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Fiscal Politics

Ideas in Politics: Questions and Issues

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist ... I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.¹

– *John Maynard Keynes*

What are the relationships among ideas, politics, and policy? Specifically, what is the precise content of the ideas embodied in political discourse and in public policy? What factors determine the selection of certain ideas over others at different times? And what results flow from the selection of particular ideas? Changes in Canadian fiscal policy and political rhetoric since the mid-1970s offer an opportunity to better understand the political role of ideas. Put differently: Was Keynes right about his own ideas?

Canada's postwar Keynesianism assumed that, and behaved as if, Ottawa was the leader in macroeconomic policy. During Canada's postwar era, and through to 1984, federal governments typically presented deficit finance in Keynesian terms as a sound policy tool that could compensate for cyclical economic underperformance. However, persistent rather than countercyclical deficits emerged in the mid-1970s under Pierre Trudeau's Liberal governments. The federal government's public view changed when Brian Mulroney's Progressive Conservatives took power in 1984. The Mulroney administration presented deficit finance, for the most part, as the sworn enemy of good economic performance. Yet the Mulroney governments did not attain their stated fiscal policy goals. Jean Chrétien's

Liberals, elected in 1993, adopted and hardened the Mulroney critique. Chrétien and his finance minister, Paul Martin, succeeded where Mulroney failed. It was they who slew the federal deficit dragon that had, on the argument of Liberals, Tories, and Reformers alike in the 1990s, been terrorizing the land for nearly a quarter-century.

The culmination of these changes was a major shift in the focus of Canadian politics. The 1990s were the decade of *fiscal politics* in Canada. To an extent unprecedented in the postwar era, Canadian politics was about the fiscal position of the country's governments. Although this is primarily a story about the federal government, provincial politics in the 1990s were also organized to a large degree in terms of provincial finances. By the end of the decade, the budgets of almost all the provinces were balanced or nearly balanced. Provinces are supporting characters in the story. And this fiscal orientation was not confined to elites. Canadians were largely voting for parties they believed would best exercise fiscal responsibility and exorcise fiscal demons. It became close to impossible to get elected anywhere in Canada if a party's commitment to budgetary balance was not credible.

This book is about the public life of the winning ideas regarding deficit finance propounded by Canada's federal government. The book aspires to answer three specific questions:

- 1 What was the content of these ideas at various points in time? By closely examining budget documents, other materials put out by the federal government, and federal policies, I plan to identify and detail Ottawa's public position on deficit finance.
- 2 What caused changes in the ideas that Ottawa championed? An investigation of the political and economic conditions that support the selection of some ideas over others makes it possible to identify linkages between ideas and the environments in which they thrive.
- 3 What were the consequences of these changes? The fiscal politics that apprehended the country's collective psyche and the concomitant restructuring of the state's economic role were the most significant results.

Once we have tackled these queries, partial answers to more general questions regarding the role of ideas in politics, and the nature of political change, will emerge.

Three key issues are central to this book's answers to the questions it poses. One recurrent issue is *Canadian public policy*. The priority of fiscal concerns in Canada emerged in part from a policy history and environment that circumscribed the range of viable fiscal options and pushed the Chrétien government to give deficit elimination pride of place. Policies

like the Canada-United States Free Trade Agreement structured future possibilities. In turn, the budgetary position of the Canadian government was the country's most salient ongoing issue in the 1990s. Fiscal policy was important not only in itself but also with respect to its impact on other policy fields. Social policy, economic policy, public administration, federal-provincial relations, and a host of other areas were deeply shaped by the primacy and scope of the fiscal question.

Ideological change regarding the role of the state in the economy is also a central issue. The ideological strand that dominated the Western world in the postwar years has been called 'embedded liberalism.' This liberalism sees the economy as embedded in society. The state's economic role is to protect society and the economy from the economy's own worst tendencies, even as the state promotes economic activity by helping markets to function. Embedded liberalism is to be contrasted with 'neo-liberalism,' which inverts these priorities. The role of the neo-liberal state is to facilitate economic change and to discipline both itself and society so that neither interferes with market functions. These are ideal types, and elements of both varieties of liberalism can always be identified over the time frame with which we are concerned. Nonetheless, since Brian Mulroney took office, neo-liberal ideology has increasingly supplanted the embedded liberalism that supported postwar Keynesianism in Canada. These ideological categories describe visions of the state role in the economy, to which approaches to deficit finance are closely linked. Accounting for change in winning ideas regarding deficit finance means considering their relationships to ideological currents and the state's economic role.

The third central issue is the public policy literature concerned with the connections between *interests, ideas, and institutions*. The book will develop theory regarding these relationships, and thereby account for the interests that ideas rationalize, the institutions in which ideas are entrenched, and the other ideas with which fiscal notions compete and cooperate. These relationships are usually reciprocal. Ideas may be the children of vested interests, but they also inform an actor's understanding of his or her interests and the best means to their realization. Institutions carry ideas, but ideas provide part of the context in which institutions function.

