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NEWS RELEASE

## ***Canada's Fiscal Turnaround Is Remarkable but We Are Only Half-way Home***

***New IRPP Study by Thomas J. Courchene Gives Credit to Paul Martin for Deficit Targets, Prudent Forecasting and a Reformed Budgetary Process***

**Montreal** – “While we can and should celebrate Canada’s remarkable fiscal turnaround, we are probably only half-way home,” says Thomas J. Courchene, in a *Policy Matters* study released today by the Institute for Research on Public Policy (IRPP).

The principal economic legacy of the Chrétien government thus far is the fiscal turnaround, with most of the accolades going to former Finance Minister Paul Martin, notes Courchene, Jarislowsky-Deutsch Professor of Economics and Financial Policy at Queen’s University and Senior Scholar at IRPP. No other G7 country can match Canada’s five consecutive surpluses. Indeed, no other G7 country is likely to run a surplus in this current year. For this stellar performance, *The Economist* labelled Canada the “fiscal virtuoso” of the G7.

Courchene says that the cornerstone of Martin’s success in taming the deficit was the comprehensive way he went about “deficit-proofing” the budget — promising to meet deficit targets “come hell or high water,” conservative budgetary processes (prudence and contingencies), tough spending cuts and, admittedly effective though more controversial, robbing the coffers of the provinces and the EI fund.

Courchene argues that Canadians are already reaping the benefits of Martin’s deficit-taming. Canada is weathering the current economic fragility much better than the US, in part because Martin primed the pump of the economy with a package of tax cuts, effective January 1, 2001, that approached \$60 billion. In sharp contrast, during the early 1990s recession our fiscal overhang was such that taxes actually increased.

While Canada’s debt-to-GDP ratio has fallen from 70% when Martin took the helm at Finance to roughly 50% today, “this still leaves Canada’s debt ratio the second highest (after Italy) among G7 nations,” in sharp contrast with our performance on the deficit front.

While Paul Martin is no longer finance minister, his enduring legacy may well be to have positioned Canada well in terms both of budgetary processes and policies such that his successors can ensure that Canada becomes fiscally “home free.”

"Half-Way Home: Canada's Remarkable Fiscal Turnaround and the Paul Martin Legacy," is the latest *Policy Matters* paper to be published by the IRPP. It is now available in Adobe (.pdf) format on the IRPP website at <http://www.irpp.org> – to access the document, simply click on the "What's New" icon on the homepage.

For more information, or to schedule an interview with the author, please contact the IRPP.

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