Intelligence MEMOS

From: William B.P. Robson

To: Fiscal Observers

Date: November 30, 2023

Re: **Ottawa's Unserious Fiscal Policy Rolls On**

The 2015 federal election heralded a new approach to federal fiscal policy. Serious was out. Spending only as much as revenue would cover was not cool. Unserious was in. Deficits were the new thing.

That was inevitable during the pandemic. For a time, the government could reasonably claim that hundreds of billions of debt-financed spending were needed responses to sickness and lockdowns.

But the COVID measures are behind us. The 2023 fall economic **statement** from Finance Minister Chrystia Freeland underlines that the federal government is not serious about managing our money. Yet again, the update has revealed previous fiscal projections as meaningless, with tens of billions of new spending layered on top of previous years' overshoots, as though it was just play money.

To understand the depth of the government's unserious stewardship of public funds, it helps to go back to its last pre-COVID projections, in its 2019 fall statement. The last fiscal year in the 2019 statement's projections was 2024/25. The 2019 statement showed federal spending at $421 billion in 2024/25. Over the years since, that number has grown by leaps and bounds.

In further evidence of unseriousness, the government presented no budget at all for the 2020/21 fiscal year, and its 2020 fall statement removed some pension costs from the presentation. Put the pensions back in, and that statement showed spending in 2024/25 at $429 billion – $8 billion higher, after COVID-related measures were all gone.

That was just the beginning. Fast-forward to the 2021 fall statement. By then, projected spending in 2024/25 had jumped to $465 billion – $44 billion higher than in 2019. By the 2022 fall statement, that forecast had rocketed to $505 billion – $84 billion higher than projected in 2019.

Last week's fall statement showed spending in the 2024/25 fiscal year at $522 billion. That is an eye-popping $101 billion higher than projected in 2019.

In 2019, projections for a jump that big – more than one-quarter of federal spending at the time – would not have seemed serious to anyone. It would have been like doubling every transfer payment to every individual, or doubling transfers to the provinces and territories. It would have meant raising personal income taxes by 60 per cent, or doubling the GST and other consumption taxes. Not something you would do with real money. Yet that is where the fall statement says we are headed.

To repeat, the jump is after COVID-related expenses are gone. COVID mattered for a different reason – the government's ability to finance so much spending, more or less justifiable, by selling bonds to the Bank of Canada made the money seem unreal. Then-finance minister Bill Morneau relates in his book how the Prime Minister would routinely announce more spending than previously agreed because the bigger numbers sounded good.

Play money is easy to spend. Compared with the 2019 projections, everything is up. Transfers to persons. Transfers to governments. Wages and pensions of federal employees. And, of course, higher interest costs on the soaring federal debt.

Yes, some of the increase reflects higher inflation, but the federal government's spending and borrowing is a key reason why our money lost its purchasing power – became more like play money.

The 2024/25 fiscal year is now only four months away. The fall statement we just got serves as the framework for the spring budget and the fiscal plan for the five years after that. And that is worrying.

Every year since 2019, the government has added an average of $25 billion in new spending to the projections for 2024/25. Maybe we won't see that kind of jump again between now and the budget. But why think the numbers in the 2023 fall statement are any more reliable, any more meaningful, any more serious, than their predecessors?

What we need from the 2024 budget, more than we need any single revenue or spending initiative, is evidence that the government is serious about fiscal policy. Tax hikes, another $40-billion deficit, rising ratios of debt and interest charges to GDP – none of that would be happening if projected spending for the upcoming fiscal year had not jumped by more than $100 billion since 2019. The money is real. The government should take it seriously.

*William B.P. Robson is CEO of the C.D. Howe Institute.*

*To send a comment or leave feedback, email us at blog@cdhowe.org.*



*A version of this Memo first appeared in The Globe and Mail.*