



C.D. Howe Institute
Backgrounder

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Missed Targets:

Canada's 2007 Fiscal Accountability Ranking

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The Backgrounder in Brief

If governments do not meet their budget commitments, accountability to legislators and voters breaks down. How reliable have federal, provincial and territorial commitments been over the past 10 years? Overruns have been the general rule, but some governments have done much better than others.

Note to Readers

This is a revised version of a Backgrounder issued on February 27, 2007. We thank those who provided comments before and after the original version, and remain responsible for the figures and conclusions presented here.

About the Authors

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It is budget season in Canada, when Ottawa and all provincial and territorial governments unveil their budget plans for the coming fiscal year. Budget commitments are widely reported, and subject to votes of confidence in legislatures. This attention is apt: fiscal policy is a powerful economic tool and, in the long run, the amount governments spend on their programs determines how much tax Canadians pay and what public debts they carry.

Before treating these documents seriously as statements about their fiscal futures, however, Canadians should ask how reliable their governments' budget commitments have been in the past. After all, the less reliable those commitments have been, the less confidence Canadians can have that governments will stick to them in the future — thus weakening a key link in the process of accountability to voters.

To examine this accountability issue, we look at 10 years of federal and provincial/territorial budget projections and results, and compare them using two measures of reliability:

- *bias* – whether deviations between results and projections have tended toward a particular direction; and
- *accuracy* – how small have been the deviations between results and projections.

To preview the most salient conclusions, we find that, over the past decade, all governments tended to spend more than they projected at budget time. Quebec, Newfoundland, New Brunswick and the federal government have the best records on this front, with average overruns of less than 2 percent. The worst records belong to Alberta, the Yukon and Nunavut, with average overruns of 4.8, 7.7 and 9.2 percent, respectively.

The rankings based on accuracy are similar, but not identical. Quebec, New Brunswick, and Ontario had the best performances, with average deviations of less than 3 percent. Again, Alberta, the Yukon and Nunavut performed the worst, with average deviations of 5.8, 9.0 and 10.8 percent, respectively. Although Ottawa performed well on the bias measure, its score on accuracy is only middle-of-the-pack.

Perhaps not surprisingly, budgets in most Canadian governments show a positive correlation between surprises on the revenue side and surprises on the spending side — that is, actual spending tends to be higher than expected at budget time in years when revenue is higher than expected, and vice versa. Apparently, many governments find it convenient to spend unforeseen revenues by voting unbudgeted spending during the fiscal year.

It is important that governments respect their budget commitments. Critically, the period in the run-up to each fiscal year is the only time when Parliament and provincial/territorial legislatures weigh all competing demands on the public sector and establish priorities. Revenue and spending measures later during the

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budget year — especially spending supplements voted when the funds are already effectively or actually spent — do not get the same scrutiny or prompt the same questions about alternatives. And, as recent unplanned surpluses at the federal level and spending overruns in several provinces have highlighted, large recurring differences between budgets and outcomes may induce skepticism among policymakers and the public, undermining confidence in the budget process itself.

Another key concern is that, as governments have become larger and more complicated, the ability of legislators to understand and control revenues and spending is increasingly under stress. In addition, legislators effectively control less and less of their budgets as formula- and demand-driven programs — such as income support and health care — grow relative to other programs. This environment, we believe, may erode the accountability of the executive to legislators for budget outcomes and the accountability of legislators to their constituents. Such a development would be ominous, given Canada's need to devote resources to private sector investment and to contain public sector commitments as population growth slows and Canadians get older.

Unexpected claims on spending arise from time to time as a result of natural disasters, war, and many other causes. By looking at a number of years together, however, we can highlight situations where large discrepancies — overruns, in particular — threaten to become routine, depriving voters and taxpayers of the ability to enforce their judgments at the ballot box. Using such measures of fiscal outcomes, it may be possible to encourage governments to honour their budget commitments, and thus increase Canadians' control over their fiscal futures.

Measuring Fiscal Results against Budget Commitments

In the wake of the fiscal difficulties many Canadian governments encountered in the mid-1990s, evaluations of fiscal performance tend to focus on budget balances — comparing deficits or surpluses with government projections or with the predictions of nongovernment forecasters. Because a budget balance is the difference between two large numbers, however, its size and even its direction are sensitive to relatively small differences in revenues or expenditures. For that reason, we focus on revenue and spending separately.

