

**Are the glory days of Balanced Budget Laws fading?
A review of recent Canadian experience in budget management¹**

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Abstract:

Few Canadian provinces abandoned their Balanced Budget Laws (BBLs) amid the 2008-09 Global Financial Crisis, but since then four provinces took a sharp turn and repealed their decade-long balanced budget requirements. In the same period, several provinces switched to spending controls or deficit reduction and emphasized their fiscal accountability standards.

In this paper we review the legislative changes to BBLs and the approaches to budget management in the ten Canadian provinces since 2013. We then categorize the provinces into four groups and offer possible explanations for changes in their strategies. One explanation is economic – the absence of consensus among economists on the appropriate goals of fiscal policy helps create an atmosphere of what might be called “permissive experimentation”. Different provinces have different interpretations of the definition of “fiscal sustainability”. Another explanation for declining enthusiasm for balanced budget rules is political: the provinces prioritize policy objectives depending on their economic and political conditions – some are committed to the principle of balanced budgets while some chose to pursue other objectives in anticipation of voters’ preference in the next election.

We conclude that, the changing role and approach of budget management reflect the shifting priority of governments in different policy contexts. In general, the promise to balance the budget is still regarded as a useful instrument to signal politicians’ inclination to pursue fiscal responsibility and elicit voters’ trust. On the other hand, voters’ support for a government depends on their perception of politicians’ ability to manage priorities in different contexts.

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1. Introduction

By 2000, eight Canadian provinces had introduced a balanced budget law (BBL) and vowed to balance the budget whenever possible. These provinces mostly adhered to their BBL between 2000 and 2007, a period of economic growth. The demand for economic recovery after the 2008-09 financial crisis forced most of the provinces into deficit positions. Five of the eight provinces amended or repealed their balanced budget requirement during the 2008 crisis (Atkinson, Mou and Bruce 2016, 505).

During the period following the crisis, the eight BBL provinces adopted quite different approaches to both budget management and BBLs, reflecting different and sometimes opposing interpretations of the function of fiscal policy. In this paper we analyze the rich data provided by the Canadian provinces about their budget management, treatments of BBLs, and justifications. We find that Canadian provinces share the norm of balanced budgets but have taken diverse approaches to reach that goal. Some adhered to the balanced budget requirement in a BBL while some exercised discretion in their adherence to their BBLs. Some took harsh austerity measures to balance the budget in a short time while some took a slower pace and prioritized other objectives over balanced budgets.

We argue that the new context after the 2008-09 crisis provides a window of opportunity for governments to re-position themselves in the new economy and reflect on the goals of fiscal policy. Under different economic and political conditions, the ten provinces formed their own interpretations of fiscal sustainability and made strategic decisions about whether to balance the budget and when and how to do so. In a competitive democracy, these strategic decisions are mainly driven by considerations of electoral consequences.

Section 2 summarizes the goals and budget management approaches of the Canadian provinces during the period after 2013. Section 3 provides a conceptual framework that guides our analysis of the decision making of provincial governments. Section 4 divides the provinces into four groups according to their decisions on balanced budgets and analyzes their reasoning. Section 5 concludes.

2. A summary of the experience of Canadian provinces

Table 1 summarizes the most recent legislative changes to BBLs in the Canadian provinces, the current political party in power, whether a province has balanced or projected a balanced budget since 2013 and, if not, what is the promised timeframe for achieving a balanced budget. The table also summarizes a province's fiscal management approach as evidenced by their most recent budgets.

Table 1 Changes in BBLs and approaches to budget management in the provinces

Govt	Party in power	Latest change to BBL	Balanced budget? and (promised) date of balanced budget	Approach to fiscal management since 2013
Fed	Liberal, 2015-	2016: repeal the 2015 BBL	No, no promised date ³	Deficit-financed spending
BC	NDP, 2017-	2011: revert back to the 2001 BBL	Yes, since 2013-14	Balanced
AB	PC, April 2019-	2015: repeal the 2013 BBL and specify a 1% limit for unbudgeted operating spending	No, promised 2022-23	Spending controls and promised tax cuts
SK	SK Party, 2016-	2016: repeal the 2008 BBL	Yes, since 2019-20	Spending controls
MB	PC, 2016-	2017: repeal the 1993 BBL and require an annual deficit reduction by \$100 million	No, promised 2023-24	Spending controls and tax cuts
ON	PC, 2018-	2004: BBL was established	No, promised 2023-24	Spending controls and promised tax cuts
QC	CAQ, 2018-	2015: revert back to the 2001 BBL	Yes, since 2015-16	Balanced
NB	PC, 2018-	2018: cancel balanced budget requirement and require an annual deficit reduction by \$125 million	Yes, since 2018-19	Spending controls and government job cuts
NS	Liberal, 2017-	2009: repeal the 2000 BBL	Yes, since 2016-17	HST hike in 2010 and some spending controls
PEI	PC minority April 2019-	None	Yes, Since 2017-18	Balanced
NL	Liberal, 2019-	None	No, promised 2022-23	Steep tax increases and government job cuts since 2016

As Table 1 indicates, after exiting from the financial crisis, the provinces adopted different approaches to BBLs. British Columbia and Quebec restored their pre-recession BBLs and have balanced their budgets for several consecutive years (British Columbia since 2013-14 and Quebec since 2015-16). Four provinces repealed their balanced budget requirement, including Alberta, Manitoba, New Brunswick and Saskatchewan. Three of these governments switched to

³ According to the Long-Term Fiscal Projections released by the Department of Finance Canada on December 21, 2018, the federal government expects a positive balance by the 2040-41 fiscal year (Department of Finance 2018).

spending controls or deficit reduction. In 2015 Alberta set a spending limit for unbudgeted expenses. The new Progressive Conservative government in Manitoba (2017) and in New Brunswick (2018) each legislated a year-to-year deficit reduction target. Ontario has maintained their pre-recession BBL but has not balanced its budget for a decade (from 2008-09 to 2017-18). Newfoundland, Nova Scotia (since 2009) and Prince Edward Island continued without a BBL in place.

