ECONOMY

Leaner and meaner

Government spending from stimulus to austerity

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THE GLOBAL ECONOMIC crisis of the late 2000s has had lasting implications for the structure of government spending and taxation. In response to the crisis, governments across the world, including Canada, adopted stimulus policies to strengthen investment, and consumer and business confidence. The federal government's Economic Statement in October 2007 proposed $60 billion in broad-based tax cuts over two years. However, this was a full year before the crisis hit. This initial infusion was later followed by the Economic Action Plan (outlined in the 2009–10 budget), which retroactively referenced the earlier tax cuts, and committed to further financial stimulus measures and added infrastructure stimulus to the mix. As the action plan stated, these measures were to be "timely, targeted and temporary," except in one important way — the tax reductions were intended to be permanent.[1]

This decision to reduce taxes was instrumental in creating the shift within the federal government's economic planning from stimulus to austerity. Shortly after the post-crisis stimulus spending came a new period of belt tightening. This was a choice, not a necessity: the commitment to deliver a balanced budget by 2015–16 was timed to coincide with the election scheduled for October 2015. And it was difficult to ignore that a major cause of the deficit-to-be-slayed was another politically attractive policy decision in 2006 to cut two percentage points from the GST — "a decision that still casts a long shadow over Ottawa's books."[2]

Government spending was cut back and departments were asked to continue to deliver programs and services with fewer resources. In addition, the public service itself faced major cuts. As described by the Parliamentary Budget Officer, "data from the 2014–15 Reports on Plans and Priorities suggest that over the next three years, the total population of the Federal Public Service is set to fall to levels last seen in 2006–07."[3] Since March 2010, more than 20,000 full-time equivalent positions have been eliminated in the federal public service.[4] On the revenue side, according to the 2015 budget, the Harper government has lowered taxes every year since coming into office.[5]

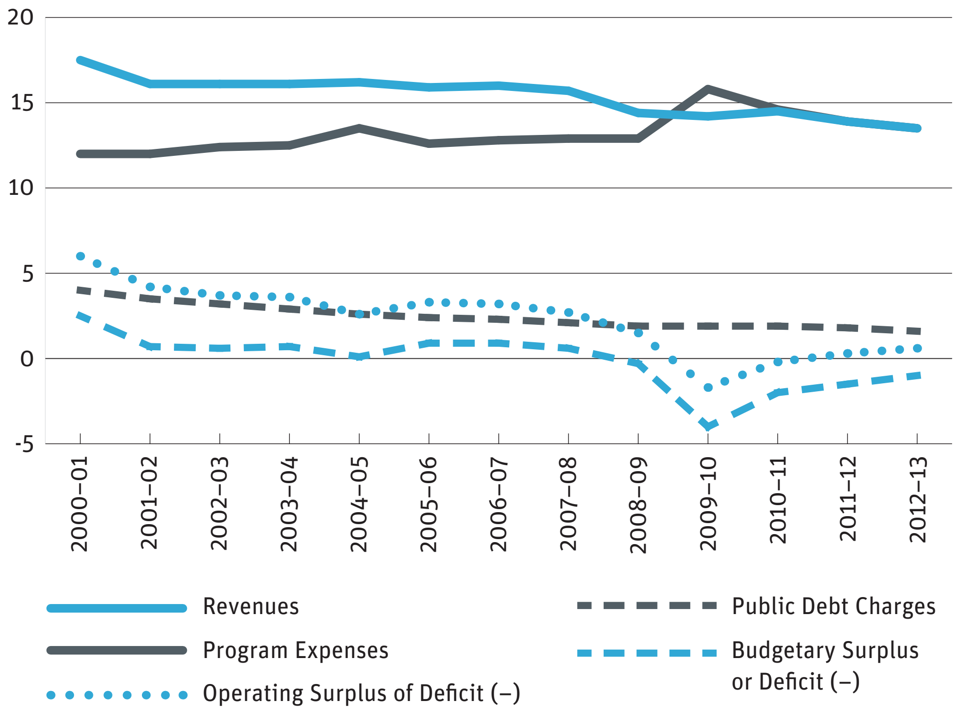
While the shift from stimulus to austerity sets the overall narrative in government spending and restraint over the past several years, it is not the whole story. Individual ministries have seen growth or decline in their budgets that sets them apart from broader trends. This chapter provides a high-level analysis of the public accounts of Canada over several years. In doing so, it identifies the government's priorities, in particular its support for a natural resource–based export-driven economy — an ambition Prime Minister Harper has widely articulated as he seeks to orient Canada as a "global energy superpower."[6] Our analysis of the data also illustrates that while the Harper government is *leaner* (having to do more with less) it is also *meaner* in the sense that major programs and services that are important to Canadians have been cut.