Furthermore, in comparing the relative performance of governments, we are mainly concerned with spending, rather than with revenue. The reason is that — although one cannot rule out the possibility that governments deliberately shade their revenue projections one way or another — it is not a straightforward exercise to compare discrepancies in projected and actual revenues from one government to the next. Governments that are more dependent on cyclical revenue sources, such as those from natural resources, will naturally have a tougher time anticipating their incomes. The importance of federal transfers for provincial and territorial governments adds a further important uncertainty — particularly in the case of equalization payments, which are subject to retroactive adjustments — so different exposure to this source of uncertainty also makes comparisons of governments difficult. Program spending, by contrast, is something that legislators vote on in dollar terms. Notwithstanding the influence of economic and other factors that are difficult for legislators to control, all legislatures vote dollar

amounts. Even in a world full of surprises, voters are entitled to expect those votes to mean something.

We should also note that we focus on announced and actual *changes* in spending. Specifically, we first determine the “announced spending change” by taking the difference between the total spending announced in each budget for the upcoming fiscal year and the spending shown in that new budget for the fiscal year that is about to end or has just ended. To calculate the “actual spending change” we turn to the public accounts. We take the difference between the spending amount published in the public accounts at the end of the fiscal year and the equivalent number for the previous fiscal year.¹ Directly comparing spending levels would be simpler, but some governments — Ottawa, most notably — did not use consistent reporting methods in their budget and public accounts numbers over the past decade.² Focusing on changes, rather than levels, reduces the sensitivity of our results to distortions created by such inconsistency. Finally, to compare governments with greatly varying sizes of budgets, we use percentage changes for our comparisons.³

Table 1 presents projected and actual spending changes since fiscal year 1996/97 for Ottawa and all the provinces and territories. The top panel shows the difference between the upcoming fiscal year and its predecessor, as presented in each budget. The middle panel shows the difference between the same fiscal year and its predecessor, as presented in the public accounts after the end of the year. The bottom panel shows how close the actual change was to the change anticipated in the budget — a quick glance reveals that all governments had problems making their spending come in as projected, but, as a couple of summary measures show, some met this challenge better than others.

To summarize the reliability of government budget performance over the past decade, we measured both the bias and accuracy of government forecasts, in the following way:

- *Bias* is the tendency, if any, of a forecast to err consistently in one direction. For our measure, we chose the *mean error* — the arithmetic average of the annual errors. This simple and widely used measure of forecast bias is a simple average, in which underestimates and overestimates offset each other. As a result, the mean error measures only one dimension of the quality of a forecast — a small mean error could result either if all the errors were small or if all the errors were large but the overestimates and underestimates happened to balance each other out.
- *Accuracy* is the closeness of a forecast’s values to actual outcomes. Measures of accuracy more clearly reflect the usual meaning of forecast

1 Where there is ambiguity about which spending total to use, we adopt the totals reported in the Fiscal Reference Tables published by the federal Department of Finance (see www.fin.gc.ca/purl/frt-e.html) following the relevant year.

2 Ottawa, for example, used to net some spending programs, such as the Child Benefit, against revenue in its budget presentations, making the figures for both revenue and spending in budgets considerably lower than the gross figures in the public accounts.

3 We calculate the percent changes by dividing the dollar discrepancy between the budget forecasts and the public-accounts outcomes by the previous year’s level as shown in the budget.

