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**FEDERAL BUDGETARY STRATEGY:  
FUTURE GENERATIONS MAY PAY THE PRICE**

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**Montréal, January 15, 2020** – While the federal government’s wager has paid off so far, as it accumulates budgetary deficits to stimulate growth in the Canadian economy, it would be risky to pursue this strategy in the coming years. That is the conclusion of a study released today by the Centre for Productivity and Prosperity – Walter J. Somers Foundation.

“According to the federal government’s current forecasts, the federal public debt will grow by about \$84.7 billion over the next four years, given the deficits it plans to run,” explains Robert Gagné, CPP Director and co-author of the study. “If it does so, the federal strategy will have added more than \$140 billion to the federal public debt in order to finance short-term economic growth. The problem is that this debt will remain in the long term, and may have serious consequences in terms of equity between generations of taxpayers.”

**A viable short-term strategy...**

The authors, far from being alarmist, start by noting that this strategy may have been justified by economic conditions in 2015. Although it could not be termed a recession, GDP growth was very slow, even negative, in certain quarters, so that supporting this growth by upping public spending may have been appropriate.

“While we can’t clearly talk about a cause-and-effect relationship, the economic growth that followed the arrival of the new government in 2015 was sufficient to cover the deficits incurred,” notes the CPP Director. “And, in the end, this strategy had attractive consequences for taxpayers: economic growth increased, relative public debt fell despite the deficits accumulated, taxes remained relatively stable, and federal government services reached historic highs.”

**... but risky in the longer term**

This could all change, the authors maintain, if Ottawa hews to the same strategy in the coming years. Thanks to especially advantageous borrowing conditions over the past ten years and the government’s efforts to control public finances between 1995 and 2008, debt service is not a serious budgetary concern for the time being, they note. However, this positive outlook could quickly sour if the government does not soon come up with a plan to return to balanced budgets.

If interest rates were to rise permanently, the \$141.2 billion in debt contracted to finance deficits over the past four years and the next four years would have a serious impact on intergenerational equity. “Debt servicing costs would grow, and future generations of taxpayers might eventually be unable to afford the same services without incurring even larger deficits or paying higher taxes. In either case, this would adversely affect intergenerational equity,” warns Gagné.

### **A clear recommendation**

To avoid this outcome, the authors recommend that the government quickly adopt a plan to return to balanced budgets. This could easily be done by the end of its current term by simply limiting growth in program spending to the inflation rate. And, to avoid such risk-taking in future, the researchers feel that Parliament absolutely must bring back the *Federal Balanced Budget Act* adopted in 2015 and repealed one year later by the new government. By restricting its use of deficit financing to periods of economic turbulence, Parliament would prevent the government of the day from compromising public finances for future generations of taxpayers.

### **For more information:**

- Consult the report, entitled *Federal Budgetary Deficits: Analysis*.
- Téléchargez le communiqué [en français](#).

### **About the Centre for Productivity and Prosperity – Walter J. Somers Foundation**

The Centre for Productivity and Prosperity – Walter J. Somers Foundation has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec. The Centre then shares its research findings through knowledge transfer and educational activities.

### **About the Walter J. Somers Foundation**

The Somers family established the Walter J. Somers Foundation in tribute to the founder of Walter Surface Technologies. Through different donations, the Foundation pursues the family heritage of commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to enhance its productivity but also by supporting excellence in youth education.

For more information on the Centre, visit [www.hec.ca/cpp](http://www.hec.ca/cpp) or write us at [info.cpp@hec.ca](mailto:info.cpp@hec.ca).

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