

REALLOCATION IN CANADA -PROGRAMME REVIEW-

Seoul, 15 November 2004

Jón R. Blöndal
Deputy Head of Division
Budgeting and Management Division

AGENDA

- **The OECD**
- **Review Canada's fiscal performance before & after Programme Review (PR)**
- **Outline what went wrong prior to PR**
- **What factors served to introduce PR**
- **Describe key elements of PR**
- **Concluding Remarks**



OECD

- Working Party of Senior Budget Officials
- SBO Network on Financial Management
- SBO Network on Performance and Results
- SBO Network on Organizational Structures
- SBO Network of Chairpersons of Parliamentary Budget Committees
- Regional SBO Network for Asia
- Regional SBO Network for Latin America
- Regional SBO Network for Eastern Europe

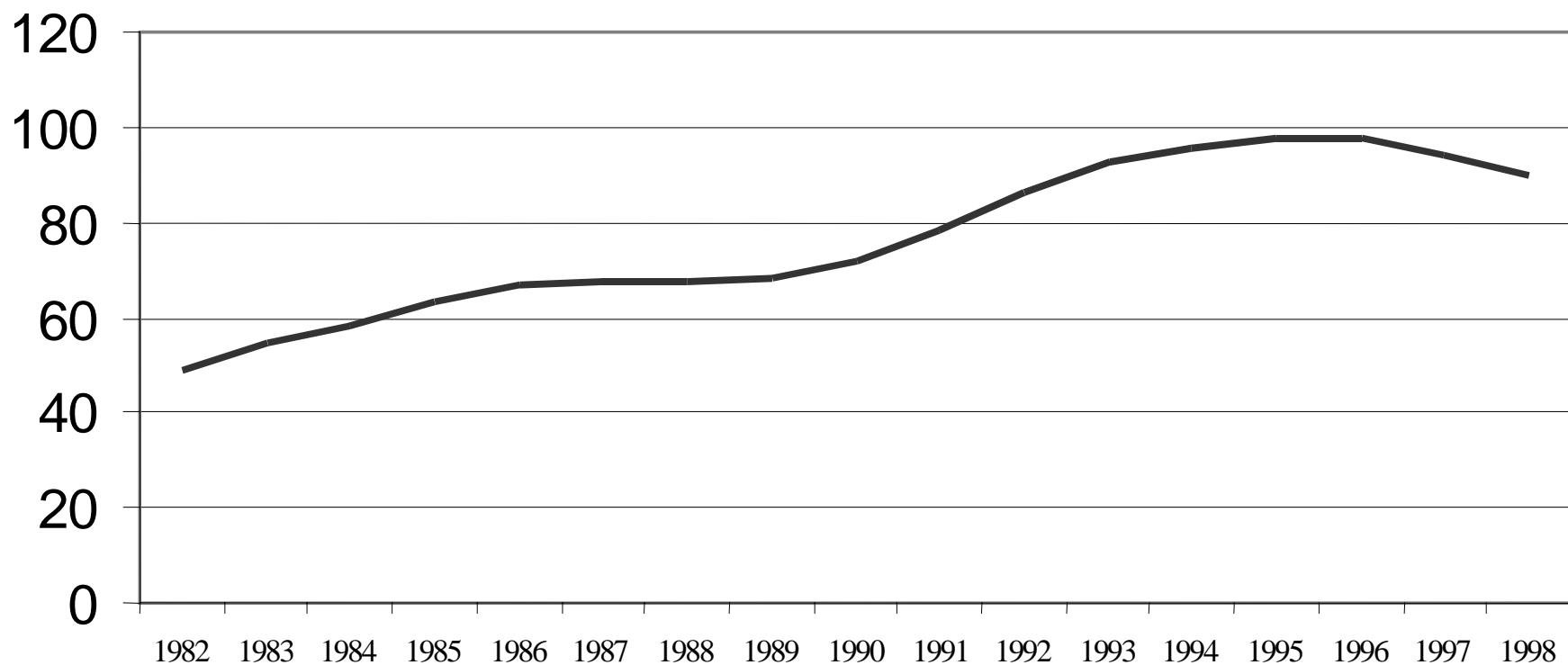
OECD (2)

- Holistic country reviews of budgeting systems
- Cross-country analysis of specific budgetary issues
- Comprehensive database of budgetary practices

“The Three Pillars”

