

Intelligence MEMOS



From: William Robson, Colin Busby and Nick Dahir
To: Canadian Economic Observers
Date: December 23, 2024
Re: **IT'S TIME TO END THE CIRCUS OF FALL ECONOMIC STATEMENTS**

Chrystia Freeland's resignation on the day she was to deliver the federal government's fall economic statement made the 2024 statement more of a circus than usual.

But the fact that fall statements have become such a spectacle – effectively putting the government on a two-budget-per-year cycle – is a problem in its own right, not just because it was the denouement of a showdown between the finance minister and the Prime Minister. These fall minibudgets add uncertainty and ratchet up spending and borrowing at the expense of steady, prudent fiscal policy.

The fiscal year of Canada's senior governments runs from April 1 to March 31. The budgets presented at the start of the fiscal year – ideally well before then – are key statements of priorities, showing planned revenues and expenses and the projected surplus or deficit, as well as providing draft legislation for tax changes and other key measures. They have long garnered attention for their economic importance – and because Parliament deals with many budget measures with votes of confidence, which can bring a government down.

Traditionally, fall statements were updates, showing performance relative to budget plans and the implications for the fiscal year. Over time, however, a vicious cycle of governments pushing announceables combined with demands for constant action among much of the media and the public have made them more like budgets, complete with new spending and tax measures and a whole new fiscal framework.

The troubling dynamic of this two-budget-a-year cycle is evident in how projected federal spending has grown since 2021 (see Figure). That year's budget projected federal spending at \$447 billion in 2023/24, the fiscal year that ended March 31, and \$454 billion in 2024/25, the year now under way. The 2021 fall statement projected spending of \$458 billion in 2023/24 and \$465 billion in 2024/25 – jumps of \$10-billion-plus in only half a year.

The 2022 budget showed yet more spending: \$469 billion in 2023/24 and \$479 billion in 2024/25. By the time of the 2022 fall statement, spending had jumped again – to \$493 billion in 2023/24 and \$505 billion in 2024/25.

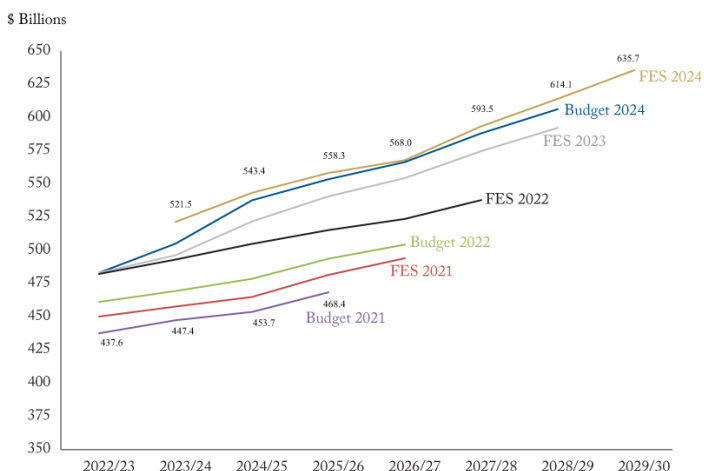
This pattern of \$10-billion-plus jumps every six months has continued to the present. The 2024 fall statement revealed that spending in 2023/24 was \$522 billion, and projects spending for 2024/25 at \$543 billion. These amounts, allowing for rounding, are \$74 billion and \$90 billion above the figures presented in the 2021 federal budget.

What would have happened if the government had stuck to its targets of program spending for 2024/25 laid out in Budget 2021? Even under the pessimistic assumption that debt charges rose to today's levels, the 2024 fall statement would have projected, not the \$48 billion deficit it actually did, but a \$42 billion surplus. That would have given Canada the fiscal dry powder the departed finance minister said we need to face the uncertainty and potential trade wars looming under the incoming president of the United States.

Treating fall economic statements as midyear reviews on budget targets and priorities would not prevent the government from changing direction in the face of surprises. But it would dampen the cycle of hype and expectations that induces governments to shift priorities. It would also reduce the pressure on our public finances and limit the uncertainties that undermine the confidence of Canadian households and businesses about the country's economic future.

The annual budget should be the cornerstone document of a government's fiscal and economic plans and priorities. The fall statement should be a midyear update that shows progress relative to plans – and reinforces, rather than undermines, confidence in the government's fiscal management.

Figure: Spending Ratchets Upward for Spring Budget and Fall Economic Statement



To anyone arguing that a fall economic statement is an opportunity for tax doodles and spending gimmicks – and that governments cannot, or even should not, resist that opportunity – the 2024 federal update is a sobering lesson. The pressure to stage a bigger and better show twice a year has led to a fiscal and political debacle.

Sticking to budgeted spending targets and reducing in-year initiatives to spend may seem dull in the short run, but the circus of current federal fiscal policy has left us more heavily taxed and indebted than we should be and less ready to face challenges within our borders and from the United States and the wider world. Canada needs one federal budget before the fiscal year begins – and devotion to delivering its targets and priorities during the following 12 months.

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