NEWS RELEASE

Federal government's current deficit-spending risks repeating mistakes of 1960s-1990s

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For Immediate Release

VANCOUVER—The federal government risks repeating the mistakes of the mid-1960s to mid-1990s—when Ottawa repeatedly ran deficits and racked up massive amounts of debt—that nearly led to a currency and debt crisis in Canada, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"Today's federal deficit and mounting debt are the result of discretionary spending, taken with little concern for the immediate risks, long-term impact and the history of deficit-spending in Canada," said Jason Clemens, Fraser Institute executive vice-president and co-author of ***Federal Deficits Then and Now: Is Canada Repeating the Fiscal Mistakes of 1965 to 1995?***

The study finds that, due in part to higher-than-planned government spending and lower-than-forecast government revenue, the federal government ran budget deficits every year (except one) from 1965 to 1995 (when the federal debt increased from $17.2 billion to more than $500 billion) until a period of reform beginning in 1995.

Fast-forward to 2015, when federal finances were on track to budget balance, the newly-elected federal government increased spending immediately after entering office, resulting in a deficit instead of a balanced budget. The federal debt is now close to $700 billion and projected to total almost $1 trillion by 2040/41.

Crucially, since 2015 actual federal spending has exceeded budgeted spending. For example, in 2018, despite higher-than-expected revenue, Ottawa spent $8.0 billion more than originally budgeted with no improvement in its deficit. We saw similar trends during the 1965-1975 period when the federal government routinely spent every dollar of its higher-than-expected revenues.

"When revenues exceed budget expectations, the current government simply increases spending rather than reducing the deficit," Clemens said.

Moreover, the current deficit-to-GDP ratio (which indicates the size of the annual deficit relative to the size of the economy) is 0.9 per cent—manageable, but higher than in 1966 when it was 0.7 per cent.

"While many economists point to today's relatively low deficit-to-GDP ratio as proof that Canada's deficits are no cause for alarm, they fail to recognize that the early deficits of the 1960s, when Canada's debt began to grow substantially, were actually smaller relative to the size of the economy," Clemens said.

Finally, from the mid-1970s to 1990, Canada experienced increasing workforce participation. But due primarily to our aging population, we are now experiencing a decline in the workforce participation rate, which will affect the ability of governments to collect revenue, increase pressure on spending programs such as health care and income transfers to seniors, and increase the risk of consistent deficits like we saw in the 1965-1995 period.

"The choice to run deficits in 2015, late in the business cycle, has placed the country's finances at risk from recession and long-term debt accumulation," Clemens said.

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MEDIA CONTACT:
Jason Clemens, Executive Vice-president, Fraser Institute

To arrange media interviews or for more information, please contact:
Mark Hasiuk, 604-688-0221 ext. 517, mark.hasiuk@fraserinstitute.org

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