The big picture

The 2008 financial crisis prompted governments to adopt a range of spending measures to boost short-term growth (raise aggregate demand) and foster the conditions for long-term recovery by encouraging investment and innovation. Milton Freidman's famous line, "we are all Keynesians now," was revived, forcing neoliberal and fiscally conservative governments, including the one in Canada, to intervene in the economy in ways they were not predisposed to do (see Bernard chapter).[7, 8] Canada's stimulus measures fell under the government's Economic Action Plan (EAP) and included tax cuts and credits, and major investments in infrastructure projects across the country, including for social housing.[9] It should be noted that, compared to many other countries, the dollar-value size of Canada's stimulus measures was relatively small.[10] While some aspects of the EAP continue to be marketed to Canadians[11] (despite the program's wrap-up), 2010 ushered in a period of spending restraint and a focus on deficit reduction. And so, within a few years, government policy shifted from stimulus to austerity.

As illustrated in *Figure 1*, government revenues as a percentage of GDP have been steadily declining since the 2000–01 budget year, while program expenses

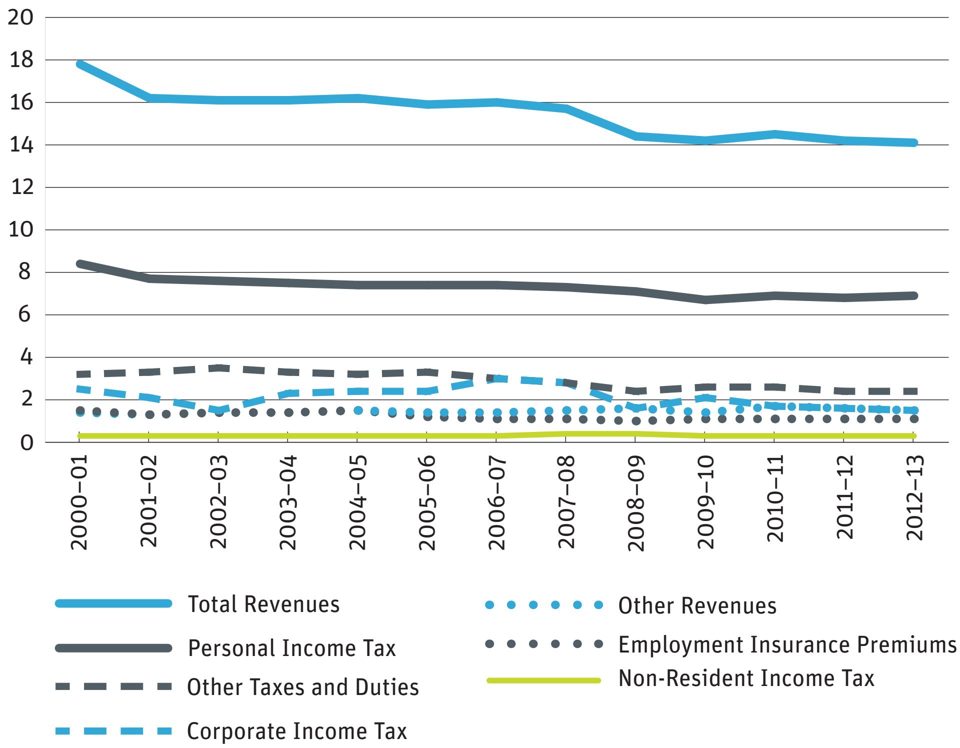
FIGURE 1 Federal Government Fiscal Transactions as a Percentage of GDP, 2000–2013[13]



