



C.D. Howe Institute  
***Backgrounder***

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**Fiscal Policy**

## Off the Mark:

*Canada's 2008 Fiscal Accountability  
Ranking*

Colin Busby  
and William B.P. Robson

### **The Backgrounder in Brief**

*Every year, legislators in Canada vote for budgets that set out targets for the coming fiscal year. But every year, governments tend to spend more than they promise at budget time. The result: accountability between legislators and voters breaks down. Canadians should demand better.*

## ***About the Authors***

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**D**uring the late fall of each year Canadian governments publish their public accounts — the audited documents that show how much they raised and spent in the previous fiscal year. It is also when governments gear up for their spring budgets — the documents that lay out before legislatures how much they intend to raise and spend in the coming fiscal year. In evaluating governments' plans for the year to come, it might seem natural to ask how reliable previous years' plans were as indicators of what actually happened. Yet Canadians rarely monitor how effective governments have been in hitting the revenue and spending targets that legislators voted for the previous spring.

Control over public money is at the heart of our parliamentary democracy. The budget process is a critical part of government accountability to legislatures, and legislators' ultimate accountability to voters. The public has a right — it is not too much to say an obligation — to compare what legislators voted for with what governments actually did. Without rewards and punishments for governments' success and failure in adhering to fiscal promises, a key link in the accountability process is missing.

The C.D. Howe Institute's fiscal accountability measures help to fill that gap. They compare federal and provincial/territorial budget projections with actual results. They allow all to see which governments have been best, and which worst, in achieving their targets. One measure assesses bias, or whether deviations between projections and results show a tendency toward either over- or undershooting. Another measures accuracy, or the degree of deviation between results and projections, regardless of direction.

The C.D. Howe findings for the past decade indicate that elected representatives and Canadians generally need to do more to ensure that governments actually do what they vote to do every spring. The glum if not surprising result of this investigation is that governments tend to spend more than they promise at budget time.

Some do better than others: Quebec's results over the past decade are striking for their relatively small tendency toward overruns and their generally good accuracy. Alberta and Saskatchewan, by contrast, have tended to overshoot their spending targets by a wide margin. The revenues of these two provinces are strongly influenced by fluctuating natural-resource prices and, as a result, they have particular difficulty in controlling spending. A similar tendency appears to afflict provinces and territories with a pronounced dependency on federal transfer payments. Finally, the results indicate a tendency for spending overruns and undershoots to be positively correlated with revenue surprises.

On a more positive note, however, governments did better at keeping their fiscal promises during the past five years. This improvement underlines what the variation in performance among governments also makes clear: that poor fiscal accountability is a fixable problem. Canadians should accept nothing less than conscientious delivery of budget promises. Better performance in this regard should be a key fiscal priority in 2008 and beyond.

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## Measuring Fiscal Results against Budget Commitments

Scrutiny of governments' fiscal performance tends to focus on the bottom line: how large the surplus or deficit is that budgets project, or public accounts reveal. While the bottom line is important, so are the different forces that affect revenue and spending. An informative evaluation of fiscal performance, therefore, needs to scrutinize revenue and spending separately.

In an exercise that measures and seeks to improve accountability, moreover, pride of place goes to the investigation of spending. Governments that rely more on resource revenues, or federal government transfers such as equalization payments, will naturally have a harder time predicting their revenues. Fairness in comparisons aside, a focus on spending has two other compelling justifications. Spending is what drives governments' claim on the economy's resources: every dollar spent must be raised in taxes, or reflected in greater borrowing or less debt repayment. In addition, while governments may set tax rates and other revenue parameters, they vote spending in dollar terms — and both elected representatives and voters are entitled to expect those votes to mean something.

The highlight of the results is the difference between announced and actual changes in spending. The "announced spending change" is a budget document dollar number: the difference between the total spending projected for the coming fiscal year and the spending during the previous year shown in the same document. The "actual spending change" is a public-accounts number: the difference between the total spending in the most recent fiscal year and the spending for the previous year in the same document.<sup>1</sup> To produce more meaningful comparisons among Canada's governments of different sizes, we scale the differences in percentage terms, using the previous year's budgeted figures as the base.

Table 1 shows the annual results for actual and announced spending for Ottawa and the provinces since the 1997/98 fiscal year. The top panel shows projected changes in spending in each budget. The middle panel shows actual changes in spending in the public accounts. The bottom panel shows the difference between the two.