I have introduced the subjects this book addresses, the questions it aspires to answer, and the issues it pursues. Why is this formulation superior to previous efforts to understand the Canadian turn to fiscal restraint?

Ideology over Analysis: Competing Explanations of Fiscal Restraint

There have been very few sustained or persuasive explanations of Canada's turn to fiscal restraint. In part this is because analysts have not been sufficiently disinterested. Instead of trying to understand ideational change,

commentators have usually used the ideas that should be under the microscope to either applaud or condemn the changes at hand. As such, insufficient conceptual rigour and historical nuance are brought to the table. Indeed, even the questions I have just formally stated have rarely been put forward as explicit matters for investigation. As such, identifying schools of thought on the issue is a somewhat creative exercise.

On one side of the debate are organizations like the C.D. Howe Institute, the Fraser Institute, the *Globe and Mail* editorial board, and also the governments that have taken a serious crack at deficit reduction or elimination. On the other side are groups like the Canadian Centre for Policy Alternatives and writers such as Linda McQuaig. The former group has a lot in common with the 'liberal continentalist' school which has won so many political battles in Canada over the last twenty years. The latter group shares much with the 'interventionist nationalist' school which has suffered so many setbacks. But it is too simple to describe this as a 'right' versus 'left' debate. Bob Rae's NDP government in Ontario and Roy Romanow's NDP government in Saskatchewan were in the same camp as the Mulroney Progressive Conservatives with respect to the broad desirability of deficit reduction. I prefer to categorize these views in terms of their assumptions. The former group I call the 'objectivists,' the latter the 'subjectivists.' Objectivists share the view that Canadians and their governments became so focused on fiscal issues because of the reality of the problem. Deficits were a real issue so people took the issue seriously. Subjectivists argue that the deficit 'problem' was at best grossly exaggerated. The focus on fiscal issues resulted from the ideological capture of people and governments by powerful vested interests.

The Objectivist Argument

The objectivist story is that the political salience of deficits flowed in a *mechanistic* fashion from the *objective* basis of the problems created by fiscal shortfalls. Deficits and debt levels were so high that they would soon, if they had not already, seriously impair the well-being of Canada and Canadians (government of Canada fiscal data are provided in the Appendix, pp. 208-13). This harsh reality necessarily led, or would lead, Canadians and their governments to a well-founded focus on the deficits that increased the debt. Objectivist reasons that these fiscal gaps were unsustainable include: the resulting inflation; the ever-increasing share of federal spending taken up by debt interest payments; the prohibitively high interest rates that would be required to continue to sell Canadian bonds; skewed market decision making and interference with private capital formation; reduced business confidence; and the ineffectiveness of deficit finance in enhancing economic performance. Presently, and into

the foreseeable future, a rising debt load and high deficits would be severely punished. Realizing this, Ottawa inevitably acted, or would soon act, to rectify the problem.²

The defining characteristic of the objectivist position is that the centrality of deficits to political consciousness and behaviour follows in an unmediated fashion from the obvious and deep problems with fiscal shortfalls. The language of this argument is in the terms that deficits 'must' or 'have to be' rectified because the problems they elicit are, argued Finance Ministers Michael Wilson and Paul Martin both, 'real' not 'ideological.'³ For the objectivists, this reality is the cause of fiscal issues being thought about and acted upon.

The objectivist account contains important insights. The argument embraces the basic data around which debates about fiscal questions are constructed. As long as there is public sector budgeting, there will be revenues, expenditures, and the excess of one over the other. Canadian finance ministers have interpreted deficits and surpluses differently, but they have never spoken as if the fiscal position was irrelevant. The numbers matter. At a minimum, they are the starting point for analysis and debate. Similarly, the emphasis on 'objectivity' makes salient at least parts of the real world financial market context that informs the budgetary decisions of policy makers.

But just as the objectivist view highlights some things, it obscures others. What the objectivists shield from sight are nothing less than *politics*. The salience of deficits, as well as action to eliminate them, cannot simply emerge from objective conditions. Consciousness and behaviour are functions not simply of an external reality but also of what that reality is understood to be, and of reactions to that understood reality. 'Reality' does not speak for itself. It is politically mediated.

First, even though there is a reality within which budgeting occurs, it does not follow that this reality will be recognized. Both misunderstandings and predispositions make it more or less difficult to see different things. For example, it is now well understood that economic performance in Western industrialized countries suffered a secular decline that seems to have started roughly with the first OPEC oil price shock in 1973. But Canadian policy makers, operating on what turned out to be outdated assumptions about economic performance in the mid-1970s, did not quickly recognize this reality. Policy responses were therefore less than optimal. Second, even if reality is fully grasped, political responses to it are indeterminate. Much can get between a stimulus and a response. Among the things that may intervene are ideology, political commitments, and the relative power of actors to impose their views. The responses a Keynesian or a post-Keynesian or a monetarist would script, and would be able to

script, to the secular decline in economic performance beginning around 1973 were very different. Politics, then, *mediate* between reality and outcomes. Politics are part of the reality that must be explained and cannot be assumed away. The salience of deficits as a problematic is political to the core.