as a percentage of GDP show a steady increase. Program expenses jump around the time of the 2008 economic recession, demonstrating that the government increased spending while the economy as a whole was contracting (i.e., economic stimulus). Debt and deficit (operating and budgetary) trend lines largely run counter to program expenses. As our need to ramp up spending increased due to economic stimulus, Canada headed into a budgetary deficit that we are still recovering from. The 2015 budget announced a return to a balanced budget in time for an October election, along with further tax-cutting measures.[12]

On the revenue side, we can see that government coffers are smaller as a result of economic choices. *Figure 2* charts various revenue streams as a percentage of GDP for the years 2000–2013, most of them showing a downward trend. The biggest contributor to government revenues (personal income taxes) has declined as a percentage of GDP. However, between the 2010–11 and 2012–13 fiscal years, it flattens out with a range of 6.9–6.8% of GDP. Employment insurance contributions have also declined (from 1.7% of GDP in 2000–01 to 1.1% in 2012–13). And, as Finance Minister Joe Oliver indicated, further cuts in EI premiums are planned, specifically for small

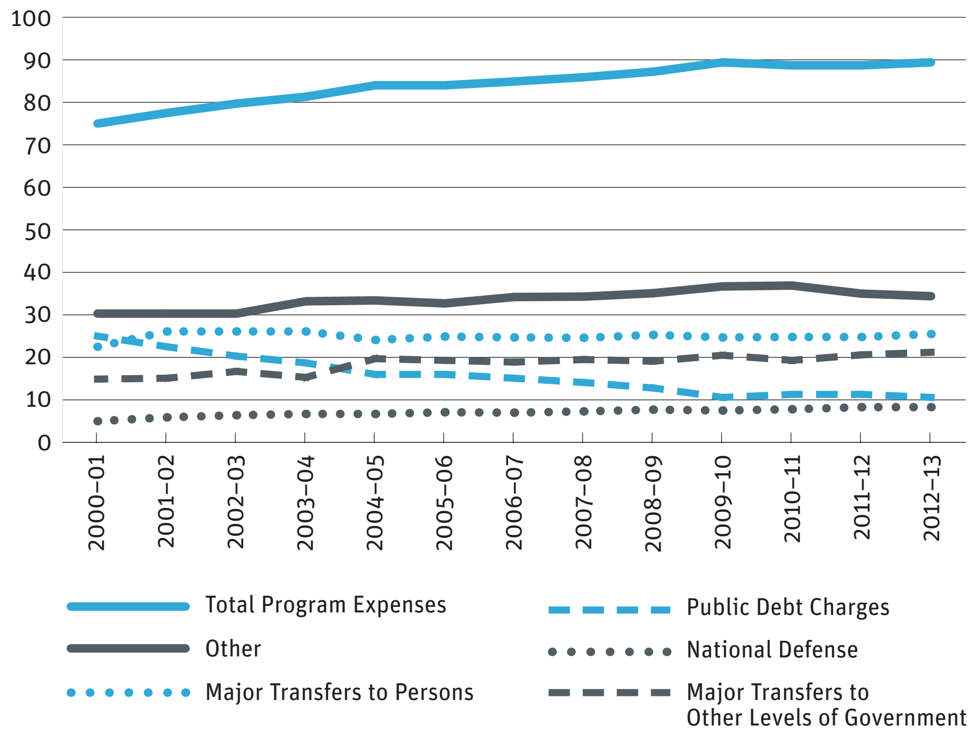
FIGURE 2 Federal Government Revenues and Fiscal Transactions as a Percentage Of GDP, 2000-2013[15]



businesses.[14] Unlike personal income taxes and EI contributions, corporate income taxes as a percentage of GDP show variability. In 2000–01 they were 2.6%, while over the past three years available (2010–11 to 2012–13) they are flat at 1.9% of GDP.

