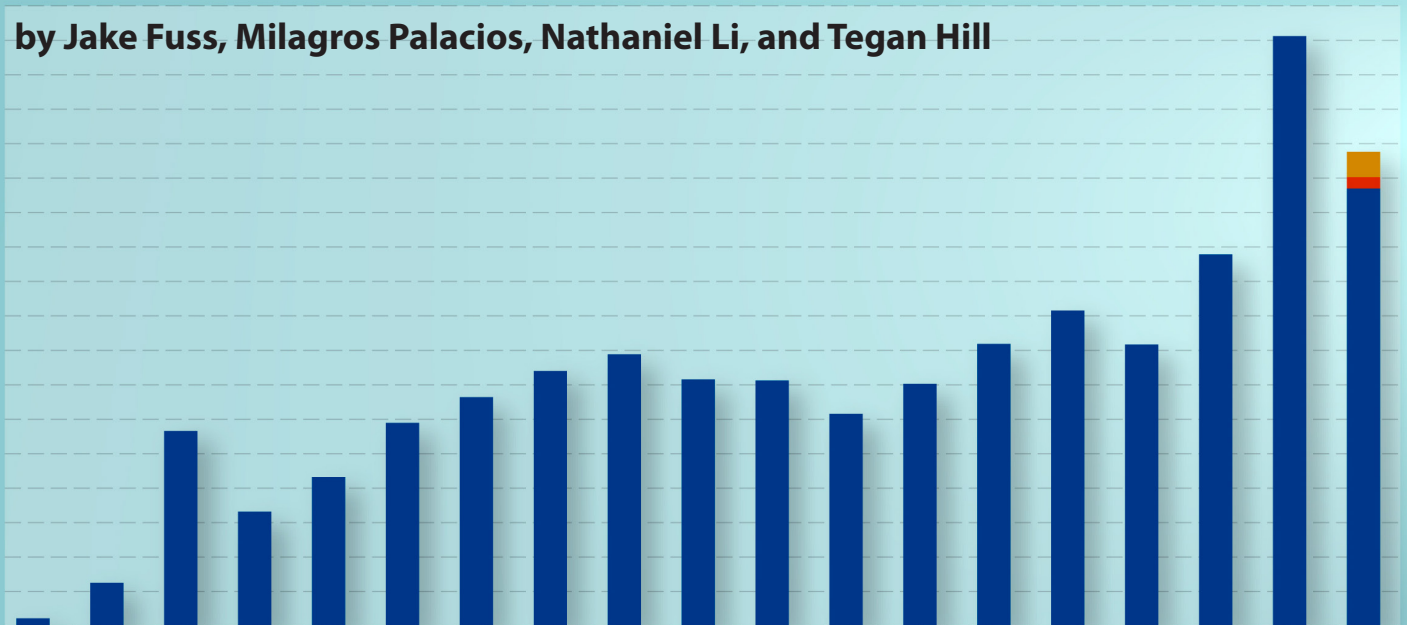


Prime Ministers and Government Spending

Updated 2021 edition

by Jake Fuss, Milagros Palacios, Nathaniel Li, and Tegan Hill



Summary

- Per-person federal program spending (adjusted for inflation) reached \$17,121 in 2020-21, by far the highest level in Canada’s history.
- Non-COVID-related per-person spending in 2020-21 was \$11,165.
- Moreover, federal spending is estimated to reach between \$13,032 to \$13,735 per-person in 2021-22, which would represent the second highest level in the country’s history.
- For context, 2021-22 per-person spending will be 42.4% to 50.0% higher than during the

2009 recession. Per-person spending in 2021-22 is also projected to be 64.8% to 73.7% higher than at the peak of World War II.

- Per-person spending is expected to decrease in 2022-23, ranging between \$10,846 and \$11,446. It is still projected to be 12.2% to 18.4% higher than the level seen in 2019-20, which was the highest level of spending pre-COVID.
- Prime Minister Justin Trudeau is on track to record the five highest levels of per-person spending (2018, 2019, 2020, 2021, and 2022) in Canadian history.

Prime Ministers and Government Spending, 2021 update

Introduction

The original 2021 edition of *Prime Ministers and Government Spending* was released in March (Fuss and Li, 2021). Among other insights, it showed that the highest level of federal government per-person spending (program spending), adjusted for inflation, occurred in 2020-21 under Prime Minister Justin Trudeau. This analysis includes updated calculations and uses lower and upper bound estimates to forecast 2021-22 and 2022-23 federal per-person spending based on available information in the recent Liberal and NDP election platforms (Liberals, 2021; NDP, 2021).