Indeed, it might be thought that measuring the deficit, at least, is an objective exercise. But even the selection of deficit measures has a political component. Broadly speaking, the federal fiscal balance is measured in three different ways, depending on the actuarial purposes of the measurer. The Public Accounts, the National Accounts, and the Financial Requirements/Surplus generate different measures of the 'deficit'.⁴ In the 1990s, the Public Accounts deficit, which excludes so-called nonbudgetary transactions, exceeded the National Accounts deficit and the Financial Requirements/Surplus, sometimes by over \$10 billion. The Public Accounts number is the one most commonly used in political debate in Canada, although in the United States the usual number is closer to a National Accounts figure. And the Public Accounts themselves are indeterminate because what is counted as a budgetary transaction changes over time. Unemployment Insurance (as it was then called) was moved from the nonbudgetary to the budgetary side of the equation in 1986. In the early 1970s, the finance minister would point out that the Public Accounts did not really give an accurate picture of the government's fiscal position because it excluded the government's Unemployment Insurance deficit, which helped stimulate the economy.⁵ In the latter half of the 1990s, the Employment Insurance Account served to reduce the Public Accounts deficit substantially. In other words, there is no Archimedean point from which *the* fiscal position can be determined. Governments emphasize the 'deficit' that best serves their political purposes.

Regardless of the measurement system, Canada was in the red for more than twenty years, and its debt was mounting. But the indeterminacy of the deficit indicates that neither the arithmetic nor the objectivity of the problem can determine political consciousness. Otherwise, deficit consciousness in Canada (at least with respect to the federal government) would have evaporated the day Ottawa balanced its books. Similarly, by 1999 Alberta's assets exceeded its liabilities when the Heritage Fund was included. It had no net debt. According to the objectivist argument, fiscal concerns in the province should have disappeared. Yet the orientations and behaviour in the Albertan and Canadian governments, both of which remained concerned with protecting their fiscal positions, demonstrates that numerical realities are not the end of the story.

The absence of politics and nuance from the objectivist account is reflected in its inability to coherently bring the issues of timing and party into the theory. The argument that deficit reduction was necessary has

been propounded for rather a long time; the federal government itself began making the case in 1984. Nothing about this perennial 'necessity' explains why the 1995 budget was the one that broke the federal deficit's back. The focus and political conditions necessary for the task did not spontaneously emerge with the 'objective' problem. Similarly, the party holding power and the direction from which opposition parties attack the government appear to have some explanatory power with respect to fiscal visions and behaviour. But for the objectivists, history marches forward in an inevitable direction while political actors fall beneath its feet. Yet, as I hope to demonstrate, the Mulroney Tories and the Chrétien Liberals are relevant to the story. The objectivist case is too sweeping to say anything specific about how parties may have generated public support for their fiscal agendas, or about the different pressures to which different parties are subject, but which those parties also try to manipulate.

As Louis Pauly argues, 'Corporate financiers, as well as representatives of national governments, among the largest borrowers of international capital, use the language of inevitability to obscure the notion that other normative choices are conceivable. It is the language of what Karl Polanyi called "the self-regulating market."' ⁶ As Pauly notes, this discourse disguises the fact that such markets are not inevitable but very much the creation of concerted state action. Without state support of property rights and market stability, none of this would be possible. ⁷ The objectivist case is part and parcel of a specific economic model and accompanying vision of the role of the state. As such, it cannot go outside itself and explain the political dominance in the 1990s of that economic model and that vision regarding the state's role. An adequate account cannot be wedded to an underlying normative position. The subjectivists make the same error from the opposite direction.

The Subjectivist Argument

For their part, the subjectivists argue that the government's fiscal position became salient not because deficits were in fact so important but because this point of view was constructed through the manipulations of empowered interests. The subjectivists are typically of the view that the deficit problem was at best grossly exaggerated – it certainly did not merit the label of 'crisis' – or at least easily fixed by looser monetary policy. For the subjectivists, any deficit problem was more a matter of 'ideology' than 'reality.' Widespread fiscal consciousness resulted from a sort of ideological capture of the state and the public. One of the main villains orchestrating it all was the business community, of which the mass media is presented as either a part or a tool. Also complicit was the mainstream economics profession, as represented not only in the academy but also in think tanks and state institutions like the Department of Finance and the Bank of

Canada. Political parties too were responsible, for either pacing change or for capitulating to it. These groups colluded, intentionally or not, to foster a fiscal consciousness because it furthered their economic and ideological interests.⁸

The strength of the subjectivist position resides in its crediting the salience of these anti-deficit ideas to politics. The subjectivists understand that power imbues publicly debated ideas about fiscal issues specifically, and the role of the state in the economy generally. These debates are not neutral. In addition, the subjectivist focus on the role of monetary policy and the Bank of Canada is an important feature of which no analyst should lose sight. But ironically, the subjectivist case, which emphasizes the importance of constructed ideas, cannot take those ideas very seriously. One could hold to the idea that the fiscal situation was a problem only if one saw advantage in the view or was under the thrall of a false consciousness. There are two major difficulties with this stance.