Table 1 shows that only three provinces currently have a legislated balanced budget requirement (BC, QC and ON) while before the crisis, eight of the ten provinces did (Atkinson, Mou and Bruce 2016). Given this trend, has a BBL become redundant or obstructive to budget management? Should politicians be judged based on their ability to balance the budget? In the next section, we outline a conceptual framework that can be used to analyze the diverse approaches of provinces on BBLs and budget management.

3. Conceptual Framework

In this paper, we analyze the decisions on whether to balance the budget by taking into account both economic conditions and the political considerations of politicians. We argue the decision ultimately depends on the political prioritization of politicians. A government has many potential objectives in pursuing fiscal policy, including economic growth, fiscal sustainability, quantity and quality of public services, income equality, social welfare, etc. Fiscal policy, particularly government spending, is an important instrument for all these objectives. Since taxes and expenditures are largely at the disposal of governments, if a government has the political will to balance a budget, it can create conditions and bear the political cost to make it happen. For example, Jean Chretien's Liberal federal government turned three decades of deficit into a surplus by deep cuts to spending from 1994-95 to 1996-97. In this sense, whether a government is able to balance a budget ultimately depends on how much of a priority a balanced budget is relative to competing objectives. The political prioritization decision is constrained by the economic and fiscal conditions in a province and is influenced by considerations of electoral consequences.

The decision of whether to balance the budget is centered on a government's understanding of fiscal sustainability, which in turn depends on local economic and fiscal conditions. The diverse economic structure of provinces coupled with an absence of consensus among economists on the appropriate goals of fiscal policy help create an atmosphere of what might be called "permissive experimentation". Under different economic and fiscal realities, provinces form their own interpretation of "fiscal sustainability": a government can be in favor of economic stimulus at the risk of running deficits and accumulating debt, or can insist on austerity without concern for the overall performance of the economy or the level of public services. The freedom to interpret fiscal sustainability in different ways is limited by the unique economic and fiscal reality in a province. For some provinces, there is only one way to achieve fiscal sustainability. For example, heavy debts in some provinces force the government, regardless of its ideological standing, to focus on balancing the budget and reducing debt. In other provinces, less restrictive fiscal conditions and a more resilient economy afford the government flexibility in choosing an approach of fiscal management that serves its political motive.

Given different economic and fiscal conditions, politicians decide on their form of representation in an electoral cycle. Kneebone and McKenzie (2001) found empirical evidence for the presence of electoral cycles in the fiscal policy choices of Canadian provinces. Tax increases are suspended in election years while program spending choices reflect both partisan and opportunistic responses from politicians. In this paper, we hypothesize that a political representative's approach to budget management reflects a choice between promissory representation and anticipatory representation (Mansbridge 2003). Some governments choose to balance their budgets to fulfill an election promise and/or comply with a BBL, while others put aside their election promises and focus on a different policy objective whether or not a BBL is in place.

Promissory representation means that a political representative makes forward-looking promises to voters about balanced budgets in an election and once in power establishes its own version of a BBL to enshrine and follow through on the promise. The main objective of using a BBL is to reinforce a commitment and appear credible to the electorate. For example, British Columbia and Quebec could balance their budgets without a BBL in place but they chose to revert to their, stringent, pre-crisis version of BBL, suggesting a strong desire to appear fiscally responsible to voters. New Brunswick repealed its balanced budget requirement in its latest BBL but it made balanced budgets a key promise (Government of New Brunswick 2014 and 2015) and set up a credible plan to achieve the goal.

Anticipatory representation means a government considers the current and future priority of a province without feeling constrained by a BBL or an electoral promise. Instead of being loyal to voters' previous policy preferences, the representative tries to ascertain the "mood of the nation" (Kingdon 1984, 153) and choose fiscal policy in anticipation of what voters would prefer in the next election. The assumption is that voters' policy preferences may change over time depending on potential outcomes to their interests, and that voters can be educated or manipulated. For example, although Ontario has a BBL in place, the province has not balanced its budget for a decade since 2008. This is because the various governments of Ontario anticipate that economic growth and social welfare are more important objectives than the promised balanced budgets.

