



November 20, 2025

From: John Lester
To: Canadians Concerned About Federal Spending
Re: MORE DISTANCE TO TRAVEL IN CONTROLLING FEDERAL PROGRAM SPENDING

There is much to like in the expenditure “cuts” announced in the federal budget.

Contrary to my initial **concerns**, the government did not impose across-the-board reductions to the narrow review base. Departmental proposals were vetted centrally, allowing reductions to vary by department. And the spending review is accompanied by targeted savings achieved through efforts to boost public-sector productivity. Importantly, the government signalled that expenditure review is now an ongoing process, with the prospect of additional savings in future years.

But the savings are modest. The expenditure review will yield \$12.4 billion in annual savings by 2029/30, and expected savings from improved public-sector productivity will add a further \$3.3 billion. The total savings will nudge down the average growth rate in program spending over the five-year forecast horizon to 3.7 percent from 4.2 percent, after adjusting the base year for elimination of the fuel charge rebate.

That small reduction is not enough to prevent a rise in the debt-to-GDP ratio over the forecast period. Achieving a declining debt ratio would require additional savings of approximately \$27 billion in 2029/30, bringing the total to \$43 billion. If such savings were realized, the ratio of program spending to GDP would fall to 14.7 percent in the final year of the forecast – lower than in 2024/25, but still substantially above the five-year pre-pandemic average.

Securing further expenditure reductions will be unnecessarily painful if the review base is not broadened. Refundable tax credits – such as the clean economy investment tax credits and the small business Scientific Research and Experimental Development (SR&ED) tax incentive – are classified as spending programs and included in direct operating expenses, yet are implicitly out-of-scope for the review.

Similarly, some legislated transfer payments are part of direct operating expenses but are also excluded from the review. The only distinction between these and in-scope transfers is that legislative change is required to modify them, which does not justify their blanket exclusion as a means of protecting high-priority spending.

The government has explicitly exempted major transfers to provinces, territories, municipalities, families and seniors from the review. These transfers – including Old Age Security, the Guaranteed Income Supplement, the Canada Child Benefit and the Canada Health and Social Transfers – account for about half of program spending.

The ongoing spending review base also excludes approximately \$55 billion in tax-based measures that are comparable in purpose and function to direct spending programs. These include the preferential income tax rate for small businesses, the age credit, the SR&ED regular tax credit, pension income splitting and the pension income credit.

The political decision to exclude more than half of program spending and tax-based measures comes at a significant cost. The burden of expenditure restraint is narrowly focused, raising concerns about fairness. A narrow review base also increases the social cost of spending cuts, as some programs that are eliminated may offer better value for money than those retained.

Including tax-based measures in the review is particularly important since it allows a more comprehensive analysis of policy effectiveness. For example, evaluating Old Age Security payments (about \$53 billion this year) without considering related tax credits and income splitting (totalling \$9 billion) would provide a misleading picture of the overall support provided to seniors.

To signal its commitment to controlling spending, the government should make two further changes. First, it should strengthen program evaluation. The government spends a lot of money assessing program effectiveness, but the focus is almost exclusively on the reactions of beneficiaries. For example, business subsidy programs are deemed successful if investment, output or employment rises because of the subsidy. That's a low bar: It would be astonishing if firms did not respond positively to a subsidy.

The more pertinent questions: Are taxpayers getting value for money? Are they ultimately richer or poorer because of the program? The government should therefore make evaluating programs through a value-for-money lens mandatory rather than optional, using a benefit-cost framework wherever possible.

Second, the government should adopt a hard rolling ceiling on noncyclical program spending over the five-year forecast period. Once established, the track for noncyclical spending would only be adjusted from budget to budget to correct forecast errors in the determinants of program spending. This would prevent the recurring pattern of announcing higher spending in each budget, which has resulted in actual spending for 2024/25 being 30 percent higher than first forecast in the 2019 Fall Economic Statement.

Undertaking a truly comprehensive spending review and strengthening program evaluation would build confidence in the government's ability to manage its spending. This confidence would be bolstered by developing a multiyear spending plan, including a contingency reserve, and treating it as a binding constraint.

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