Table 1: Expenditure Forecasts

<i>Announced Spending Change (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	-2.49	-2.32	1.35	-5.59	3.04	-3.31	-4.79	-3.80	-4.40	-1.63	2.28		-6.76	
1997-98	-1.75	-2.72	-3.86	-0.24	-1.51	-0.61	-4.03	-1.34	-1.24	1.24	-0.64		-4.11	
1998-99	0.34	0.41	-2.21	-0.50	-0.47	1.75	-0.61	-2.76	1.99	0.47	0.77		-7.39	
1999-00	0.13	-1.02	-0.29	4.57	2.06	-1.20	2.94	5.66	-0.33	2.16	1.33		-3.63	
2000-01	0.64	3.11	1.51	-0.61	-2.25	2.75	-1.23	-0.62	3.63	1.78	-1.30	4.84	-1.88	3.20
2001-02	5.14	5.35	-0.22	0.51	6.60	3.40	2.15	1.72	5.85	12.48	7.43	4.47	-1.12	1.79
2002-03	3.35	1.45	1.31	0.89	4.43	2.02	3.47	2.20	-0.77	-8.05	-0.32	5.08	-4.42	1.96
2003-04	2.79	5.53	4.69	3.78	4.31	4.26	7.07	4.15	3.41	0.21	-2.37	5.68	-6.85	3.20
2004-05	2.29	0.42	-3.64	4.94	2.29	3.09	6.88	1.10	0.90	2.90	-2.59	4.49	5.14	-6.51
2005-06	1.87	5.48	1.41	4.15	3.73	3.34	4.18	3.50	1.14	5.68	4.74	1.51	5.04	-2.30
2006-07	5.03	10.11	2.62	6.25	1.74	4.10	2.08	3.39	0.13	3.99	3.68	0.84	-3.10	2.59
<i>Actual Spending Change (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	-5.81	-1.12	2.71	-4.00	-0.43	-3.85	-3.37	-1.76	-0.34	-1.27	2.00		2.37	
1997-98	0.12	8.49	-0.77	4.36	0.91	1.04	0.17	5.26	0.61	6.06	-0.52		-4.45	
1998-99	3.79	-4.98	6.00	11.42	5.47	5.91	2.28	3.41	8.73	4.25	1.08		0.84	
1999-00	0.74	0.72	6.78	6.05	3.83	1.86	7.10	9.80	3.56	10.00	7.77		9.05	
2000-01	5.98	4.66	6.27	-3.05	-2.25	4.88	-0.50	2.76	2.55	9.47	1.11	5.63	3.51	14.86
2001-02	2.08	5.58	1.98	8.34	7.35	3.18	2.97	1.85	7.00	9.88	12.34	9.23	6.28	16.48
2002-03	4.02	1.47	1.14	-1.97	4.22	-0.76	8.42	3.04	0.57	-1.52	-0.07	6.05	0.68	4.29
2003-04	3.53	5.14	10.50	8.18	5.40	2.10	7.75	7.12	6.15	5.89	-2.05	5.56	11.51	4.90
2004-05	11.48	0.81	3.71	6.30	2.35	4.86	7.40	2.64	3.87	10.91	1.04	6.63	11.46	10.33
2005-06	-0.78	4.86	0.27	7.24	5.78	2.39	5.65	7.26	9.21	11.61	7.16	6.86	9.24	5.53
2006-07														
<i>Difference (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>Que.</u>	<u>ON</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	-3.32	1.21	1.36	1.59	-3.46	-0.54	1.42	2.03	4.06	0.35	-0.28		9.13	
1997-98	1.86	11.21	3.09	4.60	2.42	1.65	4.21	6.60	1.85	4.82	0.11		-0.34	
1998-99	3.45	-5.40	8.21	11.92	5.95	4.15	2.88	6.17	6.74	3.78	0.31		8.23	
1999-00	0.61	1.74	7.07	1.48	1.78	3.06	4.16	4.14	3.89	7.83	6.43		12.68	
2000-01	5.35	1.55	4.77	-2.44	0.00	2.13	0.73	3.39	-1.08	7.68	2.41	0.79	5.39	11.66
2001-02	-3.06	0.22	2.20	7.82	0.75	-0.22	0.82	0.14	1.16	-2.60	4.91	4.76	7.40	14.69
2002-03	0.67	0.01	-0.18	-2.86	-0.20	-2.78	4.95	0.84	1.33	6.54	0.24	0.97	5.09	2.33
2003-04	0.74	-0.39	5.80	4.39	1.09	-2.16	0.68	2.97	2.75	5.68	0.32	-0.11	18.36	1.69
2004-05	9.19	0.39	7.34	1.36	0.06	1.77	0.52	1.54	2.97	8.01	3.63	2.14	6.31	16.84
2005-06	-2.64	-0.62	-1.14	3.09	2.05	-0.96	1.47	3.76	8.07	5.94	2.42	5.35	4.20	7.83
2006-07														

Sources: Federal/provincial/territorial budget documents, public accounts, fiscal reference tables (federal department of finance), authors' calculations.