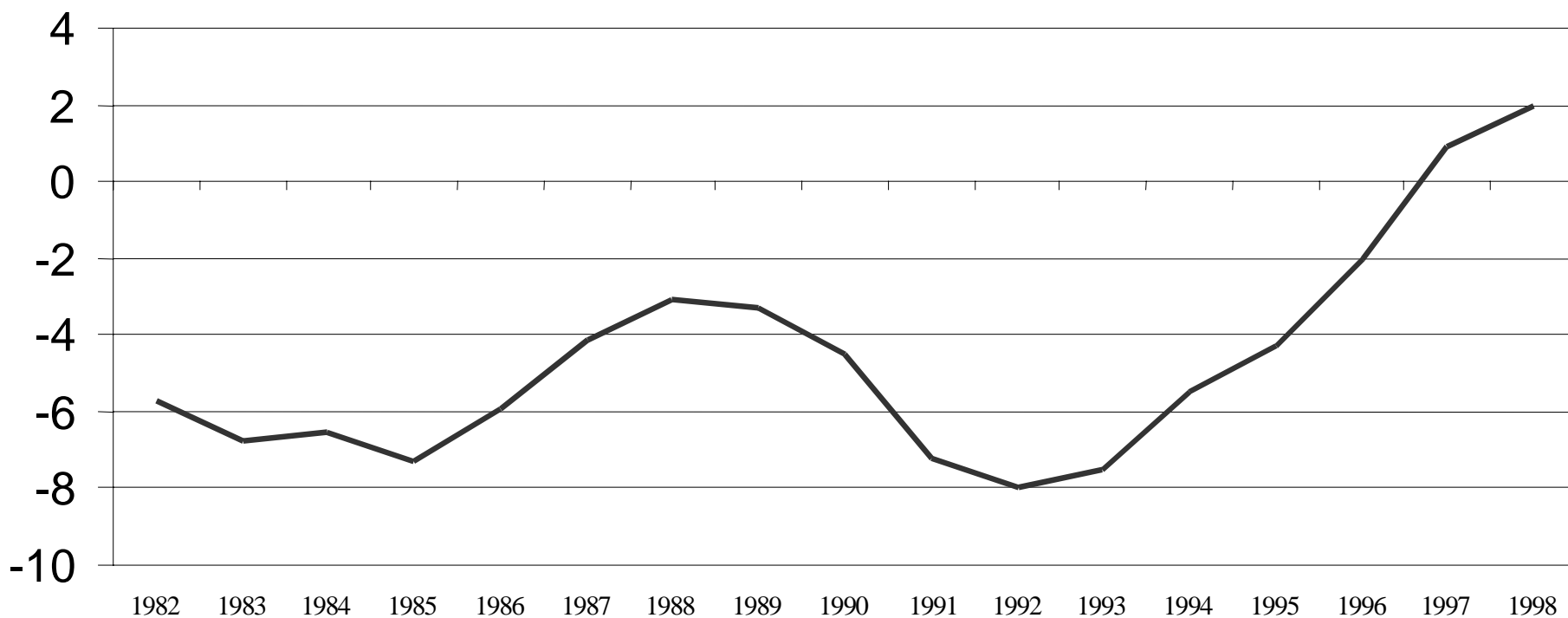
ACCUMULATED LIABILITIES

(As % of GDP)



ANNUAL DEFICIT / SURPLUS

(As % of GDP)





WHAT WENT WRONG IN CANADA

- **The Economy**
- **Political Commitment**
- **Budgetary Institutions**

“The Stars Aligned”



THE ECONOMY

- **Poor performance**
- **Believed to be cyclical in nature**
- **Blamed on various “temporary” events**
 - Commodity prices collapsed (1986)
 - Stock market crash (1987)

POLITICAL COMMITMENT

- **Deficits not viewed as serious by public**
- **Outcry against budgetary cuts in 1984**
 - Government “learned” its lesson
- **Reform overload**
 - NAFTA, privatisation, tax reform
 - No energy/political capital to deal with deficits

BUDGETARY INSTITUTIONS

- **PEMS**
 - Multi-ministry envelopes / committees
 - Fostered increased expenditures
 - Across the board cuts were the only option
- **Reserve Funds**
 - Undermined fiscal discipline
- **Economic assumptions**
 - “Optimistic”
- **Cost sharing programs with provinces**
 - Mainly in the social welfare field

THE TURNING POINT: PROGRAMME REVIEW

In 1994, the Government embarked on what became an exceptionally successful fiscal consolidation and reallocation program.



POLITICAL ECONOMY

“Democratic government can be counted on to do the right thing ... but only after they have tried everything else!”

“Very few things are ever put into place unless we have no choice .. So when you have no choice it’s a bit like the threat of death. It makes you think better!”



POLITICAL ECONOMY (2)

- **A sense of crisis is needed in order to introduce fundamental reforms**
 - Clearly the OECD experience
- **Bad vs. critical**
 - Guiding/leading public opinion

POLITICAL ECONOMY (3)

- **There was an emerging crisis...**
 - The collapse of the Mexican economy
 - Interest rates & Canadian dollar
 - Downgrades by credit rating agencies
- **The public accepted reform...**
 - “Business as usual” cannot continue
 - The government put great effort into guiding/leading public opinion



POLITICAL ECONOMY (4)

- A new Government
- Very strong relationship between the Prime Minister and the Finance Minister
- New Ministers – not entrenched
- New MP's – not entrenched

PROGRAMME REVIEW (1)

- Does the programme serve a public interest?
- Is this an appropriate role for the government?
- Could this be better done by another level of government – provincial, municipal?
- Could this be left to the private or voluntary sectors?
- Could the programme be delivered more efficiently?
- Is it affordable?



PROGRAMME REVIEW (2)

- One-off exercise
- Located in Privy Council Office (Cabinet Office)
- Dedicated minister appointed for the exercise
- Committee of senior ministers
- Committee of senior officials

PROGRAMME REVIEW (3)

- First Round
 - Ministries were to self-review their own programmes according to the six criteria
 - This did not yield any meaningful results
- Second Round
 - Ministries were assigned quantitative savings reductions: 5% to 60 %
 - Source of the targets was the Finance Ministry
 - Rigorous vetting of proposals submitted to ensure their viability



PROGRAMME REVIEW (4)

- The Role of the Finance Ministry
 - Source of information
 - Operated in the background (in theory)
 - Fundamental to the success of the program

BUDGETARY INSTITUTIONS

- PEMS replaced by effective top-down budgeting
- Contingency funds were eliminated for operational purposes
- Great emphasis on prudent economic assumptions and contingency fund for that purpose only
- Shared programs with provinces moved from cost-sharing to block grants



CONCLUSION

- Reallocation is budgeting
- It is very difficult
- Opportunities for major reallocation appear politically only in crisis or near-crisis situations
- The key is to be able to take advantage of those situations
- Implies a strong role for the Finance Ministry
- Budgetary Institutions matter



FOR FURTHER INFORMATION:

- WWW.OECD.ORG/GOV/BUDGET
- *OECD JOURNAL ON BUDGETING*