

# Spending Growth Is the Cause of BC's Coming Debt Boom



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**\$21.3  
BILLION**

Increase in debt  
(2025/26) based  
on previous growth  
in spending and  
borrowing

**\$97.2  
BILLION**

Actual expected  
increase in debt  
(2025/26)

## Summary

- In early 2023, the Fraser Institute analyzed recent fiscal policy changes in British Columbia. Specifically, we showed that after an extended period of spending restraint between 2000 and 2017, BC's approach to government spending shifted markedly and the rate of spending growth increased dramatically.
- This bulletin updates that analysis to assess the extent to which BC's elevated spending has persisted in the years during and following the COVID-19 recession. Further, we examine the extent to which changes in the government's approach to public spending have influenced fiscal outcomes in the province.
- We find the shift in the government's approach to public spending has been ongoing and durable. Following the 2000 to 2017 spending restraint years during which real per-person spending growth increased at a compound annual growth rate of 0.5 percent annually, a new fiscal era began in 2017. Since then, real per-person spending has increased at a compound annual growth rate of 4.7 percent.
- The change in the government's approach to public expenditures has profound implications for the province's fiscal outlook. The provincial debt-to-GDP ratio is currently forecasted to reach 22.5 percent of GDP by 2025/26. If the government had maintained the spending growth rate from the restraint era, this ratio would be trending down instead of up and would have reached 4.9 percent of GDP that year.
- The change in the government's approach to spending appears to be enduring. Higher spending growth has transformed the trajectory of the province's finances; the planned increase in debt in the coming years could have been avoided had the spending restraints continued following the change in government in 2017.

## Introduction

In early 2023, the Fraser Institute published an analysis of recent fiscal policy changes in British Columbia. Specifically, we showed that after an extended period of spending restraint that ran from 2000 to 2017, BC's approach to government spending shifted markedly and the rate of spending growth increased dramatically. We showed that this change in spending growth predated the COVID-19 pandemic and the spending related to that event.

This bulletin updates our earlier analysis to assess the extent to which BC's elevated spending has persisted in the years during and following the recession that accompanied the COVID-19 pandemic. Further, we examine the extent to which recent changes in the government's approach to public spending have affected the province's fiscal outcomes and the extent to which those changes have contributed to the government's 2023/24 budget projection of a large increase in government debt in the years ahead (British Columbia, 2023).

We conclude that the government's change in its approach to government spending has been ongoing and durable. After extending our analysis and removing COVID-19 spending from that analysis, we show that spending growth has been significantly higher since 2017 than it was during the restraint era of 2000 to 2017. Further, we conclude that this spending growth is a major contributing factor to the large increase in debt projected in the years ahead.

## Comparing spending growth in the restraint era (2000-2017) to 2017-2022

Sometimes changes of government in Canada bring major changes in fiscal policy. For example, during

the 1990s, the election of Mike Harris' Progressive Conservative Party marked the start of a major shift in fiscal policy orientation away from Bob Rae's predecessor NDP government (Clemens, Palacios, and Veldhuis, 2017). At other times, changes in government do not lead to significant fiscal policy changes or, more specifically, changes in the trajectory of government spending. In another example from Ontario, Doug Ford's Progressive Conservative Party has pursued a similar approach to government spending as its immediate Liberal predecessor (Eisen, 2021).

In a Fraser Institute study published early in 2023 (Eisen and Emes, 2023), we showed that the change in government in British Columbia in 2017 was an example of the former; the new government fundamentally shifted its approach to government spending from that which had prevailed under its predecessors. Specifically, during the restraint era from 2000 to 2017 inflation-adjusted (\$2020) per-person program spending increased at an average annual rate of 0.5 percent. From 2017 to 2019, inflation-adjusted annual per-person program spending ballooned to 4.7 percent.

We ended our earlier analysis at 2019 to avoid distortions arising from increased and potentially temporary spending driven by government response to the COVID-19 pandemic and associated recession. However, now that COVID spending has largely wound down and the 2021/22 fiscal results and projections in the government's recent budget are available, we can use the updated data to assess the extent to which more recent developments support our previous finding that there has been a major shift in government spending from the restraint era.

Indeed, we find that spending growth in British Columbia has continued to increase since 2019, further confirming our finding of a major shift in the

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government's approach to public spending following the change of government in 2017.

Specifically, we find that from 2016/17 to 2021/22, excluding COVID-related spending, real (\$2020) provincial government program spending<sup>1</sup> per person increased by 25.9 percent. By comparison, over the entire restraint era from fiscal year 1999/00 to 2016/17, real (\$2020) spending per person increased by just 8.4 percent. In 1999/00, real per-person spending stood at \$8,808; in 2016/17, it was \$9,549. On the eve of the COVID-19 pandemic in 2019/20, real per-person spending was \$10,751. In 2021/22, the final year of our analysis, real per-person spending was \$12,025, after removing COVID-19 spending.

