit effort during the election campaign than the Progressive Conservatives had. Most Canadians at this point, however, had little sense of the real choices that would have to be made in a successful fight against the deficit.

Political

The 1993 Canadian federal election yielded an unusual parliamentary configuration, which was conducive to political success in the fight against the deficit.

The political party that had formed the previous government was not merely defeated, it was destroyed. Its support splintered into two regional parties. One was a right wing populist movement called the Reform Party, which made restoring responsibility to Canada's fiscal policy a core founding principle. The Liberals would find no resistance to their spending cuts from that side of the house. The second splinter party was the Quebec separatists, the Bloc Quebecois. The party did not consist of deficit hawks but it wanted the federal government to retreat from spending in Quebec as much as possible. Members of the Bloc Quebecois were therefore supportive of policies that shrunk the federal government's role or devolved it to provincial governments.

Importantly, the left was in disarray and unusually weak. Canada's parliament usually has a significant faction of social democrats – the New Democratic Party – that never achieves power but which serves to pull political discourse to the left. After the recession of the 1990s, however, the left was perceived to be too profligate for the economic challenges of the time.

Coming out of the 1993 election, the ground was laid for a success. Economists, business leaders, most policy analysts and media commentators agreed that the deficit was the primary policy challenge for the country, and the public was coming round to the view that reducing or eliminating the deficit was necessary for improvements in their job security and quality of life. The challenge was not to convince them it was necessary, but to convince them there was a credible plan to deal with it.

Had the government been Conservative and the opposition Liberal, the Liberals would likely have attacked deficit reduction from the left and amplified the political voices of those whose oxen would be gored by spending cuts. Instead, a Liberal government was introducing the cuts and being pushed to go further by its primary opposition. Parliamentary opposition to spending cuts was marginal.

Building Consensus to Move

The strongest bloc of opposition to a serious deficit reduction plan was actually found in the Government caucus. The first task was to build consensus in the cabinet to move. In a conservative party that may be less difficult, but Liberals are progressives, committed to high quality public services. Paul Martin and the Department of Finance team knew that it was not enough for the cabinet to agree that deficit reduction was a priority. In that case it would be traded off against other ‘priorities’ and lose the contest. The cabinet had to agree that deficit reduction was the ultimate priority if the government was to be successful.

Achieving that consensus was not easy. Cabinet was composed of a significant number of members who clearly believed that new spending should not be subordinated to the goal of deficit reduction. Nonetheless, there were three main reasons why Paul Martin managed to build a durable cabinet consensus.

First, the logic of the substantive argument at hand – that the current fiscal situation was unsustainable – was compelling. The finance minister, his staff, the senior officials of the finance ministry and outside communications consultants had spent hundreds of hours debating and discussing the narrative and the detail of the deficit fight. Every counter argument was anticipated and prepared for. Repeated presentations to cabinet served to persuade that reducing and then eliminating the deficit was the correct policy to pursue and that it would not be politically suicidal to implement. Departmental polling revealed that while deficit reduction was not seen as the most important issue facing the country – that honour went to decreasing wait times in the health care system – deficit reduction was the number one problem people wanted the federal government focused on. In the Canadian federal system, health care is a provincial responsibility.

Second, the finance minister was successful at framing the public debate. The effort the ministry had put into thinking through the communications of deficit reduction was paying off as the political discourse came to be increasingly dominated by the deficit issue and whether the Liberal government would have the courage to address it seriously. Cabinet members realised that they were going to be judged on how fiscally responsible they were.

Third, Martin had the rock solid support of the Prime Minister. Despite the fact that his political allies tended to be on the left side of the cabinet, Chrétien himself was absolutely convinced of the need to cut the deficit. Any minister who tried to go around the finance minister to Chrétien found no daylight between them. The Prime Minister used his speeches and public remarks to make it clear that he was prepared for his government to be principally judged on the cutting of the deficit.

At the same time as they worked to persuade the cabinet, the Martin's team launched a public communications offensive unique in its scope and ambition.

