

NEWS RELEASE

Current and projected fiscal policies of Canadian governments are unsustainable; will impose costs on Canadians and the economy

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For immediate release

VANCOUVER—The current and projected taxing, spending, and borrowing policies, broadly referred to as the fiscal policies of governments (federal and provincial) are unsustainable, with debt expected to rise relative to the size of the economy in the coming decades, finds a new study by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“There has been skepticism in the past about binding governments to clear fiscal rules, however research shows that governments adopting such rules have stronger fiscal positions and more stable policies than those that don’t,” said Jake Fuss, associate director of fiscal studies at the Fraser Institute and co-author of *An Evaluation of Three Alternative Fiscal Anchors for Canada*.

The study is an evaluation of three fiscal anchors (i.e. rules) that Canadian governments could adopt: (1) a debt reduction target, (2) a ceiling on the ratio of interest payments to revenues, and (3) a balanced budget rule. Balancing budgets could be achieved under this rule by either spending restraint or tax increases.

The study finds that balancing the budget (excluding interest costs) through spending restraint is the best fiscal rule for Canadian governments to adopt. Such a fiscal rule has a number of benefits:

- **Sustainability for future generations:** Better fiscal policies now mean less of a debt burden for young Canadians in the future.
- **Better economic growth:** Deficit-financed spending by governments crowd out private sector investment and activity that would otherwise occur, harming economic growth.
- **Allows more household spending:** When governments balance their budgets through spending restraint, it leaves more money for households.

“Canadian governments should adopt clear fiscal rules as soon as possible to return Canadian government finances to sustainability,” commented Bev Dahlby, senior fellow with the Fraser Institute and co-author.

Another important benefit of clear fiscal rules is the certainty it creates in the economy. Uncertainty adversely impacts business investment and entrepreneurship, making improving the level of certainty in the Canadian economy key to its recovery.

The study finds that adopting fiscal rules with a clear commitment to sustainable fiscal policies helps reduce economic uncertainty.

“The evidence is clear—policymakers across the country would be wise to re-examine their fiscal policies to better promote long-term fiscal sustainability for future Canadians,” said Ergete Ferede, also a senior fellow with the Fraser Institute, and study co-author.

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