

# NEWS RELEASE

## Continued government deficits jeopardize economic recovery

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For Immediate Release

**VANCOUVER**— As the height of the COVID-19 pandemic passes and temporary support programs wind down, governments in Canada should be moving aggressively towards balanced budgets and even surpluses to pay down debt rather than continuing to borrow, finds a new essay released by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

The study notes that the federal government recorded a \$327.7 billion deficit in 2020-21 and a deficit of \$113.8 billion in 2021-22. This is 27.8 per cent larger than the deficit incurred in the aftermath of the 2008-09 recession despite a strong recovery.

While there was some justification for emergency spending and deficits during 2020 and 2021, there is little or no justification for a \$52.8 billion deficit in 2022.

“Some people may think that deficits don’t matter since governments across Canada racked up so many before and during the COVID-19 pandemic, but there are significant long-term consequences, even if they’re not immediately visible today,” said Matthew Lau, an adjunct scholar with the Fraser Institute and author of *When is it Appropriate to Run Budget Deficits?*, an essay in a new series, *Do Budget Deficits Matter?*

The essay acknowledges that there are times when deficits are unavoidable for governments, such as during recessions and other economic shocks like the COVID-19 pandemic. During such times, unemployment rises, which increases government spending at the same time that government revenues fall, resulting in deficits. However, once the economy starts to recover, such as it is now in Canada, government spending should decline while revenues increase, allowing for balanced budgets and even surpluses. Continuing to run deficits during periods of recovery and growth can crowd out and compete with the private sector, which actually harms recovery and economic growth.

A second essay in the series authored by Professor Donald J. Boudreaux of George Mason University, *James M. Buchanan and the Political Economy of Debt Financing*, emphasizes lessons pioneered by Nobel-laureate economist James Buchanan on government deficits.

The essay explains how the burden of repaying government deficits of today falls on future generations of taxpayers, who will either have to pay higher taxes or forego other government programs in order to repay the debt.

Moreover, Boudreaux explains how Buchanan warned against deficits because of their corrosive effects on democracy in that the bills of today’s spending are passed onto the next generation who have no political voice or decision-making authority today.

“Buchanan’s warning on government deficits and debt was crystal clear: we spend other people’s money less wisely than we do our own, and that lesson still holds true today,” Boudreaux said.

“It is almost always politically advantageous to spend now and pay later, but doing so unfairly punishes future generations, and so governments should be restrained in how they spend other peoples’ money.”

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