



NEWS RELEASE

Effective spending rules would result in balanced federal budget by 2025/26, even with COVID emergency relief

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VANCOUVER—If the federal government had introduced even a modest rule imposing more discipline on the growth in government spending starting in 2015—even one that allowed for all the COVID emergency spending—the federal budget could have been balanced by 2025/26, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“Governments lack incentives to spend prudently and balance their financial affairs as evidenced by the deficit spending and run up in federal debt before the COVID pandemic struck,” said Livio Di Matteo, economics professor at Lakehead University, senior fellow at the Fraser Institute and author of *Tax and Expenditure Limitations for Canada’s Federal Government: A Primer*.

“Fiscal rules, or what have been called fiscal anchors, create restrictions on the growth in government spending, how it’s financed by limiting deficits, and/or constraining the growth in government debt. Such rules have not only been beneficial for taxpayers and the nation’s financial well-being in the past but also force governments to better prioritize the spending programs they want to pursue.”

The study shows that had a fiscal rule been in place that limited Ottawa’s spending increases to 2.9 per cent (keeping pace with population growth and inflation) instead of the actual 5.0 per cent average from 2015 to 2019—allowing the rule to be suspended during the COVID-19 pandemic—the federal budget could be balanced by 2025/26 with a surplus of \$4 billion that year.

Instead, the Parliamentary Budget Officer has projected the federal budget likely won’t be balanced until at least 2070 without significant policy changes.

“Rules that constrain government spending, while still allowing for extraordinary events like recessions and the COVID-19 pandemic, are important policy tools that safeguard public funds from runaway spending,” Di Matteo said.

“Given the need to address Ottawa’s substantial deficits and debt, which have been accumulating since before COVID, policymakers and Canadians more broadly should consider implementing spending rules at the federal and provincial levels.”

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