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**From:** John Lester and Benoît Robidoux  
**To:** Government Spending Watchers  
**Re:** GETTING VALUE FOR MONEY FROM GOVERNMENT SPENDING

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Getting value for the money they spend should always be top-of-mind for governments. And with defence and defence-related spending ramping up to 5 percent of GDP over the next decade, it becomes mission-critical. Other spending will have to be scaled back, making robust value for money (VFM) evidence essential to support decision makers.

The federal government has started down this path with its Comprehensive Expenditure Review. Unfortunately, VFM evidence is lacking. [Research](#) suggests that almost all evaluations of program outcomes focus only on direct impacts on beneficiaries. For example, evaluations of business subsidies typically assign a passing grade to a program if it causes output and employment by subsidized firms to rise. In contrast, a VFM assessment would consider all relevant social benefits and costs to determine if Canadians overall are richer or poorer because of the intervention.

This gap between fiscal pressures and usable evaluation evidence was a key motivation for a recent C.D. Howe Institute workshop on federal program evaluation. Workshop participants took stock of the system and made several recommendations for strengthening it. Benoît Robidoux made the case for mandatory VFM evaluations for programs above a threshold size, phased in as departments invest in talent and data to ease capacity restraints. Karen Myers and Max Palamar highlighted how using administrative data maintained by Statistics Canada more effectively could boost capacity.

In addition, Andres Velez-Guerra, while highlighting the current interest in VFM evaluations, noted the need to have the right skills, the right data, and the right timing to deliver on what decision-makers seek.

Creating an Evaluator General position with a mandate to help build departmental evaluation capacity, and to undertake VFM evaluations while departments are building capacity, as proposed by Benoît Robidoux, would allow evaluation to reach its full potential more quickly. The Evaluator General would also exercise a challenge function with respect to departmental evaluations and undertake horizontal evaluations.

Capacity development in departments would also get a boost by building on the high-quality evaluations of active labour market programs performed at Employment and Social Development Canada and the benefit-cost analysis of regulatory initiatives performed in several departments.

To be useful to policymakers, VFM evaluations must be comparable across programs. Nathan Hendren has championed an indicator that compares the net social benefit of programs to their net fiscal cost. This indicator, described as the [marginal value of public funds](#) (MVPF), tells policymakers where spending has the biggest bang for the buck. While it can be used to rank all government programs, the MVPF does not capture the subjective value society places on measures such as income redistribution programs.

The MVPF also abstracts from the cost of raising taxes to finance programs. Almost all program spending is financed by taxes, which hurt economic performance by influencing incentives to work, save, and invest. They also shrink the tax base because of tax avoidance. John Lester estimates that 20 to 30 percent of the program cost is lost through these effects.

Bev Dahlby recommends comparing the marginal value of public funds to their [marginal cost](#) which captures the economic damage caused by raising taxes to finance spending. When program benefits can be measured in dollar terms, this comparison can be used to determine if a program should be eliminated, left unchanged, or expanded.

John Lester recommends that the marginal value and the marginal cost of public funds be included in all VFM evaluations of government spending. This would enhance program comparability and strengthen the methodological base of evaluations.

While performing more and better VFM evaluations is key, Benoît Robidoux recommends adopting other measures to strengthen the evaluation function:

- Broaden coverage of the evaluation policy to include spending programs authorized through the *Income Tax Act*, which comprise the Canada Child Benefit and refundable tax credits. Further, tax measures that are functionally equivalent to program spending, such as non-refundable investment tax credits, should also be subject to the evaluation policy. In 2025, these changes would have increased the evaluation base by nearly \$100 billion.
- Free up resources by moving away from a rigid five-year cycle toward a more flexible approach tied to changes in program parameters.
- Extend the evaluation framework to program approvals. New programs and major modifications to existing programs should be accompanied by an evaluation plan that specifies how the required data will be collected and managed. They should also be required to pass a simplified VFM test.
- Streamline, simplify and clarify the evaluation framework by consolidating documents and making it clear that program effectiveness must be primarily evaluated with cost-benefit and cost-effectiveness analyses, while efficiency should assess program delivery costs.

Ottawa describes its overall expenditure management system as “designed to ensure that all programs are focused on results, provide value for taxpayers’ money and are aligned with the government’s priorities and responsibilities.” Implementing the recommendations from Workshop participants would be a big step towards making this worthy goal a reality.

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