Spending analysis and methodology

This analysis focuses only on program spending by prime ministers; it excludes interest costs on government debt. Were we to include interest costs, it would penalize or reward prime ministers on the level of debt that had been accumulated prior to their tenure, or who faced higher or lower than normal interest rates, both of which are out of the government's direct, immediate control.¹ The data used in this essay are based on government fiscal years, which run from April 1st to March 31st.

This analysis uses several different sources for the spending data. Specifically, program spending data from 1870-71 to 1966-67 come from the second edition of *Historical Statis-*

¹ While debt-servicing costs are influenced by both prevailing interest rates and the level of accumulated debt from previous governments, that is not to say that the policies of the current government do not influence either interest costs or debt. For instance, current policies regarding the use of deficits to finance current spending can and do influence bond ratings, which affect the risk premiums that bond investors require. Similarly, current deficit policies will influence near-term debt accumulation.

tics of Canada, Section H—Government Finance (Leacy, ed., 1983). The data from 1966-67 to 2019-20 are from the Department of Finance's *Federal Fiscal Reference Tables 2020* (DOF, 2020). The data for 2020-21 relies on the 2021 federal budget (DOF, 2021).

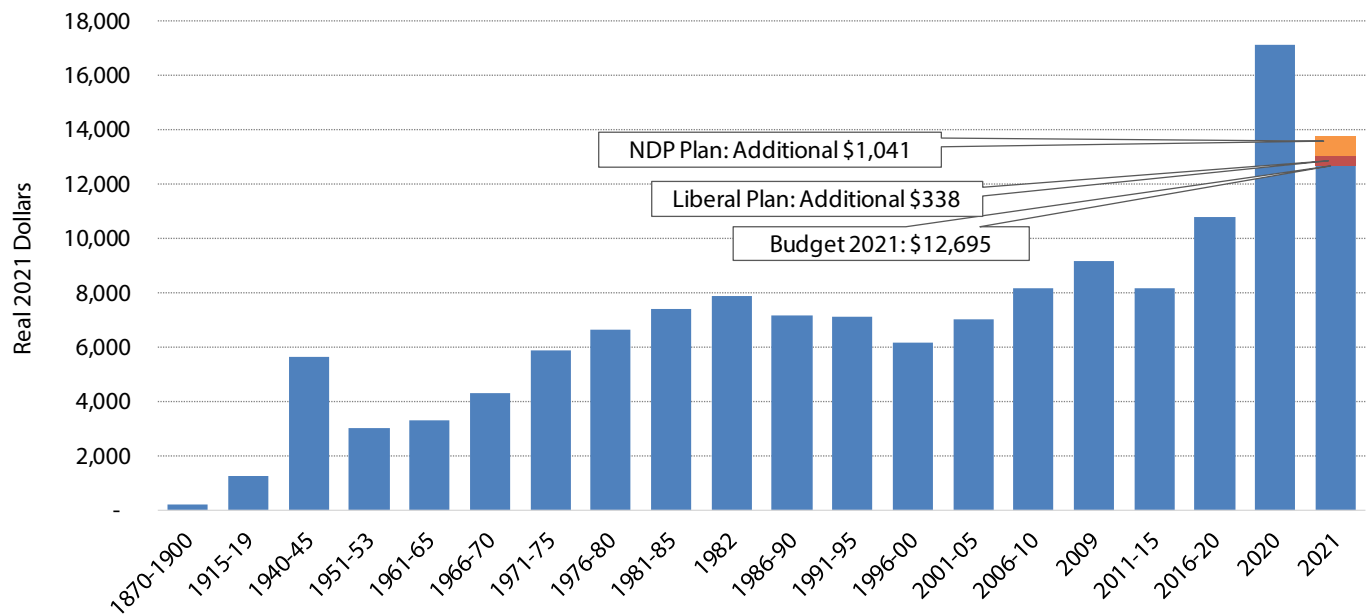
Estimates for program spending in 2021-22 and 2022-23 are based on numbers contained in the Liberal and NDP platforms during this year's federal election. Given the strong likelihood that these two parties will work in tandem in the minority government, their respective platforms are a good barometer for where spending is headed in the near future. We used the Liberal party's estimates from their platform as the lower bound for 2021-22 and 2022-23, while the NDP's estimates act as the upper bound.

