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## **Has Ottawa Got a Grip on Spending? The Doubtful Projections in the March 2004 Federal Budget**

By William Robson and Finn Poschmann

*March 24, 2004*

**F**inance Minister Ralph Goodale's first budget — and Paul Martin's first since becoming prime minister — has much in it to reassure Canadians worried that Ottawa's spending is out of control. The government's decision to restore a contingency reserve to ensure that debt pay-down will reduce interest payments in coming years and provide a long-term target for a lower ratio of debt to GDP are easy but important steps.

Missing, however, is near-term action to limit spending growth. While the new plan includes \$3 billion in unspecified spending reallocation over four years, the budget still projects an increase in program spending of \$4.5 billion in fiscal year 2004/2005 and a further \$8.2 billion in 2005/2006. Worse, the figures the budget presents for 2003/2004, the fiscal year ending next week, confirm that recent federal budgets have given neither parliamentarians nor the Canadians they represent an accurate picture of how much money Ottawa will actually spend. It is natural to ask whether the 2004 budget will be any different.

### **Budgets: The Key to Controlling Public Funds**

Budgets help people and businesses plan for the future; they are critical to Parliament's oversight of how the government is spending public money. And although details of tax changes and individual programs inevitably get much of the attention when governments introduce a budget, the overall path of program spending is arguably the most important piece of information in the document.

Revenue inevitably fluctuates in the short term as the economy grows more strongly or weakly than forecast. Yet over the medium and long term, how much the government will have to raise by taxing and borrowing is dictated by how much it spends. Getting a grip on spending, therefore, is critical to Canadians who would like to see tax relief and debt reduction in the years ahead.

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## The Recent Record: Strikeouts on Spending Projections

On the face of it, the 2004 budget appears to signal a slower pace of spending growth in the future than in the recent past — a projection that the government highlighted and many observers hailed. To judge whether this budget actually heralds a return to prudent spending, however, it helps to look at comparable spending projections in the federal budgets of the past few years, as well as at the actual results as presented in the government's public accounts.

Awkwardly, comparing levels of spending is not straightforward. For one thing, the federal government recently restated its financial results to conform with full accrual accounting — a defensible move, but one that complicates comparisons with budget projections. Much less defensibly, the government continues to present budget figures in which major expenditures — most notably the child benefit — are netted against revenue, making the budget totals much smaller than, and not easily comparable to, the amounts recorded at the end of the fiscal year.

A rough-and-ready way of getting around these restatements and misstatements is to compare the dollar increases in program spending for the upcoming fiscal year in successive budgets with the dollar increases in spending for each year as now shown in the Public Accounts (Figure 1). The picture is not reassuring. The 1998 budget, for example, forecast a decrease in program spending of \$1.5 billion, not the \$3.9 billion now recorded as having actually occurred. In 1999, a forecast cut of \$0.9 billion turned into a small increase, and in 2000, a forecast increase of \$0.5 billion turned into a whopping \$10.5 billion hike.

There is a break in the pattern in 2001, but that year was an exception to the rule — the 2001 budget was presented in December, when three-quarters of the fiscal year was past and the large overshoot of spending relative to what had been projected in the previous year was already built in. In 2002, there was no federal budget at all, but the Economic and Fiscal Update that the government presented to Parliament late that year shows a return to the pattern of under-projecting, even though that fiscal year, too, was mostly in the bag.

In 2003, the federal budget projected that in the current fiscal year program spending would be \$4.4 billion higher than the year before. Hardly. One of the most revealing figures in the 2004 budget is not the projections for spending in the years ahead, but the revelation that the government now expects spending in the 2003/2004 fiscal year to be an astonishing \$10.1 billion higher than the year before.

### Spending Restraint in the 2004 Budget: How Prudent?

In the light of this record, the 2004 budget's projection of a \$4.5 billion increase in program spending in the 2004/2005 fiscal year looks far less reassuring. Over the past six years, federal budget documents have projected, on average, spending increases barely half as large as those that actually occurred. A casual look at each year's budget to see how rapidly program spending was growing would have

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tallied about \$21 billion in cumulative forecast new expenditures from 1997/1998 to 2003/2004. Yet the actual increase over the period, as shown in the Public Accounts, was more than \$40 billion.