Not surprisingly, the considerable variations from government to government and year to year make discerning patterns from the raw numbers in the table a challenge. So we turn to two useful descriptive statistics of success or failure in hitting budget targets:

- *Bias*. The statistical bias of a forecast is its tendency, if any, to err consistently in one direction. We show the mean error over the 10 years, a simple and widely used measure in which undershoots and overshoots can offset each other. Though useful, the mean suppresses some information. A

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1 This method reduces the impact of two problems that can affect comparisons of spending and revenue levels in the public accounts with levels in budgets. Sometimes in-year accounting changes will distort comparisons between the different documents: using changes as reported in the public accounts and in the budget should eliminate that problem. A more serious problem historically was the use of different accounting methods for public accounts than for budgets. Comparing changes rather than levels typically reduces the significance of those discrepancies. See Adrian, Guillemette and Robson (2007) for more discussion of this method.

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**Table 1:** *Expenditure Forecasts and Outcomes*

	<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>
<i>Announced Spending Change (%)</i>														
1997/98	-1.75	-2.72	-3.86	-0.24	1.51	-0.61	-4.03	-1.41	-1.24	1.24	-0.64		-4.11	
1998/99	0.34	0.41	-2.21	-0.51	-0.47	1.75	-0.61	0.99	1.99	0.47	0.77		-7.39	
1999/00	0.13	-1.02	-0.29	4.57	2.06	-1.20	2.94	1.79	-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	2.67	5.14	-6.51
2005/06	1.87	5.48	1.41	4.15	3.15	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	1.67	4.10	2.08	3.39	0.13	3.99	3.68	0.84	-3.10	2.59
2007/08	4.62	17.12	7.97	5.06	2.85	3.95	2.61	5.81	1.56	11.72	3.87	4.67	-0.58	2.80
<i>Actual Spending Change (%)</i>														
1997/98	0.12	8.49	-0.77	4.00	0.91	1.04	0.17	5.25	0.61	6.06	-0.52		-0.85	
1998/99	3.79	-5.33	4.26	3.53	5.47	5.91	2.28	3.60	8.73	4.25	1.08		4.62	
1999/00	0.74	-3.42	6.07	6.19	3.83	1.86	7.10	9.41	3.56	10.00	7.77		3.82	
2000/01	5.98	6.39	10.66	0.22	-2.25	4.88	-0.50	2.76	2.55	9.47	1.11	6.04	4.10	10.66
2001/02	2.08	5.50	3.78	5.09	7.35	3.18	2.97	1.84	7.00	9.88	10.11	9.23	5.54	8.39
2002/03	4.02	5.86	2.28	1.45	4.22	-0.76	4.13	3.05	0.57	-1.52	1.06	5.69	3.04	5.10
2003/04	3.53	5.13	12.63	6.62	3.93	2.10	7.75	7.13	6.15	5.89	1.10	5.75	8.97	7.10
2004/05	11.48	0.81	0.29	7.91	2.00	4.86	7.40	2.65	3.87	11.11	1.44	5.57	10.68	2.86
2005/06	-0.78	4.86	1.76	6.13	5.85	2.98	5.65	7.24	9.21	11.61	7.16	7.35	1.61	9.92
2006/07	6.21	5.00	3.30	4.57	5.31	4.72	4.92	5.35	7.38	9.09	4.78	4.32	6.71	14.39
2007/08														
<i>Difference (%)</i>														
1997/98	1.86	11.21	3.09	4.25	2.42	1.65	4.21	6.67	1.85	4.82	0.11		3.27	
1998/99	3.45	-5.74	6.48	4.03	5.95	4.15	2.88	2.61	6.74	3.78	0.31		12.01	
1999/00	0.61	-2.40	6.36	1.62	1.78	3.06	4.16	7.62	3.89	7.83	6.43		7.45	
2000/01	5.35	3.28	9.16	0.83	0.00	2.13	0.73	3.39	-1.08	7.68	2.41	1.20	5.97	7.46
2001/02	-3.06	0.15	4.00	4.58	0.75	-0.22	0.82	0.12	1.16	-2.60	2.68	4.76	6.66	6.60
2002/03	0.67	4.41	0.97	0.56	-0.20	-2.78	0.66	0.86	1.33	6.54	1.38	0.61	7.46	3.13
2003/04	0.74	-0.40	7.94	2.84	-0.38	-2.16	0.68	2.99	2.75	5.68	3.47	0.08	15.82	3.90
2004/05	9.19	0.39	3.93	2.97	-0.29	1.77	0.52	1.56	2.97	8.21	4.02	2.90	5.54	9.36
2005/06	-2.64	-0.62	0.35	1.98	2.70	-0.37	1.47	3.74	8.07	5.94	2.42	5.83	-3.44	12.22
2006/07	1.19	-5.11	0.68	-1.68	3.64	0.61	2.85	1.95	7.25	5.10	1.10	3.47	9.80	11.79
2007/08														

