

Intelligence MEMOS



From: William B.P. Robson and Farah Omran
To: Canada's finance ministers
Date: July 12, 2019
Re: **A BAD BUDGET HABIT AFFLICTS MOST SENIOR GOVERNMENTS**

Canada's federal, provincial and territorial governments have spent a combined total of \$91 billion more than they said they would since 2000.

In our new C.D. Howe Institute [Commentary](#) we compare the budgets of Canada's senior governments with the revenues and expenses published in their audited year-end financial statements. We found that governments routinely spend and tax more than projected in their budgets – and that those overshoots have materially raised the size and cost of government over time.

Over the 18 fiscal years since 2000/01, these governments have overshoot their spending targets by a cumulative \$91 billion. This cumulative overshoot means they are now spending almost \$2,500 more, per Canadian, than they would be if they had hit their targets.

Over the same period, revenue has overshoot budget projections by an even larger amount: a cumulative \$142 billion, or nearly \$4,000 per Canadian. In short, Canada's senior governments are spending more, and taxing Canadians more heavily, than they would be if they had delivered on their budget commitments.

In percentage terms, Ottawa came closest to hitting the mark on spending, with an annual average overshoot of 0.6 percent. Still, the federal government is big: that average overshoot leaves it spending almost \$19 billion more than it would if it had hit its annual targets. Ontario and New Brunswick took the second and third position with 0.8 percent and 0.9 percent overshoots respectively. Nunavut and Yukon were furthest from target with 5.6 percent and 5.3 percent respectively, and Alberta, at 3.7 percent away from target, was third worst. Alberta's overshoots have left it spending nearly \$20 billion more than if it had hit its annual targets.

Only Newfoundland and Labrador spent less than budgeted over the period studied, with an average undershoot of minus 1.1 percent.

Most governments, most of the time, seem to be more intent on managing their annual bottom line than on stabilizing their economy, tax rates and programs. Far more often than not, when their revenue projections prove too conservative – as they usually do – they respond with an unbudgeted splurge.

For all the attention budgets receive and the formal legislative accountability that surrounds both budgets and the estimates, governments' projections are far less reliable than they should be. Legislators and voters alike should demand that Canada's federal, provincial and territorial governments improve their budgets and their record in achieving them.

Here are several recommendations to further improve fiscal accountability:

- Governments should give legislators better information, particularly when it comes to the estimates that authorize specific expenditures;
- Legislators must ensure that contingency reserves do not become slush funds to cover spending that would not otherwise pass inspection;
- Interim and final results should be timely: a government that wants to achieve its fiscal targets in the face of unexpected developments needs timely operational and financial information to adjust course;
- Governments should stay fiscally healthy: deficit and debt concerns create temptations to massage the numbers to achieve a bottom line target.

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