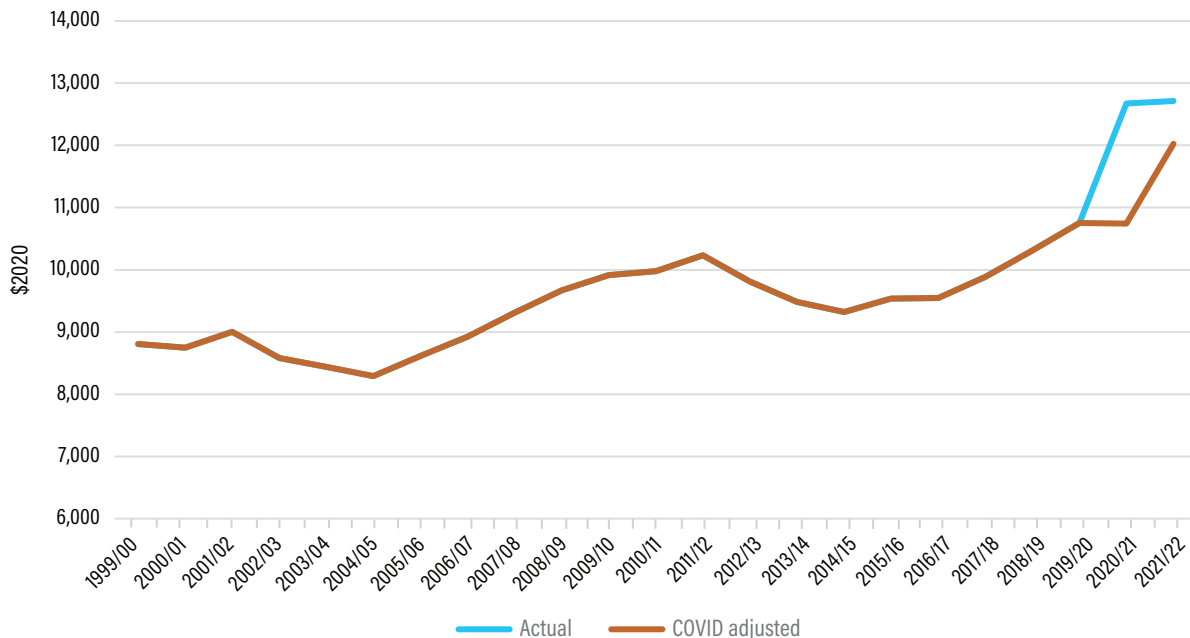
Figure 1 shows the evolution of real per-person spending since 1999/00. Over that three-year

period, aggregate real per-person program spending increased more than it had over the entire 17-year restraint period.

Annualizing the growth rates above provides context. As noted, our previous study showed that from 2000 to 2017, spending increased at a compound annual growth rate (CAGR) of 0.5 percent. Since 2016/17, we find that program spending in BC has increased at a CAGR of 4.7 percent.

Another way to provide context is to compare the dollar growth in inflation-adjusted per-person spending over this time. During the restraint era, real per-person spending increased by an average of \$44 per year. Since 2017, this rate of growth has averaged \$495 per year excluding COVID-related spending.

Figure 1: Inflation-Adjusted Per-Person Program Spending, 1999/2000–2021/22



Sources: Finances of the Nation (2023); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01; British Columbia (2022a); (2022b); (2023).

1 Program spending refers to all operating spending other than debt service. Unless otherwise noted, in the remainder of the paper we refer to program spending simply as “spending” for brevity.

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In this section, we update the analysis from our recent paper with more recent data to assess the extent to which the major shift in the BC government's approach to public spending that began in 2017 is still occurring. We find that it is. Following a lengthy period of spending restraint from 2000 to 2017 during which real per-person spending growth increased at a CAGR of 0.5 percent annually, a new fiscal era began in 2017 since which real per person spending has increased at a CAGR of 4.7 percent.