For those wedded to a promissory style of representation, Mansbridge (2003) argues that it is important to recognize a wider spectrum of democratic legitimacy and appreciate the deliberative nature of representation and policy making. Accordingly, evaluation of representation should go beyond the traditional democratic accountability criteria to include multiple and sometimes additive normative criteria. Promissory representation ensures democratic legitimacy and accountability while anticipatory representation "shifts normative scrutiny from the process of accountability to the quality of deliberation throughout the representative's term in office" (Mansbridge 2003, 520).⁴

In the next section we will divide the provinces into groups and then apply the conceptual framework described above to analyze the reasoning behind each province's choice of whether

⁴ Mansbridge's theory is supported by Brennan and Hamlin (1999). Brennan and Hamlin (1999, 120) observe that the political actor framework is not entirely rational. The authors make three proposals: first, political actors have heterogeneous "civic virtue", i.e. "their capacity to discern the public interest and their inclination to pursue it"; second, the civic virtue of political actor may not be perfectly observed by others; third, voters tend to express support for candidates who are perceived to be more virtuous. This theory suggests information is not symmetric between voters and politicians. There is room for politicians to influence voters' perception of their civic virtue.

or not to balance the budget. We summarize the economic and fiscal conditions and describe the political deliberation in the provinces. Political deliberation, we suggest, is based on an interpretation of fiscal sustainability and is framed as a choice between promissory and anticipatory representation.

4. Budget decisions in the Canadian provinces

The summary in Table 1 shows diverse commitments to balanced budgets and different treatments of BBLs in the Canadian provinces. To better understand these decisions, we divide the ten provinces into four groups according to the relative economic feasibility of balancing the budget and their recent approach to electoral representation. Our definition of economic feasibility uses the same criterion as for equalization entitlement calculation – whether the revenue raising capacity of a province is above or below the national average. We expect wealthier provinces to have higher balanced budget feasibility than relatively poor provinces. Given economic feasibility, some provinces choose to balance the budget and follow through on their BBLs (promissory) while other provinces choose to pursue other priorities in anticipation of what voters prefer in the next election (anticipatory). Table 2 categorizes the four groups.

Table 2 Groups of provinces based on economic feasibility and form of representation

Electoral representation	Economic feasibility of balancing the budget	
	Less constrained	More constrained
Promissory	BC; SK;	NB; NS; PE; QC;
Anticipatory	AB; ON;	MB; NL

In Table 2, the four groups are:

Group 1 Faithful Adherents – committed to balanced budgets: BC, SK

Group 2 Reluctant Adherents – pushed into a corner and committed to balanced budgets: NB, NS, PE, QC

Group 3 Skeptics – could balance the budget but choose not to: AB, ON

Group 4 The Hopeless –politically and economically difficult to avoid deficits: MB, NL

To provide an overview of the fiscal situation of the provinces. Figures 1A and 1B describe the Net Debt to GDP ratios (expressed in percentage terms) of two groups of provinces after the 2008 financial crisis. Group 1 is the group of relatively wealthier provinces, and Group 2 is the relatively less wealthy provinces, all of which receive equalization payments.

Figure 1A Percentage of Net Debt to GDP, relatively wealthier provinces, 2008-17

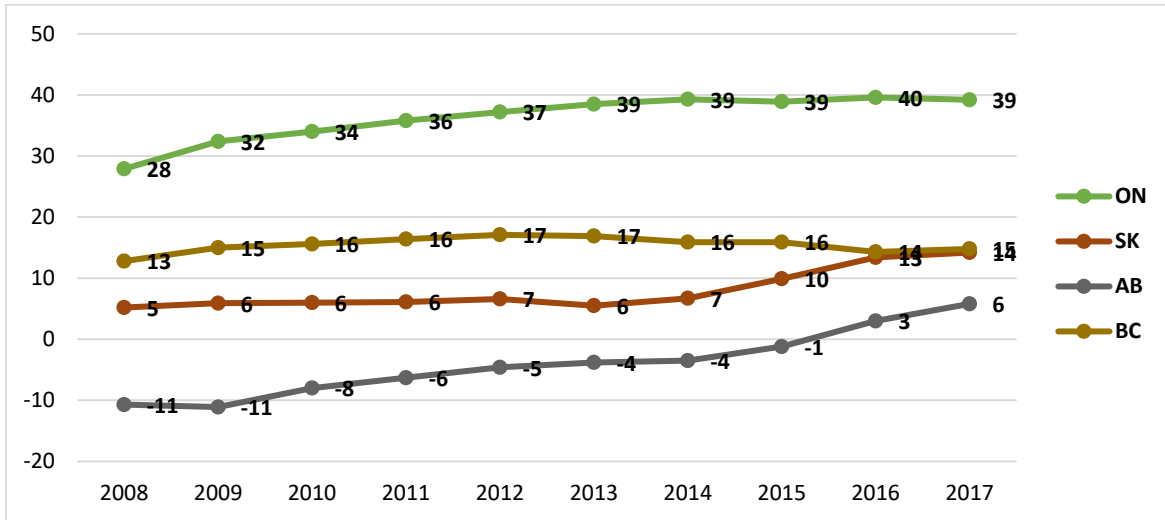
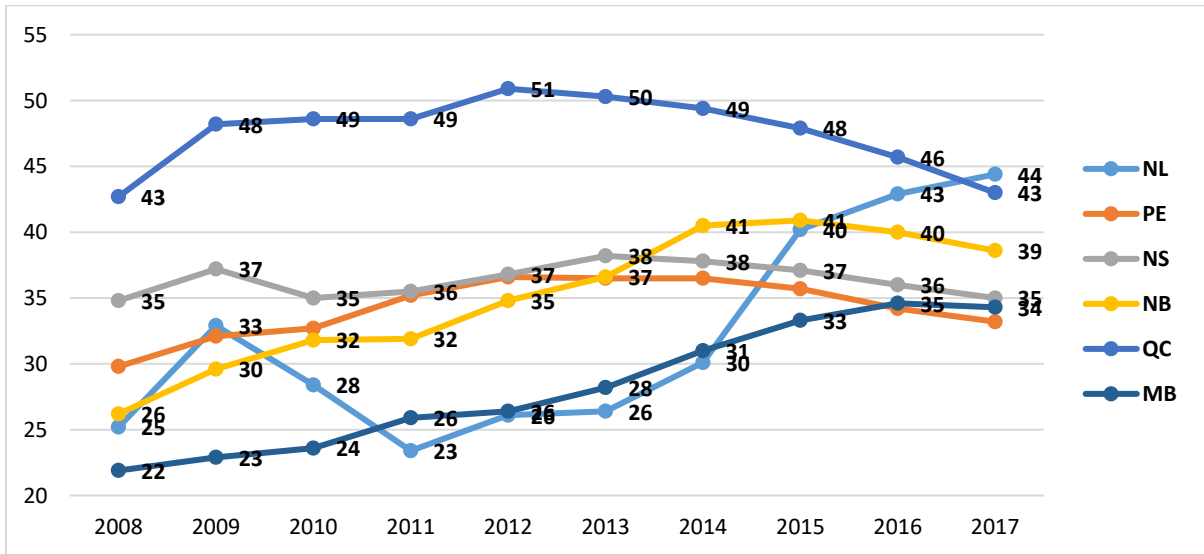