First, since the ideas underlying deficit reduction are assumed to be without merit, the subjectivists do not analyze and unpack their content: what this fiscal vision makes more visible and more obscure, what it presupposes, and the way these ideas hang together or fall apart. Instead of explaining the salience of these ideas, for the most part the subjectivists caricature them as patently absurd. Second, since the life of these ideas is said to be only about interest or false consciousness, the subjectivists are driven to the wildly implausible assumption, at least implicitly, that all who ascribe to these fiscal views are either Machiavellian or fools. But it was and is possible for a reasonable person to take the position that the deficit was a real problem. The argument was reasonably coherent. Sincere and intelligent people have been persuaded. Subjectivists cannot account for the sincere or intelligent position that the fiscal condition posed a problem as that problem was defined by the federal government. Neither, then, can they account for much of what needs to be explained regarding the public viability of these ideas about deficit finance. In particular, they cannot explain why public statements and policy built around deficit elimination would have wider resonance.⁹

The subjectivist position hides other factors that it should strive to explain. By reducing anti-deficit views to mere ideology, the subjectivists tend to ignore the relevance of the prejudices of market actors and voters. For example, if bond traders believe that high debt and persistent deficits make a country's bonds riskier, they will tend to behave accordingly, even if their belief is entirely a function of ideological capture.¹⁰ If voters think the country will go to hell if the deficit is not eliminated, they too will tend to act accordingly. In dismissing these possibilities as prejudice, the subjectivists ignore the political relevance of bias. That ideas are operative

parts of the political world ends up being strangely ignored by those whose focus is on the political construction of ideas.

Like the objectivists, the subjectivists paint with too broad a brush to explain change or its timing. The business community has hectored Ottawa about the federal government's fiscal position since the mid-1970s. But the federal government did not accept this critique until 1984. Nor did a more general fiscal consciousness emerge until the 1990s, and Ottawa did not move to eliminate the deficit until 1995. This long lag goes unexplained. So too with related change regarding the party in power and the party system. The subjectivists must sweep these categories under the rug of ideological capture. In addition, sociological categories like patriarchy, for example, have lasted rather a lot longer than contemporary concerns with fiscal shortfalls, and so can hardly have been a cause in any immediate sense of the turn to fiscal restraint.¹¹

If the language of the objectivists is that of inevitability, the language of the subjectivists is that of ideology. Refusing to ground anti-deficit ideas and deficit elimination in truth, for the most part the subjectivists neglect to ground these ideas and policies in history. The subjectivist case is also bound up with a specific economic model and vision of the state's economic role. But their preferred approach has clearly been on the defensive in Canada since at least the mid-1980s. Fighting for its life, the subjectivist position cannot go outside itself and account for its political weakness. As with the objectivists, the subjectivists take a normative position on dominant political and economic currents. This limits their ability to explain precisely what should be at issue.

Theorizing Fiscal Politics

A full account of the public life of the winning ideas about deficit finance understands economic and fiscal reality as politically mediated. It takes seriously, without simply embracing it, the view that deficits are problematic. It also draws on 'inside' accounts that tell the story of the mid-1990s in Ottawa well.¹² But this account is more than a combination of the strengths of other positions. The turn to fiscal restraint has emerged in conjunction with cognate changes in the global political economy, ideology, domestic policy, and a specific experience of economic decline. The linkage, I will argue, between change in winning fiscal ideas and these politico-economic factors is that the latter have functioned to alter dominant conceptualizations of the economic and political interests of citizens, business, and the state. These changing conceptualizations of interests have resulted in political opportunities for parties propounding changed visions of the role of the state in the economy. New visions of the state's economic role have not been kind to fiscal shortfalls. The now dominant

ideas about deficits have reinforced both the state role and the underlying interests that supported these ideas in the first place.

Ideas, Interests, and Institutions

This broad sketch of a process of change must be located in a theoretical framework. I take the trite position that ideas, interests, and institutions all matter as explanatory variables. But as Hugh Heclo notes, it is not crucial on which of these factors the analysis first focuses. What matters is that the analysis grasp their interrelationships.¹³ I cut into the chain by treating interests as the engine driving change. I then examine the ideas that publicly support and privately rationalize interests, and finally explicate the entrenching of those interests and ideas in institutions. But more interesting are the dynamic linkages between the factors.

