VIEWPOINT

Montreal Economic Institute
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The federal government's budget cuts

by Filip Palda | March 2012

In its updated 2011 Budget tabled after the last election, the federal government announced a *Strategic and Operating Review* of its spending, the results of which will be unveiled when Finance Minister Jim Flaherty delivers his next budget on March 29. During a recent demonstration against the expected cuts, a Public Service Alliance of Canada spokesperson claimed that the government is planning to "destroy public services in Canada."[1] But is it realistic to expect that reductions in federal spending and government workforce will be as drastic as this critic suggests?

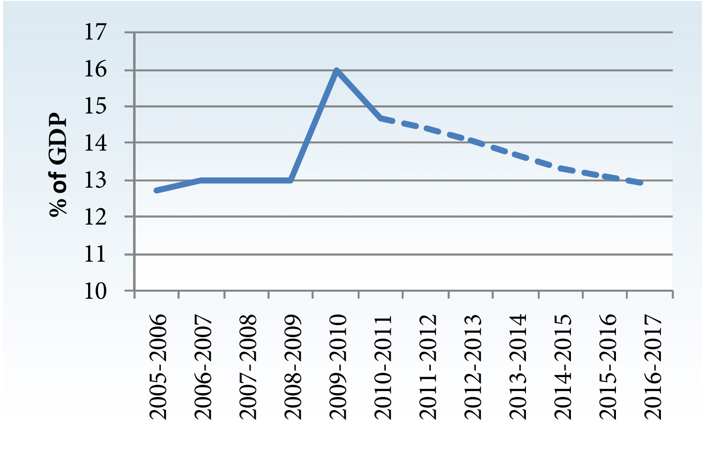
Public spending

The federal government excluded all transfers to persons and to other levels of government from the *Review*, which only examined approximately $80 billion of direct program spending. This represents just one third of total program expenses (that is, what government spends apart from servicing the debt). The *Review*'s objective is to achieve $4 to $8 billion in ongoing annual savings by 2014-2015, or 5 to 10% of the review base.

Even if we assume that the federal government will implement cuts of 10%, the $8-billion reduction will not be applied to next year's direct program spending, but rather to what direct program spending is projected to be in three years, after planned increases. Essentially, this means that instead of increasing as planned, direct program spending would remain stable and then decline in the third year, before starting to grow again in 2015-2016.[2]

Meanwhile, other programs not affected by the *Review* are set to continue growing. According to the government's projections, total program expenses will increase from $243 billion in 2011-2012 to $258 billion in 2014-2015.[3] Cuts of $8 billion would bring this number back to $250 billion, which amounts to a slower-than-projected overall increase rather than an actual reduction in government spending. To get a sense of the evolution of program spending, it was only $188 billion in 2006-2007 during Stephen Harper's first year as prime minister.

Figure 1
Program expenses-to-GDP ratio



Source: Department of Finance Canada, *Update of Economic and Fiscal Projections*, November 2011, p. 48.

1. Daniel Proussalidis, "Unions fear Tories will slash public service jobs," *Toronto Sun*, March 1, 2012.
2. We used the latest projections from: Department of Finance Canada, *Update of Economic and Fiscal Projections*, November 2011, p. 45. According to our calculations, instead of $83.1 billion, $85.1 billion, and $86.9 billion, direct program spending would be $81.1 billion, $81.1 billion, and $78.9 billion respectively over the next three years (following the *Review*).
3. *Id.*, p. 41.

Figure 1 shows how program expenses grew considerably relative to gross domestic product (GDP) after the government's stimulus program was implemented in 2009, and how the Department of Finance projects them to change, before taking into account the *Review*'s results. An $8-billion cut would only have a marginal impact on plans to return to pre-recession levels of spending relative to GDP in 2016-2017—eight years later. And that is presuming the government's economic growth forecasts are not overly optimistic.

Civil service

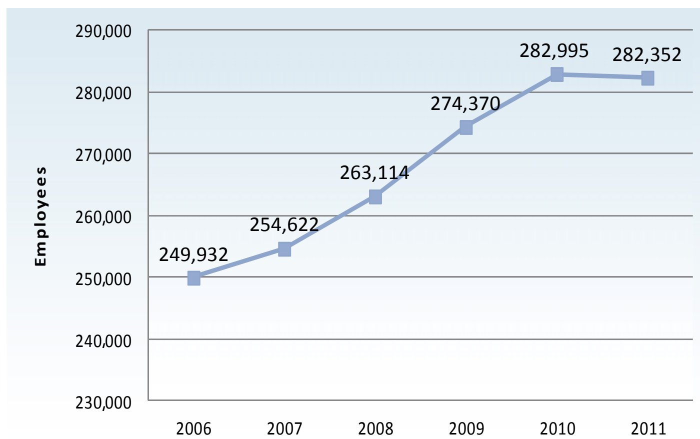
What about reductions in the number of civil servants? Employment in the federal public service rose by 13% from 2006 to 2011,[4] outpacing both the Canadian population increase of 5.9%, and GDP growth of 5.8% in real terms.[5] Even a 10% cut—to take the same percentage expected from the *Review*—would only bring the level of public sector employment back to its 2007 level.

Conclusion

In its documentation of its stimulus program, the Conservative government claimed that "[b]ecause of the Economic Action Plan's emphasis on temporary measures, Canada is well-placed to retain its fiscal advantage and is on track to return to balanced budgets over the medium term."[6]

Given that these measures were supposed to be temporary, Canadians might have expected the federal government to rapidly return to its pre-recession size after 2009. However, as the above figures suggest, not only are fears of drastic spending cuts unfounded; program expenses will in fact not shrink at all in absolute terms, but will continue to grow even if the *Strategic and Operating Review* brings cuts of 10% to targeted areas. Relative to the size of the economy, program spending will not return to its pre-recession level for several more years. And any cut to public service employment will simply reverse some of the large increases made by this government.

Figure 2
Population of the federal public service (2006-2011)



Source: Treasury Board of Canada Secretariat, *Snapshot Employment Numbers of the Federal Public Service*, July 2011.

4. Treasury Board of Canada Secretariat, *Snapshot Employment Numbers of the Federal Public Service*, July 2011.
5. Institut de la statistique du Québec, *Tableau statistique canadien*, March 2012, p. 8; Statistics Canada, CANSIM Table 380-0002.
6. Government of Canada, *Canada's Economic Action Plan - Year 2*, 2011, p. 8.

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