Expenses tell another side of the story. *Figure 3* shows government expenses as a percentage of all government spending for the years 2000–2013. In other words, for each year, the expense items sum to 100% of all government spending. One of the most noticeable trends over this period is the increase in total program expenses as a percentage of total spending. Program expenses are by far the greatest area of government spending — and increasingly so. In the 2000–01 fiscal year, these accounted for 74.8% of total government expenses; in 2012–13 that number was 89.4%. Also noticeable is the declining trend in the amount spent on public debt charges as a percentage of all government spending, from a high of 25.2% in 2000–01 to 10.6% in 2012–13. Major transfers to other levels of government have steadily increased as a percentage of all government spending, from 14.2% in 2000–01 to 21.2% in 2012–13, while major transfers to persons have seen little variability, from

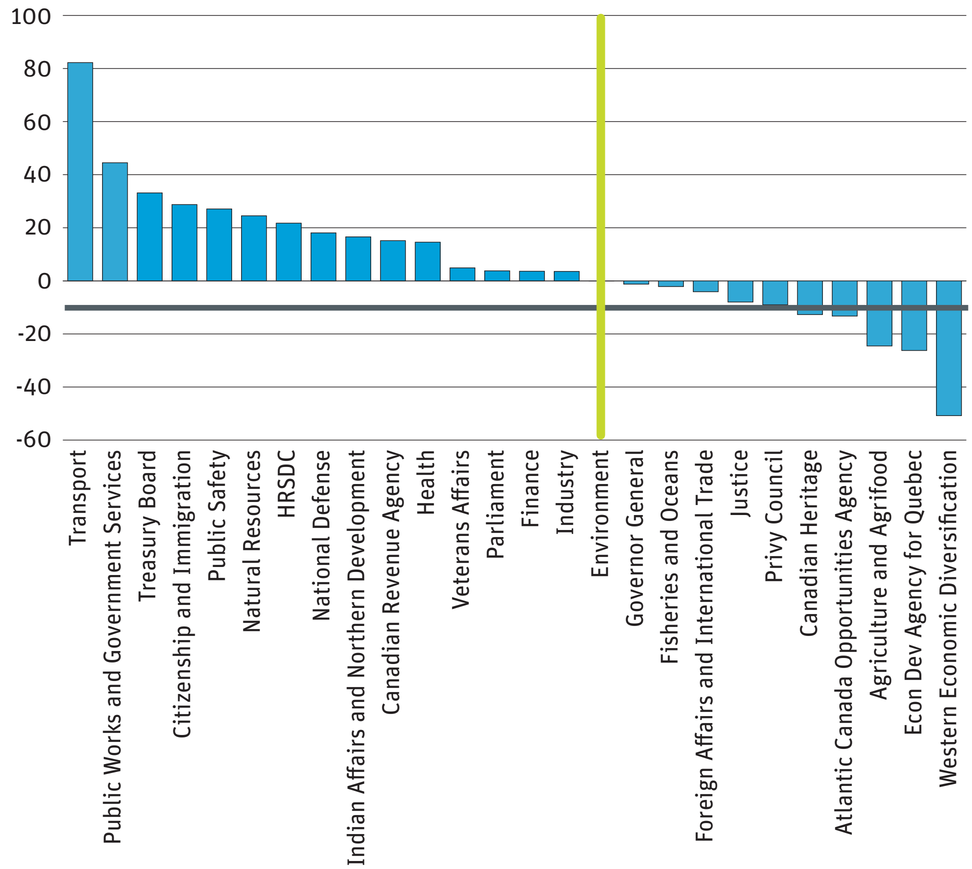
FIGURE 3 Federal Government Expenses as a Percentage of Total Spending, 2000–2013[13]



24.9% in 2000–01 to 25.5% in 2012–13. National defence spending has been on the rise — from 5.6% in 2000–01 to 8.3% in 2012–13 (see *Figure 4*).

