

# Intelligence MEMOS



From: William B.P. Robson and Alexandre Laurin  
To: Canadian Debt Watchers  
Date: April 29, 2022  
Re: OTTAWA'S SPENDING ADDICTION: \$2 BILLION MORE EACH MONTH

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“Build back better!”

We have heard that a lot since COVID hit – mainly from advocates for government spending, who saw pandemic-related fiscal stimulus, financed by central bank bond purchases, as suddenly making things that had seemed out of reach affordable.

The 2022 federal budget highlights their success. Ottawa's last pre-COVID projections, in its 2019 fall update, showed federal spending at \$421 billion in fiscal year 2024-25. The 2022 budget's projections have it at \$479 billion that year (adding back \$2 billion in pension obligations the government stopped including meanwhile). That's \$58 billion more, long after COVID-related measures are gone.

The slogan we should have been hearing: “Build back bigger!”

In 2019, a jump that big – about one-sixth of federal spending at the time – would indeed have seemed out of reach. In those days, \$58 billion was a huge amount, more than the feds collected from corporate income taxes or GST, and more than they spent on any single program.

It is still a huge amount.

If Ottawa were \$58 billion smaller, the 2022 budget would have projected surpluses from now to 2024-25, not the \$174 billion in new debt it actually shows.

How did the government get so much bigger?

You can come at that question program by program. Compare 2024-25 in the budget to 2024-25 in the 2019 update and you see more spending on everything. Major transfers to persons, such as seniors' benefits. Major transfers to other governments. All the other transfers. Proceeds from the carbon tax. Operating costs. Everything is up.

Including the cost of servicing federal liabilities. Even though the budget projects lower interest rates than the 2019 update, much higher debt means higher interest payments. Obligations for federal employee pensions are also up, thanks to there being more federal employees – and thanks to inflation, which boosts all expenses linked to prices, including their indexed pensions.

Or you can come at it budget by budget. Compare successive budgets and updates since 2019 and you see relentless growth. By the time of the 2020 fall update, and adding back the pension costs the government removed in its presentation, projected spending in 2024-25 was \$9 billion higher. The 2021 budget added \$24 billion. The 2021 fall update added another \$11 billion. Now the 2022 budget has added another \$14 billion. Projected spending in 2024-25 has been growing roughly \$12 billion every six months.

That relentless rise – \$2 billion more with every passing month – casts doubt on the 2022 budget projections. Why would they be any more reliable than their predecessors?

Both before and after the budget, the Prime Minister announced more money for health care. That does not show in the budget projections. Pharmacare is in the works. But does not show in the projections. The government produced a document – the [Emissions Reduction Plan](#) – that prefigures tens of billions of expenses on electricity generation and transmission alone. Also not shown in the projections.

Meanwhile, interest rates are already higher than assumed in the budget. But the resulting higher interest payments are not in the projections. Why would anyone imagine that the 2022 fall update won't show spending in 2024-25 that is higher still?

Building back bigger will cost. In round numbers, one percentage point on the GST yields \$12 billion in revenue. Financing a federal government that is permanently bigger by \$58 billion would require extra tax revenues equal to about five points on the GST – double the current rate. If Ottawa keeps growing as it has since late 2019, costlier programs and more interest will add the equivalent of another point on the GST in the 2022 update, and yet another in the 2023 budget.

Advocates for more money for provinces, for pharmacare, for greenhouse-gas reductions and so on will applaud further spending hikes. But no one should applaud projections in every budget and fall update that turn out to be fiction, and rising costs in every area of federal activity.

Building back better should be about getting more value for what we spend and ensuring that future Canadians have the fiscal capacity to deal with whatever – climate change, more pandemics, war or recession – the future throws at them. Building back bigger is just about spending more.

The 2022 fall update should show, not more spending, but smarter spending. Building back bigger has happened. It is time to truly build back better.

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