

Streamline Size of Government (2023)

Issue

While government spending is needed to ensure the health and safety of its constituents, there are studies that have shown that when government grows beyond a certain size it can hinder economic growth and lead to an overall lowering of living standards.

Background

There are a variety of methods by which the size of a government can be measured. One method is based on per capita spending, and another is to consider government spending as a percentage of GDP. Both methods can also factor in measures for tax expenditures and regulation¹. Following the inevitable major increase in fiscal year 2020 as a result of the COVID-19 pandemic, there has not been a decrease in the size of our federal or provincial governments back to pre-pandemic levels^{2,3,4}.

The spending as a percentage of GDP of our federal government is among the highest it's ever been⁵. A study released by the Fraser Institute in 2013 found that the optimal level for government spending as a percentage of GDP is 26%, after which the economic and societal benefits decline for each additional dollar spent⁶. Since 1870, the Canadian government has had expenditures as a percentage of GDP over 26% for 65 years. During World War II for the years of 1942-1945 government spending averaged 44.62% which is typical for wartime expenditures. This was followed by a 15-year period during which expenditures ranged from 14.03% to 22.16% with an average of 15.77%. Since 1961, the government has not had a single year with expenditures below 29% (lowest was 29.66% in 1964) and has even spent as much as 53.34% in 1992. This has resulted in an average yearly expenditure of 41.31% for the years between 1961 and 2021. Furthermore, the percentage spent has been trending upward for this same period.

¹ Macdonald-Laurier Institute - Estimating the True Size of Government in Canada: <https://www.macdonaldlaurier.ca/size-of-government-in-canada/>

² Statistics Canada. (2022). *Canadian classification of functions of government, by general government component (x 1,000,000)*. <https://doi.org/10.25318/1010002401-eng>

³ World Bank. (n.d.). GDP (current US\$) - Canada. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2021&locations=CA&most_recent_year_desc=true&start=1960&view=chart

⁴ Government of Alberta. (2022). Gross Domestic Product. *In Regional Economic Dashboard*. <https://economicdashboard.alberta.ca/grossdomesticproduct>

⁵ International Monetary Fund. (n.d.). Government expenditure, percent of GDP. <https://www.imf.org/external/datamapper/exp@FPP/CAN>

⁶ Di Matteo, L. (2013). Measuring Government in the Twenty-first Century: An International Overview of the Size and Efficiency of Public Spending. *The Fraser Institute*. <https://www.fraserinstitute.org/sites/default/files/measuring-government-in-the-21st-century.pdf>

On a provincial level, the data demonstrates a similar trend. There have been consistent increases in spending per capita since 2007, with increases ranging from just 0.65% in 2013 to 9.76% in 2021⁷ with an average increase of 2.76% between 2007 and 2021. A report released by the Financial Accountability Office of Ontario in April of 2022 shows that, comparatively, Alberta has the lowest per capita revenue in 2020, yet was consistently above the average in regard to program spending⁹.

The consistent growth in government expenditures per capita and relative to GDP, if left unchecked, can result in deficit budgets, and increases in debt and associated debt repayment costs. The Parliamentary Budget Officer released its Economic and Fiscal Outlook in October of 2022 projecting a year-over-year decrease in budget deficit, but a significant increase in debt servicing charges. In fact, there is an anticipated doubling of public debt charges from their 2020-2021 levels to \$47.6 billion in 2027-2028¹⁰. Despite being debt free in the early 2000's, the Alberta government has run deficits since 2008-2009 which has resulted in steadily increasing debt¹¹. Furthermore, the associated debt servicing costs are expected to continue increasing beyond \$2.7 billion in fiscal year 2022-2023¹².

While the growth of the size of government and associated debt can at times seem inevitable, there is a solution in Canada's not-so-recent past. Canada has successfully navigated out of a position where the growth of the economy was seriously impeded and Canadian's prosperity was at risk as a result of the size of government and its related spending. Steps to put Canada back on a road of fiscal sovereignty were taken by successive governments starting in the mid 80's and culminating in the Government of Canada initiating a Program Review in 1994. This program review, implemented over five years, rejected the concept of across-the-board cuts

and the idea that a sizable deficit could be eliminated through increased productivity. Instead, it focused on the roles and importance of government programs and services within the overall fiscal framework. The program review was not about "what to cut" but instead used methods of fiscal constraint while considering "what to preserve" to put the country on a footing that would allow it to prosper in the future.