This big picture view of public accounts demonstrates a Conservative fiscal preference for lean government and limited spending. This is consistent with Prime Minister Harper's commitment to "open federalism," with its tenants of smaller government and adherence to the constitutional divisions of power.[17] But these tenants do not hold fast in all areas. The Conservative government has been particularly interventionist in the areas of trade, infrastructure and natural resources development. These have been major areas of spending and have concentrated resources in certain regions in a way that is highly purposeful and interventionist. The political and calculated nature of this policy focus would be more aptly described as *strategic* than *open* federalism.[18] Ministry level spending data further illuminates these government priorities.

FIGURE 4 Net Federal Expenditures by Ministry (Percentage Change From Fiscal Year 2006–07 to 2012–13)[19 20]



Spending priorities by ministry

Ministries contain within them departments, agencies and commissions. *Figure 4* shows the percentage change in net ministerial expenditures for the fiscal years 2006–07 to 2012–13. The green line in the middle of the chart depicts the percentage change across all ministries (11.26%) for these years. Those ministries to the left of the line saw net changes in their expenditures between these years that were below average, while those to the right of the line were above average. The top three ministries that saw the greatest percentage change in expenditures between 2006–07 and 2012–13 were Transport (82.23%), Public Works and Government Services Canada (44.5%) and the Treasury Board (22.14%).

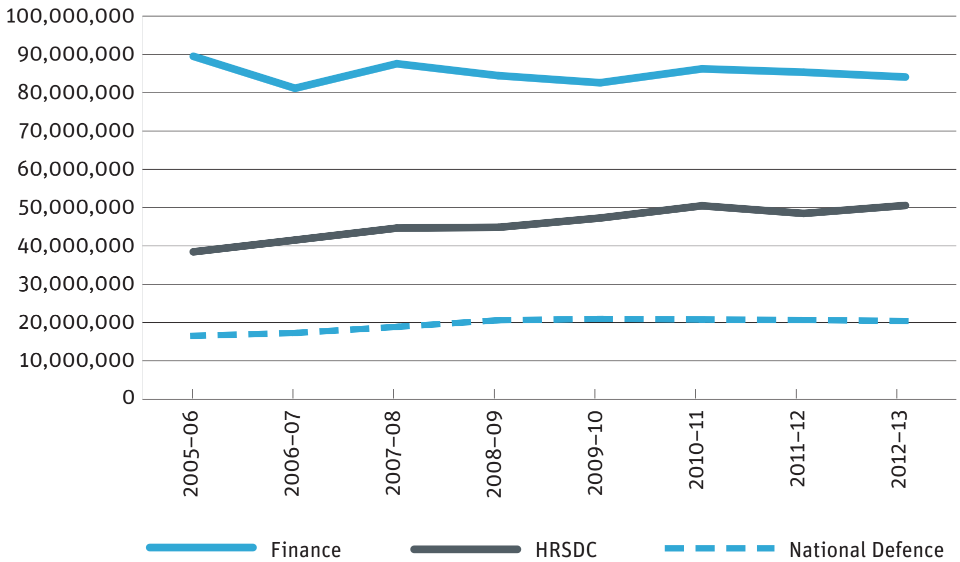
These figures need to be read with a degree of caution. The data contrasts two years, but it does not show the variation *within* these years, and some ministries can see highly fluctuating budgets. For example, some entities may have major capital expenses related to renovations of historical buildings; the Privy Council ministry budget can include expenditures related to royal commissions or Canadian elections (it includes the Office of the Chief Electoral Officer); the Ministry of Finance's budget can fluctuate because of transfer payments to provincial and territorial governments. Nonetheless, it is possible to glimpse government spending priorities through our analysis of spending during the Harper years.

The Ministry of Transport saw the largest percentage change increases over this period, a large part of it due to expenditures at Infrastructure Canada, which was responsible for infrastructure stimulus spending following the 2008 economic recession as well as that related to the 2010 G20 and G8 summits. The department is also responsible for infrastructure investment to support trade through the Asia-Pacific Gateways and Corridors Initiative, the Ontario-Quebec Continental Gateway and Trade Corridor, and the Atlantic Gateway and Trade Corridor.[21] These initiatives involve a significant partnership between all levels of government to develop ports, airways, railway lines and major highways across Canada. In addition to facilitating economic growth and capital accumulation, infrastructure spending has allowed the government to — some would argue excessively — exploit the political and promotional opportunities associated with major capital projects.