Table 2: *Bias and Accuracy in Budget Forecasts of Changes in Spending, 1996/97 to 2005/06*

Jurisdiction	Change in Expenditure Forecast (%)				Total Overrun (\$M)
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	
Federal	1.28	4	3.96	7	20,787
Newfoundland	0.99	2	4.03	8	346
Prince Edward Island	3.85	11	4.95	10	346
Nova Scotia	3.09	8	5.24	11	1,500
New Brunswick	1.04	3	2.50	2	524
Quebec	0.61	1	2.25	1	2,381
Ontario	2.18	6	2.72	3	13,366
Manitoba	3.16	9	3.75	6	1,946
Saskatchewan	3.17	10	4.08	9	1,906
Alberta	4.80	12	5.82	12	9,116
British Columbia	2.05	5	3.01	4	5,050
Northwest Territories ¹	2.32	7	3.09	5	122
Yukon	7.65	13	9.04	13	425
Nunavut ¹	9.17	14	10.84	14	430

¹ Starting in fiscal year 2000/01.

Sources: Federal/provincial/territorial budget documents, public accounts, fiscal reference tables (federal department of finance), authors' calculations.

“quality” than does the mean error because overestimates and underestimates do not offset each other. Our preferred measure for accuracy is the *root mean square error* — the square root of the average of the squared forecast errors. This measure shows the size of the error without regard to whether it is positive or negative, and gives greater weight to larger errors, which seems reasonable given the disproportionate damage to accountability when budget projections and actual results differ greatly from each other.

Table 2 summarizes the performance of Ottawa, the provinces, and territories in terms of the bias and accuracy of their budget spending projections and outcomes. Quebec scores best, in terms of both bias and accuracy.⁴ New Brunswick, Ontario, and British Columbia also score relatively well on both measures.

For the sake of a more complete picture, we also present analogous figures for the revenue side of the budget (Tables 3 and 4) — although, because of the differences in the degree of exposure to factors such as resource prices and

4 Guillemette and Robson (2006), using similar methodology in comparing just Ontario and Quebec, also establish Quebec as the best performer. However, given the ongoing reservations of Quebec's auditor-general about the province's exclusion of large parts of its health and education sectors from its fiscal reporting framework, it is worth stressing that we focus explicitly here on measures reported to the legislature in budgets and through the public accounts. Differences among the provinces in what their financial statements cover may affect the rankings if spending in excluded sectors is notably easier (as with capital spending) or harder (as with health care) to control; this question needs further investigation.

