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Op-ed: International edge no excuse for budgetary complacency

By Warren Lovely

In a few hours from now, Canada's Deputy Prime Minister and Finance Minister Freeland will stand in the House of Commons to (finally) unveil the 2024 federal budget. Many of the budget's key measures are already known, as the minority Liberals—languishing in the polls—flipped the traditional budgetary script. Rather than the customary approach of presenting the budget in March, this vital fiscal blueprint was pushed back, buying time for the Prime Minister and Company to pre-announce a raft of fiscal goodies/measures. It appears as a deliberate attempt to wrestle back some control of the political narrative. Pollsters (and ultimately voters) will tell us how successful this budget release strategy is. But we digress...

Notwithstanding its delayed nature, the budget will most certainly devote a section to Canada's apparent fiscal advantage. On this front, it's common practice to cite the nation's general government net debt edge vs. G7 peers. Conveniently, in the immediate lead-up to the federal budget, the IMF offered us a fresh international comparison. As the IMF's just-released [World Economic Outlook](#) makes clear, Canada does indeed possess a relative fiscal edge vs. many advanced peers. That takes the form of a relatively stronger structural budget balance, more modest borrowing and perhaps most striking of all, a considerably lower net debt burden.

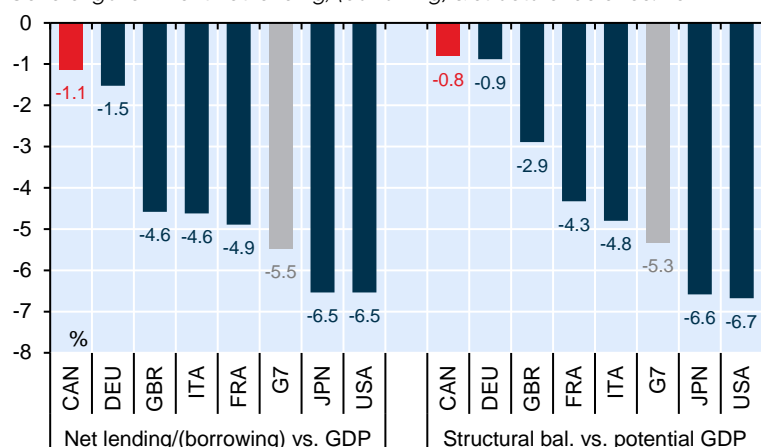
But let's make a couple things clear. Canada's fiscal edge is nothing new; it pre-dates this federal government. In a sense, the Liberals inherited a vastly superior budgetary position. Given the earlier sacrifices involved in securing fiscal sustainability, current and future federal governments should be duty-bound to ensure such an edge is not squandered.

True, a federal shortfall in the neighbourhood of 1½% of GDP may not look egregious. Simply look south of the border if you really want to see a more dangerous fiscal track. But this federal government has clearly been less focused on debt containment, failing to balance the books even as the economy earlier attained full employment.

As things stand, favourable international comparisons may be providing a bit of smoke screen to mask genuinely debatable policy

Chart 1: A relatively better balance in Canada now...

General government net lending/(borrowing) & structural balance: 2024



Source: NBF, IMF (WEO Apr-24)

choices. We're talking about the need for marginal spending/investment to accommodate what has been genuinely disruptive immigration policy. One could reasonably argue that the feds invited in too many people, too fast... certainly more than the housing stock could reasonably absorb, to say nothing of related strains on local/regional government infrastructure. These pressures will take time to fully normalize.

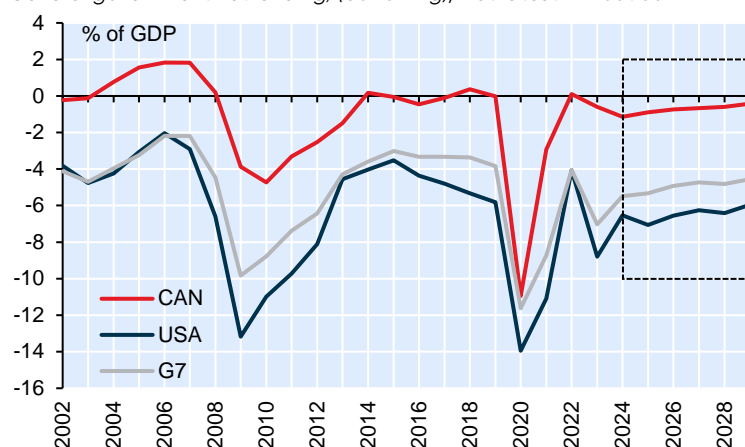
Meanwhile, having inflated the size of government and placed federal spending on a structurally higher plane, new revenue appears to be needed. We await final details in the budget, but it seems the approach favoured in Ottawa is to tax the wealthy and those sectors earning 'excess' profits. For a country already inflicted with capital flight and saddled with a large and growing productivity gap vs. key competitors, it's not clear that an enlarged tax burden will bolster the nation's long-term standard of living.