While the gateway and corridor programs represent major regional investments, traditional regional development bodies have seen significant cuts to their operating budgets. Western Economic Diversification, the Economic Development Agency for Quebec, and the Atlantic Canada Opportunities Agency all have net negative ministerial expenditures as a percentage change between 2006–07 and 2012–13. Meanwhile, the Harper government created two new regional development bodies in 2009, the Canadian Northern Economic Development Agency and the Federal Economic Development Agency for Southern Ontario. The northern agency falls under the portfolio of Health Canada while the southern one falls under Industry Canada. These initiatives are influenced by the Organization for Economic Co-operation and Development's (OECD) "new regionalism," and focus on regional innovation systems and clusters, place-based policy and multi-level governance, policy learning and knowledge transfer.[22]

Public Works and Government Services Canada (PWGSC) has seen large budgetary increases over this period largely due to the creation in 2011 of Shared Services Canada (SSC), which is tasked with consolidating the government's information technology infrastructure. This is a massive undertaking: SSC's 2012–13 budget is approximately $1.7 billion.[23] The Treasury Board Secretariat (TBS), a central agency responsible for government comptrollership and financial management, saw major expenditure increases between 2009–10 and 2011–12 in large part due to costs

FIGURE 5 Top Three Largest Ministries by Net Expenditure (Thousands of Dollars), 2005–06 to 2012–13, CPI Adjusted[32 33]

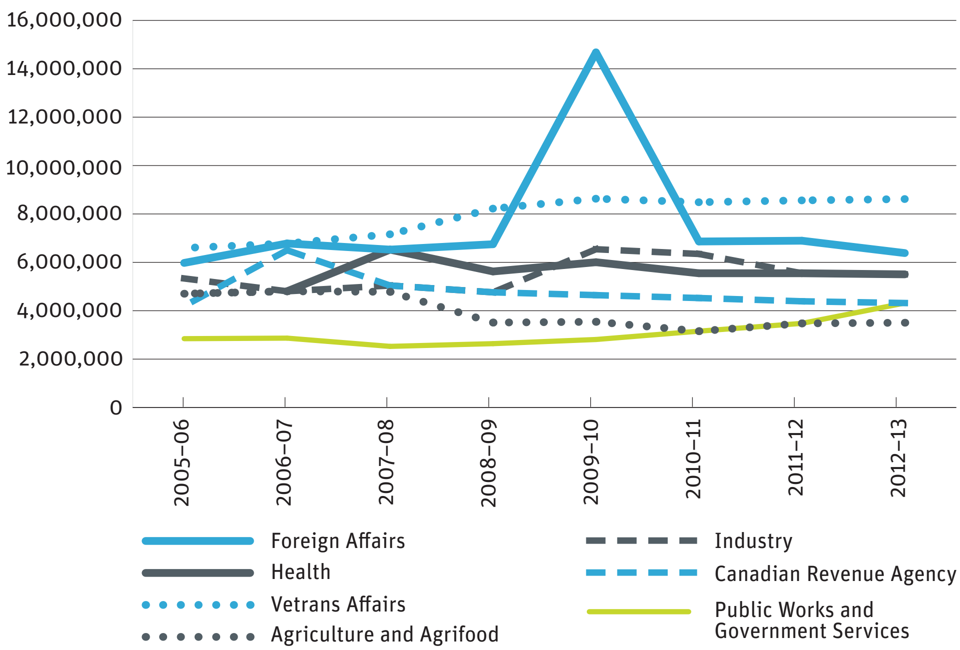


associated with the government's Strategic and Operating Reviews (SORs), which led to major government cutbacks across departments.[24] Controversially, the management consulting firm Deloitte was given a $20 million contract to advise the government on how to save money (the Deficit Reduction Action Plan).[25] The SORs also provided the government with an opportunity to achieve significant reductions in departmental spending while maintaining and increasing discretionary spending in line with political priorities at the centre.

