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From: Janice MacKinnon
To: Government Spending Observers
Re: GOVERNMENTS NEED TO CREATE WINNING CONDITIONS,
AND NOT PICK WINNERS

I was Saskatchewan's finance minister during the fiscal crisis of the 1990s, which we successfully weathered.

I think the current debate about the sustainability of Canada's finances would benefit from some lessons from the past.

First, comparisons of Canada's current fiscal situation with the 1990s need to go beyond traditional measures like the ratio of debt to gross domestic product (GDP). Today we face major challenges that were not present in the 1990s: the costs of an aging population and the lethal combination of a slow-growth economy being battered by Donald Trump's tariffs and the major changes to the Canada-United States trading relationship that he has brought.

Secondly, the root causes of the 1990s fiscal crisis went beyond over-spending to include governments' approaches to economic development. "Big government" had characterized the economic development approaches of the 1980s. Governments picked winners and losers by investing taxpayers' dollars directly in specific companies rather than establishing sensible programs available to all businesses. They also supported and financed specific megaprojects as engines of economic growth and job creation.

When governments assume the role of deciding which projects are supported or funded, decision-making moves from the marketplace to the cabinet table, bringing politics into the process and risking decisions that are based more on short-term results rather than long-term benefits.

As finance minister in the government of Roy Romanow I had to deal with the fallout from this 1980s big-government approach of picking winners and losers. The already large deficits and debt created by overspending were increased by the write-offs we had to take on "investments" that failed. Major megaprojects too advanced to be abandoned had to be restructured.

Governments of the 1990s learned the lessons of the past: They redefined the role of government in a global, knowledge-based economy. In Saskatchewan, we defined our role as providing a competitive tax regime, streamlined regulations, a well-educated and well-trained workforce and financing for infrastructure, from roads to research facilities.

An example of the 1990s approach was our decision to revise and reduce oil royalties to attract investment, a choice that required the premier to face down the left wing of our party, which he did.

The result was a record-breaking expansion of the oil industry that created new jobs and increased government revenue. It was economic growth propelled by private-sector investment, not government picking winners and losers, that allowed Saskatchewan to balance its budget earlier than we had expected.

Unfortunately, the 1980s big-government approach to economic development has reappeared in many of the policies of the Carney government. In fact, picking "winners and losers" and direct government investment in companies and sectors are its hallmarks. For example, subsidization of electric-vehicle (EV) battery plants continues apace, despite many warnings about the obvious risks of committing more than \$50 billion to the sector. The federal government is taking a similar approach in addressing the long delays for approving major projects by choosing a handful of projects that will be fast-tracked around cumbersome regulations.

As in the 1980s, this approach to economic development involves serious risks and limitations. The risks include the need to take write-offs of failed "investments," which will increase deficits and debt and further erode the sustainability of Canada's finances. The limitations are that government policies only benefit specific companies or sectors. By contrast, the 1990s approach increased Canadian competitiveness by making good policies available to all companies and sectors.

Our tax system is also a serious impediment to investment and growth. Compared with other countries' systems, especially the American one, our tax regime is complex and uncompetitive. The federal government needs to reform it to make it more investment-friendly.

As for cumbersome regulations, they should be streamlined for all companies, not just a hand-picked few, while environmental policies need to be changed to ensure that Canadian companies are competitive, especially in North America.

For instance, the current proposed emissions cap on oil and gas makes Canada an outlier: No other oil-producing country, not even Norway, has specific emissions targets for oil and gas. We won't have a competitive economy unless we change policies like this that impede rather than promote investment.

A critical lesson from the past is that economic development policies are a key component of Canada's fiscal sustainability. Policies that create competitive tax and regulatory regimes will enable and encourage private-sector investment. And, as it did in the 1990s, greater private-sector investment will promote long-term, sustained economic growth that enhances our fiscal sustainability.

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