Finally, a word on that uber-impressive general government net debt edge vs. the G7. If you're familiar with Canada's fiscal history, you may know that an important part of that net debt edge owes to much earlier reforms of the nation's social security system. Those reforms, enacted in the 1990s, placed the CPP/QPP on an actuarially sound footing, with both plans continuing to accumulate a growing pool of financial assets. Make no mistake, this is a clear strategic advantage for Canada. But exclude those assets—which no government really has access to—and Canada's general government debt edge isn't nearly as impressive... not that you're likely to hear such an admission from any federal cabinet minister.

So let's keep the fiscal bragging to a minimum shall we. Seemingly favourable international comparisons should be no excuse for budgetary complacency. Really, it might have been better to have focused on an efficient model of government, one that avoids adding to a lingering inflation threat and one that puts off potentially distortionary taxes that risk discouraging needed investment. The ship may have sailed on Budget 2024 but there's always next year right?

Chart 2: ... and into the future

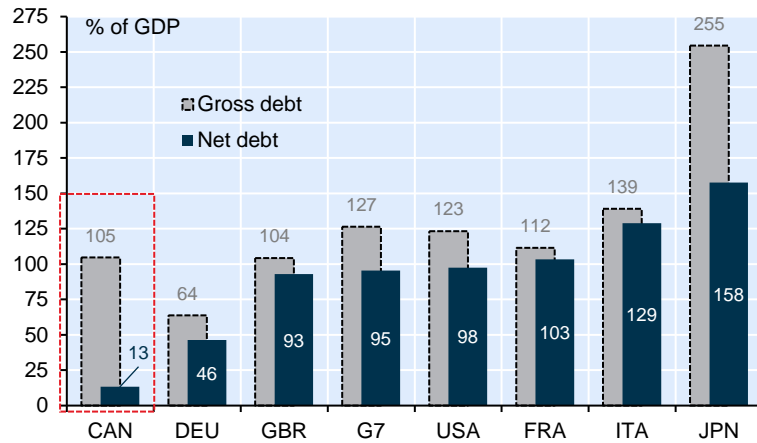
General government net lending/(borrowing), incl. latest IMF outlook



Source: NBF, IMF (WEO Apr-24)

Chart 3: Thanks in part to CPP/QPP, net debt edge is big...

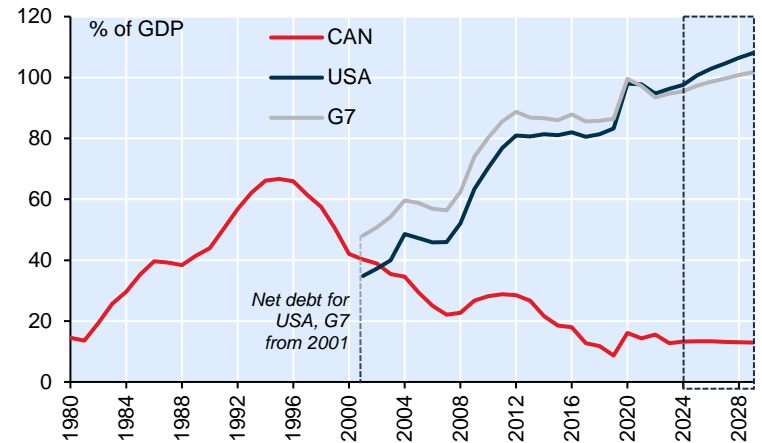
General government debt burden: 2024



Source: NBF, IMF (WEO Apr-24)