Our analysis adjusted federal program spending by population to calculate per-person spending.² This is an important adjustment since changes in population influence aggregate program spending. In other words, the same dollar amount of increased spending can look quite different depending on whether a jurisdiction is experiencing robust or modest population growth, or even a population decline. The analysis also adjusted program spending for inflation so that spending in 1900 is comparable with spending in 2021.³ Hereafter, per-person

² Two Statistics Canada tables, 17-10-0063-01 (from 1870 to 1970) and 17-10-0005-01 (from 1971 to 2020) provide population data.

³ The price index used is a GDP deflator. For the period from 1870 to 1960, the data come from Urquhart (1988); for 1961 to 2020, the data are taken from Statistics Canada, CANSIM Table 36-10-0130-01. For 2021 to 2022, data are from the 2021 federal budget (We chose the GDP deflator in part because the historical data go back to 1870, whereas the comparable CPI data are only available as of 1914.)

Figure 1: Per-Person Federal Program Spending, 1870-2021 (2021\$)



Notes:

- 1) The 2015 Budget is adjusted to reflect the originally planned level of program spending for the Harper government.
- 2) The per-person estimate for 2021 reflects the program spending in Budget 2021 and the addition of campaign commitments made by the Liberal party and the NDP.

Sources: Leacy, 1983; Canada, Department of Finance, 2020, 2021; Statistics Canada 2021a, 2021b, 2021c; calculations by authors.

federal program spending adjusted for inflation is simply referred to as “per-person spending.”⁴

Figure 1 shows the unmistakable spikes in per-person spending during both world wars. Per-person spending rose under Prime Minister Sir Robert Borden from \$641 in 1913 to \$1,401 by 1916. It was cut by almost 50 percent in 1920; per-person spending levels essentially returned to pre-World War I levels after the war ended. World War II saw a more pronounced spike in

per-person spending, which increased from \$842 in 1938 to a wartime high of \$7,909 in 1943. Unlike the spending after World War I, per-person spending following World War II did not return to its pre-war level.

Increases in per-person spending began in earnest in 1966 under Prime Minister Lester Pearson and continued with his successor, Prime Minister Pierre Trudeau. Per-person spending was \$3,278 in 1962 when Pearson assumed office. He introduced large increases in 1966, which continued thereafter as existing programs were expanded and new programs, such as Medicare, were added. Per-person spending

⁴ See Hill et. al (2020) for further explanations of methodology and how prime ministers were designated responsible for various budgets.

reached \$4,195 in 1967, Pearson's last budget as prime minister.

When Prime Minister Pierre Trudeau assumed office in 1968, he continued the trend that Pearson had begun. At its peak in 1982, Pearson-Trudeau per-person spending reached \$7,883, a 140 percent increase from the 1962 budget. Under Prime Minister Brian Mulroney, per-person spending became fairly stable, even decreasing slightly (by 0.3 percent annually, on average) during his tenure from 1984 to 1993.

The Mulroney era was followed by a period that was critically important to fiscal reform. Led by Prime Minister Jean Chrétien,⁵ the federal government reduced per-person spending by 16.5 percent in the three budgets between 1994 and 1996.⁶ The Chrétien era of reform was followed by increases in per-person spending under both Prime Minister Paul Martin and Prime Minister Stephen Harper. Per-person spending spiked 16.2 percent to \$9,155 during the recession of 2009 under the Harper government (figure 1). However, it then dropped by a cumulative total of 12.8 percent from 2009 to 2014.

Assessing per-person spending from 2020 to 2022

In 2020, during the height of COVID-19, federal per-person spending reached \$17,121. This represents the highest per-person spending level, adjusted for inflation, in Canadian history. It is also 77.0 percent higher than the previous high-

est level of per-person spending, which was recorded in 2019. Non-COVID related per-person spending was \$11,165 in 2020, which would still represent the highest amount in Canadian history. Moreover, the years from 2018 to 2020 are the three highest levels of per-person spending in the history of the country to date. For reference, the level of per-person spending in 2020 was 87.0 percent higher than Prime Minister Harper's 2009 level of recession spending.

