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From: Don Drummond, William B.P. Robson and Nicholas Dahir
To: Canadian Fiscal Observers
Re: OTTAWA'S PERVERSE GUARDRAIL FALLACY

In its 2020 and 2021 budget and updates, Ottawa talked a lot about “fiscal guardrails,” a term that met with much derision.

Hard targets like a balanced budget or a dollar reduction in total spending are clear commitments to which a government can be held to account (and usually prefer to avoid).

A “guardrail” is vaguer – implying safety, even if the driver is careless. More derision followed when it turned out that if Ottawa wanted to spend more than the guardrail allowed, it just crashed through it, borrowing and spending whatever it wanted.

Now the government’s spring update reveals it has adopted a perverse guardrail that will actually keep us off the safe road and push us toward the fiscal cliff. Overspending and overborrowing are already undermining our living standards and raising the risk of a crisis. Yet when a big upside revenue surprise such as we had for the fiscal year that ended in March gives the government a chance to steer back to safety, Ottawa uses it to hike spending instead. A “guardrail” like this will keep us perpetually off-road and in fiscal danger.

Although the update repeatedly uses the phrase “Canada’s new government,” it reveals that the new government is still suffering from an old problem. In a pattern that has prevailed since the “fiscal guardrails” concept appeared early this decade, its projections feature higher spending than its predecessors’. As recently as the 2022 budget, spending in the current fiscal year, 2026-27, was projected at \$504 billion. But now the update projects it at \$595 billion – more than \$90 billion higher in just four years. As a result, the deficit remains well above \$50 billion through 2030-31, while the ratio of net federal debt to GDP stays above 40 per cent throughout the projection period. This comes at a time when, as the update continually proclaims, the economy is doing better than expected – which means deficits should be shrinking and the debt burden falling.

The “guardrail” currently guiding federal fiscal policy seems to be: Take every extra revenue dollar that comes in today as licence to spend an additional revenue dollar tomorrow, and the next day, and the day after that and so on forever. This approach does not keep Canada away from the edge. It keeps pushing us to the wrong side of safety, where disappointing growth (a risk the update does acknowledge) or higher interest rates (a possibility it should have discussed more) can send us off the cliff.

The spring update is yet more evidence that federal fiscal policy continues to be driven by spending rather than a disciplined long-term framework. Eroding living standards and the threat of a fiscal crisis will continue until the government adopts something Canadians have not seen in many years: A serious commitment to a balanced budget and the discipline in spending that can achieve it.

The previous federal fiscal “guardrails” deserved derision, and the current implicit commitment – to spend every extra revenue dollar – is perverse. This fall’s budget needs a credible path back to budget balance. Without a target that actually constrains spending and makes the government accountable, Canada will continue to drive dangerously close to a fiscal cliff.

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