## The impact of BC's spending growth on fiscal outcomes

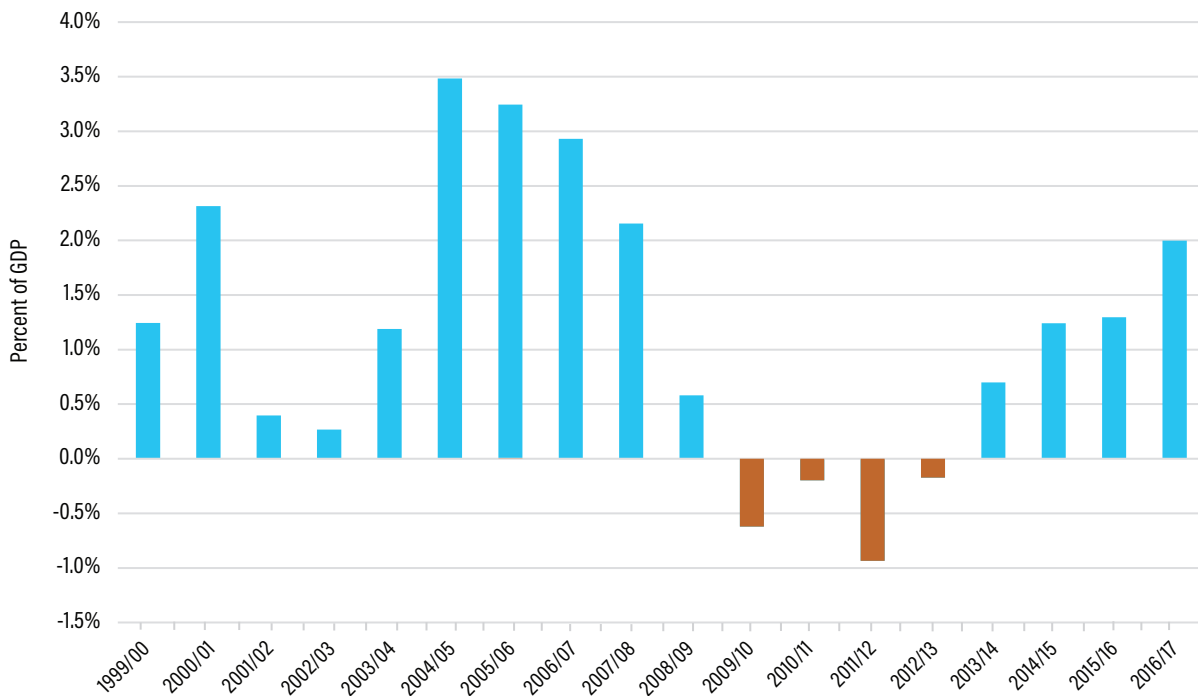
In this section, we assess the extent to which British Columbia's recent spending growth has influenced fiscal outcomes to date as well as the government's

projection for the large debt increases in the years ahead.

We begin with a brief review of British Columbia's fiscal outcomes during the restraint era. From fiscal year 1999/00 to 2016/17, British Columbia ran primary surpluses in 14 of those years, and primary deficits in just four, all in the years during and immediately following a global financial crisis.<sup>2</sup> By way of comparison, Alberta—which began the period in a much stronger fiscal position than BC both with respect to its annual fiscal balance and its debt burden—ran six primary deficits during this time.

Largely as a result of its restrained spending and routine surpluses, British Columbia's fiscal position headed in a different trajectory from that of many other provinces. Specifically, the ratio of British

Figure 2: Primary Surplus or Deficit as a Percent of GDP



Sources: Finances of the Nation (2023); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01; Statistics Canada, Table 36-10-0222-01; British Columbia (2022a); (2022b); (2023).

2 The primary fiscal balance is the balance of the operating budget excluding debt interest payments.

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Columbia's net debt (total debt minus financial assets) to GDP fell from 18.4 percent in 1999/00 to 14.4 percent in 2016/17, an improvement of 4.1 percentage points. By comparison, Alberta's net debt-to-GDP ratio deteriorated by 1.2 percentage points in the same period. Ontario's net debt-to-GDP ratio deteriorated even further—by 7.4 percentage points. As a group, provincial governments saw their net debt-to-GDP ratio deteriorate by 2.1 percentage points. These data show that during BC's restraint era, its debt trajectory was directionally different from other provinces that did not exercise similar spending restraint.

