

Budgetary Balances and Election Outcomes: More Than Meets the Eye

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Most analysts agree that a key moment in the 2015 federal election campaign was Justin Trudeau's promise of deficit spending, which differentiated him from the other two parties, siphoned progressive votes from the NDP and branded the Liberal leader a politician of principle. But how often do fiscal promises affect election outcomes?

In the 2015 federal election, the Conservative Party of Canada based their campaign strategy on the premise that they would be the party of steady and responsible economic stewardship in uncertain economic times. The centrepiece of this strategy was a balanced budget (and a promise of future ones), questioned both on the soundness of its accounting and its dubious value in the context of a nearly \$2 trillion economy.

Notwithstanding apparent weakness in the economy, the Conservatives promised sound fiscal discipline and proposed no new spending priorities and plans, preferring to stay the course of their existing governing agenda. While echoing the Conservatives' message of fiscal prudence, the NDP proposed new allocations and spending directives. They were ultimately saddled by an inconsistency among concerns over the health of the economy, the measures to address the challenges and the fiscal constraint they imposed on themselves. Then, there were the Liberals, who more clearly linked voters' apprehension about the economy with the promise of more spending (and resulting deficits), and they won.

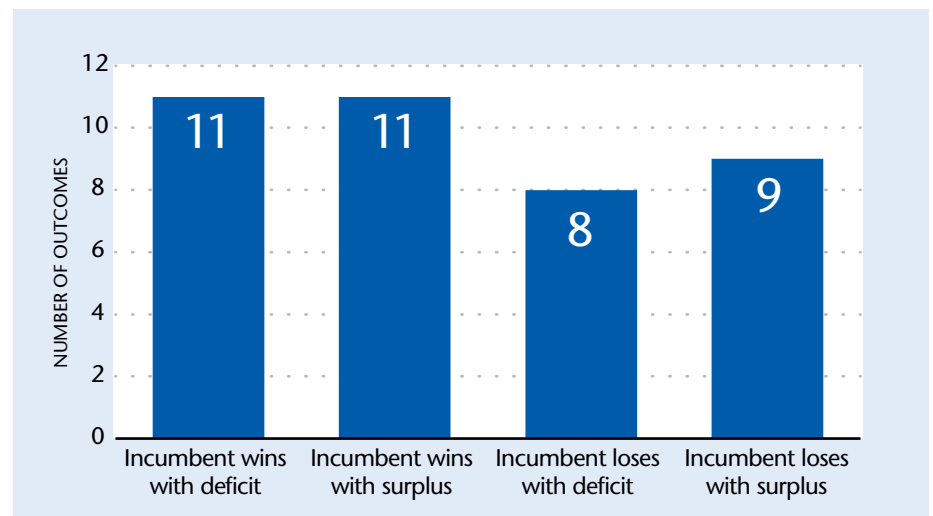
This had us asking some questions: Do budgetary balances impact elec-

toral outcomes for incumbent governments? Are previous federal elections instructive in this regard? If budgetary balances do not provide such clues, are there other factors that drive public confidence in governments *vis-à-vis* their fiscal stewardship? In considering these questions, we are reminded that elections and their outcomes are about a number of domestic and international issues. The management of public money is one of several factors, but we posit that it can be a useful lens of analysis.

Looking back to the first general election with a budget to precede it, in 1872, we compiled the projected budgetary outcome (surplus or deficit) and the incumbent's electoral outcome (win or lose) based on budget speeches. Since Confederation in 1867, there have been 41 general elections with a budget or financial statement associated with them. Of the 41, 39 have had budgets preceding elections (for two outstanding cases, there was only a financial statement produced in 1958 and no budget tabled before the 1963 election). Across these elections, incumbents were just as likely to win with deficits and surpluses, and virtually just as likely to lose with deficits and surpluses (see Chart 1).

A look at the historical record suggests that planned surpluses or deficits are poor predictors of electoral performance of incumbent governments.