There are two aspects to the analysis for 2021 and 2022. The first pertains to the level of per-person spending planned before the recent election, and the second relates to the additional spending expected following the September election. The pre-election per-person spending in 2021-22, which is based on the 2021 federal budget, is \$12,695. This is the second highest per-person spending level, adjusted for inflation, in Canada's history. Before the election, the federal government had planned for per-person spending to be \$10,400 in 2022-23.

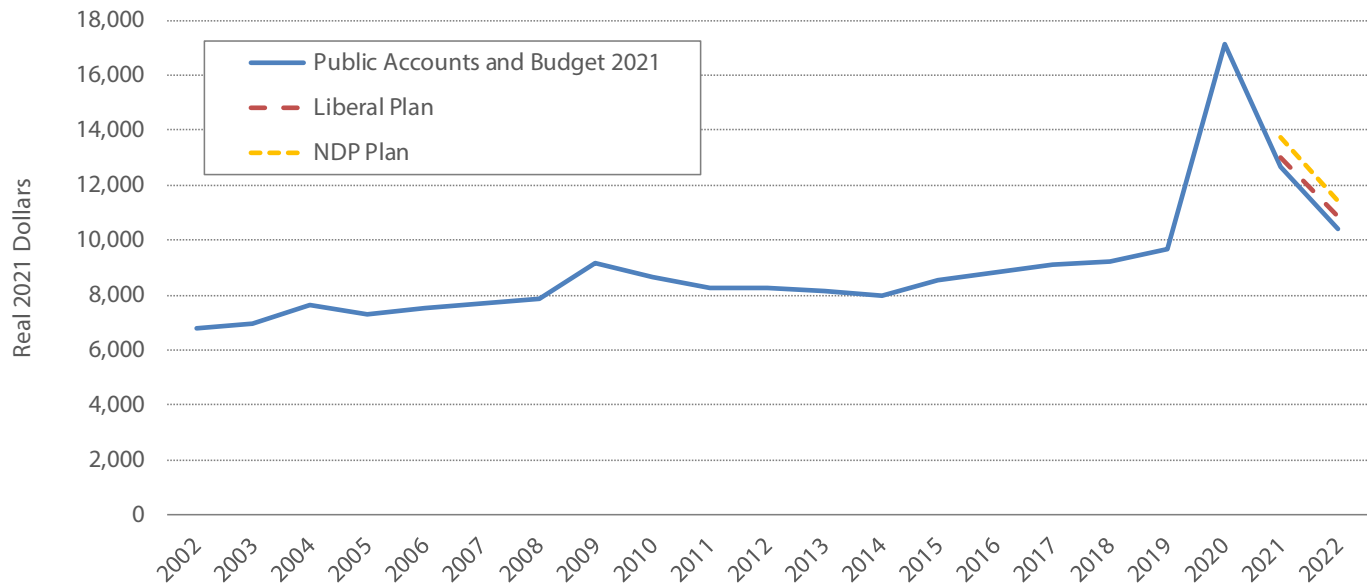
The second aspect of the analysis includes the addition of campaign commitments made by the Liberal and NDP parties during the recent federal election. The Liberal party expects to spend an additional \$13.0 billion in 2021-22 and another \$17.7 billion in 2022-23 on top of the program spending levels in Budget 2021 (Liberals, 2021). This translates into an additional \$338 in per-person spending in 2021 and \$446 in 2022-23.

If they carry through with those plans, the total expected level of per-person spending would subsequently rise to \$13,032 in 2021-22. To put this number in perspective, 2021-22 spending would increase 34.8 percent from the levels in 2019 and be 42.4 percent above the level of per-person spending during the 2009 recession. Moreover, 2022-23 per-person

⁵ For a discussion of the importance of the fiscal reforms enacted by the Chrétien government, see Crowley, Clemens, and Veldhuis (2010), and Veldhuis, Clemens, and Palacios (2011).

⁶ For a thorough discussion of the reforms enacted during the Chrétien era, see Clemens, Lau, Palacios, and Veldhuis (2017).

Figure 2: Per Person Federal Program Spending, Actual and Projected 2002-2022 (2021\$)



Sources: Figure 1; Liberals, 2021; NDP, 2021; calculations by authors.