Figure 1B Percentage of Net Debt to GDP, relatively less wealthy provinces, 2008-17



Below we describe the decisions and deliberation of the four groups of provinces on budget management.

4.1 Group 1 Faithful Adherents – commit to balanced budgets: BC and SK

Both British Columbia and Saskatchewan have relatively higher revenue raising capacity and brighter economic prospects than most of the other provinces. With a debt-to-GDP ratio below 20% during the entire ten year period 2008-17, these two provinces had an enviable fiscal

position; only Alberta could claim a better one. The two provinces are both strong believers in fiscal discipline and are committed to balancing the budget whenever they can.

British Columbia adhered to its BBLs and followed through on its balanced budget commitments most of the time between 2008 and 2017, except for a short exemption period after the 2008 crisis. In 2009, British Columbia amended its *Balanced Budget and Ministerial Accountability Act 2001* to allow the government to run two years of deficits (2009-10 and 2010-11) in response to the 2008 crisis (CBC News 2009, 1). The government included a \$270 million-dollar contingency fund to counteract future externalities (Government of British Columbia 2010, 8). When the two-year exemption period of BBL expired in 2011-12, British Columbia reverted to the original 2001 version of its BBL. British Columbia has balanced its budget for six consecutive years from 2013-14 to 2018-19. In this period, the Liberal party secured another majority government, with Christy Clark becoming premier in 2012. In 2017, an NDP government was elected to replace the Liberal party, which had been in power since 2001. The NDP government vowed to maintain the budgetary surplus and projected, in the 2019-20 budget, surpluses for the next three years.

Compared with British Columbia, Saskatchewan's budget balance record is not as strong but nevertheless the government in Saskatchewan is determined to balance the budget when the political cost is not too high. In 2008, the Saskatchewan Party introduced the *Growth and Financial Security Act*, promising to balance the budget in each fiscal year. In that time, Saskatchewan also created the Growth and Financial Security Fund and Debt Retirement Fund. From 2010 to 2014, the government was able to produce balanced budgets most of the time largely due to increasing resource revenues. This ended in 2014 with the crash of oil prices. Deficits were incurred beginning in 2015-16 and onward for three years. In 2016, the government led by Brad Wall repealed the *Growth and Financial Security Act* because of a "new approach" to handling the budget and a restructuring of Saskatchewan budgetary policy. The government argued that the BBL became irrelevant since it applied only to the General Revenue Fund, and the province was, at the time, moving forward with summary basis budgeting (Graham 2016). In an interview, the finance minister at the time indicated that BBL is up for consideration in the future. He said that, although the province is still committed to balancing the books, doing so to fulfill a BBL requirement "is difficult because of the variations that can occur on a daily basis" (Graham 2016). In March 2017, the Government of Saskatchewan raised the PST rate from 5% to 6%. Saskatchewan projected the first budget surplus for the budget of 2019-20. This will be achieved through a tax increase to potash producers and tight spending controls.

Clearly, British Columbia and Saskatchewan regard balanced budgets as their political priority. They adhere to their BBLs as long as the implied political tradeoff is not too painful. Although the economic condition of British Columbia makes balancing the budget a relatively easier task, Saskatchewan has to deal with fluctuating oil and potash prices and bear the political cost of raising the PST rate to achieve a balanced budget. The two provinces' treatments of their BBLs reflect the different constraints arising from their economic realities but show a common commitment to promissory representation.

Although the two provinces are both true believers of the principle of fiscal discipline, their understanding of the traditional definition of fiscal sustainability – budget surplus, lower debts and intergenerational equity – is slightly different. Figure 1A shows the trajectories of debt level

in the two provinces. British Columbia set up a contingency fund to help deal with the future externalities and was able to steadily reduce its debt-to-GDP ratio. The growing debt level in Saskatchewan is due to the consecutive budget deficits in this period, but Saskatchewan also dipped into its Growth and Financial Security Fund and Debt Retirement Fund to achieve a better budget balance. Between 2015 and 2016, the government depleted its Growth and Financial Security Fund by transferring over \$446 million to the General Revenue Fund (Government of Saskatchewan 2016, 257-58), and promised to “rebuild” the fund to \$500 million when the oil price per barrel reached \$75 (Macpherson 2016). This difference in management of debts and funds suggests that Saskatchewan has a weaker definition of fiscal sustainability than British Columbia.