Chart 4: ... and only expected to grow vs. advanced peers

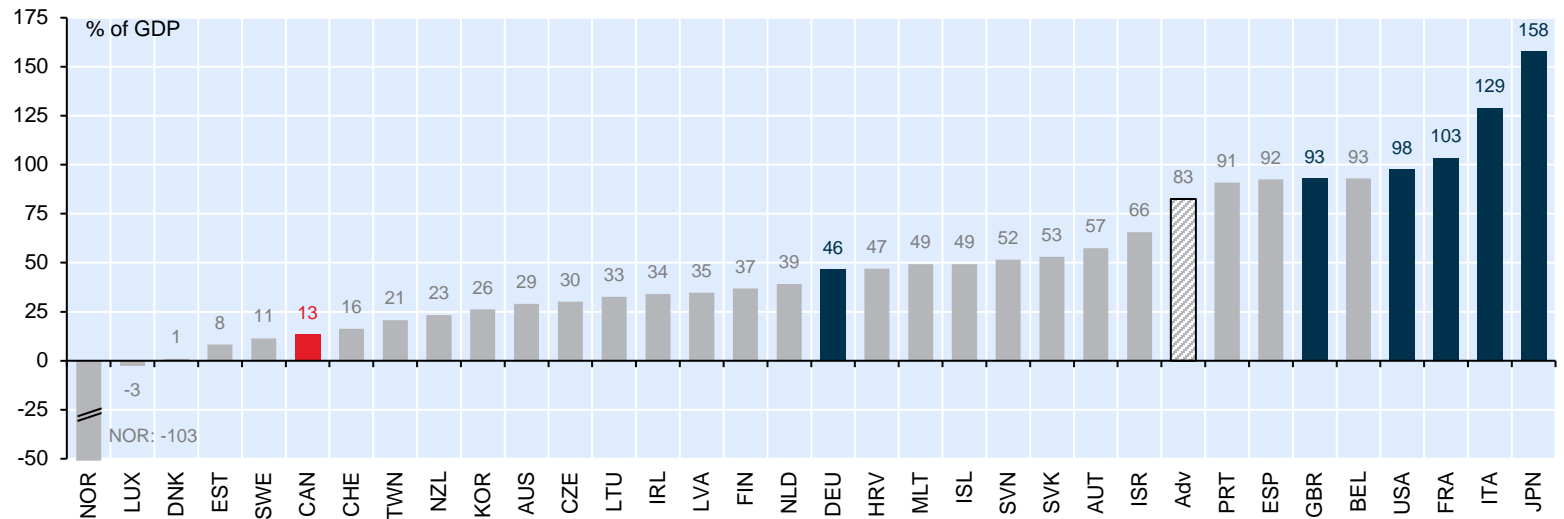
General government net debt burden, incl. latest IMF outlook



Source: NBF, IMF (WEO Apr-24)

Chart 5: Complete ranking of general government net debt burdens across advanced world (with Canada looking good)

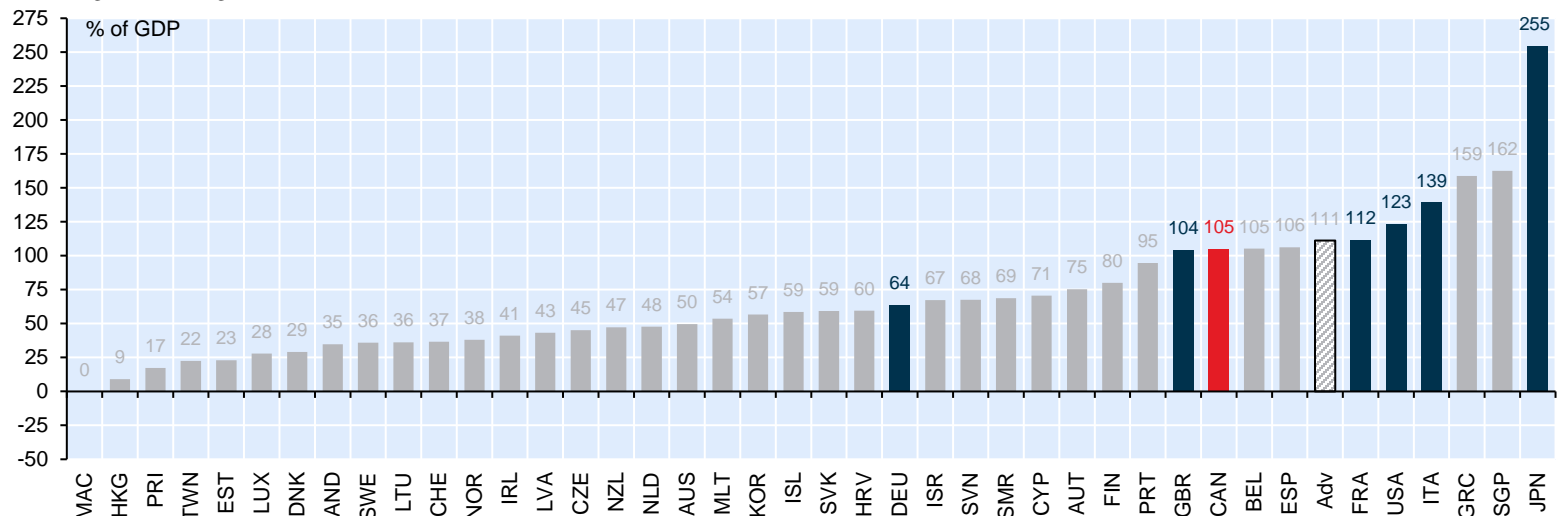
General government net debt burden: 2024 [IMF data available for 33 advanced nations]



Source: NBF, IMF (WEO Apr-24) | Note on shading: CAN shown in red, other G7 nations shown in blue; advanced economy is weighted average

Chart 6: ... and the corresponding tally of gross debt burdens (where Canada's edge is far less striking)

General government gross debt burden: 2024 [IMF data available for 41 advanced nations]



Source: NBF, IMF (WEO Apr-24) | Note on shading: CAN shown in red, other G7 nations shown in blue; advanced economy is weighted average



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