

Editorial: Policy-Making Deficit

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If borrowing and lending were the roots of all evil, there would not be any banks in Canada. And there wouldn't be any bank economists, such as Don Drummond at the TD Bank, to jump all over Prime Minister Paul Martin's plan to bring in an "anti-borrowing" bill in the name of sound economics.

Needless to say, borrowing and lending do serve some crucial purposes. Nonetheless, Martin wants to pass legislation outlawing deficits or the ability of the federal government to get through a difficult year on borrowed funds.

Drummond, who formerly was one of Martin's top advisers when the Prime Minister was minister of finance, calls the proposal "horribly bad policy."

But Martin doesn't have policy on his mind — good, bad or indifferent.

This latest scheme is a political ploy to take the wind out of the Conservatives' sails in the next election. With a balanced-budget law, it would be awfully hard for Tory leader Stephen Harper to argue that the Liberals are spending at a rate that is courting financial disaster.

Canadians have learned the hard way that Ottawa cannot keep borrowing endlessly to pay for the programs and services on which the public depends.

But to chop an essential program to avoid a small, one-time deficit would be the height of folly. As Drummond has said, "the impact of a \$1 billion or \$2 billion deficit in an economy our size would be irrelevant."

And it would be plain crazy for the government to slash programs or raise taxes in order to avoid a deficit brought on by a recession. Such "remedies" would only deepen the recession and make recovery that much harder to achieve.

That's why another bank economist recommended against such a rigid approach to balancing the budget when Finance Minister Ralph Goodale sought his advice on the challenges of fiscal forecasting.

Tim O'Neill of the Bank of Montreal advised Goodale to strive for a balanced budget over the entire economic cycle instead of forcing the budget to balance every year.

A law prohibiting any and all deficits would only make sense in a world where government could outlaw recessions, natural disasters, pandemics and wars.

And that is not our world.