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

small mean error would result 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.* The accuracy of a forecast can be measured by how close the values are to the actual outcomes. Measures of accuracy more clearly reflect the usual meaning of forecast quality than the mean error, because overestimates and underestimates do not offset each other. We show the root mean square error — the square root of the average of the squared forecast errors (the same formula used in calculating standard deviations). This measure shows the size of errors without regard to whether they are positive or negative, and gives greater weight to larger errors — a reasonable approach, since larger overshoots and undershoots disproportionately effect accountability.

These summary measures of the decade-long performance of Ottawa, the provinces and the territories appear in Table 2. Quebec scores impressively by both measures. New Brunswick and Ontario also perform relatively well when judged by both measures. Newfoundland and Labrador is a special case. The province performs well on bias — with years of underspending largely offsetting years of overspending — but poorly on accuracy, like other commodity-based and transfer-dependent jurisdictions.

Though overshoots and undershoots in revenue are less salient than those in spending — and varying degrees of reliance on cyclical or other volatile revenue sources complicate the cross-jurisdiction comparison — a look at the revenue side helps our understanding of the fiscal targeting task. Tables 3 and 4 present the same measures for revenue. Ordered by relative performance over a 10-year period, the jurisdictions tend to fall into similar categories as they did in regard to spending.

Examining the projected and actual results for spending and revenue alongside each other allows a quick judgement about a commonly remarked problem: that “surprises” in revenue and spending tend to occur together, presumably because governments slash or splurge when revenues come in below or above projections.

Table 5 presents a summary statistic that sheds light on this issue — the correlation between surprises in revenues and in spending in the same year for each government. These correlations are generally what one would expect. Spending overruns and undershoots tend to coincide with years of unexpected revenue overruns and undershoots. The jurisdictions where spending under- and overshoots correspond most closely to those in revenue are Quebec, Ontario and Alberta, where the tendency of an unanticipated change in revenue of, say, one percent coincides with an unanticipated change in spending of 0.9, 0.8 and 0.8 percent, respectively. With the exception of New Brunswick, all provinces — even those with good scores in terms of bias and accuracy — seemed to struggle to resist the urge spend up or down along with changes in revenues. As for revenue surprises, 109 of the 136 annual differences between budgeted and actual revenue shown in Table 3 — more than 80 percent — were overshoots. Given the prevalence of positive revenue surprises, the story here is, in fact, largely one of in-year spending of unanticipated revenue.

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**Table 2:** *Bias and Accuracy in Budget Forecasts of Changes in Spending, 1997/98 to 2006/07*

Jurisdiction	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	Cumulative Overrun (\$M)
Federal	1.74	4	3.84	7	28,657
Nfld.	0.52	1	4.71	10	147
P.E.I.	4.30	11	5.21	11	390
NS.	2.20	6	2.87	4	1,086
NB	1.64	3	2.56	3	836
Que.	0.79	2	2.24	1	3,267
Ont.	1.90	5	2.37	2	12,272
Man.	3.15	9	3.88	8	2,005
Sask.	3.49	10	4.50	9	2,251
Alta.	5.30	12	6.07	12	10,499
B.C.	2.43	7	3.03	5	6,274
NWT <sup>a</sup>	2.68	8	3.34	6	173
YK	7.05	13	8.57	14	404
Nunavut <sup>a</sup>	7.78	14	8.45	13	460

<sup>a</sup> Starting in fiscal year 2000/01.

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

## Are Things Getting Better, or Worse?

In this second instalment of the C.D. Howe Institute's fiscal accountability rankings, we use similar measures to those in our first analysis last year (Adrian, Guillemette and Robson 2007).<sup>2</sup> In particular, we highlight decade-long measures to reduce the impact of particular governments or economic episodes on the results. The 2008 version drops 1996/97 and adds the most recent complete year, 2006/07.