Citizenship and Immigration saw expenditures grow over the past several years. The Conservatives have made reforms to Canada's immigration system a major priority, with "economic and labour force needs the central goal of our immigration efforts."[26] Some of these new programs have been widely criticized, such as the Temporary Foreign Worker Program related to accusations of exploitative labour practices.[27, 28, 29] The fact that Public Safety would see budgetary increases under this government is hardly surprising. Every budget since the Conservatives came to power has stressed a "tough on crime" agenda (see Mallea chapter). This emphasis on law and order has much broader implications: it has reoriented the government's approach to social policy and has led — in the words of Michael J. Prince — to a "night watchmen state" under a "Hobbesian Prime Minister."[30]

While the percentage change in expenditures between years gives an indication of relative and changing priorities and growth in different ministry's budgets, it does

FIGURE 6 Top Ten Largest Ministries by Net Expenditure (Thousands of Dollars), 2005–06 to 2012–13, CPI Adjusted (Excluding Finance, HRSDC and National Defense)[34 35]



not indicate the *size* of expenditures. The three largest government ministries by expenditure are Finance, followed by Human Resources and Social Development Canada (HRSDC, now known as Employment and Social Development Canada) and National Defence (see *Figure 5*). Between the 2010–11 and 2012–13 fiscal years, expenditures in these ministries flattened out and, in the case of Finance, exhibit decline. The Ministry of Finance includes the newly created (2009) entity PPP Canada (Public Private Partnerships Canada), which, as the name suggests, advocates and supports the use of PPPs, or P3s, in public procurement and infrastructure development. P3s are meant to share the burden of risk between public and private partners and generate efficiencies. While research suggests such claims may be overstated,[31] P3s provide significant opportunities for advancing private sector capital accumulation consistent with other aspects of the government's political priorities.

Expenditure trends for the next ten largest ministries show much greater variability. *Figure 6* includes data for the years 2005–06 to 2012–13 for the top ten largest ministries (excluding Finance, HRSDC and National Defence). One of the most obvious expenditures is the huge infusion of cash the Department of Foreign Affairs and International Trade (now DFATD) as part of the planning and preparations for the G8 and G20 summits held in 2010. Transport Canada (and namely the Department of Infrastructure Canada within it) saw massive expenditures linked to Canada's economic stimulus plan. While these have significantly decreased over the 2011–12 and 2012–13 fiscal years, they remain much higher than their pre-stimulus levels. Another ministry to note is Public Safety and Emergency Preparedness Canada, which has seen year-over-year growth in expenditures. This portfolio includes the Department of Public Safety, the Canada Border Services Agency, and the Canadian Security Intelligence Service, with priorities relating to national security, border services, crime and emergency management.

Conclusions

This overview of ministry-level expenditures has been very brief and there are many more stories to be told from this data. For example, in shifting resources toward ministries that reinforce the government's "energy superpower" agenda — such as infrastructure that will bring raw materials to market more quickly — other social programs have suffered from a declining overall revenue source. This creates an opening for opposition parties to present alternative government priorities — to shift from the new normal of austerity to other forms of stimulus spending in what are still uncertain economic times for the country.

The Harper government has made its priorities clear. With parliamentary elections scheduled for October 2015, the 2015 budget announcement took on a decidedly rallying tone. The prime minister promised more tax cuts for Canadians in addition to a balanced budget.[36] However, in order to achieve that balance, $3 billion was taken from the federal contingency fund, and a list of new programs and "boutique" tax credits were delayed well into the next mandate. Some commentators suggested this was part of a "scorched earth" strategy, limiting the options for future governments and opposition parties wishing to set a more expansive and progressive program for the federal government.

One thing is certain: as our analysis here shows, the Harper government has molded and reshaped government around its strategic priorities and interests. Some departments, agencies and commissions have risen to prominence, while others have declined in significance. As the saying goes, "institutions are sticky."[37] Whether the Conservatives form a government in October, or a new configuration is ushered in, it may be some time before the force of these institutional logics changes course.

Endnotes

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