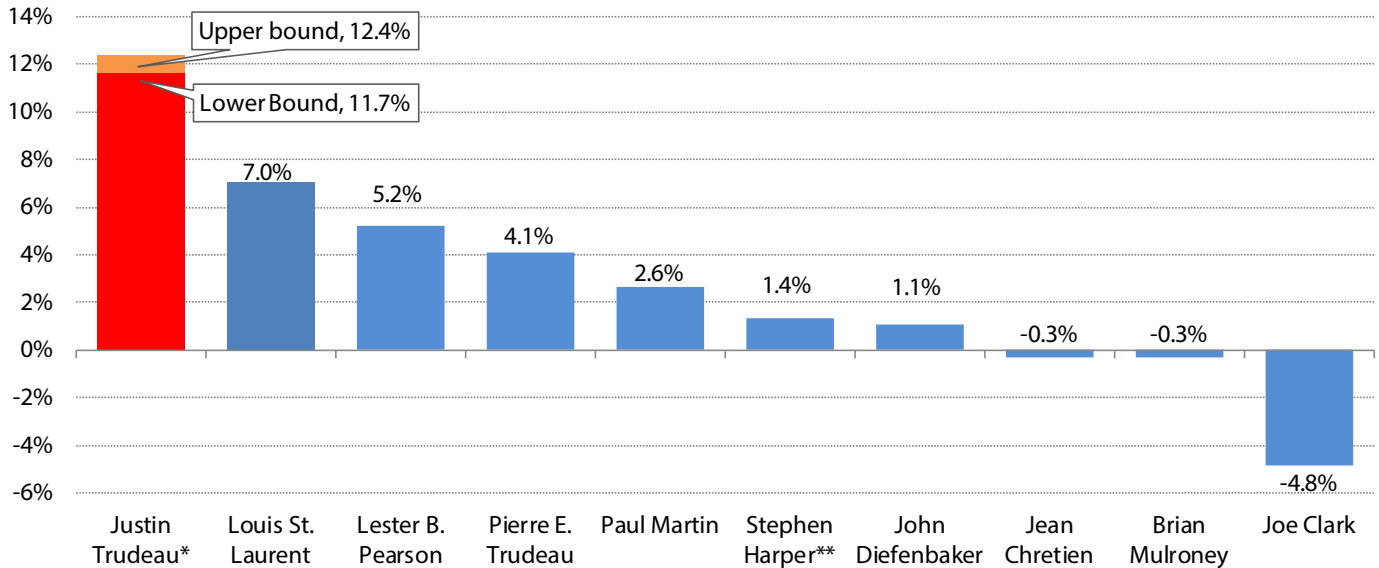
spending would equal \$10,846. While this represents a significant decrease from expected 2021-22 levels, it is approximately 12.2 percent higher than the level seen in 2019, the last year before the pandemic.

However, given the reality that to survive as a government, the Liberal party will likely need support from opposition parties, such as the NDP, that demand further spending, the prior estimates act merely as lower bounds for spending in 2021 and 2022. To provide an upper bound estimate, we calculate the amount of per-person spending that would occur based on the NDP platform. While the level of spending is likely to be somewhere between the lower and upper bound, these numbers provide a reasonable expectation for per-person spending in 2021 and 2022.

The NDP calls for additional program spending of \$40.0 billion in 2021-22 and \$41.4 billion in 2022-23 (NDP, 2021). As figure 2 shows, the total expected level of per-person spending under this plan would reach \$13,735 in 2021-22 and \$11,446 in 2022-23. Put differently, per-person spending would increase from pre-election expectations by \$1,041 in 2021-22 and \$1,046 in 2022-23. For context, per-person spending in 2021-22 under the NDP plan would be 42.0 percent higher than the levels in 2019 and 50.0 percent above the amount spent during the 2009 recession. Furthermore, 2022-23 per-person spending (\$11,446) would be 18.4 percent higher than the level in 2019 (\$9,671).⁷

⁷ See figure 3 for a ranking of prime ministers by average annual change in per-person spending since World War II.

Figure 3: Ranking of Prime Ministers by Average Annual Change in Per Person Spending, Post World War II



Notes:

* The data for the Justin Trudeau covers the program spending from 2015 to 2021.

** The 2015 Budget is adjusted to reflect the originally planned level of program spending for the Harper government and the increased level of program spending for the Trudeau government.

Sources: See figure 1.

In sum, 2020, 2021, and 2022 are expected to be the three highest years of federal per-person spending in Canadian history and will significantly exceed levels previously experienced in times of crisis, such as war and recession. Moreover, absent a change in policy, Prime Minister Justin Trudeau is on track to record the five highest years ever of federal per-person spending from 2018-19 to 2022-23.

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