*Intelligence* MEMOS

From: William B.P. Robson

To: The House of Commons Standing Committee on Finance

Date: March 19, 2021

Re: **Borrowing is No Foundation for Durable Federal Programs**

The federal government's current reliance on borrowing rather than taxation to fund its programs is unprecedented. That means that the apparent cost of federal programs to taxpayers is unprecedentedly low.

This situation will not last.

I urge members of this committee to evaluate all fiscal proposals, including those in Bill C-14, in the light of the sharp increase in the tax cost of federal programs that is inevitable over the next four to five years.

As you know, Bill C-14 would amend the *Borrowing Authority Act* to increase the debt limit from $1.17 trillion to $1.83 trillion. This is an astonishing number. Equally astonishing is that it is projected to cover borrowings only until March 31, 2024 – three years from now.

To those of us who remember the federal government's fiscal problems of the 1980s and 1990s, assertions that borrowing on this scale is not a problem provide little comfort.

Successive governments, Conservative and Liberal, had to deal with tough tradeoffs among programs and taxes during a period when interest payments meant that the federal government was asking Canadians to pay more than a dollar in taxes for every program dollar. We don't want that. We make better decisions when we are paying a dollar in taxes for a program dollar.

I use the concept of the tax cost of a program dollar because the hundreds of billions, amounting to trillions, in programs and debt we are contemplating are so large they are hard to grasp. We can boil it down by asking how much tax do Canadians pay to the federal government each year per dollar of program spending they get?

With a balanced budget, the number will be one dollar, plus however many cents to cover interest payments. If the government is targeting the ratio of debt to GDP – which I know many economists will have advocated – the number will be one dollar, plus interest, as much of a deficit as GDP growth allows. If interest rates are higher than growth rates, the number will be larger than one, as it was in the late 1990s. If they are lower, it will be less than one. But over time, it always gravitates to one.

In the fiscal year about to end, the numbers in the Fall Economic Statement show that the tax cost of a program dollar was 46 cents. The federal government borrowed more than half of every program dollar it spent.

To repeat, that is unprecedented.

Even in the late 1970s, when the seeds of the fiscal problems of the 1980s and 1990s were planted, it never got below 80 cents. And it won't last. Even the projections in the Fall Economic Statement, with very low interest rates and continued heavy reliance on borrowing to finance programs, prefigure the tax cost of a program dollar doubling, to 92 cents, in 2025/26. Project further out, and it keeps rising. Allow for the higher interest rates we are already seeing, and it will surpass a dollar.

So the apparent cost of federal programs to Canadians is currently very low – less than 50 cents on the dollar. It is going to rise back to a dollar. Our choices must not make sense only at half price. Easy credit undermines good decision making – we prevent people using credit cards to buy lottery tickets for a reason.

That context – ensuring that we make decisions that make sense when we are covering program dollars with revenue dollars – is why we need a proper budget. The failure to produce a budget in the 2020-21 fiscal year was a massive failure of accountability – also unprecedented. Only when we have a properly articulated fiscal plan, with everything costed, can Parliament and Canadians have a truly informed conversation about fiscal choices.

The federal government overextended itself in the 1970s. Many programs it expanded then, including income supports to people and transfers to the provinces, got cut when the tax cost of a program dollar rose in the 1980s and 1990s. If we build big ongoing new programs on the premise that Canadians can have them at 50 cents on the dollar, we build them on a foundation that will shortly melt away.

The only programs the federal government should promise are ones we can sustain – those for which the government is willing to charge, and for which Canadians are willing to pay the full price.

*William B.P. Robson is CEO of the C.D. Howe Institute. This memo is extracted from his presentation to the Committee this week.*

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