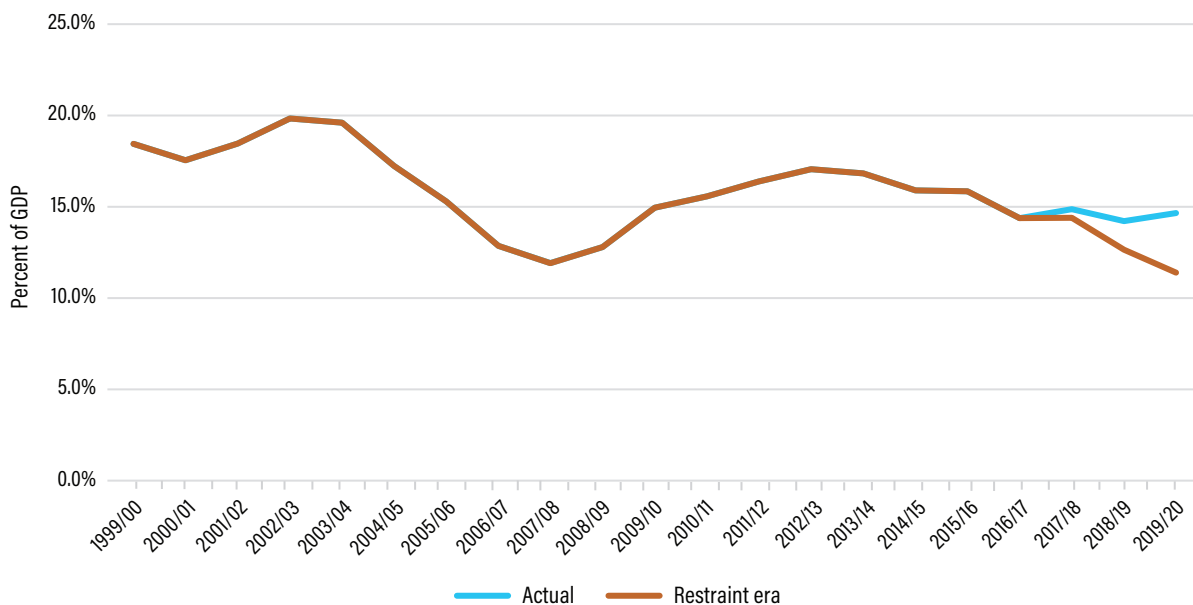
A consideration of the province's forecasted debt-to-GDP trajectory illustrates how the shift in the government's approach to public spending in

recent years has and will continue to influence fiscal outcomes.

In the years following the 2008/09 recession, British Columbia's debt-to-GDP ratio increased to 17.1 percent in 2012/13, but then fell to 14.4 percent in 2016/17.<sup>3</sup> Following the shift in government spending policy, the decline in the debt-to-GDP ratio stopped. By 2019/20, the final year prior to the pandemic, the province's debt-to-GDP ratio stood at 14.7 percent. It's important to reiterate that this change in the trajectory of the province's balance sheet occurred before the onset of the COVID-19 pandemic.

Developments since 2020 are somewhat more complicated to analyze because of the COVID-19 pandemic and its effect on government revenues and

Figure 3: Debt-to-GDP, Actual and Compared to Restraint Era, 2000 to 2020



Sources: Finances of the Nation (2023); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01; Statistics Canada, Table 36-10-0222-01; British Columbia (2022a); (2022b); (2023).

3 We use the “net debt” series from Finances of the Nation for 1999/00 through 2020/21 and “net liabilities” from BC’s 2023 budget for other years. There are only trivial differences between the two series in the overlapping years.

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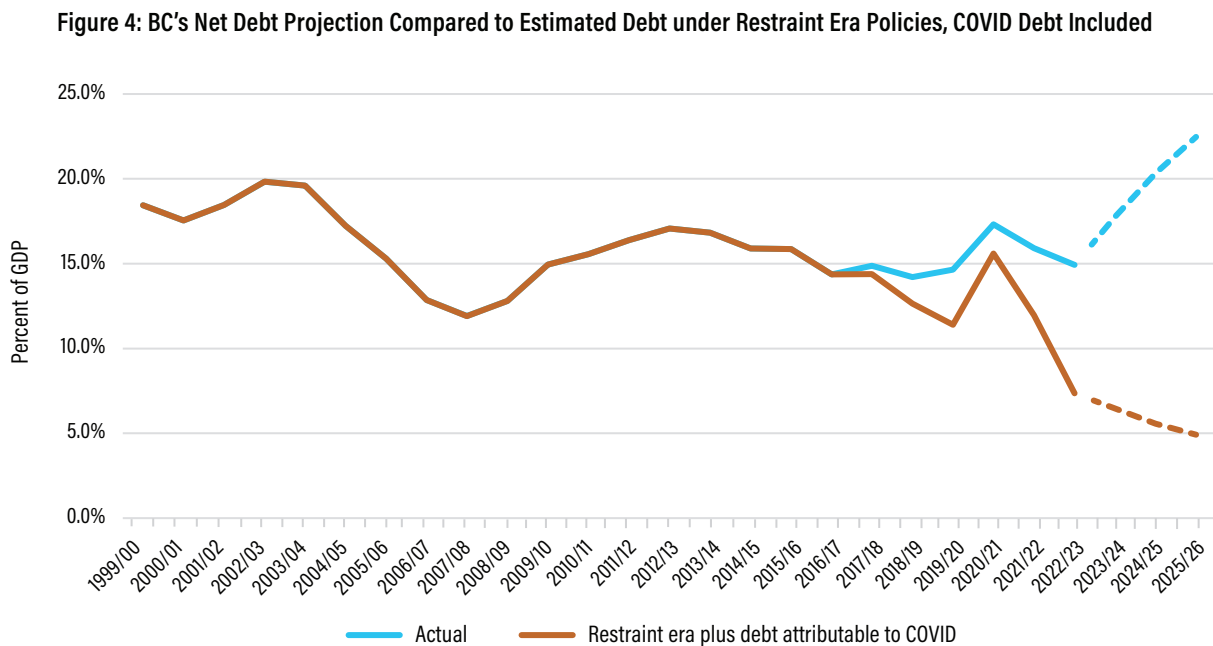
expenditures. Nevertheless, the available data do permit some analysis of how the change in the government's approach to public spending has shaped fiscal outcomes in more recent years.