⁷ Statistics Canada. Table 17-10-0005-01 Population estimates on July 1st, by age and sex. <https://doi.org/10.25318/1710000501-eng>

⁸ Statistics Canada. Table 36-10-0450-01 Revenue, expenditure and budgetary balance - General governments, provincial and territorial economic accounts (x 1,000,000). <https://doi.org/10.25318/3610045001-eng>

⁹ Financial Accountability Office of Ontario. (2022). 2020-21 Interprovincial Comparison: Comparing Ontario's fiscal position with other provinces after the first year of the COVID-19 pandemic. <https://www.fao-on.org/en/Blog/Publications/interprovincial-comparison-2022>

¹⁰ Office of the Parliamentary Budget Officer. (2022). Economic and Fiscal Outlook – October 2022. <https://distribution-a617274656661637473.pbo-dpb.ca/258865a69ecf369e99f05a9e799d04136ed8c0b04830967d0ad5aecfd59f90f9>

¹¹ Eisen, B. (2022). Alberta taxpayers on the hook (again) for government debt interest. *Fraser Institute*. <https://www.fraserinstitute.org/article/alberta-taxpayers-on-the-hook-again-for-government-debt-interest>

¹² Government of Alberta. (2022). 2022-23 Mid-year Fiscal Update and Economic Statement. <https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/df205b7a-721a-486b-b663-8c1ecef46ae8/download/tbf-2022-23-mid-year-fiscal-update-and-economic-statement.pdf>

The foundation for this review used a series of six questions when looking at the services and programs administered by the government.

1. Does the program or activity continue to serve the public interest?
2. Is there a legitimate and necessary role for government in this program area or activity?
3. Is the current role of the government appropriate or is the program a candidate for realignment with the provinces?
4. What activities or programs should, or could, be transferred in whole or in part to the private or voluntary sector?
5. If the program or activity continues, how could its efficiency be improved?
6. Is the resultant package of programs and activities affordable within the fiscal restraint? If not, what programs or activities should be abandoned?

The result of this ongoing process looped back on itself if the overall proposal did not generate significant savings¹³. In addition, this process ensured that the federal government used only the resources it needed to deliver services strictly within the government's purview. As a result of this program review, Canada's total government spending as a share of GDP fell from a peak of 53 percent in 1992 to 39 percent in 2007, and despite this more than one-quarter decline in the size of government, the economy grew, the job market expanded, and poverty rates fell dramatically¹⁴.

The rationale behind having a government that is scaled properly to deliver essential services is not just one borne from a budgetary standpoint. When a government functions efficiently and uses its resources to their maximum potential it could be argued that it is on a much better footing when the economy or market forces pose challenges. Ensuring that government has the ability to adapt, maneuver, and respond to weather economic headwinds is dependent on how its resources are allocated.

This is not to be confused with across-the-board cuts and freezes that affect programs and services or by strictly asking departments and agencies to do more with less. What is needed is a repositioning of the role of government within the collective means of citizens using the criteria above. An essential component of this course of action would be a comprehensive review of the regulatory environment, using the recommendations set forth by the Canadian Chamber of Commerce in the Regulate Smarter report, *Death by 130,000 Cuts: Improving Canada's Regulatory Competitiveness*¹⁵. The recommendations laid out in this report mirror the

¹³ Spear, S. & Lammam, C. (n.d.). Proper Size of Government. *Fraser Institute*. www.fraserinstitute.org/article/proper-size-government

¹⁴ Bourgon, J. (2009). Program Review: The Government of Canada's experience eliminating the deficit, 1995-99: a Canadian Case Study. Institute for Government. <https://www.instituteforgovernment.org.uk/sites/default/files/publications/Program%20Review.pdf>

¹⁵ Canadian Chamber of Commerce. (2018). *Death by 130,000 Cuts: Improving Canada's regulatory competitiveness*. <https://chamber.ca/publications/death-by-130000-cuts-improving-canadas-regulatory-competitiveness/>

reasoning behind a comprehensive full program review. By modernizing Canada's regulatory systems and reducing duplication and misalignment within regulations, competitiveness and a well-functioning regulatory regime will ensure a government ready and able to meet the challenges and respond to opportunities that present themselves in a more integrated global economy. This would ensure that protective measures would be balanced with a regime that is navigable and preserves economic growth and competitiveness.

However, the longer the process of streamlining government is delayed the harder it is to reset. External factors beyond the government's control can take precedence and make needed changes that much more difficult. An immediate first step is to aim for government, both federal and provincial budgets that are balanced. This will then set a solid foundation allowing for a re-visioning of size of government. Canada and Alberta need to ensure we are set on a firm fiscal footing in order to allow for flexibility should market forces create downward economic pressure resulting in the continued need for stimulus spending. It is not only good fiscal policy but responsible governing to create a safe cushion for the province and country.

As in the past this exercise will be one that requires a long-term vision that spans government administrations and political parties. Good government is not a question of ideology, right or left, but rather a commitment to a government structure that is more accessible, navigable, competitive and streamlined so that all Canadians benefit and prosper.

The Alberta Chambers of Commerce recommends the Government of Alberta and Government of Canada

1. Initiate a review of all ministries that evaluates the ministry focus and alignment, to be consistent with other provinces, territories and federal government ministries, as well as alignment with service delivery and focus areas based on private and voluntary sectors;
2. Work towards consistency in government ministries to avoid regular changes to ministry titles, related costs to implement changes to ministry titles and unnecessary uncertainty associated with regular changes within the Ministry and department staffing requirements;
3. Commit to comprehensive regulatory reform based on cost-benefit analysis and rooted in economic competitiveness and efficient service and program delivery.