There may be such a thing as an objective economic interest. But the political relevance of an interest depends on how it is conceptualized. In Max Weber's classic formulation, 'not ideas, but material and ideal interests, directly govern men's conduct. Yet very frequently the "world images" that have been created by "ideas" have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest.'¹⁴ Interests drive and energize politics. However, the direction the political train takes is deeply conditioned by ideas, which provide interests with their political meaning. Just as a physicist would argue that speed without direction is meaningless, an 'interest' in itself is politically meaningless. An 'interest' does not specify either how the interest is understood by those who hold it, or what strategy will be seen as best realizing the interest.¹⁵ The interest must be conceptualized, however inchoately, to be politically meaningful. When I refer to interests, unless modified by the adjective 'objective,' I mean the operating construction of what those interests are and how they are best realized. Ideas and interests are politically inseparable.

The resulting approach to the role of ideas is on the one hand cynical, but on the other hand ascribes to ideas a fairly wide autonomy in certain circumstances. The approach is cynical to the extent that ideas are treated as a dependent variable, or in other words, when the factors that determine the selection of ideas are being considered. With Weber, ideas become practical roughly insofar as they serve as weapons in political struggles between groups, and roughly insofar as they rationalize individual interests.¹⁶ That is, ideas are selected in the first instance approximately to the extent they have an instrumental value. But this approach ascribes autonomy to ideas to the extent that, over time, ideas can function as intervening and on occasion as independent variables with explanatory value regarding outcomes. With Weber and also with Keynes, ideas, once selected and embedded in minds and institutions, can act as a filter

through which circumstances are understood and responses scripted. Ideas can display a remarkable tenacity and persist long after the material and interested circumstances that supported their selection in the first place have expired.

Heclo argues that governments not only 'power,' but that they also 'puzzle.'¹⁷ This is true, but the distinction overstates the dichotomy between these concepts in a political context. Puzzling is informed by the relative power of competing ideas. Puzzling will be done, when a set of ideas is entrenched, in terms of those ideas. Such puzzling is evidence of those ideas' power, of their political and policy relevance. To the extent puzzling occurs under conditions of uncertainty, the uncertainty is usually a reflection of the diminishing relative power, and therefore diminishing relevance, of formerly dominant ideas. This is not to say that disciplines and ideas have no internal integrity or developments; it is to argue that to the extent ideas are in the political realm, they are necessarily caught up in power relations. Ideas are subject to, but also contain and transmit, power and power relations.

In principle, institutions can also drive change. They inform interests and support some ideas over others. Bureaucratic work is intimately related to policy outcomes and must be considered. In addition, tools of institutional analysis are important for analyzing the turn to fiscal restraint. Sometimes it is necessary to disaggregate the state and focus on its discrete aspects to understand results. The concept of path dependencies is also important. Policies shape not only subsequent policy decisions but also politics. As such, I am not challenging scholars who have sought to 'bring the state back in.'¹⁸ There is no effort 'to take the state back out.'

But there are limits to the explanatory power of institutional analysis. Institutions are at least as subject to change in socio-economic and political conditions as they are likely to pace such change.¹⁹ In addition, scholars in the field acknowledge that structural institutional analysis is particularly effective at explaining differences across nations and continuity within a country.²⁰ It is less strong with respect to similarity across jurisdictions and change within a country. These limits apply as well to rational choice analysis of institutional structures, which cannot in itself explain why results in a country change while the relevant structural forms remain constant.²¹ The concern here is change within Canada. The limits of institutional analysis for understanding the problem at hand are, therefore, case specific as well as theoretical. And common outcomes across jurisdictions weaken an institutionalist case. The American government turned to deficit elimination at about the same time as its Canadian counterpart, and each balanced its budget in the late 1990s. Given the profound differences in the institutions that determine the budgetary process in the two countries, domestic institutions cannot explain the

convergence. Institutional structures matter here, but not as much as the environment in which they reside.

Viability and Beyond

The interactions between ideas, interests, and institutions support or oppose the 'viability' of a set of ideas. Peter Hall argues that the viability of a set of economic ideas is determined by economic, political, and administrative factors. Economic viability is based on the relationship of the ideas to existing theory, to the nature of the national economy, and to international constraints. Political viability relates the ideas to the overall goals of ruling political parties, to the interests of potential coalition partners, and to collective associations with similar interests. Administrative viability links the ideas to the administrative biases and relative power of relevant agencies, and to structural capacities to generate information.²² Hall argues that the more viable a set of ideas is in these three senses, the more likely it is to be adopted as policy.

Hall's approach is particularly apposite because it was developed out of a comparative study of the selection of Keynesian ideas across nations (although his study excluded Canada). But there are two related weaknesses with respect to the concept of viability. One is that viability operates by exclusion. It tells us which ideas are not viable and therefore will not be selected. But in principle there can remain a number of viable ideas from among which the concept of viability cannot determine the winner. The outcome is underdetermined by the concept. That a foetus is viable does not mean it will live. As is often the case with the historical institutionalism to which it relates, viability provides us with the necessary but not sufficient conditions for the selection of ideas. We require a move beyond viability to determine which among a set of viable ideas will be embraced.