As figure 3 shows, prior to the pandemic the government's new approach to spending was already influencing the province's fiscal position. As the alternative line in figure 3 shows, if the government had continued with the rate of spending growth that prevailed during the restraint era, by 2019/20 the debt-to-GDP ratio, which would have continued to decline, would have stood at 11.4 percent.<sup>4</sup> This means that had the government maintained the rate of spending growth from the restraint era over the three years predating COVID-19, the province would have entered the pandemic

and associated recession with a meaningfully lower debt-to-GDP ratio.

Figure 4 extends the time series shown in figure 3 to include the government's projected fiscal plan from its most recent budget. As it shows, British Columbia forecasts its debt-to-GDP ratio will climb to 22.5 percent by 2025/26.

Under an alternative scenario with identical revenue growth but with expenditures held to the same rate of growth as during the restraint era, British Columbia's fiscal trajectory would be completely different. We included debt that could reasonably be attributed to COVID spending to the restraint era line to make the comparison as reasonable as possible. In this scenario, by 2025/26, the final year of the government's current fiscal plan, the province's



Sources: Finances of the Nation (2023); Statistics Canada, Table 17-10-0009-01; Statistics Canada, Table 18-10-0004-01; Statistics Canada, Table 36-10-0222-01; British Columbia (2022a); (2022b); (2023).

4 The alternative line in figure 3 is adjusted according to the spending pattern from the restraint period. Specifically, we grow 2016/17 real per capita spending by the 0.5 percent CAGR observed during the restraint period through to 2019/20, determine the annual differences between adjusted and actual spending, and reduce debt by these annual differences.

debt-to-GDP ratio would be just 4.9 percent. Instead of rising in future years, the province's debt burden relative to the size of the provincial economy would shrink.

The change in the government's approach to public expenditures has profound implications for the province's future fiscal outlook. If BC's government maintained the restrained approach to government spending that prevailed from 2000 to 2017, assuming the same level of revenue as shown under the government's current fiscal plan, BC would be on track to significantly lower rather than increase its debt burden relative to the size of the provincial economy.

## Conclusion

In an earlier paper, we showed that, starting in 2017/18, British Columbia's provincial government fundamentally reoriented its approach to government expenditures. After a prolonged period of spending restraint that ran from 2000 to 2017, BC's government dramatically increased its rate of spending growth in the three years prior to the COVID-19 pandemic.

This paper updates that analysis, showing that the shift in the government's approach to spending has been on-going and consistent. From 1999/00

to 2016/17, BC's compound annual growth rate in program spending was 0.5 percent; from 2016/17 to 2021/22, the compound annual growth rate in program spending has increased to 4.7 percent.

Further, this bulletin has shown that the government's change in its approach to spending has and will continue to have a profound impact on the province's future fiscal outcome.

Specifically, we showed that assuming the same revenue levels, if the government had maintained the rate of spending growth from the restraint era it would have entered the COVID-19 pandemic and recession with a meaningfully lower debt-to-GDP ratio than was the case. Further, we show that if the government maintained the rate of spending growth from the restraint era, by 2025/26 the provincial net debt would be reduced to 4.9 percent of GDP, even including the debt attributable to COVID. Instead, the province is on track to see its debt-to-GDP ratio increase to 22.5 percent.

Higher spending growth has transformed the trajectory of the province's finances, and the planned increase in debt in the years ahead would have been prevented if the era of spending restraint had been continued following the change in government in 2017/18.

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