**Spending beyond Our Means; sticking it to the Next Generation**

Appeared in the National Post

By Jason Clemens, Milagros Palacios, Niels Veldhuis

Link: <http://www.fraserinstitute.org/research-news/news/display.aspx?id=19728>

Over the course of the past several months, outgoing Bank of Canada Governor Mark Carney and Federal Finance Minister Jim Flaherty have repeatedly warned that Canadians are spending beyond their means and taking on too much debt.

“A concern of the Bank of Canada...has been the pace of growth of household debt” Carney recently noted. Minister Flaherty added, "While interest rates are currently low by historical standards, eventually they will rise. Canadians should…. understand this when taking on significant debt…"

Unfortunately, neither Minister Flaherty nor Governor Carney has publicly expressed as much concern about the amount of debt taken on by Canadians governments.

Yet, in analyzing the 2013 budgets from governments across the country, it is clear our elected leaders continue to spend beyond their means, happily sticking it to the next generation.

For starters, the federal government and every province (save Saskatchewan) ran a budget deficit in 2012-13 which cumulatively added $42 billion to government debt.

All told, total provincial government net debt (debt minus financial assets) reached more than $512-billion in 2012-13.  Ontario, Canada’s own version of the fiscal train wreck that is California, accounted for nearly half (or $253 billion) of total provincial debt. Ontario’s debt alone is expected to reach $550 billion before the end of the decade without significant spending reform.

Add on the current federal net debt of $676-billion and Canadians are currently leaving a legacy of $1.2 trillion dollars in debt to the younger generations, an increase of more than $350-billion since 2007-08.

And despite this unfortunate legacy, Canadian governments continue to borrow. This year (2013-14) nearly all governments will again run deficits contributing another $52.7 billion in new debt (after accounting for assets).

While Minister Flaherty and Governor Carney continue to talk about household debt levels, every Canadian family is in hock to the tune of $124,890 due to federal and provincial government borrowing, up by more than $25,000 per family since 2007-08 after adjusting for inflation ([**see chart**](http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/news/commentaries/spending-beyond-our-means-chart-051513.pdf)).

Most surprising is the common view (especially among politicians and bureaucrats) that continued deficits and mounting debt are the result of a soft economy and therefore a lack of revenues. In reality, nothing could be further from the truth.

Our governments continue to run deficits after three years of modest but nonetheless positive economic growth in Canada. This isn’t a revenue problem. The most damning evidence of this comes from looking at what has happened to revenues relative to spending for the majority of governments across Canada over the past five years.

Take the federal government which saw its revenues peak at $242 billion before the recession. From the 2007-08 peak, revenues decreased for the next two years due to the recession. However, in 2010-11 revenues rebounded and last year’s federal revenue of $254 billion was nearly $12 billion higher than the pre-recession peak.

Why then is the federal government still running a $26 billion deficit? The answer is simple. Despite a $12 billion increase in federal revenues from the pre-recession high, program spending (total spending minus interest costs) is up by $52 billion.

Even more concerning is that program spending is up by $6.3 billion since 2009/10, the year the Conservative government implemented their massive “stimulus” spending plan. Spending did not retreat to pre-stimulus levels; rather, the higher level of spending simply became the new base from which future spending grew.

Unfortunately, the federal government is not alone. As the **[table](http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/news/commentaries/spending-beyond-our-means-table-051513.pdf" \o "Spending beyond our means - Table" \t "_blank)**elsewhere displays, revenues of nearly every provincial government in Canada have rebounded from pre-recession highs while spending has greatly outpaced revenue growth.

For example, Ontario revenues were $114.2 billion in 2012-13, nearly $10 billion higher than the pre-recession high (2007-08) while program spending is up $19 billion.

Yet, despite the fact that excessive government spending is clearly the root problem in Canada, governments across the country continue to look for tax increases to close their deficits.

Out in B.C. the supposedly “conservative-minded” Liberals introduced a new top personal income tax rate for incomes over $150,000 which will be taxed at 16.8% up from 14.7%; increased the corporate income tax rate to 11% from 10%; and increased Medical Service Plan premiums by 4%.

The news wasn’t any better in the prairies. In Alberta, the government chose not to increase taxes in the 2013 budget but is clearly trying to warm Albertans up to future tax increases. The government there repeatedly points out how much extra money the province would have if it possessed tax levels and levers that exist in B.C. Meanwhile, Saskatchewan deferred previously scheduled corporate income tax rate reductions and Manitoba increased its tax on financial institutions to 5% from 4% and it’s PST to 8% from 7%.

Quebec introduced a fourth income tax bracket for incomes over $100,000 which will be taxed at nearly 21% provincially. And in the Maritimes, New Brunswick increased its corporate income tax rate to 12% from 10%, increased all four of its personal income tax rates while Prince Edward Island increased its small business tax rate.

To round things off, seven of 10 Canadian provinces (BC, SK, MB, QC, NB, NS, & NL) all decided to increase politically expedient tobacco taxes.

For the sake of future generations, Canadian politicians need to stop searching for additional revenues and spend more time finding ways to reduce their own profligate spending habits.