Hall has, in fact, developed another concept that provides analytical assistance in understanding the selection of ideas and, especially, policies. He argues that there are three 'orders' at which policy change can occur. First-order policy change entails changes in the settings of given policy instruments. Increasing the deficit would be a first-order policy change. Second-order change refers to change in the instruments of policy. Taking the deficit instrument off the table would be a second-order policy change. Second-order change typically also involves changes in the settings of instruments. Finally, third-order policy change entails change in the hierarchy of goals behind policy. Replacing unemployment with inflation as the pre-eminent policy concern, and pursuing balanced budgets and direct tax reductions rather than macroeconomic efforts to reduce unemployment, would be examples of third-order change. Third-order change is usually

accompanied by changes in instruments and their settings.²³ Hall's concept of orders assists in categorizing policy changes, which in turn allows us to better understand their character. I will use the concept of orders of policy change extensively to describe the nature of various policy shifts – but since it is basically a classification scheme, the concept does not in itself explain why change occurs.

Hall's answer to the conundrum of viability's insufficiency as an explanatory tool, I suspect, relates to third-order change and his definition of ideas. He is really concerned not so much with specific ideas as with the adoption of a whole 'policy paradigm.'²⁴ Drawn from Thomas Kuhn's notion of a scientific paradigm, a policy paradigm is a third-order change containing fundamental value judgments and goals regarding the state role in the economy. If ideas are defined at this broad level, the notion of viability is probably strengthened. During a period when the dominant approach to regulating the economy is up for grabs, perhaps only one alternative can be viable. If the only choices are Keynesianism or monetarism, then if just one of these is viable, by default it will be selected. But this, in my view, exposes the second weakness of 'viability.' If the concept is bound up with the notion of a policy paradigm, then it will tend to obscure the existence and persistence of ideas that do not fit within the dominant paradigm. As I will argue, Keynesian ideas about deficit finance persisted long past the nominal end of the Keynesian era in 1975, and even past the neo-liberal turn with Brian Mulroney in 1984. But if Mulroney's policy paradigm, which amounted to a third-order change from the Trudeau era, was more 'monetarist,' the concept of viability would not allow us to see the continuation of now subordinate Keynesian ideas inconsistent with the policy paradigm. To put the point differently, the use of deficit finance in certain economic circumstances was one component of Keynesianism. With the fall of the Keynesian paradigm, if the paradigm is really all that matters, then Keynesian notions about deficit finance should have been simultaneously extinguished. But they were not. I am concerned with these paradigms and the ideologies in which they participate. But I am also concerned with ideas about deficit finance specifically. So it is necessary to go below the paradigms, and here viability is an insufficient concept.

I therefore return to the relationships between interests and ideas to explain the selection of ideas about deficit finance from the range of viable ideas. Ideas resonate when they are framed in ways that participate in the interests of actors, remembering that I refer to interests as imbued by understandings of both the content of the interests and the strategies to realize them. Ideas tend to be selected when there is political opportunity in articulating ideas that speak to these interests. As Robert Reich argues,

when ‘questions’ (such as whether the deficit should be eliminated) ‘catch on,’ ‘even before the question is asked, the public (or a significant portion of the public) seems already to be searching for ways to pose it – to give shape and coherence to events that seem random and unsettling – and thus to gain some measure of control. Rather than responding to pre-existing public wants, the art of policy making has lain primarily in giving voice to these half-articulated fears and hopes, and embodying them in convincing stories about their sources and the choices they represent.’²⁵ Reich’s enterprise is in part an effort to carve out a fairly wide autonomy for ideas. But in my view these random and unsettling half-articulated fears and hopes about the state role in the economy are a function of changing interests. These interests are what get people searching for the question in the first place. Politicians can either present new ideas or repackage old ones at moments when interests are under stress, when old understandings of interests are weakening because expectations regarding those interests are no longer being realized. As expectations are disappointed, the sense of lost control increases. And by mediating between interests on the one hand and ideas as embodied in platforms, policy, and discourse on the other, political figures and political parties become an important part of the analysis. One limitation of approaching the problem through the relationships between ideas, interests, and institutions is that these categories do not account for the role of political leadership. Such leadership comes into play when it articulates issues in ways that mobilize interests into politically coherent forms through rhetoric that credibly deploys ideas.