4.2 Group 2 Reluctant Adherents – pushed into a corner and committed to balance the budget: NB, NS, PE, and QC

Quebec and the three Maritimes provinces have traditionally had lower than national average fiscal capacity. With an aging population, none of these provinces has a favorable economic or demographic condition. As a result they have to choose between protecting public services and reducing debts.

Quebec restored its 2001 version of BBL in 2015 and balanced its budgets since 2015-16. Quebec’s BBL is the most stringent in the country in prohibiting realized annual budget deficits. But for Quebec, the objective of fiscal management is more than budgetary surplus. In 2006, the province enacted debt reduction legislation and established a debt reduction fund called the Generation Fund. An amended version of the act set up a 45% debt-to-GDP ratio target for the 2025-26 fiscal year. The former Liberal government put the province on a steady path of debt reduction by achieving annual budgetary surpluses and depositing them into the Generation Fund to pay down the debts. The then Liberal premier, Philippe Couillard, said in 2018, “Quebec’s debt-reduction strategy, started in 2006, has been bearing fruit. Thanks to these efforts, Quebec is no longer the most indebted Canadian province. We are now taking the next step to repay our debt in financial markets, which will increase our ability to improve our public services and the quality of life of Quebecers. We are making a responsible and balanced move within the scope of our quest for better intergenerational equity in a new Quebec.” (Government of Quebec 2018)

Nova Scotia was the only province that immediately repealed its balanced budget requirement during the Global Financial Crisis, in 2009, because of deteriorating economic and fiscal conditions (Atkinson, Mou and Bruce 2016). In 2009, the province also halted its debt reduction plan and instead introduced a “Debt Management Plan”, which allows government to “use some specific funds previously earmarked for debt reduction to fund programs and services,” and “borrow money in the next three years to pay for much-needed infrastructure and stimulate the economy.” (Government of Nova Scotia 2009). When repealing the law, the then Nova Scotia finance minister Graham Steele justified the action by stating that BBLs are popular only in good economic times, not in bad times. This statement articulates a highly pragmatic (some might say undisciplined) view of BBLs (Atkinson, Mou and Bruce 2016, 503).

Since 2009 Nova Scotia has had no BBL in place, although the NDP government promised that it would take a “strategic and disciplined approach...to balance the budget in years ahead”

(Government of Nova Scotia 2009). The first in a line of measures aimed at reducing the deficit was an increase in the HST rate to 15% in July 2010 (CBC News 2010, 1). The NDP government then introduced spending controls in 2012 before being replaced, in 2013, by the Liberal party. While spending control was “the cornerstone of ‘Back to Balance’” (Nova Scotia Finance and Treasury Board 2013), this was not the case after the Liberal party took over the government. The first budget tabled by the Liberal party, in 2014-15, increased departmental spending and recorded a \$279-million deficit (Global News 2014). After running deficits for seven consecutive years from 2009-10 to 2015-16, Nova Scotia has balanced its budget since 2016-17. It projected a surplus for 2018-19 and for the next four years. The province committed to use the surplus to decrease net debt and has actually reduced its debt-to-GDP ratio since 2014. The goal is to reach a ratio of 30% by 2024. The main challenge faced by the province is its unfavorable demographic trend. With an aging population and an aging health infrastructure, the health care system has found it difficult to keep up with demand. The Liberals, who won a second majority in 2017, promised over \$100 million to build new clinics and recruit more doctors (Quon 2017, 1). This has yet to be realized.

Different from Nova Scotia, New Brunswick held onto its BBLs as long as it could before repealing the law. New Brunswick initially tried to work within the framework of its 2006 BBLs but deficits occurred every year from 2008-09 to 2016-17. In 2014, the then Progressive Conservative replaced the 2006 BBL with the *Fiscal Transparency and Accountability Act*. The 2014 BBL maintained the requirement of a balanced budget during a fiscal period, the first being 2014-2019. The difference is that the new BBL requires a \$2500 administrative penalty to be levied on any member of the Executive Council if the annual deficit fails to be at least \$125 million lower than that of the previous year. The 2014 BBL also requires extensive fiscal reporting and requires the auditor general to verify whether or not the deficit has been reduced. In 2015, the Liberal party formed the government, promising a new approach to fiscal prudence which included balancing the budget by 2020-21. In 2016, the Liberal government increased the HST rate to 15%, boosting revenue by about \$300 million per year (Global News Feb. 2, 2016). However, the 2018-2019 budget tabled by the Liberal government included a deficit of \$189 million, increasing the net debt to \$372.3 million (Government of New Brunswick 2018, 10)

In 2018, New Brunswick’s future economic outlook was not optimistic. New Brunswick has the lowest median household income in Canada and is the only province that had a net population decrease between 2011 and 2016 (Global News November 2, 2018). Economic growth has been sluggish and the tax base is expected to shrink. RBC estimates that economic growth will drop below 1% in both 2019 and 2020 (Muthukumaran 2018, 8). With a \$14 billion debt, the province is close to a fiscal cliff and any sharp rise in interest rates or downgrading of credit rating could trigger a crisis.

