Essay Six: Fiscal Waste During the Pandemic in Canada and the United States

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Executive Summary

During the pandemic, governments around the world spent a significant amount of taxpayer money in an effort to support their economies. This was particularly true in Canada, with hundred billion-dollar programs such as the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Response Benefit (CERB), and in the United States, with nearly trillion-dollar programs such as the Paycheck Protection Program (PPP), Economic Impact Payments, and expanded and extended unemployment programs. Given the significant cost of these programs, it’s important to assess their efficiency or, rather, the degree to which they were excessive, poorly targeted, or simply wasteful.

Canadian COVID programs such as CEWS and CERB were ripe with problems including overpayments, funds provided to individuals and businesses not in genuine need, and excessive amounts of support that went above what was required to stabilize incomes. In the United States, independent analysis found excess unemployment payments, a poorly designed paycheck protection program, and largely ineffective stimulus payments.

Each country wasted billions in taxpayer money on their COVID responses, which was financed entirely through borrowing. Canada’s federal COVID spending totaled $359.7 billion, of which an estimated 25 percent ($89.9 billion), at a minimum, was wasted. Total federal COVID spending has added $8.3 billion to present-day interest costs and we estimate approximately $2.1 billion of that amount is attributable to wasteful COVID spending. Over the next 10 years, Canada’s federal government is projected to pay $21.1 billion in interest costs attributable to COVID fiscal waste. Put differently, the cost of Canada’s COVID fiscal waste will total roughly $111.0 billion by the end of 2032/33.
The United States’ COVID spending response came at a price tag of nearly $5.1 trillion and an estimated 25 percent ($1.3 trillion) of that amount, at a minimum, was wasted. At least $28.8 billion of current interest costs are directly connected to fiscal waste in the US during the pandemic. Further, the US government will pay approximately $289.4 billion in interest payments over the next decade due to COVID waste. In summary, the cost of the United States’ COVID fiscal waste will total more than $1.56 trillion by the conclusion of 2032/33.

Overall, it’s clear that over the long-term Canadians and Americans will face significant ongoing costs to pay for wasteful and poorly targeted government spending during the pandemic.

Introduction

During the pandemic, governments around the world spent a significant amount of taxpayer money in an effort to support their economies. This was particularly true in Canada, with hundred billion-dollar programs such as the Canada Emergency Wage Subsidy and Canada Emergency Response Benefit, and in the United States, with nearly trillion-dollar programs such as the Paycheck Protection Program (PPP), Economic Impact Payments, and expanded and extended unemployment programs. Given the significant cost of these programs, it’s important to assess their efficiency or, rather, the degree to which they were excessive, poorly targeted, or simply wasteful. Such analysis is particularly important as any “fiscal waste” will continue to cost taxpayers long after the pandemic in the form of ongoing debt interest payments.

This essay reviews government spending during the pandemic in the United States and Canada and assesses the degree to which there was “fiscal waste.” It also estimates the ongoing cost of wasteful COVID spending in the form of debt interest payments in both Canada and the United States.

The fiscal response to the pandemic leads to waste in Canada and the United States

Canada

In Canada and the United States, governments spent a significant amount of money in an effort to offset the negative economic impacts of the response to the pandemic, and more specifically, ordering individuals to stay home and businesses to close. In Canada, the largest federal government programs were the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Response Benefit (CERB). The CEWS cost a total of $100.7 billion and the CERB, including the Canada Recovery Benefit (CRB) cost a total of $100.4 billion.
Benefit (CRB) which replaced the CERB in October 2020, cost a total of $100.4 billion (Office of the Auditor General of Canada, 2022). In both absolute and comparative terms, Canada’s COVID-spending response was significant. Hill and Palacios (2022) found that of 33 industrialized countries, Canadian governments—including federal, provincial, and local—borrowed more money than any other industrialized country (except Japan) during the pandemic.

However, all that borrowing did not translate into Canada enjoying a stronger economic performance than its peers. Despite accumulating more debt than nearly every other industrialized country, Canada underperformed on key economic measures, with generally higher unemployment rates and relatively low rates of economic growth in 2020 and 2021 than 33 other industrialized countries (Hill and Palacios, 2022). Part of the explanation for Canada’s relatively poor economic performance, despite its relatively high level of government spending, is that federal programs were poorly targeted.

For instance, Clemens et al. (2020) examined nearly $82 billion of COVID spending and conservatively estimated that 27 percent—more than one in four dollars—was poorly targeted, and cost $22.3 billion in wasted taxpayer money. This included up to $11.8 billion in CERB payments that went to eligible dependent young people (ages 15 to 24) living with parents in households with at least $100,000 in household income, and up to $7.0 billion in additional CERB payments that went to eligible spouses in families with at least $100,000 in household income.

