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For immediate distribution – June 18, 2009

NEWS RELEASE

It is time to revisit federal budget planning processes ***Short-term deficits provide opportunity to adjust budget practices***

Montreal – The federal government’s prudent budget planning has been a highly successful tool of fiscal discipline over the past 15 years, but it has also led to undesirable outcomes that have undermined both credibility and effectiveness of the budgeting process, according to a new study from the Institute for Research on Public Policy.

“The onset of the current economic crisis has led to a reversal of long-standing political intolerance for falling back into deficit,” says author Mike Joyce. “Temporary suspension of the ‘no-deficit’ era provides an opportune time to step back and examine the current budget planning framework.”

The study, “Prudent Budgeting and Budgetary Process Effectiveness in Canada’s Federal Government,” found that prudent budget planning has created a compelling incentive for budget officers to manage the political risk of missing annual budget targets by retaining or introducing significant implicit prudence into the fiscal framework, in addition to the explicit prudence displayed in annual budgets. As a result, the government consistently overshot budget targets, which meant there was an increase both in the size and the incidence of in-year allocation decisions to spend the resulting surpluses as well as in unplanned debt reduction.

Joyce argues that the current fiscal planning framework has created three significant problems with regard to the budgetary process: (1) the range of allocation options available to the government is unnecessarily constrained; (2) the credibility of the budget guardians is eroded, and fiscal discipline suffers as a consequence; and (3) the extent to which the Ministry of Finance, Parliament and other stakeholders have the opportunity to influence budgetary decision-making is reduced.

“To fix this we need to move from a single-year budget target to one that is expressed as a cumulative total over a multi-year period. This would provide a more credible and effective path back to balanced budgets,” notes Joyce. “Accounting rules that constrain surpluses from being carried forward should also be modified in the context of lessons learned from prudent budgeting’s unintended consequences.”

“Prudent Budgeting and Budgetary Process Effectiveness in Canada’s Federal Government,” by Mike Joyce, can be downloaded free of charge from the Institute's Web site (www.irpp.org).

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