Streamline Size of Government

Issue

There is a relationship between the size of government and economic growth. While government spending is needed, there are studies that have shown that when government grows beyond a certain size it can hinder economic growth and lead to lower living standards for citizens.

Background

There are a variety of methods that size of government is measured. One method is per person spending. Another is to compare government spending as a percentage of GDP, while also factoring in measures for tax expenditures and regulation[1]. These measures have shown that the size of our federal government has grown more in the 2018-19 fiscal year than ever in the history of Canada.[2]

While events such as wars and the introduction of federal social programs have seen the per person figure increase for obvious reasons, in the fiscal year of 2018-19, the federal government spent more money per person in program spending than ever before, including the Second World War and the more recent Great Recession. Adjusted for inflation, per person spending reached $8,869, more than the previous all-time high record, with no related historic event like a war or economic recession to account for such an elevated amount.[3]

Using the second measure of calculating size of government, comparing government spending with the size of the economy, the share of the economy has risen by 14.6 percent which means that the government spends a little more than 40 per cent of GDP. When tax expenditures and price regulation is added to this calculation the size of government increases to an alarming 64 per cent of GDP.[4] Research shows that the optimal size of government is between 26 to 30 per cent of GDP after which economic growth rates decline.[5]

While the growth of the size of government 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 size of government and its related spending had seriously impeded the growth of the economy and put Canadian's prosperity at risk. 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 which was implemented over five years. This program review rejected the concept of across the board cuts and a view 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 wasn't about "what to cut" but more about "what to preserve" in order to put the country on a footing that would allow it to prosper in the future while using methods of fiscal restraint.

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

1. Does the program or activity continue to serve a 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 federal 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?

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

[2] Fraser Institute Blog – Size of Government Matters: https://www.fraserinstitute.org/blogs/size-of-government-matters

[3] Fraser Institute Blog – Size of Government Matters: https://www.fraserinstitute.org/blogs/size-of-government-matters

[4] Macdonald Laurier Institute – Estimating the True Size of Government: https://www.macdonaldlaurier.ca/size-of-government-in-canada/

[5] Fraser Institute – Measuring Government in the 21st Century : https://www.fraserinstitute.org/sites/default/files/measuring-government-in-the-21st-century.pdf

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 savings.[6] In addition, this process ensured that the federal government used only the resources it needed in order to deliver on services that were strictly the purview of the government. 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 dramatically.[7]

The rationale behind having a government that is scaled properly to deliver essential services is not just one borne from a budgetary stand point. 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 is dependent on how its resources are allocated and the ability to absorb temporary budgetary increases if needed can help weather economic head winds.

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[8] 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[9]. The recommendations laid out in this report mirror the 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.

Another essential step in the road to streamlining government will require serious tax reform. Currently, our tax system is a culmination of a disjointed tax code that has been the product of successive governments making adjustments, additions and cuts based more on election promises rather than a clear vision or strategy. Recommendations, set out by Canadian Chamber in its report 50 Years of Cutting and Pasting: Modernizing Canada's Tax System[10], stress the need for a comprehensive reform of our tax system. By using the same mindset set forth with a program review and regulatory reform, a modernized tax system would allow for competitiveness, simplicity, fairness and neutrality and support Canadians in their pursuit of prosperity.

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 a federal budget that is balanced which will then set a solid foundation allowing for a re-visioning of size of government. Canada needs to ensure that it is set on a firm fiscal footing in order to allow for flexibility should market forces beyond its control create an economic downturn and stimulus spending is needed come to the aid of struggling Canadians. It is not only good fiscal policy but responsible governing to create a safe cushion for the country.

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[6] Institute for Government – Program Review: The Government of Canada's experience eliminating the deficit, 1995-99: a Canadian Case Study: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Program%20Review.pdf

[7] Fraser Institute – Proper Size of Government: https://www.fraserinstitute.org/article/proper-size-government

[8] Institute for Government – Program Review: The Government of Canada's experience eliminating the deficit, 1995-99: a Canadian Case Study: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Program%20Review.pdfhttps://www.instituteforgovernment.org.uk/sites/default/files/publications/Program%20Review.pdf

[9] Canadian Chamber of Commerce - Death by 130,000 Cuts – Improving Canada's Regulatory Competitiveness: http://chamber.ca/media/blog/180703-in-discussion-death-by-130000-cuts/180620DeathBy130000Cuts.pdf

[10] Canadian Chamber of Commerce – 50 Years of Cutting and Pasting: Modernizing Canada's Tax System: http://www.chamber.ca/download.aspx?t=0&pid=fb9a4d42-d42e-e911-9d4c-005056a00b05

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 Program Review of all ministries based on a set of criteria that looks at what role is appropriate for the federal government and looks at possibilities to realign programs with provincial and private or voluntary sectors.
2. Commit to comprehensive regulatory reform based on cost-benefit analysis and a focus on economic competitiveness.
3. Commit to serious tax reform with an overarching vision and strategy focused on competitiveness, simplicity, fairness and neutrality.
4. Pursue a path to a balanced budget in order to ensure fiscal flexibility.
5. Set and maintain a target of total government spending as a share of GDP at 26 to 30 per cent.