Concepts

Fiscal Politics

Earlier I referred to the 1990s as the decade of ‘fiscal politics’ in Canada to indicate the extent to which the federal government’s fiscal position permeated politics. I use the term ‘fiscal politics’ to capture the political importance of this fiscal consciousness. The restraint of the 1990s was sufficiently coherent, specific, and historically unusual that it can be meaningfully named. *Fiscal politics*, or *fiscalized politics*,²⁶ or the *fiscalization of politics*, refer to a situation in which politicians, officials, organized interests, and the general public alike are highly conscious of the state’s fiscal position in the sense that deficits (and perhaps also debt) are conceptualized as intrinsically inimical public policy. This is more than simply being aware of the situation. Fiscal consciousness matters because it is politically meaningful. Fiscal politics exist when a substantial portion of politics, whether fiscal in nature or not, is *charged* with this fiscal awareness. Politics becomes energized by, and organized and debated in terms

of, the state's fiscal position. Fiscal politics are fully operative not only when political actors must at least appear responsive to fiscal concerns but also when political rhetoric situated in terms of fiscal control is generally persuasive and mobilizing. Fiscal considerations have always mattered, but have not always been primary. Nearly every federal activity, whether a proposed or existing policy initiative or human resources issue, had to be justified in fiscal terms by 1995. To a great extent, the merit of a decision was determined by its fiscal impact; its intrinsic value was a secondary consideration. Neither social nor economic nor industrial nor foreign policy escaped this new structure of justification. Such are the circumstances that constitute fiscal politics.

When I describe fiscal politics as operative, I will also use the word 'entrenched.' This characterization is chosen to capture the point that fiscal politics was an enduring cause of outcomes. Fiscal politics did not become entrenched autonomously. But upon politics locking in on these fiscal ideas and norms, fiscal politics was entrenched in the sense that it was not only a cause but also would not easily be dislodged. The ideas that characterized fiscal politics became anchored in and diffused throughout the Canadian political system. The idea that deficits were intrinsically bad gained pride of place for political reasons; once entrenched as the key notion of fiscal politics, the idea acted autonomously as an independent variable.

The term fiscal politics is broad enough to cover debt, deficits, budgetary balance, and surpluses. Fiscal politics became entrenched in Canada in the mid-1990s. But looking back, it is possible to identify some of its constituent elements in earlier discourse and behaviour. When I describe the movement toward fiscal politics, I will refer to 'early' or 'premature' moments in the evolution toward entrenchment. In the mid- to late 1990s, fiscal politics was primarily about the (Public Accounts) deficit. Evidence of this politics is found in the extent to which budgets were occupied with both rhetoric and action against fiscal shortfalls. Looking forward, it is not so much that an entrenched politics is dislodged as that it recedes. Fiscal politics will become more of a background condition than an explicit battleground – a process already in motion. Just as what was once the surface of a tree becomes an inner ring, fiscal politics will no longer *charge* or dominate our experience of politics. But it is contained within and continues to shape the explicit exterior. At the turn of the millennium, the discussion turned to the distribution of expected future surpluses. The notion of distributing the surplus presupposes that deficits are out of the question. Fiscal politics recedes, but budgeting remains informed by its norms.

It is important not to exaggerate change. Politics are politics. Politicians try to get elected. Pork-barrelling, patronage, strategy, ambition, and the

like are enduring features of the political game. Fiscal politics has not overturned the political process. But it has tilted the field on which the game of politics is played. The fiscalization of politics restructured both how the game could be won and who would be likely to win it. Understanding this was critical to political success in Canada in the 1990s and into the twenty-first century.

Public Utterances and Fiscal Rhetoric

The primary source materials used for this project are budget documents. Budget speeches, supporting papers, and other government documents are all employed. This material is buttressed by interviews with key finance ministers, Finance officials at the deputy minister and assistant deputy minister levels, and senior Bank of Canada officials. A wide range of secondary sources is also canvassed.

A challenge in using public documents as a primary source, as even a political novice knows, is that there is often a gap between what the political actor says and what the actor actually believes. However, content analysis of government documents is still the best measure of the belief systems of those elites within the state who are responsible for a policy area.²⁷ Interviews are also a partial way of getting at individual and corporate belief. But my primary concern is not belief in itself. Belief is relevant primarily to the extent it informs the public selection of ideas by governments. Rather, I am concerned with the public life of ideas, in no small part because speech constructed for public consumption provides access to power relations.

That political talk has to be modified for public consumption, whether that public resides on Saskatchewan's wheat farms or in New York's financial markets, indicates that governments and other political groups are subject to forces that require them to shape presentations of their policy and political goals. That governments and others bother to modify their political talk also indicates the flipside of this coin, that governments can use these forces for their own purposes. Were it not for power relations there would be no political rhetoric to interpret. Rhetoric exists in a country where, to paraphrase Pierre Elliott Trudeau, we count heads instead of breaking them because no actor is omnipotent and power is distributed throughout the political system.²⁸ Were it otherwise, politicians would not have to craft their statements for public consumption because there would be no forces, nor indeed political opponents, who could frustrate their goals. Similarly, there would be no need to manipulate because there would be no forces to use. To put the point in more formal terms, if truth were uncontested there would be no need for rhetoric, for persuading people of the truth or the value of a position. But insofar as truth is contested – insofar as it is political – it becomes a matter of power.²⁹ From this

springs the need to shape language into forms that can be heard, and to use language as a tool to realize goals. If the object is to understand politics and the power of ideas, public rhetoric is a crucial place to look.³⁰