In 2018, the Progressive Conservative Party led by Blaine Higgs formed a minority government. One main campaign promise was to balance the budget within 2 years, by 2020-21 (CBC News September 17, 2018). Blaine Higgs is a well-known tight-fisted fiscal manager. He promised to not raise taxes, control spending, cut waste and focus on results. In December 2018, right after coming to power, the PC government updated the province’s 2014 BBL. The new BBL canceled the balanced budget requirement and instead required an annual deficit reduction of \$125 million

until a surplus is achieved.⁵ This move is a pragmatic response to a desperate demographic and economic reality. Even without a balanced budget requirement, the current government of New Brunswick exhibited a strong political will to turn around their fiscal situation. In February 2019, the province wiped out the projected deficit for 2018-2019, two years before its promised balanced budget date. For fiscal year 2019-20, the province projected a \$23 million surplus and a \$49 million decrease in net debt (Government of New Brunswick 2019a, 10). In this budget, although revenues are projected to grow by only 1.5%, spending growth was tightly controlled to be 1.3%. The budget also included 100 civil servant job cuts through attrition. In the 2019-20 budget speech, Finance Minister of New Brunswick, Ernie Steeves, said,

“.....Clearly our province is at a crossroads. We all have choices to make, and we must all work together and choose wisely. We cannot continue to push decisions down the road. It is not responsible, and those actions are endangering the future of our province.....

Mr. Speaker, there is simply no reason the budget could not have been balanced earlier.....

Good governance means making responsible choices. Our first budget is a turning point.Our debt load and tax burden is crushing the people of this province. It's hurting our economy, and it's making it nearly impossible for families to get ahead. Our essential services are at risk – health care, education, and social programs. As a province we are failing at the basics.” (Government of New Brunswick 2019b, 5-6).

Even without a BBL in place, Prince Edward Island (PEI) has balanced its budget since 2017. In 2012, PEI introduced plans to replace the PST with an HST. This move would broaden the tax base and lower the combined GST and PST rate from 15.5% to 14% (Bissett 2012, 1). In the 2013 budget, the government introduced new measures of financial restraint to curb rising public debt levels. In 2017, PEI introduced its first balanced budget in ten years (Yarr 2017, 1). This was achieved with increased revenues from income taxes, crown corporations and sales taxes. One of the biggest problems facing PEI is the growing 55+ demographic. Even if government manages to meet its financial targets and posts budget surpluses for the next three years, the debt will continue to grow for two of those years (CBC News 2017).

In summary, Nova Scotia, New Brunswick and Prince Edward Island maintained fiscal discipline and regard balanced budgets as a political priority. They all made HST tax changes and introduced tight spending controls to balance the budget, sometimes earlier than their promised date. All three provincial economies are small and not diverse. Citizens generally prefer the government to adhere to the principle of living within its means. In these small provinces, being accountable means a conspicuous commitment to balancing the budget as a political norm. Nonetheless, Nova Scotia and New Brunswick have adopted a rather opportunistic attitude towards their BBLs. The two provinces adhere to a BBL when it takes little effort to balance the budget. When balancing the budget requires politically unpopular measures, they repeal the

⁵ Although this type of law does not require balanced budgets, they set up numerical targets in anticipation for a return to balance. We use the term BBL for both conventional BBLs and this type of measures of fiscal discipline.

balanced budget requirements in their BBLs, in anticipation of a return to a more stringent version of BBLs when conditions improve.

4.3 Group 3 Skeptics – could balance the budget but choose not to: AB and ON

In Alberta, the former Progressive Conservative government replaced the 2009 BBL with the *2013 Fiscal Management Act* in response to declining resource revenues. In 2015, the Alberta NDP, led by Rachel Notley, was elected with a majority and promptly repealed the 2013 BBL, replacing it with the *Fiscal Planning and Transparency Act*. The 2015 BBL did not require an annual budget surplus and instead limited unbudgeted spending to be less than 1% of operating expense. It relaxed rules about the management of the contingency fund. Under the new BBL, the government could use the contingency fund as part of the General Revenue Fund to balance the budget and did not have to deposit a budgetary surplus into the contingency fund. The 2015 BBL also required various financial reports, and clarifies the scope of accountable organizations.

Deficits occurred in every year of the four years under the NDP government, from 2015-16 to 2018-19. In 2018, Notley promised to balance the budget by 2023 (Global News December 28, 2017) and her plan was to increase spending and count on oil revenue to balance the budget (Scofield 2019). On February 27, 2019, Finance Minister Joe Ceci released the NDP government's third-quarter fiscal update, including an update on the government's "path to balance" by 2023-24. He said, "There has been a great deal of volatility in this province. So, I wanted to remind Albertans that we are on that path without harming programs and services that they rely on." (CBC News 2019)

Although Alberta still has the highest GDP per capita and the lowest debt-to-GDP ratio among the provinces, its debt burden has been growing quickly. In the provincial election in April 2019, the newly formed United Conservative Party (UCP) led by Jason Kenney ousted Notley's NDP. On May 8, 2019, Premier Jason Kenney appointed an expert panel to determine how to balance the budget in less than three years and wipe out debt without increasing or introducing taxes. The main approach is tax cuts to corporations coupled with harsh austerity measures such as spending controls and reductions in public sector pay (Climenhaga 2019).