Chart 1: Electoral outcomes and budget statuses since 1872 (excluding 1958 and 1963).



A more nuanced understanding of public financial management beyond budgetary balances and surpluses may shed some light on fiscal stewardship.

The reality is that there is far more to public finance as a means of understanding politics than deficits and surpluses. According to prominent public finance academic Allen Schick (University of Maryland, College Park), there are three lenses that can be used to assess a government's public financial management: 1) aggregate fiscal discipline (a government's ability to balance revenue and spending over the economic cycle, which is about more than a political objective of a near-term balanced budget. There is often a conflation between the political objective and the policy objective of aggregate fiscal discipline). Over time, the policy objective of aggregate fiscal discipline and balanced budgets can help to mitigate negative consequences of debt build-up, i.e. crowding out investment, reducing fiscal room to manoeuvre, transferring debt to the future generations, etc.); 2) allocative efficiency (how a government aligns spending to its priorities); and 3) operational efficiency (the cost and capacity with which a government delivers programs and services).

To consider the nuances of public perception of a government's financial management, we re-frame the 2015 election platforms of the three major parties through Allen Schick's Public

Expenditure Management Framework (Table 1).

Naturally, the longer an incumbent government is in power, the more baggage it may carry vis-à-vis its operational performance. Having been in opposition for the previous nine years, the other two parties had no such track record to defend.

By virtue of its time in office since 2006, the Conservative Party was both helped and hindered by its record. While frequently touting its performance on aggregate fiscal discipline, the Conservatives may have been trying to mask the issues of operational efficiency that had gradually chipped away at the public's confidence in their ability to be effective fiscal stewards. Initiatives such as Shared Services Canada's failure to reduce costs of information technology (IT) services within government (in fact increasing costs); or the F-35 fighter jet procurement debacle, where the Parliamentary Budget Officer's and Auditor General's analyses suggested the government severely underestimated the cost of the project (Canada has yet to procure military aircraft in its place); or the Deficit Reduction Action Plan (DRAP) measures from Budget 2012 whereby the government promised cuts would not impact service provision, when they did (e.g. veterans unable to obtain basic services). With a public track record of performance, the incumbent stands to

lose the most in an election.

Further, it is possible that the sheer size of deficits and surpluses as well as their sometimes oblique relationship to the scale of the economy and its health are less tangible manifestations of good fiscal stewardship than the sometimes more obvious failures of government to procure, deliver and account.

Consider the Liberal government of Paul Martin, who as finance minister in the 1990s executed a significant fiscal consolidation and campaigned in 2006 with the benefit of having consistently delivered budgetary surpluses. However, the Liberal Party could not win re-election as the long tenured Chrétien-Martin government was burdened by the dual albatrosses of the sponsorship scandal and the gun registry, both issues of operational efficiency.

It is possible that operational efficiency plays a significant but unmentioned role in the public's judgment in a government's public financial management record. Where a government spends money (allocative efficiency) and the results it yields (operational efficiency) can be as useful a lens as its ability to balance revenues and spending (aggregate fiscal discipline).

Certainly, economic and fiscal management decisions may lend themselves to empirical assessment and quantification in relation to voter perceptions and the roles of state actors in their determination. However, more granular levels of analysis of public financial management cutting through procedural requirements, such as fiscal rules, can shed light on an incumbent's overall performance and opposition plans. Canadians, media and political analysts may wish to consider these three lenses together when they're assessing government records and opposition party plans during an election. **P**

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Table 1: Federal party platform assessment through the public expenditure management framework.

Party Platforms	Public Expenditure Management Framework (PEM)		
	Aggregate Fiscal Discipline	Allocative Efficiency	Operational Efficiency
Conservative Party of Canada	Budgetary balance	Status quo	E.g. Shared Services Canada, F-35 procurement, Deficit Reduction Action Plan (DRAP), etc.
New Democratic Party (NDP)	Budgetary balance	Realignment of spending to priorities	N/A
Liberal Party of Canada	Deficits	Realignment of spending to priorities	N/A