They began with a new practice that has since become a Canadian parliamentary convention – the Fall Economic Update. In the fall of 1994, Martin asked to appear before the parliament's Commons Finance Committee to provide an update on the economic situation. In appearances on two consecutive days, he dominated news coverage, with compelling multimedia presentations that dealt with the government's macro-economic strategy and the centrality of deficit elimination to its fiscal strategy. Using uncommonly forceful language – "we will meet these targets come hell or high water" – he significantly raised the salience and importance of the issue, placing a flag on the territory of deficit elimination on the government's behalf. It was now the government's signature policy. This style was maintained consistently through both the 1994 and 1995 budgets.

"There are times in the progress of a people when fundamental challenges must be faced, fundamental choices made – a new course charted. For Canada, this is one of those times.

Our resolve, our values, our very way of life as Canadians are being tested. The choice is clear.

We can take the path – too well-trodden – of minimal change, of least resistance, of leadership lost. Or we can set out on a new road of fundamental reform, of renewal – of hope restored.

Today, we have made our choice. Today, we take action."

The Honourable Paul Martin, P.C., M.P.
Minister of Finance
February 27, 1995

Source: Canadian Department of Finance, *Budget in Brief* Introduction.

The Fall Economic Update was, from its inception, more than simply a speech. The first update in 1994 was accompanied by two publications from the Department of Finance. One outlined the overall macro-economic strategy and was deliberately entitled "Jobs and Growth – A New Framework for Economic Policy". It was comprehensive enough to give anybody comfort that the Liberal government had a more active economic strategy than just eliminating the deficit. And it was strategic enough to make it clear that the entire plan hinged on successfully getting the fiscal situation under control. As indicated above, Canadians were already in the process of coming to this conclusion, so this reinforced a train of logic that had already started to take hold. The other publication, entitled Creating a Healthy Fiscal Climate, described how compound interest was eroding the books, through the vicious cycle that deficit financing had put the country in. It demonstrated how debt servicing would continue to crowd out spending on social programmes or health care and how high interest rates would crush the economy if the government did not pay down the debt. It also showed how the cycle could be broken with decisive action.

The parliament's finance committee was chosen deliberately as the forum for the launch of the public offensive. It provided the appropriate gravitas for the message that needed to break through. More importantly, Martin, a big believer in the importance of parliament, was moving control over the pre-Budget consultation process from the Department of Finance (where it had resided for decades) and giving it to the parliamentarians who made up the finance committee. He felt that the process would have more legitimacy, would reach a broader cross section of society, and therefore have more opportunity to contribute to the building of a public consensus. The committee consultation process also proved to be a very effective place to float trial policy balloons at a safe distance from other ministers who might have argued in cabinet.

Committee members were strongly encouraged to invite different interests to the same table and force them to engage in the trade-offs inherent in cutting government spending. They put cultural groups, anti-poverty activists and business leaders in the same discussion. This had two impacts – it encouraged stakeholders to moderate their demands or be prepared to defend them against opposition. Second, it forced them to confront the same difficult choices that the government ultimately would, encourage them to be sympathetic to difficult government choices.

The parliamentary consultations were augmented by a process led by the non-partisan think tank, The Public Policy Forum (PPF). The PPF brought together Ottawa's political class and engaged them in a dialogue that produced useful policy ideas for the government to use and encouraged potential opposition to buy in to the process.

At the same time, key members of Department of Finance staff sought to educate the media in economics. Most journalists that cover the federal government are only experts in politics, if anything at all. Journalists also thrive on conflict, not consensus. That means that policy issues tend to be discussed through the prism of their political impact rather than their substantive merits. In order to bring more balance to that equation, officials spent much more time than usual with key opinion leaders, ensuring they understood the government's perspective and that their questions were answered – and also ensuring that they always looked smart in their observations.

As the final element of the strategy, the finance team sought to change the brand of the governing party. By moving to reduce government spending, to shrink the size of government and to prioritize deficit reduction over new social spending, the Liberal Party was acting counter intuitively. Years of political branding had left Canadians with a belief that Liberals were less interested in the business agenda and more interested in social spending than the Conservatives. This helped in two critical ways. First, it helped to convince the public that reducing the deficit was important, because the public thought the Liberals were less likely to be doing it to help the business community. Second, following the thesis that 'only Nixon could go to China', the Liberals were trusted to cut spending with compassion in a way their Conservative opponents could never be trusted to do.

The Government drew heavily on this new branding and reinforced the conclusions it led to, as this passage from Paul Martin's 1995 Budget speech illustrates:

> "This government came into office because it believes that the nation's priority must be jobs and growth. And it is because of that, not in spite of that, that we must act now to restore the nation's finances to health. Not to act now to put our fiscal house in order would be to abandon the purposes for which our Party exists and this government stands -- competence, compassion, reform and hope. The debt and deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is real."

Determining the Content

The Liberal government elected in 1993 did not come to office with an identified list of government departments or programmes that it would cut. In fact, it had scarcely given any thought to the subject. Nor, other than the usual 'waste and inefficiency', were there any areas of public spending that the public was eager to do without. In fact, most previous attempts at eliminating federal programmes had resulted in howls of outrage.

Polling revealed that Canadians felt strongly that they wanted the government to be operating with a plan, so spending cuts and tax rises were not random and arbitrary. Therefore, the government established a set of principles for deficit cutting that made actions appear intelligent rather than random, driven by Canadian values rather than conservative ideology, and fair rather than arbitrary. The federal government said it would cut itself more, in pay, personnel and programmes, than it cut spending anywhere else. It said it would do its best to maintain the highest priority programmes. It said that every sector of society would have to pay some price, except the poorest of the poor: the only area of spending exempted from cuts was Indian and Northern Affairs.

In terms of direct federal spending, the government ruled out a policy of across the board cuts along a fixed percentage in favour of a more surgical approach. It was called Programme Review, and was led by the finance ministry and the Treasury Board, which holds finance accountable. It involved an enormous time commitment on the part of both officials and politicians as they reviewed each expenditure, department by department, with the relevant officials and ministers.

This exercise was a much-needed root and branch reform of federal spending. In continuing to build cabinet support for his strategy, Paul Martin ensured that the Programme Review Committee was comprised of ministers on the left and right of the political spectrum. He wanted to bring them into the decision making process so that they understood the trade-offs and took ownership of the decisions made.

When finished, the government did not try to minimise or hide the spending cuts they had implemented. On the contrary, they celebrated the most dramatic reduction in the size of government in Canadian history. The following quotes from the Martin's 1995 Budget speech illustrate both the substance and the tone of the cuts.

1. “That means that over the next three fiscal years, this budget will deliver cumulative savings of $29 billion, of which $25.3 billion are expenditure cuts. This is by far the largest set of actions in any Canadian budget since demobilisation after the Second World War.”

2. “Over the next three years, the actions in this budget deliver almost seven dollars of spending cuts for every one dollar of new tax revenue.“

3. "By 1996-97, we will have reduced programme spending from $120 billion in 1993-94 to under $108 billion."

4. "Relative to the size of our economy, programme spending will be lower in 1996-97 than at any time since 1951."

5. "...The budgets of government departments are being reduced dramatically, in several cases halved over the next three years."

6. "...The public service will be reduced by some 45,000 positions, of which 20,000 will be eliminated by the summer of next year."

The communications rationale was two-fold. First, this accentuation of the cuts to federal programme spending and employment was essential to the fairness argument. Canadians would know that transfers for health care and education had been cut and that unemployment insurance had been tightened, so they needed to know that the federal government had scoured its own spending before those cuts were made. The government made sure that 'federal cuts before health and education' was made clear from the start. Second, Canadians were cynical about the likely success of the deficit reduction attempt, and these kinds of tough measures in the politicians' backyard were critical to convincing people that this government meant business and was going to fix the problem.

The government knew that most Canadians thought deficit reduction should include both spending cuts and tax increases. But most Canadians were reeling from declining real incomes and would deeply resent tax increases. People assumed that the Liberal Party would rely more heavily than they would like on tax increases in order to protect programmes and spending. In breaking that assumption, the Party significantly shifted rightward in its fight against the deficit. The 1995 Budget trumpeted seven times as much in spending cuts as tax increases. This served to significantly blunt any criticism coming from the right side of the spectrum.

The Budget knowingly understated the role that revenue was going to play in balancing the books. There were several growing revenue sources that were under the public radar – a ballooning surplus in the unemployment insurance account, the billions the GST would bring in once the economy started to recover, and the personal income tax threshold creep, because thresholds did not rise with inflation. Over time, the public noticed these stealthy tax rises, which became a political vulnerability. But in 1995, the narrative was that the deficit was being reduced through spending cuts, not tax increases.

There was one conspicuous new tax in the Budget of 1995. Not only did the Budget have to be fair, it had to be seen and believed to be fair. In that vein, the Budget had a blatantly populist measure: a temporary tax on the capital of large deposit-taking banks. It was in effect for a year and raised around $100 million Canadian. The sum of money was insignificant to the size of the deficit but it was enough to anger the banks. That in turn, helped other Canadians believe that the Budget really was spreading the pain around to everyone.

The Department of Finance's approach to communications through this period relied heavily on elite endorsement of its policies. Most Canadians would not have the time or expertise to judge whether a policy made sense or not, or whether it would achieve its objectives. Voters are aware of and look to the values and motivations of politicians, but on substance they tend to defer to experts.

Improving the budgeting process

On deficit reduction, credibility was the key to endorsement by elite commentators, by other parties and civil society groups. Years of excessively rosy projections for revenues and missed deficit targets had created a credibility gap for the Department of Finance. Upon assuming office, Martin persuaded the officials to begin using the average of the forecasts of private sector economists as their planning basis.

Going into the 1995 Budget, everybody knew that the project would be doomed if there was a serious debate about whether the revenue or spending projections were reasonable. The willingness of the public to accept the difficult spending cuts was dependant on their belief that this sacrifice would result in success. Unusual transparency about the underlying numbers encouraged elite opinion to praise the Budget prescriptions.

The Minister went further. Importing tools he had used in business, the Budget employed accounting principles that brought discipline and almost guaranteed success in meeting targets.

Two of these elements dealt with the risk associated with inaccurate forecasts. In what was called 'prudence', additional padding was put on top of the private sector average forecast.

Overly rosy projections were replaced with overly pessimistic forecasts. The budget also contained, for the first time, a contingency reserve. It was explicitly designed to deal only with unforeseen economic developments, and if not, required that it should be applied against the debt.

Lastly, but profoundly, it replaced five-year fiscal projections with two-year targets. Previous budgets had forecast fiscal progress on five-year tracks, with all of the difficult choices and the projected success pushed back into the Neverland of the final years. With two-year forecasts, action could not be delayed. If you were going to meet your targets, measures had to take effect immediately.

The Tough Ones

Unfortunately, sacrifices had to be made.

Provincial governments relied heavily on federal transfers, and no amount of messaging about the importance of belt tightening in tough times reduced the impact of federal restraint measures. British Columbia, one of the least reliant provinces in Confederation at the time, still counted on the federal government for 14% to 16% of its total revenues. Prince Edward Island, one of the more dependent provinces, relied on federal transfers for a full 45% of its total revenues.

Not all spending, however, is created equal. In order to meet its fiscal targets, and in order to keep the principle of comprehensiveness, some sacred cows had to be confronted by the government. There are lessons to be learned from each one of them.

Universal health care has been at the centre of public policy debate in Canada for the last twenty years. Canadians value it above all else government does. They see it is a reflection of Canadian values. They also think its quality is diminishing and governments underfund it. Provincial governments, who administer it, are watching it swallow their budgets as it grows in cost well above inflation every year. The federal government has the responsibility for ensuring it meets key common principles and provides funding through a transfer to the provinces.

Once the government determined that cutting the transfers to the provinces for health care was going to be part of the 1995 Budget, it was inevitable that they would be opposed and there would be political damage. The government sought to minimize that damage. First, in order to mollify the provinces, the Department of Finance delayed the cuts for a year to give them time to adjust and second, all federal transfers were combined in a fund with fewer restrictions and more flexibility in how it was spent. Publicly, the government relied on some key research-tested messages to justify the health care cuts:

- Cuts in transfers to the provinces were essential to eliminating the deficit (translation – we had to for the economy to be strong again).
- Cuts in transfers to provinces were less than cuts to the federal government itself (translation – we couldn't avoid it and we really tried).
- Provinces were cutting health care funding before any federal cuts took place (translation – if you are unhappy with your health care, blame them, not us).
- Provinces have better balance sheets than the federal government and can better afford to fund health care (translation - just because we cut them doesn't mean they have to cut health care).

Ultimately, Canadians were unhappy about the health care cuts but not to the point of making the government or its budget unpopular. As soon as the budget was balanced, however, the government was forced to put back in many times the amount it took out.

A very significant element of federal spending is on old age pensions. The Department and Minister of Finance proposed a modest reform to the old age pension as part of the 1995 Budget. The Minister and officials felt that the reform was necessary given the impending demographic deficit, important to intergenerational fairness in the budget, and essential if the debt market were to accept the budget.

The previous government had tried to cut old age pensions, but it backfired badly. Many members of the Liberal government were scared of the political backlash. Ultimately, Jean

Chrétien did not allow Paul Martin to include the pension cuts in the budget but said that it could be reconsidered the following year, after a referendum on Quebec separation was over.

By the time the next budget came along, cutting old age pensions could not be seriously considered. Immediate success against the deficit in the 1995 budget had eliminated the sense of urgency, and pension cuts would not have the cover of all the other cuts around them. The context had changed, and a reform that might have been possible politically in 1995 was no longer possible by the next year.

Canada has a system of unemployment insurance that is funded out of general revenues. General revenues are enriched by a payroll tax for unemployment insurance but the funds are not earmarked for the insurance Programme. The Programme was and is applied wildly unevenly across the country. In the more prosperous parts of the country it operates as a true insurance programme, and a relatively miserly one that makes it difficult to get the benefits you pay for. In certain parts of the country, characterized by seasonal employment, it operates as an income support programme. The 1995 Budget contained reforms of the programme that attempted to move away from passive income support towards training and a return to employment. This was thought to be sound policy in most parts of the country but a complete breach of trust in the areas of high seasonal unemployment. In the next election, most Liberals from those areas lost their districts. In those areas where the new policy seemed to be a genuine threat to the standard of living, voter self-interest outweighed the benefits to the public purse.

Conclusion

Deficit reduction or elimination must be seen to be essential to the well being of the citizen. It will not be supported because of arcane economic theories or because the business community calls for it. People must believe that their jobs or their standards of living depend on it. But governments attempting a consolidation should be careful not make it an end in itself. They should make deficit elimination a necessary condition for a broader goal of more relevance to people and their families. Continually reinforce that broader goal throughout the entire exercise.

Second, the electorate must understand it will not be easy. It is convenient for people to think that government deficits can be eliminated by getting at waste and inefficiencies, without any real pain to the average citizen. This may be especially true in the UK because of the expenses scandal, and the sense that the public sector has become too large and well paid. People need to understand the magnitude of the problem. Some degree of candour about this in opposition will help a party be credible about the need for real cuts once in office.

The plan for deficit elimination must be credible. Public cynicism and partisanship are such strong forces that the government should seek a virtually unanimous consensus that its plan is credible. If people believe the government will fail to eliminate the deficit, then they will reject the sacrifice asked of them.

The plan must be seen to have a negative impact on every element of society. If one group can point to another and say "why me and not them?" public support will collapse in jealousy and recrimination. It is particularly important to ensure that the privileged are seen to be negatively impacted by the deficit fight. However, given the belief that waste is rampant in government, you must convince people that *all* of their less favoured spending was cut to the bone before any spending they do care about was cut.

It helps if it is seen as a true collective effort. Paul Martin made great use of national symbols such as Parliament and public consultation to create the sense of national purpose. His rhetoric reinforced the idea that it was more than a policy, it was a national imperative.

It is easier for a centrist party to do than for a party of either the left or the right to do. Centrist parties have two advantages. They have the capacity to build trust with the centre right and the major economic forces in society around the credibility of their actions and with the centre left around fairness and necessity. Second, they are able to triangulate their political opponents to make their own policy seem reasonable – critically important in a deficit elimination exercise. Most voters will be seeking a balanced approach rather than the ideological extremes.

If this paper has veered from policy to politics to communications without much segue, it is because that reflects the way Martin and the Department of Finance created the policy itself in the mid 1990s. The discussions of policy and communications were inextricable. The goals were absolute and non negotiable – the deficit would be eliminated. But within that constraint, if a particular policy couldn't be communicated, it was a non starter. They knew that reform this big could only happen with public consent.