

Intelligence MEMOS



From: William B.P. Robson

To: Canadian Voters

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Re: **THE ELECTION'S OVER AND CANADA'S SPENDING BILL IS COMING DUE**

Former Prime Minister Kim Campbell got pilloried in 1993 for saying an election is no time to discuss serious issues. Yet in September 2021, her words ring true.

Foreign policy? We all but ignore the rest of the world. Monetary policy? Not something to think about, even with inflation above 4 percent. Fiscal policy? Almost no one talked about whether, over time, we will be willing and able to finance all the goodies being added to the federal budget.

The thing about serious issues is that, whether we discuss them during an election or not, they don't go away. Even if borrowing stays cheap, the binge of deep-discount government spending is ending. Our discussions about fiscal policy will get serious when we are back to paying full price for federal programs.

The pandemic, the recession, and populism have obscured how unusual the context for the current spending blowout was.

On average, governments charge about one dollar in tax for every dollar they spend on programs. The tax price of a program dollar is not \$1.00 every year. It varies with economic and political circumstances. It dropped to an enticing 80 cents or so in the late 1970s and early 1980s, when inflation made borrowing feel cheap and many Canadians were okay with deficits. Then it rose to a punishing \$1.30 in the late 1990s, when inflation was low, interest rates were high, and deficits became a public concern. Over time, however, it takes about a dollar in taxes to support a dollar in programs.

The first fiscal year in the federal Department of Finance's fiscal reference tables is 1966/67. Take the period from then until the last year before COVID-19 hit, 2018/19. Subtract investment income from revenue. Subtract the cost of servicing past obligations – interest on debt and amortization of underfunded pensions – from expenses. Compare one to the other, year by year. Over more than half a century, the tax cost of a dollar of federal programs averaged \$1.04.

Fiscal 2020/21 was wildly different. Tax revenues took a hit, and program spending ballooned. The tax price of a program dollar plummeted to about 50 cents. With the Bank of Canada and other central banks flooding the world with liquidity, and households flush with savings they could not spend, borrowing was easy. So the half-price programs flowed.

That mentality is still with us. More for families? More for seniors? More for workers? Done, done and done. With 50-cent dollars, you can double down. For daycare, give more to parents and to provinces. For businesses, subsidize the new and the old. For housing, boost construction and new homebuyers. At half-price, it all looks good.

Yet even though the pandemic and populism are still with us, the arithmetic is changing. In the current fiscal year, 2021/22, the pre-election projections from the Parliamentary Budget Office suggest we are paying about 74 cents in tax for every federal program dollar. Next year: 92 cents. By the end of the projections in 2025/26: 97 cents.

Both the Liberal and Conservative platforms featured bigger near-term deficits than the PBO's projections. That knocks a few cents off the tax cost of a program dollar this year. But more borrowing adds to the debt that pushes that price inexorably up in future years. Under either platform, tax per program dollar four years from now ended up within a few cents of \$1.00.

Which of the election promises that looked good at half price will prove sustainable at full price? Or, if borrowing does not stay cheap, will prove sustainable at a premium? Some of the goodies being handed out now, subsidies to businesses, transfers to other governments, will not survive. That's a serious issue. We may not have talked about it during the election. But we will have to deal with it now.

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A version of this Memo first appeared in [The Globe and Mail](#).