Governments more than any other political actor are conscious of the political impact of their statements. There is a word for a government's comments when they are not vetted for positioning: gaffe. Just about everything a government puts on paper and releases publicly has been written and rewritten in terms of its political impact. This is even more the case with budgets, which are vetted and refined over and over again for precisely these purposes. None of this means the government will get its political read 'right.' But the 'read' is based on an assessment of the political factors that determine the success of ideas and policies. My focus on the public statements of *governments* flows from the emphasis on tracing the *winning* ideas about deficit finance. Competing ideas always exist, and the competition has to be described. But there are winners and losers. Since Canada's fiscal position is a matter of public policy, the winning ideas are those expressed in word and deed by the authors of the policy; in this case, the federal government, particularly the minister of finance and the Department of Finance.³¹ By understanding that in which the winning fiscal rhetoric participates, we open a window on wider political dynamics and the reasons that deficits are being described in one way or another. When fiscal rhetoric as a critique of deficit finance takes centre stage, it suggests rhetoric shaped in these terms is persuasive and mobilizing. When rhetoric resonates in this way, it usually means the speech activates something in its audience. This resonance is implied by the notion of an operative fiscal politics, and it is part of why I emphasize fiscal rhetoric.

There is another reason these public documents are so important. Public speech is the primary way governments have of communicating their views. Public speech is the only way to reach the mass public. But to a surprising extent, public statements are also how governments communicate with themselves and with other governments. Particularly with respect to broad priorities, Throne Speeches and budgets signal to officials where their own and where other governments aim to go. These documents also become resources in intragovernmental and intergovernmental negotiations. Similarly, they are used by interest groups to anchor their claims. Authoritative public utterances are distributed throughout the political system. Imbued as they are with strategic positioning, they are very much the stuff of power and politics.

The Role of the State in the Economy

David Wolfe has written that most arguments about deficit finance are really debates about the relationship between state and economy in late capitalism. Wider values are at stake than a narrow consideration of fiscal

policy first suggests.³² As with policy paradigms, a government's vision of the state role in the economy is intimately related to, although not coextensive with, its conceptualization of debt and deficits. If, as with Trudeau's Liberals, the state is viewed as capable of creating a 'just society' through its interventions, there will be fewer ideational limitations on its actions. Deficits seem relatively unproblematic in the context of this social project. Fiscal shortfalls may even be seen as a way of accelerating progress. If, as at times with the Chrétien Liberals, the state is conceived as an irresponsible laggard with little direct capacity to improve economic performance, fiscal shortfalls are more salient as an example of and reason for the state's failings. Visions of the role of the state do not emerge autonomously, but they are politically normative. Paul Martin's budgets in the mid-1990s legitimated policy actions, such as eliminating the deficit, which were consistent with the wider vision of the state's role. As always with these issues, the causal arrows point in two directions. A government's view of deficits and debt will also inform its vision of the state's purposes and functions.

The argument that follows asserts that there have been important changes in the role of the Canadian state in the economy. It relates these changes, as both cause and effect, to fiscal politics and conceptualizations of deficit finance. But it is important to recognize that these changes do not necessarily imply that the state's role has been shrunk or diminished. Rather, as Stephen Clarkson and I have argued elsewhere, it has shifted.³³ This role was once relatively consistent with embedded liberal norms. It now converges more with neo-liberal orderings. Shifting from the one to the other required strong and concerted state action; and a neo-liberal state is not a state that has withered. These ideological categories are useful ways of describing the state's role. But if used normatively by the analyst they obscure the actual content of change. Nuance and investigation, rather than ideology, are required to understand these changes and how the state might further evolve.

Chapter 2 historicizes the contemporary disrepute of deficit finance by identifying earlier circumstances when deficits were accepted and even applauded. The chapter also describes the Keynesian era that Canada has since largely repudiated. Chapter 3 examines the character of economic decline, and reinterprets the 1975 policies said to mark the end of the Keynesian era. Chapter 4 investigates fiscal policy and rhetoric under Trudeau. Chapter 5 describes the relationships between change in the international political economy, evolving corporate interests, and Mulroney's political project. Chapter 6 analyzes the changes Mulroney wrought and explains his failure to control the deficit in spite of vociferous rhetoric in favour of deficit reduction. Chapter 7 identifies the political and

economic conditions that made government organized around balanced budgets politically successful. Chapter 8 explains Chrétien's success in eliminating the deficit in the wake of the Mulroney years. Chapter 9 brings the book to an end with reflections on the meaning of neo-liberalism and political legitimacy. It also assesses Canada's prospects as a new 'politics of the surplus' emerges.