The fact that some of those spending excesses consisted of backdated transfers to related entities — a practice that the Auditor General has repeatedly criticized — provides little solace. Past budgets have booked almost \$9 billion in transfers to special foundations and trusts, yet the lion's share of those endowments, with interest, will be spent in future years. The disbursement of those billions will not appear in future budgets. As a result, neither parliamentarians nor their constituents will have a clear idea of how much money is actually spent, or on what. The government's current position — that foundations will report annually on their activities to the responsible minister and to Parliament — applies only to foundations created in the future. And the fact that some of the discrepancy arises because the government is presenting budget figures in which major expenditures are netted against revenue, effectively removing them from scrutiny in the budget, is no better.

It is hard to escape the conclusion that Parliament has lost control of the public purse in Canada. The 2004 budget may herald a return to wiser management of public funds than prevailed since the late 1990s, when so much of the misspending that is now coming to light got under way. Or it may not. Whether the actual outcome will bear any closer resemblance to the budget projections than has been typical since 1998 is an open question.

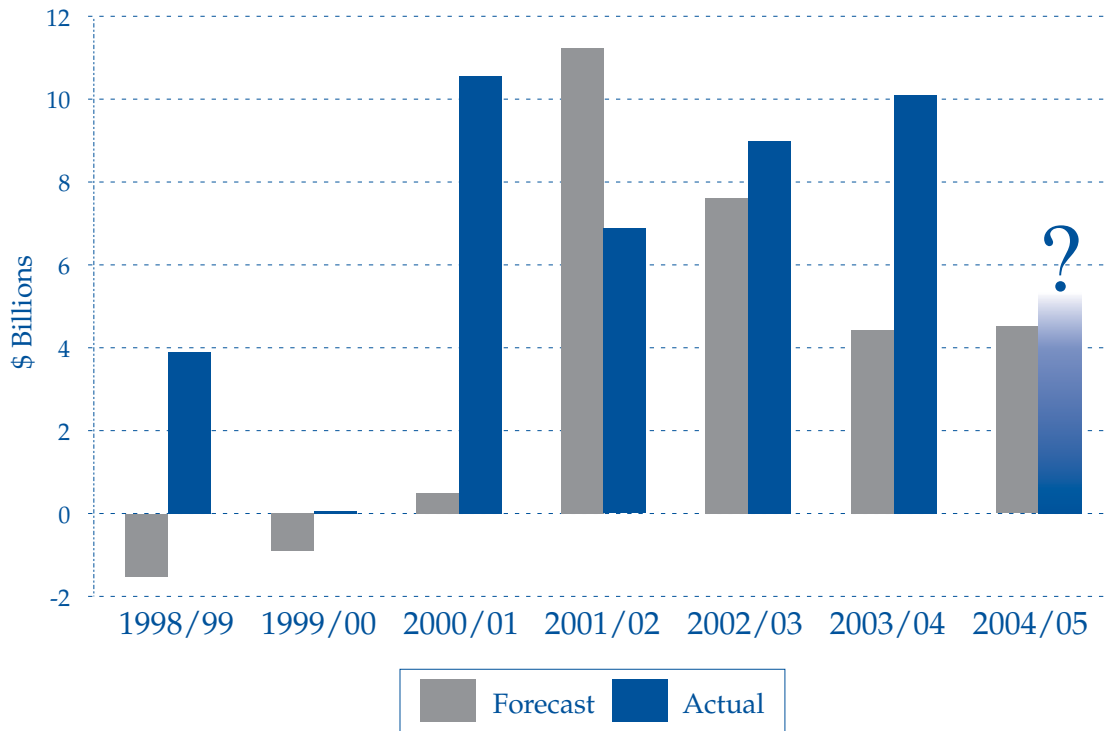
### **Parliament's Task: Get a Grip**

The key message from the 2004 federal budget is that subjecting federal government spending to proper oversight involves more than hearings into the sponsorships and similar scandals. Parliamentarians, and all Canadians, must insist that the government present dependable figures at the outset of each fiscal year and that the money actually spent during the year corresponds with them. The 2004 budget rhetoric, centred on greater fiscal prudence and debt pay-downs, could create more fiscal room for lower taxes and sustainable programs. Without better control over federal spending and clearer parliamentary oversight, however, the promise of Mr. Goodale's and Mr. Martin's first budget is not one on which Canadians can rely.

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**Figure 1: Change in Federal Program Spending; Budget Forecast vs. Actual**



Source: Annual Federal Budgets or Economic and Fiscal Updates; Receiver General for Canada