Table 3: Revenue Forecasts

<i>Announced Revenue Change (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>Que.</u>	<u>ON</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	3.37	-2.85	1.39	-1.49	3.37	-1.84	-2.42	-5.46	2.44	-4.58	2.63		-11.51	
1997-98	1.70	-1.61	-5.15	-0.26	-2.63	2.14	-1.51	-0.48	-7.45	-11.88	0.39		-2.96	
1998-99	2.37	1.60	-1.50	-1.31	-0.17	4.28	2.46	-3.06	3.63	-11.29	1.14		-3.71	
1999-00	0.13	-1.23	-2.88	1.59	-0.18	-1.20	6.00	5.42	-0.51	1.56	-0.34		-7.38	
2000-01	1.25	3.93	-1.66	0.23	1.89	2.75	-0.66	1.28	9.82	-1.65	0.54	4.89	1.68	3.13
2001-02	-4.09	5.72	0.65	1.80	-1.50	0.46	-1.01	0.57	-11.07	-10.71	2.31	1.61	0.91	5.46
2002-03	0.35	0.72	-0.39	3.09	4.44	2.02	4.85	0.60	2.29	-5.56	-3.57	-13.10	-2.36	-2.55
2003-04	3.36	1.82	4.58	3.78	4.40	4.26	7.79	4.64	-2.76	-2.87	4.10	10.34	1.14	10.43
2004-05	3.37	-3.81	3.07	4.16	4.58	3.13	14.81	4.01	1.79	-9.42	3.19	5.72	2.11	2.67
2005-06	2.34	3.52	3.14	4.39	2.87	3.27	5.90	-0.33	-9.17	-4.89	1.07	1.93	4.96	5.42
2006-07	2.82	0.02	3.10	5.13	0.13	4.42	2.13	3.42	-3.48	-6.34	-0.34	2.03	1.21	2.47
<i>Actual Revenue Change (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>QC</u>	<u>ON</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	7.95	-1.92	1.39	0.59	1.00	-2.33	-0.05	-0.32	7.11	8.13	2.09		-5.51	
1997-98	8.77	8.93	-1.50	4.87	-0.25	4.17	6.24	4.47	-6.22	6.29	0.38		-1.30	
1998-99	2.16	-4.71	8.09	4.26	0.61	11.88	6.27	2.42	8.56	-5.45	0.45		6.61	
1999-00	6.74	-0.03	5.63	0.40	7.59	1.64	13.02	7.98	4.53	19.76	7.61		-0.40	
2000-01	8.96	4.63	5.75	8.82	1.34	7.75	2.80	6.54	15.43	28.00	10.38	23.87	14.58	13.24
2001-02	-3.29	5.07	2.30	4.58	6.44	-1.44	-1.23	-0.07	-10.23	-14.06	-3.70	9.33	-4.12	5.98
2002-03	3.78	1.76	-2.06	-6.12	-0.71	-1.02	7.89	3.23	6.68	3.48	-4.90	-10.46	2.95	6.93
2003-04	4.65	2.77	6.82	9.18	5.64	2.78	-0.74	4.08	1.58	14.29	3.92	2.20	15.13	4.80
2004-05	7.24	2.07	9.48	8.36	8.54	4.52	13.83	11.44	19.06	13.58	14.15	12.84	10.56	9.14
2005-06	5.24	18.90	0.47	7.99	5.74	3.44	8.28	2.49	5.52	21.98	7.90	9.95	12.11	7.37
2006-07														
<i>Difference (%)</i>														
	<u>Federal</u>	<u>Nfld.</u>	<u>P.E.I.</u>	<u>NS</u>	<u>NB</u>	<u>Que.</u>	<u>ON</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
1996-97	4.58	0.93	0.00	2.08	-2.37	-0.49	2.38	5.14	4.67	12.71	-0.54		6.00	
1997-98	7.08	10.54	3.66	5.13	2.38	2.03	7.75	4.95	1.23	18.17	-0.01		1.66	
1998-99	-0.22	-6.32	9.60	5.57	0.78	7.60	3.82	5.49	4.93	5.84	-0.70		10.32	
1999-00	6.61	1.20	8.51	-1.20	7.76	2.84	7.03	2.56	5.04	18.20	7.96		6.97	
2000-01	7.71	0.70	7.40	8.59	-0.55	5.00	3.46	5.26	5.62	29.64	9.84	18.98	12.91	10.11
2001-02	0.79	-0.65	1.66	2.78	7.93	-1.89	-0.21	-0.64	0.84	-3.35	-6.00	7.72	-5.04	0.52
2002-03	3.44	1.04	-1.67	-9.21	-5.14	-3.04	3.03	2.63	4.39	9.04	-1.33	2.64	5.31	9.48
2003-04	1.30	0.95	2.24	5.40	1.23	-1.48	-8.53	-0.56	4.33	17.15	-0.18	-8.14	13.99	-5.62
2004-05	3.87	5.88	6.41	4.20	3.96	1.39	-0.98	7.43	17.27	23.00	10.96	7.12	8.45	6.47
2005-06	2.90	15.37	-2.68	3.61	2.88	0.17	2.38	2.82	14.69	26.87	6.83	8.02	7.15	1.95
2006-07														

Sources: Federal/provincial/territorial budget documents, public accounts, fiscal reference tables (federal department of finance), authors' calculations.

