
Policy Forum: Expenditures, Efficiency, and Distribution—Advice for Canada’s 43rd Parliament

Rob Gillezeau and Trevor Tombe*

PRÉCIS

Cet article examine les engagements de dépenses, individuellement et globalement, qui ont été pris par le Parti libéral du Canada lors de la 43^e élection fédérale canadienne en octobre 2019. Les auteurs indiquent quelles politiques proposées sont relativement efficaces dans leur conception ex ante, quelles politiques pourraient être modifiées pour améliorer les objectifs d’efficacité ou de répartition, et quelles politiques ont des bases politiques limitées. En général, ils soutiennent que le gouvernement devrait adopter une approche ciblée, en choisissant bien les mesures et en limitant le nombre de nouvelles initiatives simultanées. Ils concluent en indiquant quels domaines pourraient faire l’objet d’une collaboration avec les trois autres grands partis du 43^e Parlement, en particulier les possibilités d’améliorer les régimes de transferts aux provinces.

ABSTRACT

This article examines the expenditure commitments, individually and in aggregate, from the Liberal Party of Canada in the 43rd Canadian federal election in October 2019. The authors articulate which proposed policies are relatively efficient in their design ex ante, which could be adjusted to improve efficiency or distributional goals, and which have limited policy grounding. In general, they argue that government should take a focused approach to expenditures, both with respect to appropriately targeting measures and in limiting the number of simultaneous new initiatives. They conclude by indicating areas of potential cooperation with the other three major parties in the 43rd Parliament, with a particular emphasis on possibilities to improve provincial transfer regimes.

KEYWORDS: EXPENDITURES ■ FISCAL PLANNING ■ TRANSFERS ■ REVIEWS

* