



Watch Out! Risk of “Downloading”!!

Alan Broadbent

Canada’s federal government is expected to have a deficit of over \$50 billion this year. The Ontario government deficit will be over \$14 billion. Neither of these governments expects to balance their budget before 2015, and most experts think it will take much longer. Even Alberta and B.C. will have deficits of \$4 and \$2 billion respectively.

The world financial collapse has hit Canada and its provinces hard, as their revenues have been sharply curtailed. Add to that Ottawa’s self-inflicted wound of cutting the GST by two points, against the advice of almost all economists, and governments find themselves back in the fiscal bog of high deficits and rising debt.

We’ve been here before. From 1970 to 1995 Canada’s deficit and debt grew, about half of it during 16 years of Liberal governments and half during 9 years of Conservative governments. Canadian governments weren’t alone, as the US, UK, France, and most other countries did the same thing. But by the mid-nineties, alarm bells were sounding, and governments began to rein in their fiscal adventuring, aided in no small part by robust economies and rising government revenues.

In Canada, the discipline started with the federal government. It had a number of tactics, one of the most successful being “downloading”. Downloading is a simple strategy of ceasing activities that cost money while keeping the money that was meant to pay for them. In the years after 1995 the federal government reduced program spending by 10%, in good part by reducing transfers to the provinces. This left the burden to cover those costs on provincial budgets which were also under stress. The federal budget did end up in balance, but so did the budgets of other western countries which had not made such program cuts, due to the rising world economy.

The provinces viewed the federal downloading trick with dismay on one hand and a grudging admiration for such fiscal alchemy on the other. They decided to try the trick themselves and began to download to their municipalities. Thus the costs of roads, social housing, and many other things suddenly became municipal responsibilities. What has resulted is a decade of deficits for city governments, particularly the larger cities with expensive infrastructure like transit systems. These deficits for the most part are not the result of wasteful city governments but of structural gaps between their limited sources of revenue and their increased responsibilities. (Cities cannot charge income and sales taxes, the two largest revenue producers, and are limited largely to property tax.)

One of the reasons this worked so well for the federal and provincial governments was that it was done before many people noticed, and certainly before the impacts began to be felt. Big gaps in building transit, growing lists of people waiting for affordable or supportive housing, increasing use of food banks, traffic tying up commerce and commuters, all grew as our deficits in providing solutions became bigger. Even now, many people don't realize that a lot of the problems they face day-to-day are in fact created by a fundamental structural problem created when the downloading began fifteen years ago.

There are solutions. One is for Canadians to get over the unreasonable notion that the public goods they want come free or on the cheap. "Taxes are the price we pay for civilization," Oliver Wendell Holmes said. Of course tax money must be well spent, but doing without it in modern Canada is an unrealistic option.

A second solution is to let cities have more revenue tools so that they can bear the brunt of the downloaded obligations. If cities had access to income and sales tax instruments which could pay for their obligations, then

there might be a useful choice for citizens to make about which level of government deserved their taxes more, based on which services they valued more. People might be quite happy to pay for more frequent transit service, better snow clearing, or more frequent garbage pick-up, but less happy to pay for a foreign war or hinterland highway, and might let the relevant government know by either email or ballot. As many people have pointed out, there is only one tax dollar, and maybe governments should compete on a level playing field for it.

Canadians would be well advised to watch for a new cascade of downloading

And the final solution is our watchfulness. Canadians would be well advised to watch for a new cascade of downloading, cloaked by federal government rhetoric about "fiscal responsibility", provincial promises of "sharing responsibilities", and general advice about getting houses in order. While governments get their houses in order, we might be crushed by the downloading avalanche.