Do our measures suggest that fiscal accountability in Canada is improving? We comment here on results in the most recent year and how moving the window of observation forward one year affects the relative performance of various governments. In 2006/07, Newfoundland and Labrador had spending and revenues well below those projected. The negative spending surprise offset much of the upward bias in the province's spending over the previous nine years — moving it past Quebec into top spot for expenditure bias — but lowered its score in terms of accuracy.

<sup>2</sup> Last year's report used fiscal results numbers from the Department of Finance's Fiscal Reference Tables for some provinces and territories for some years. This year's version uses public accounts data consistently throughout. This change improved scores for Nova Scotia and Yukon and also slightly affected the scores for Prince Edward Island relative to those in our previous report. The comparisons between 10-year measures discussed here use the public accounts numbers.

**Table 3:** Revenue Forecasts and Outcomes

	<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>BC</u>	<u>NWT</u>	<u>YK</u>	<u>Nunavut</u>
	<i>Announced Revenue Change (%)</i>													
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	-1.29	-0.17	4.28	2.46	-0.04	3.63	-11.29	1.14		-3.71	
1999/00	0.13	-1.23	-2.88	1.59	1.88	-1.20	6.00	1.76	-0.51	1.56	-0.34		-7.38	
2000/01	1.25	3.93	-1.66	0.23	-1.49	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	4.44	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	1.19	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	6.88	2.11	2.67
2005/06	2.34	3.54	3.14	4.39	2.85	3.27	5.90	-0.33	-9.17	-4.89	1.07	1.93	4.96	5.42
2006/07	2.82	0.02	3.15	5.13	0.13	4.42	2.13	3.42	-3.48	-6.34	-0.34	2.03	1.12	2.47
2007/08	1.89	15.79	8.03	6.07	2.84	1.30	2.65	5.81	-6.20	-4.66	-1.71	4.32	-3.29	2.92
	<i>Actual Revenue Change (%)</i>													
1997/98	8.77	8.93	-1.50	4.73	-0.25	4.17	6.18	6.31	-6.22	6.29	0.38		2.60	
1998/99	2.16	-4.09	8.98	3.80	0.61	11.88	6.27	4.03	8.56	-5.45	0.45		13.22	
1999/00	6.74	-0.62	5.51	5.14	7.48	1.64	13.02	7.62	4.53	19.76	7.61		-5.65	
2000/01	8.96	6.82	4.51	6.42	1.28	7.75	2.80	6.54	15.43	28.00	10.38	22.06	13.74	10.82
2001/02	-3.29	-1.33	4.22	1.02	7.72	-1.44	-1.23	-0.09	-10.23	-14.06	-5.50	10.47	-4.52	-5.19
2002/03	3.78	2.52	-2.78	0.96	-1.30	-1.02	3.72	3.25	6.68	3.48	-3.27	-11.37	6.46	10.33
2003/04	4.65	2.92	5.29	7.16	4.14	2.78	-0.74	4.72	1.58	14.29	8.09	2.97	11.96	6.04
2004/05	7.24	2.07	9.48	9.40	9.43	4.52	13.83	11.53	19.06	13.58	14.15	13.14	11.98	10.07
2005/06	5.24	18.90	5.04	6.97	5.78	3.94	8.28	2.30	5.52	21.98	7.90	11.37	9.36	10.95
2006/07	6.23	-3.15	5.40	5.73	5.24	8.28	7.35	6.07	5.31	7.72	7.13	8.74	5.52	21.61
2007/08														
	<i>Difference (%)</i>													
1997/98	7.08	10.54	3.66	4.99	2.38	2.03	7.69	6.79	1.23	18.17	-0.01		5.56	
1998/99	-0.22	-5.69	10.48	5.10	0.78	7.60	3.82	4.07	4.93	5.84	-0.70		16.93	
1999/00	6.61	0.61	8.40	3.54	5.61	2.84	7.03	5.86	5.04	18.20	7.96		1.73	
2000/01	7.71	2.89	6.17	6.19	2.77	5.00	3.46	5.26	5.62	29.64	9.84	17.17	12.06	7.69
2001/02	0.79	-7.06	3.57	-0.78	3.27	-1.89	-0.21	-0.66	0.84	-3.35	-7.81	8.86	-5.43	-10.65
2002/03	3.44	1.80	-2.39	-2.13	-2.49	-3.04	-1.14	2.65	4.39	9.04	0.30	1.73	8.82	12.88
2003/04	1.30	1.10	0.71	3.38	-0.26	-1.48	-8.53	0.09	4.33	17.15	3.99	-7.36	10.81	-4.39
2004/05	3.87	5.88	6.41	5.25	4.85	1.39	-0.98	7.51	17.27	23.00	10.96	6.25	9.87	7.40
2005/06	2.90	15.36	1.89	2.59	2.93	0.67	2.38	2.63	14.69	26.87	6.83	9.44	4.40	5.53
2006/07	3.41	-3.18	2.26	0.60	5.11	3.86	5.22	2.65	8.79	14.05	7.47	6.71	4.39	19.14
2007/08														

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.



