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deficit in 2016/17

2016/17, elderly
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be up by
\$2.8 billion

2016/17,
government
proposes
to increase
program
spending by
**\$20.5
billion**

2016/17,
childrens
benefits
increase
by **\$3.8
billion**

2020/21,
projected
deficit of
**\$14.3
billion**

2016/17,
EI benefits
increase
by **\$1.7
billion**



LIBERAL SPENDING INCREASES DRIVE BIG DEFICITS, NOT A WEAK ECONOMY

Charles Lammam and Ben Eisen

In advance of tabling their first budget, the Liberals conveyed a message that deteriorating government finances were the result of a weak economy. The reality of the budget is quite different from the rhetoric; the source of the large and sustained deficits is a marked increase in spending.

Before analyzing the numbers, we should pause and note how much the Liberals have diverged from their election promise to run deficits of no more than \$10 billion with a return to budget balance before the end of their mandate.

At \$29.4 billion, the projected budget deficit in 2016/17 alone is larger than the cumulative budget deficits projected for the entire mandate in the Liberals platform. And the deficit is not a one-off; the government is planning deficits as far as the eye can see. In total, the string of deficits is expected to add \$113.2 billion to the federal debt in just five years—approximately four times as much debt as the Liberals said that they would add.

Both in the lead up to the budget and in the budget document itself, the Liberals tried to establish that a weak economy is the reason why they couldn't keep their election promises of “modest” and temporary deficits. The data don't support this. The big deficits are driven by spending.

According to the government's revenue projections, \$2.7 billion (or nearly 80%) of the \$3.5 billion revenue reduction is due to a one-time reduction in revenues from Crown corporations, not a weak economy.

First, consider revenues, which is where a weak economy would materialize most in the budget. In 2016/17, federal revenues are projected to be \$3.5 billion lower than in the previous year. That's a drop of only 1.2 per cent. For perspective, federal revenues fell \$15.2 billion (or 6.4 per cent) in 2009/10 when the economy was actually in recession.

According to the government's revenue projections, \$2.7 billion (or nearly 80 per cent) of the \$3.5 billion revenue reduction is due to a one-time reduction in revenues from Crown corporations, not a weak economy. Revenues from EI premiums, which are particularly sensitive to the state of the economy, are budgeted to decline by a meagre 2.6 per cent.

As troubling as this is, it's made worse by the fact that the government has no plan to return to a balanced budget.

The real culprit of the deficit is a dramatic increase in spending. In 2016/17, the government proposes to increase program spending by \$20.5 billion—a 7.6 per cent jump. This increase is even more dramatic considering that program spending in 2015/16 is now anticipated to be up 6.7 per cent from the previous year. That means program spending is projected to increase 14.8 per cent in just two years.

The budget shows the Liberals are planning to increase spending in virtually all areas. For example, in 2016/17, elderly benefits will be up by \$2.8 billion (6.1 per cent), children benefits by \$3.8 billion (21.0 per cent), and EI benefits by \$1.7 billion (8.8 per cent).

The predictable consequence of the dramatic run-up in spending is an increase in the size of the federal deficit and the related growth in federal government debt.

As troubling as this is, it's made worse by the fact that the government has no plan to return to a balanced budget. In fact, the government is projecting a deficit of \$14.3 billion in 2020/21—a year after its current mandate is over. In other words, the budget leaves the task of balancing the books to the next government.

Make no mistake—despite the rhetoric on a weak economy, the government's decision to dramatically increase spending is why Canada's budget is now soaked in red ink. [C](#)

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