Like the NDP government in Alberta, Ontario was another example of weak commitment to balancing budgets. Just three months before the June 2018 election, the former Liberal government of Ontario reversed its promise to balance the budget in 2018-19 and chose to run a campaign with a projected deficit. According to the government, the purpose of the forecasted deficit was to boost growth, protect services, and allow more investment in key areas such as health care and childcare. Finance Minister Charles Sousa defended the deficit decision saying, "I'm confident that as we move forward to invest in our economy, it will create greater growth, enabling us to have a stronger GDP and we'll come to balance." The Progressive Conservative Leader Doug Ford responded, "We will restore fiscal responsibility in Ontario." (Global News March 28, 2018)

In June 2018, Doug Ford led the Progressive Conservative party of Ontario to a majority government, ending 16 years of Liberal party rule. In the government's inaugural budget in April 2019, the public was surprised to see no slash-and-burn spending cuts that some had feared and others expected (CBC News April 11, 2019). The budget did not implement the campaign

promise of reducing the corporate income tax rate by one percentage point either. The Ford government promised to first balance its budget only after its first term, in 2023-24. Finance Minister Vic Fedeli defended this decision as “the Goldilocks approach” to balance the budget (CBC News April 11, 2019). This budget had tight spending controls with an overall growth in program expenditures at only 0.8%. Big spender departments – health and education – took a hit. While 4% growth in health care spending is required to maintain service levels as in 2018-19, the budget offers only a 1.6% increase. Education expenditure requires a 3.4% growth but the budget provides only a 1.1% increase.

Clearly, in recent years neither Alberta nor Ontario regarded a balanced budget as a political priority. The two provinces maintained a BBL without a serious commitment to return to balance in the near future. These economies are relatively large and have a bigger fiscal capacity to handle debt and deficit than other provinces. If Alberta and Ontario (and the Federal government of Canada) really wanted to balance their budgets, they could achieve it much earlier than the promised dates. The fact that the Ontario government kept its 2004 BBL but ended up with decade-long budget deficits since 2008-09 suggests that the government does not believe in the preeminent importance of balanced budgets. Alberta is in a better economic and fiscal position than most of the provinces, but Alberta chose to repeal its balanced budget requirement in 2015, also suggesting its unwillingness to inflict political pain in order to balance the budget.

4.4 Group 4 The Hopeless – politically and economically difficult to avoid deficits: MB and NL

In spite of the change of government in 2016, Manitoba has had no a clear path towards a balanced budget since the 2008 financial crisis. In 1993, Brian Pallister introduced Manitoba’s first balanced budget law as a minister in Gary Filmon's Tory government. This BBL, the most stringent between 1995 and 2007, set a high bar for all BBLs in Canada. After the 2008 crisis, the former NDP government weakened the BBL in 2008, 2010 and 2013 through successive amendments. The announced recovery period was extended from 2011 to 2015, and then to 2016. In 2013, the NDP government raised the PST rate to 8% after promising not to hike the consumption tax. This tax hike did not produce a budget surplus (Government of Manitoba 2013) but infuriated the citizens of Manitoba. Some critics of the tax hike argued “that the NDP is simply mismanaging the province’s money and relying on Manitobans to pick up the slack” (CBC News 2013). The NDP government promised to balance the budget by 2016, which was also an election year.

In April 2016, Brian Pallister’s Progressive Conservative Party won a majority government and ended 17 years of NDP rule. The signature campaign pledge of the PC party was to cut the PST rate back to 7%. In June 2017, the government introduced its own BBL, the *Fiscal Responsibility and Taxpayer Protection Act*. This law was slightly amended in November 2018. The new BBL does not require a balanced budget. Instead, it legislates a target on deficit reduction of \$100 million from the previous year. The 2018 amendment requires withholding 20% of the salary of cabinet ministers until progress on deficit reduction is made. In defending this measure Pallister argued “There have to be consequences for elected officials.... I continue to be a very strong believer that elected people owe Manitobans some personal accountability, some level of personal accountability, in respect of the performance of their duties as far as managing the

books of the province.....” (CBC News June 15, 2018).

Manitoba had deficits from 2009-10 onward for nine years until 2017-18. The budget for 2018-19 and 2019-20 also projected deficits. In the 2017-18 budget address, the PC government indicated that they will not balance the budget before 2020, the year of the next provincial election. Critics complained that the government has no feasible deadline for a balanced budget. “The Pallister government has introduced new balanced-budget legislation that sets no deadline for getting the province’s books into the black and penalizes cabinet ministers only if they fail to make ‘progress’ each year in tackling what’s become a billion-dollar shortfall.” (Kusch 2017)

On March 7, 2019, Manitoba’s Minister of Finance, Scott Fielding, presented the province’s budget. Despite the large deficits (\$470 million in 2018-19 and projected deficit of \$360 million for 2019-20), the budget focused on tax relief to individuals and businesses (Government of Manitoba 2019, 1). The tax cuts include an extension of several business tax credits, and a cut in the PST rate from 8% to 7% one year before the promised date of 2020. The PST rate cut will cost the provincial \$325 million in revenue over the course of 12 months. Even with the tax cuts, the government managed to shrink the projected deficit to \$360 million. This was achieved through another large increase in federal transfers and very tight spending control – government spending will grow by only 0.3%, implying a cut to public services, including particularly health care and post-secondary education. In the same period, Manitoba’s debt will continue to grow. Premier Pallister declined to comment on the wisdom of reducing sales tax revenue while the province is still running a deficit, other than to say that Manitobans deserve a break on their taxes. Even fiscal conservatives were surprised by the sudden, earlier than expected, move to shave 1% from the PST: “A pure fiscal conservative would want to see the deficit come down faster overall and have this done already and then look at the PST,” said Todd MacKay of the Canadian Taxpayers Federation (Kives 2019).

