

Intelligence MEMOS



From: William B.P. Robson and Miles Wu

To: Canada's Ministers of Finance

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Re: **SENIOR GOVERNMENTS' FISCAL PROJECTIONS VS. RESULTS: A TALE OF TWO LEDGERS**

In theory, management of public funds by Canada's federal, provincial and territorial governments reflects the preferences Canadians express through their elected representatives.

In reality, the chain of accountability has some weak links. Among them are the large discrepancies between budget projections and results we detail in our new C.D. Howe Institute [report](#).

Comparisons between budgets and year-end financial statements reveal that Canada's senior governments routinely miss their targets by meaningful amounts. What is more, the gaps are not random. One consistent pattern is governments' overshooting both the expense and revenue projections in budgets.

Over the last 20 fiscal years – from 2000/01 to 2019/20 (the last year for which we have results from all governments) – Canada's senior governments overshot their spending targets by a cumulative \$119 billion. That means they went into the COVID-19 crisis spending \$3,100 more per Canadian than their budgets projected.

Even more startling is the revenue side, where, cumulatively over the last two decades, Canada's senior governments raised \$143 billion – \$3,800 per Canadian – more than they would have if they had hit their budgets' revenue projections.

That pattern of revenue overshoots is interesting in its own right: most commentary on budget-making assumes that revenue projections are routinely over-optimistic. But the fact that overshoots of revenue and expense coincide with each other raises additional concerns.

A standard, and sensible, prescription for fiscal policy over the economic cycle is that governments should stabilize tax rates, programs and the economy by letting the bottom line move toward deficit in slumps and towards surplus in booms. That means that slumps should cause overshoots of expenses coincident with undershoots of revenue, and booms would cause undershoots of expenses coincident with overshoots of revenue.

But that pattern is the exception among Canada's senior governments. Over the past 20 years, overshoots on either side of the ledger tend to coincide, suggesting that governments under-projected revenue and then spent most of the resulting in-year "surprise" or otherwise managed the numbers to achieve a predetermined bottom line.

Although the fiscal response to the COVID-19 pandemic is currently driving an unprecedented wedge between budget projections and results, we note some encouraging developments over the period we look at. Both the tendency to miss budget targets and the troubling annual patterns of misses were less pronounced toward the end of the 20 years.

Two threats to this improving record loom as the country pays off its COVID-19 debts over the next several decades. One is greater temptation by governments under fiscal pressure to massage the numbers to achieve a pre-determined bottom line. The other is increased upward pressure on taxes and pressure to cut services. Legislators and voters should demand more reliable budget targets and better adherence to those targets in the future.

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