

Inside the Issue

The federal government carries a large debt accumulated from years of deficit, and government has gone back to deficit positions after a number of years of surpluses. According to the Canadian Taxpayers Federation, the federal government is adding \$124 million a day to the national debt. At this rate, the \$105-billion in debt repayment between 1997 and 2008 will be wiped out this year.

The Parliamentary Budget Office, in its November 2010 report '*Economic and Fiscal Assessment 2010*' notes "to assess whether a government's fiscal structure is sustainable, however, requires looking beyond projections of budget deficits and debts over a medium-term horizon to take into account the economic and fiscal implications of population ageing. PBO's 2010 Fiscal Sustainability Report concluded that the Government's current fiscal structure is not sustainable over the long term."

Strengths

The federal debt-to-GDP ratio (accumulated deficit) stood at 34.0 per cent in 2009–10, down significantly from its peak of 68.4 per cent in 1995–96. The debt ratio is expected to decline to 29.7 per cent in 2015–16. Additionally, the Department of Finance states that Canada has the lowest debt and deficit of countries in the G-7, and that Canada has one of the fastest growing economies in that group.

Weaknesses

Of budget expenses of \$278.7 billion, \$33 billion (or nearly 12%) is spent on public debt charges. That means that \$1 dollar is spent on interest and debt payment for every \$8.50 spent on social and economic programs.

Statistics show...

- Every Canadian owes more than \$16,000 as their share of the federal debt.
- In 1996-97, government debt was then at an all-time high of \$562.9 billion; it is budgeted to go up to \$586 billion in 2011-12.
- Program expenses increased from \$207.9 billion in 2008-09 to \$245.7 in 2011-12.

Why a fiscal and debt plan

There are many benefits to a fiscal and debt plan. The **most compelling** is that Canada could spend and invest its way through a global economic downturn entirely because it had been generating surpluses and paying down debt and putting itself in a strong financial position. If the country is put in a similar position in the next few years, it will not have a financial cushion.

Other benefits include:

- demonstrating to lenders and bond agencies that Canada has a plan and targets; with billions in debt, such a plan could improve the country's credit rating and save on interest payments; and,
- avoiding reactionary responses to cyclical economic conditions, such as wage freezes and/or layoffs during downturns or overspending during upswings.

What's the Need

Every day and every dollar going further into deficit means more Canadians working to pay off interest rather than pay for important programs and services. Hence the call for restraint, the need for surpluses, and a desire to see structural change in government finances. Less debt means that government can do the things we as a society really want to do and should do, rather than continue to put substantial amounts towards paying the interest on public debt.

Surpluses and subsequent debt payment is critical to leaving the country in better shape for the future, for both residents and businesses.

What it Means

In February 2011, the Government of Newfoundland and Labrador announced that construction would begin on a new K-12 school for 440 students in St. Anthony, at a cost of \$18.7 million.

The school will be:

- 5,610 square metres;
- constructed to LEED (Leadership in Energy and Environmental Design) standards;
- the home for a gymnasium and fitness centre, a commercial kitchen and lunchroom, a skilled trades suite, computer, music and home economics rooms, a resource centre, and a student support services suite; and,
- wired for the latest technologies in all instructional areas.

The annual federal debt service charges of \$33 billion prevents 1764 of these schools from being built across Canada every year.

What the federal government should do

The federal government should:

1. take more aggressive measures to return Canada's books back to a surplus position, particularly eliminating structural costs from government; and,
2. restrict growth in government expenditures to inflation rates based on what is happening in the overall economy (government's economic base).

Questions

- How will your government remove and/or lessen growing structural costs within government?
- What criteria will your government use to determine which costs get removed and which costs are simply lessened?
- What specific percentage of your plan to return to balanced budgets is based on economic growth? What specific percentage is based on government cost controls? What percentage is based on elimination of programs, services and employment?