Moreover, a report by the auditor general (AG) found that ineligible individuals were paid $4.6 billion in CERB payments and other benefits and recommended that the government investigate the nature of another $27.4 billion in COVID spending (Office of the Auditor General of Canada, 2022). Overpayment recipients included 1,522 prisoners, 391 dead people, and 434 children too young to be eligible—in addition to 51,049 identified employers who received $9.9 billion in CEWS payments but did not demonstrate a sufficient revenue drop to be eligible for the subsidy. The AG also criticized Ottawa for failing to require social insurance numbers for workers in firms that applied for CEWS, which means that no agency can properly verify or track who received what funds. According to the Canada Revenue Agency, the federal government also paid $37.7 billion in wage subsidies to businesses with tax debts and $1 billion to insolvent firms, which represents more than a third (37 percent) of total spending on CEWS (Curry, 2023).

Not only were programs generally poorly targeted, but income support payments exceeded what was needed to restore the income of many individuals. The AG found that the lowest income recipients
of the CRB could earn more from receiving benefits than from working and concluded the program “represented a disincentive to work, which impacted some labour markets at a crucial time when the need for employees was trending upwards.”¹ In fact, due to government income supports, after-tax income increased across all income groups, ranging from less than 2 percent for those making up to $162,000 annually, to 7 percent for those earning up to $71,000, and up to 16 percent for those making $25,000 or less (Office of the Auditor General of Canada, 2022). The household savings rate also spiked during the pandemic, which is further evidence that the government overcompensated individuals for the loss of employment and business-related income. For instance, in 2019, the household savings rate averaged 2.1 percent, but by the second quarter of 2020, it increased to 26.5 percent (Statistics Canada, 2023).

As a result of Ottawa’s fiscal mismanagement, including poorly-targeted spending and excess payments that had questionable economic benefit,² Canada wasted billions of dollars in taxpayer money and accumulated more debt than was necessary to stabilize the economy and help those in need. Unfortunately, the United States suffered from similar issues with its own COVID-related spending.

**United States**

The United States introduced six laws, including the *American Rescue Plan* and the *Coronavirus Aid, Relief and Economic Security Act*, that funded numerous pandemic relief programs.³ Major programs that extended unemployment payments and eligibility included the *Federal Pandemic Unemployment Compensation* (FPUC) and *Pandemic Unemployment Assistance* (PUA), which authorized an estimated $873 billion in COVID spending (Officer of Inspector General, 2022); the *Paycheck Protection Program* (PPP), which provided payroll funds for small businesses and authorized an estimated $800 billion (Autor et al., 2022); and the *Economic Impact Payments* (i.e., stimulus payments), which authorized an estimated $814 billion in spending (Pandemic Response Accountability Committee, 2023).

First, there were major issues with excess unemployment payments. The Office of Inspector General (OIG) estimated that at a minimum 21.5 percent of unemployment payments—at least one in five—were “improper,” and cost at least $191 billion (Officer of Inspector General, 2023). The OIG stated
that, in particular, the ability of claimants to self-certify their eligibility during the first 9 months of the PUA contributed to overpayment and fraud. The OIG identified nearly $45.6 billion in potentially fraudulent unemployment insurance claims, which included applications from social security numbers that were filed in multiple states, belonged to deceased persons, or were federal inmates (Officer of Inspector General, 2023).

Other evidence suggests there was also significant waste with the PPP, which provided forgivable loans to small businesses to cover up to 10 weeks of payroll costs and benefits during the pandemic. One study found that between $335 billion and $395 billion of the $510 billion distributed over the first two phases of the PPP in 2020—equivalent to 66 to 77 percent of funds—did not go towards paychecks, but rather were accrued to business owners, shareholders, creditors, and others (Autor et al., 2022). As business owners and shareholders tend to be higher income individuals, the study estimates that about three-quarters (72 percent) of PPP benefits went to those in the top quintile of household income.

A second issue with the program was, again, its failure to adequately target support. Other than excluding firms with more than 500 workers, businesses could simply self-certify that they were “substantially affected” by COVID-19. As a result, a significant portion of PPP payments went to businesses that could have survived and kept their employees without the support (Autor et al., 2022). An analysis by the US Bureau of Labor Statistics (2021) reaffirms significant waste in the PPP, estimating that every $1 that would have been lost without the support program cost $4.13 in taxpayer money.