**Table 4:** *Bias and Accuracy in Budget Forecasts of Changes in Revenue, 1997/98 to 2006/07*

Jurisdiction	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	Cummulative Overrun (\$M)
Federal	3.69	7	4.50	4	61,849
Nfld.	2.23	3	6.98	9	890
P.E.I.	4.12	9	5.48	7	367
NS	2.87	5	3.91	3	1,406
NB	2.49	4	3.47	1	1,326
Que.	1.70	1	3.57	2	7,429
Ont.	1.87	2	4.93	6	10,806
Man.	3.68	6	4.50	5	2,405
Sask.	6.71	12	8.44	10	4,482
Alta	15.86	14	18.47	14	36,032
B.C.	3.88	8	6.78	8	10,875
NWT <sup>a</sup>	6.11	11	9.29	12	377
YK	6.91	13	9.09	11	375
Nunavut <sup>a</sup>	5.37	10	10.75	13	350

<sup>a</sup> Starting in fiscal year 2000/01.

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

**Table 5:** *Correlation of Surprises*

	Federal	Nfld.	P.E.I.	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	B.C.	NWT	YK	Nunavut
Correlation of surprises*	0.30	0.53	0.54	0.29	0.16	0.88	0.79	0.54	0.46	0.80	0.42	0.45	0.35	0.37
Rank	3	9	10	2	1	14	12	11	8	13	6	7	4	5

\* A two-tailed test at a 10 percent significance level and eight degrees of freedom yields a critical value of 0.549. Thus, many of the coefficients fail ordinary significance tests.

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

Meanwhile, 2006/07 was a poor year for Alberta and Saskatchewan in terms of spending and revenues — worse in both cases than the 1996/97 year that dropped out of the window. Although they occupy nearly the same positions as in last year's rankings, their numerical scores deteriorated.<sup>3</sup>

We also present our summary statistics of bias, accuracy and correlation for the most recent five-year period and contrast those results with the performance of the various governments in the previous five years to give a sense of whether things got better or worse during the decade (Table 6). Overall, in the most recent five-year period, the results are positive: more governments scored better on both the

3 Although New Brunswick struggled in 2006/07, this was largely offset by an equally poor year that was dropped from its record. Contrarily, Prince Edward Island had a decent 2006/07, but lost another good year from its record.

**Table 6: Trends in Accountability**

Expenses	Federal	Nfld.	P.E.I.	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	B.C.	NWT	YK	Nunavut
Bias:														
First 5 years	1.64	1.30	5.82	3.06	2.18	2.15	2.56	4.08	2.51	4.30	2.39	2.98	7.07	7.03
Last 5 years	1.83	-0.27	2.77	1.33	1.09	-0.58	1.24	2.22	4.47	6.29	2.48	2.56	7.04	8.08
<i>Difference</i>	0.19	-1.57	-3.04	-1.73	-1.09	-2.74	-1.32	-1.86	1.96	1.99	0.09	-0.42	-0.04	1.06
Accuracy:														
First 5 years	3.28	5.92	6.19	3.42	3.00	2.60	2.98	4.91	3.65	5.74	3.30	2.20	7.62	4.45
Last 5 years	4.33	3.04	4.00	2.19	2.04	1.79	1.51	2.44	5.21	6.38	2.73	3.29	9.43	8.96
<i>Difference</i>	1.05	-2.88	-2.20	-1.24	-0.96	-0.81	-1.47	-2.47	1.56	0.64	-0.57	1.10	1.81	4.50
Revenues														
Bias:														
First 5 years	4.39	0.26	6.46	3.81	2.96	3.12	4.36	4.26	3.53	13.70	1.86	13.01	6.17	-1.48
Last 5 years	2.98	4.19	1.78	1.94	2.03	0.28	-0.61	3.11	9.89	18.02	5.91	3.33	7.66	8.11
<i>Difference</i>	-1.41	3.94	-4.68	-1.87	-0.93	-2.84	-4.97	-1.16	6.36	4.32	4.05	-9.68	1.49	9.59
Accuracy:														
First 5 years	5.55	6.36	6.99	4.52	3.35	4.44	5.20	5.00	4.09	17.81	6.66	8.64	9.95	5.87
Last 5 years	3.11	7.55	3.35	3.18	3.59	2.40	4.65	3.94	11.22	19.10	6.91	6.77	8.13	11.28
<i>Difference</i>	-2.43	1.20	-3.65	-1.34	0.24	-2.04	-0.55	-0.26	0.26	1.30	0.25	-1.87	-1.82	5.41
Correlation of surprises*														
First 5 Years	0.40	0.85	0.55	-0.49	-0.59	0.91	0.88	0.87	0.21	0.90	0.43	0.50	0.47	-0.05
Last 5 years	0.45	0.23	0.15	0.69	0.57	0.85	0.75	-0.42	0.42	0.28	0.48	0.87	0.58	0.38
<i>Difference</i>	0.05	-0.62	-0.40	1.19	1.16	-0.07	-0.13	-1.36	0.22	-0.62	0.05	0.37	0.11	0.43