Newfoundland and Labrador has never introduced a BBL and could be categorized as another type of a skeptic. In 2007, when asked why the province does not have a BBL, the then finance minister of Newfoundland stated that the commitment was too restrictive, and that passing legislation on fiscal responsibility was more suitable (CBC News 2007). Newfoundland’s budget outcome is dependent on volatile oil prices. In 2011-12, increased oil revenues led the province to a surplus of over \$900 million. In 2015-16, when oil prices declined, the province faced a more than \$2 billion deficit. The province had a deficit from 2012-13 to 2017-18. During the same period, the debt-to-GDP ratio grew rapidly from 26% to 44%. In 2017-18, net debt reached \$14.6 billion in what is a small province of about 529,000 people.

In 2015, the Liberals won a majority government and promised a return to balance in the 2020-21 fiscal year. The government increased HST rates by 2% in the 2015-16 budget. With decreasing oil revenues, the path to balance was extended to 2022 in the 2016 budget. In the next two fiscal years the Liberal government focused heavily on providing financial security, by lowering spending and paying down the public debt. Some savings came from government job cuts – more than 900 positions have been cut since 2016 – and the Liberals stressed that steep tax increases in recent years were necessary to get finances back on track. When introducing the 2019-20 budget on April 16, 2019, Finance Minister Tom Osborne said, “We’ve put the province back on a sound fiscal footing.....We’re turning the corner.” (Global News April 16, 2019). In

this budget, no big tax increases were introduced, as the Liberal government worried openly about migration out of the province.

In summary, in Newfoundland volatile oil prices and a negative demographic trend constrain the province's ability to manage the budget. In Manitoba election politics dominate the portrayal of responsible fiscal policy. The former NDP government promised to balance the budget in 2016, an election year but failed to do so. The new PC government indicated that it will not balance the budget until 2020, another election year. Premier Pallister repealed the balanced budget requirement that he himself introduced more than 20 years ago and reduced the PST rate by 1%, putting the province on a more difficult path to balanced budgets.

4.5 Summary

Looking at the experience of the ten provinces, regardless of their treatments of BBLs, we see these governments have “recently come to a bit of a consensus” on working towards balanced budgets (Scofield 2019). Except for Manitoba, most provinces have hiked their PST/HST rate or refrained from reducing major tax rates. Most provinces also had spending controls including particularly confining the growth of big spenders like health and education to a rate that cannot maintain current levels of service.

Although balancing the budget is still the norm among Canadian provinces, provinces interpret this goal differently: British Columbia, Quebec, Nova Scotia, New Brunswick, Saskatchewan and Prince Edward Island prioritize balanced budgets while Alberta, Ontario, Manitoba and Newfoundland demonstrate a weaker commitment. The use of BBLs as a budget management and governance instrument varies across provinces: British Columbia and Quebec enshrined BBLs; Nova Scotia, New Brunswick and Saskatchewan used BBLs to fit with their fiscal reality and fiscal policy; while Alberta (under the NDP government), Manitoba and Ontario largely diminished the role of BBLs to a form of window dressing.

These decisions regarding the priority of balanced budgets reflect, in part, the economic and political conditions in each province. Scott (2004, 22) offered another, cultural-cognitive explanation for these policy changes. According to his theory, a budget surplus, as a fixed policy objective, is pursued under stable economic conditions, such as during Canada's growth period between 2000 and 2007. When governments face external shocks such as the 2008 financial crisis, they turn to their own interpretations of fiscal sustainability and democratic accountability.

5. Conclusion

In this study we reviewed the experience of the Canadian provinces in budget management. We conclude that the promise to balance the budget is still regarded as a useful instrument to signal politicians' inclination to pursue fiscal responsibility and elicit voters' trust. On the other hand, voters' support for a government depends on their perception of politicians' ability to manage priorities in different contexts. In this regard, politicians should not be judged solely on their ability to keep promises, but also by their ability to make deliberative decisions given changing conditions and to effectively communicate those decisions to citizens. A budget is the blueprint of a government's strategic priorities, not merely an accounting exercise. Whether to adhere to a

BBL and whether to balance the budget is a critical strategic choice in the politician-voter relationship.

We found governments are not simply fiscal managers that balance the books and declare victory. At all times, but particularly when emerging from an economic crisis and facing a new global economy, governments are expected to be competent managers that can effectively steer provincial economies and promote social welfare. Changing circumstances in each jurisdiction prompt a diverse set of approaches to fiscal policy; various combinations of tax cuts, tax increases, spending controls, government investments and social spending have been and will continue to be employed. Meanwhile, provincial governments increasingly emphasize a democratic standard in fiscal governance, namely accountability. Being accountable implies sustainable spending, but also responsiveness to economic conditions and the demand for public services.

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