# Editorial: Falling deficits, and the future of Canadian politics

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Back in the 1980s and '90s, when Canada's fiscal situation was going from bad to worse and an expanding debt load threatened to devour the future, questions about a Finance Minister's performance tended to come down to just one number: The deficit.

A lot of news coverage and Canadian politics still operates as if the federal deficit is everything. It isn't. It's not nothing, but it has been shifted, hopefully for good, into the background.

Thanks to the budget repair job carried out during the Chrétien, Martin and Harper years, the work of Finance Minister Bill Morneau, who delivered his fall economic update on Tuesday, can no longer be reduced to one data point.

Mr. Morneau barely mentioned the deficit or the national debt in his speech. And when he did mention them, it was to remind listeners about how much of a problem they aren't. He's right.

Federal deficits in the coming years, formerly projected as large-ish but manageable, are now expected to be smaller, and more manageable. A deficit of $19.9-billion this year, falling to $17.3-billion in time for the next election, may sound big. But it's not, relative to the size of a more than $2-trillion dollar Canadian economy, which is growing while the deficit is shrinking.

The Liberals have no plan to take the deficit to zero – and though that means a broken 2015 election promise, it's a promise they had no good economic reason to make, or keep.

Ottawa is carrying a historically light debt load. It's at less than half the level the federal government hit in 1995-96, the year of peak crisis. At 30.5 per cent of GDP, the debt is a full two percentage points below the expectations of the Liberals' 2016 budget. The federal debt hasn't been consistently this low since the 1970s.

And unlike the early 1990s, when the debt-to-GDP ratio was high and rising, it's now low and falling. Annual deficits below $20-billion are enough to keep it on that path. The Finance Ministry projects that, five years from now, the debt-to-GDP ratio will be down to 28.5 per cent.

All of which leaves Canadians, and Ottawa, with the luxury of having to mostly worry about things beyond deficits and debt levels.

The benign fiscal situation gives the Trudeau government, and the parties competing with them to win power in 2019, with the opportunity spend more, and to cut taxes more. But opportunity and necessity are not the same thing. Voters should be asking whether Ottawa should spend more, or tax less, and where, how and why.

On Tuesday, Mr. Morneau announced the indexation of the Canada Child Benefit to the rate of inflation, and an increase to the Working Income Tax Benefit, a tax credit which encourages low-income Canadians to get into the workforce. And last week, the government announced a surprise small business tax cut, lowering the rate from 10.5 per cent to 9 per cent.

These three measures will cost around $2-billion a year. That's more than feasible on a budget with annual spending of more than $300-billion. But in terms of quality, it's a mixed bag.

The Canada Child Benefit is a program of income supports for parents; indexing it, like other income-support programs, makes sense.

And increasing the size of the Working Income Tax Benefit is also a sensible idea, since it's likely to help more marginal workers get both feet into the workforce.

As for the reduction in the small business tax rate, it will be popular with those who will receive it, which is why the government, facing mounting criticism over its small business tax reforms, reversed course and abruptly made a tax cut the centrepiece of those reforms.

It may prove politically expedient, but it's hard to see it as good policy. There's really no logic in giving small businesses a lower tax rate than regular businesses, as a reward for staying small. And the gap between the small business tax rate and the tax rate on regular personal income, which this tax cut expands, is what has driven the push to incorporation, which Mr. Morneau continues to try to address.

But these kinds of debates, over the quality of spending, programs and taxes, rather than the quantity of deficits, are likely to be what the 2019 election turns on. Barring an economic downturn, the Liberals, who ran in 2015 on a mix of spending and tax cuts, will be able to offer a bit more of the same again in two years. The other parties too.

A generation ago, as a fiscal gap born in the Pierre Trudeau era expanded through the Mulroney years, federal debt costs exploded. Any analysis of the day's budgets started to sound like recitations of Charles Dickens' Micawber Principle: "Annual income twenty pounds, annual expenditure nineteen pounds nineteen shillings and six pence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

That earlier era's economic updates were tales of accelerating deficit misery. The gap between expenditures and revenues was the story, because it had grown into such a big problem. That's not where Canada is today. For that, count our blessings. And to avoid revisiting the past, don't be in too much of a rush to spend them.