\* A two-tailed test at a 10 percent significance level and three degrees of freedom yields a critical value of 0.805.

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

bias and accuracy measures than scored worse.<sup>4</sup> Specifically, for both expenditures and revenues, Prince Edward Island, Nova Scotia, Manitoba, Ontario and Quebec appear to be making strides in following through on their budget numbers in terms of bias and accuracy.

Unfortunately, however, not all jurisdictions are making progress. On the expenditure side in recent years, Saskatchewan, Alberta, Nunavut and Ottawa struggled more to follow through on their promises than in the earlier period. And on the revenue side — not surprisingly in view of the recent strength of commodity prices — those who have shown a declining performance over time tend to be commodity-based jurisdictions. When it comes to the correlations between surprises in revenues and surprises in spending, the story is less positive: a small majority of jurisdictions seemed likelier to spend unexpected gains in revenue in the most recent five years than in the previous five years.

4 We note, however, that the best score on the bias measure is zero: a negative bias is no better (or worse) than a positive one.

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## Closing Observations

Canadians should not take lightly persistent or large discrepancies between what governments say they will do and what they actually do. The consequences of spending beyond the boundaries that governments set for themselves are serious. Poor budgeting practices affect the future burden of debt and level of taxation. They can undermine a government's fiscal policy responses to changing conditions. A government that uses much of its excess revenues — from, say, increases in tax revenues — to increase expenditures can exacerbate cyclical peaks in the economy instead of dampening them. Most fundamentally, results that are regularly very different from what legislatures vote for deprive Canadians of the ability to control many of their governments' most crucial actions.

When it comes to improving the ability of governments to meet their future fiscal targets, a cautionary note is in order. Targeting the bottom line, as legislation requiring a balanced budget would do, will not alleviate the problem. Targeting a specific number such as zero reinforces the tendency for revenue surprises to produce spending surprises, which undermines the ability of legislators and voters to hold governments to account for the promises they made at budget time.

The reverse case, where spending surprises — positive or negative — prompt in-year revenue changes in the same direction, is no more appealing. Tax increases passed in haste are less likely to pass ordinary tests of equity and efficiency than ones properly deliberated. Similarly, in-year or end-of-year tax rebates create none of the rewards for work, saving and investing that reductions known in advance would create.

In the end, the central challenge facing governments is to show more discipline by avoiding ill-thought-out, unbudgeted splurges in spending. The challenge confronting all Canadians is primarily a political one: raising the electoral stakes so that governments place a higher priority on hitting the targets voted for at budget time. One measure that can assist in this process is the provision in public accounts documents of easily read summary tables explaining the reasons for variations between budget projections and actual results in major areas of revenue and spending. Ottawa and Quebec provide such tables. The effectiveness of such measures — and the effectiveness of these fiscal accountability rankings — in promoting better behaviour will ultimately depend on the degree to which Canadians accept the challenge of holding their governments to account.

Each year's budget performance matters for economic performance and living standards at the time, and constrains the choices Canadians will make in the future. The differing performances of Ottawa and the provinces, and changes in the performance of each over time, show that poor accountability in general, and spending overruns in particular, are not inevitable. If Canadians take seriously the task of holding their governments more closely to account, future editions of these rankings will tell a happier story.

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## NOTES

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