Moreover, stimulus payments, which were intended to stimulate spending to spur economic growth, largely failed to increase spending. An NBER working paper found that “only 15 percent of recipients of this transfer say that they spent (or planned to spend) most of their transfer payment, with the large majority of respondents saying instead that they either mostly saved it (33 percent) or used it to pay down debt (52 percent)” (Coibion, Gorodnichenko, and Weber, 2020).

Spending that did occur typically went towards non-durable products (e.g., food and cosmetics) that had already seen a jump in spending during the pandemic, rather than durable goods (e.g., cars, electronics) that were among the hardest hit industries. Armantier et al. (2021) confirmed that a vast majority of the stimulus was not spent, estimating that the average share of stimulus payments set aside for consumption was approximately 26 percent. Put differently, nearly three-quarters of
stimulus payments went towards alternative uses such as savings and debt repayment, rather than their intended purpose of current spending.

Finally, the federal government sent $904 billion in pandemic support to state and local governments. This was widely seen as excessive as most states ended up with massive surpluses and large rainy-day funds (Edwards and Blumsack, 2022). Indeed, many US states didn’t use their rainy-day funds despite the pandemic being precisely the type of circumstance that such funds are intended for, due to excess federal support, which contributed to rapid federal debt accumulation.

A review of the research indicates that clearly there were major issues with COVID-related spending in both Canada and the United States, resulting in significant fiscal waste that will cost taxpayers for the foreseeable future and likely beyond. In the following section, we provide an estimate of the total cost of fiscal waste, including the ongoing cost in the form of interest payments on the debt accumulated from COVID-related programs.

**Estimated costs of wasteful COVID spending**

The price tag for COVID-related spending was substantial in both Canada and the United States. In Canada, federal gross debt increased by $653.5 billion from March 2019 to March 2022 (DOF, 2022a; 2023). However, not all of this is attributable to COVID-related spending. The COVID-19 Economic Response Plan outlined by the government shows that total COVID-related spending amounted to $359.7 billion from 2019/20 to 2021/22 (DOF, 2022b). If we conservatively assume that at least 25 percent of the COVID spending was wasted—based on estimates of waste for the CERB (27 percent) and CEWS (37 percent)—then approximately $89.9 billion is attributable to fiscal waste. The new spending was entirely financed by borrowing as deficits were already planned prior to the pandemic for each of those fiscal years.

While COVID spending diminished by 2022, the country is still experiencing the long-term ramifications of increased federal interest costs. With interest costs of $43.9 billion in 2023/24 and total gross debt estimated at over $1.9 trillion, the average interest rate on accumulated debt is approximately 2.3 percent (DOF, 2023). The average interest rate on accumulated debt is higher today than
it was before the pandemic and federal debt servicing costs are nearly double (in nominal terms) the amounts paid in 2018/19 or 2019/20 (DOF, 2022a; 2023).

Applying today’s average interest rate on accumulated debt of 2.3 percent to the $359.7 billion in federal COVID expenses shows that $8.3 billion of current interest costs are directly attributable to COVID-related spending in Canada. Put differently, 18.8 percent of the $43.9 billion the government currently pays to service its debt originates from COVID spending. Moreover, if we conservatively assume that at least 25 percent of the COVID spending was wasted, roughly $2.1 billion of today’s interest costs arise due to fiscal waste (figure 1). Over the next 10 years, we estimate Canada’s federal government will spend $21.1 billion on interest payments due to wasteful COVID spending. Overall, the cost of Canada’s COVID fiscal waste will total an estimated $111.0 billion by the end of 2032/33.

A similar result occurs for the United States. Federal gross debt increased by $8.2 trillion from October 2019 to September 2022 (USG, 2023a). Of that amount, the Committee for a Responsible Federal Budget (CRFB) estimates that more than half ($5.1 trillion) comes from direct COVID expenses (CRFB, 2023). If we again use conservative estimates to assume at least 25 percent of COVID spending in the US was wasted—based on estimates of fiscal waste for unemployment

Figure 1: Canada’s Federal Interest Payments Attributable to COVID Spending, 2023/24
programs (21.5 percent), the Paycheck Protection Program (66 to 77 percent) and Economic Impact Payments (74 percent)—then approximately $1.3 trillion is attributable to fiscal waste. As was the case with Canada, this was entirely financed by borrowing.

Annual federal debt servicing costs amount to $788.8 billion in 2023/24, which is more than double the amount (nominally) the government paid in 2018/19, the last full fiscal year before COVID (USG, 2023). With gross debt set to reach $34.8 trillion in 2023/24, the federal government is paying the same average interest rate on its debt as Canada, at 2.3 percent (USG, 2023).