Table 4: *Bias and Accuracy in Budget Forecasts of Changes in Revenue, 1996/97 to 2005/06*

Jurisdiction	Change in Revenue Forecast				Total Overrun (\$M)
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	
Federal	3.81	9	4.60	4	60,300
Newfoundland	2.96	6	6.54	9	1,208
Prince Edward Island	3.51	8	5.40	7	302
Nova Scotia	2.70	5	5.38	6	1,304
New Brunswick	1.89	2	4.33	3	968
Quebec	1.21	1	3.35	1	4,838
Ontario	2.01	3	4.80	5	10,236
Manitoba	3.51	7	4.31	2	2,225
Saskatchewan	6.30	12	8.11	11	4,021
Alberta	15.73	14	18.37	14	32,984
British Columbia	2.68	4	6.05	8	7,135
Northwest Territories ¹	6.06	11	10.07	13	304
Yukon	6.77	13	8.56	12	364
Nunavut ¹	3.82	10	6.70	10	171

¹ Starting in fiscal year 2000/01.

Sources: Federal/provincial/territorial budget documents, fiscal reference tables (federal department of finance), public accounts, authors' calculations.

transfers among the various governments, rankings on the revenue side are not as useful as those on the spending side. Nevertheless, we can make a couple of observations. First, all governments tended to underestimate revenue growth on average — likely a consequence of Canada's generally good economic performance over the decade. Ottawa's greater exposure to relatively cyclical revenues from corporate income tax might account for some of its poor showing on the bias ranking. However, these numbers — and the colossal unbudgeted \$60.3 billion cumulative increase in federal revenue over the period — are consistent with suspicions about the conservative nature of Ottawa's revenue forecasts over much of the decade. Not surprisingly, those provinces and territories for which resource revenues and transfers are important also scored relatively poorly on both bias and accuracy.

Alberta's poor performance in meeting both its revenue and spending targets reflects the province's widely fluctuating revenues over the past 10 years, combined with unanticipated robust spending growth in several years. Interestingly, Alberta's poor performance does not reflect an unusual tendency to spend revenue surprises in the year they occur. When we calculate the coefficient of correlation between annual revenue surprises and spending surprises for all jurisdictions, Alberta, with a coefficient of correlation of 0.3, does not stand out — rather, it is Newfoundland and Labrador, Prince Edward Island, and Quebec that stand out, each with a coefficient of correlation between 0.7 and 0.8. Quebec's exemplary bias and accuracy scores tell us that its spending of surprise revenues

had limited impacts, while in the other two provinces the rush to spend unforeseen revenues fostered larger overruns.

Closing Observations

Our comparison of federal, provincial, and territorial budget-making bias and accuracy leads us to make recommendations of both a technical and a political nature.

On a technical level, the budget-making processes of more successful governments — Quebec above all — should be the object of study by the federal and other governments to see what lessons they might draw for their own budget processes. To the extent that governments have become more exposed to circumstances beyond their control, legislators should insist on new forecasting tools — for instance, budget forecasts that provide a range of possibilities for key outcomes, rather than point estimates — that would enable them to make more informed judgments about prudent levels of spending in the face of uncertainty.⁵

On a political level, legislators and citizens alike should insist that their governments exercise better discipline in hitting spending targets. They should also recognize that practices such as the “end-of-March burnoff” — the rush to spend at, or even after, the end of the fiscal year — have lasting, negative effects on the taxes they pay and the public debts they must support. We find that the direction of errors in spending is remarkably consistent across the country — overruns are much more common than shortfalls. Moreover, over time, average overruns have been large enough that government spending has grown considerably faster than legislators promised. It is one thing for high levels of taxes or deficits to exist as a result of commitments made and debated at budget time. It is quite another to get them because of overruns during or, worse, right at the end of the fiscal year.

Readers inclined to think that this evidence shows that inducing governments to stick to their commitments is a hopeless task should, we think, draw comfort from the fact of different levels of overruns from place to place. These suggest that tolerance for them among legislators — and presumably among citizens as well — is not the same everywhere. We hope our exploration of how governments perform in meeting their budget commitments will prompt both legislators and citizens to hold their governments more accountable, and reduce both bias and forecast errors in budgets to come.

5 For an elaboration of this idea in the federal context, see Robson (2006).

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