Applying the 2023 average interest rate on accumulated debt to the $5.1 trillion of borrowing for COVID expenses in the United States, we calculate that $115.8 billion of federal interest costs today are directly attributable to COVID-related spending. In other words, 14.6 percent of the $789 billion in debt servicing costs in 2023/24 come from COVID expenditures. If we again use conservative estimates to assume at least 25 percent of COVID spending in the US was wasted, approximately $28.8 billion of current interest costs are due to fiscal waste (figure 2). We estimate the United States federal government will spend $289.4 billion over the next 10 years on interest payments attributable to wasteful COVID spending. Overall, the cost of the United States’ COVID fiscal waste will total an estimated $1.56 trillion by the conclusion of 2032/33.
Fiscal waste was an expensive problem for Canada and the United States during COVID, but the costs are not limited to the short-term. For the foreseeable future, annual interest payments will cost Canadian and US taxpayers billions of dollars due to the governments’ wasteful spending habits. Moreover, increased debt over time leads to higher inflation-adjusted interest rates on government debt, resulting in even higher interest payments in the long-term (Dahlby, Ferede, and Fuss, 2022).  

**Conclusion**

Both Canada and the United States introduced numerous COVID-related programs and initiatives during the pandemic. However, a significant portion of this money was mismanaged, poorly targeted, wasteful, or excessive. Canadian COVID programs such as CEWS and CERB were ripe with problems including overpayments, funds provided to individuals and businesses not in genuine need, and excessive amounts of support that went above what was required to stabilize incomes. In the United States, independent analysis found excess unemployment payments, a poorly designed paycheck protection program, and largely ineffective stimulus payments.

Each country wasted billions in taxpayer money on their COVID responses and financed their spending entirely through borrowing. Canada’s federal COVID spending totaled $359.7 billion, of which roughly 25 per cent ($89.9 billion) was wasted. Total federal COVID spending has added $8.3 billion to present-day interest costs and we estimate approximately $2.1 billion of that amount is attributable to wasteful COVID spending. Over the next ten years, Canada’s federal government is projected to pay $21.1 billion in interest costs attributable to COVID fiscal waste. Put differently, the cost of Canada’s COVID fiscal waste will total roughly $111.0 billion by the end of 2032/33.

The United States’ COVID spending response came at a price tag of nearly $5.1 trillion and approximately 25 percent ($1.3 trillion) of that amount was wasted. At least $28.8 billion of current interest costs are directly connected to fiscal waste in the US during the pandemic. Further, the US government will pay approximately $289.4 billion in interest payments over the next decade due to COVID waste. In summary, the cost of the United States’ COVID fiscal waste will total more than $1.56 trillion by the conclusion of 2032/33. Overall, it’s clear that over the long-term Canadians and Americans will face significant ongoing costs to pay for wasteful and poorly targeted government spending during the pandemic.
Endnotes

1 Specifically, the report found that low-income earners (with gross earnings of $20,000 or less per year) who received the recovery benefit for all periods (54 weeks) effectively replaced their annual income by 119 percent.

2 Not only did COVID-related spending have a questionable economic impact, but it contributed to record high levels of inflation that have increased the cost of living and led to interest rate hikes that affect all Canadians and stifle economic growth (Cross, 2023).

3 Other laws include the Coronavirus Response and Relief Supplemental Appropriations Act 2021, the Consolidated Appropriations Act 2021, the Paycheck Protection Program and Health Care Enhancement Act, the Families First Coronavirus Response Act, and the Coronavirus Preparedness and Response Supplemental Appropriations Act. See the Pandemic Response Accountability Committee (2023) for more information.

4 As per Edwards and Blumsack (2022), this figure includes "$350 billion in flexible support from the March 2021 America Rescue Plan Act (ARPA) and $150 billion in flexible support from the March 2020 Coronavirus Aid, Relief, and Economic Security Act. It also included $201 billion for K–12 education, $121 billion for Medicaid, $70 billion for transit, and billions of dollars in other spending."

5 From 2023/24 to 2027/28, the average interest rates on accumulated debt for Canada and the United States are calculated using budget projections. From 2028/29 onwards, the average interest rates on accumulated debt are assumed to be the same as 2027/28.

6 Fiscal years run from October to September in the United States, whereas fiscal years run from April to March in Canada.

7 The number provided by CRFB (2023) excludes tax policy measures.

8 See Jiang et al. (2022) and Gamber and Seliski (2019).

References


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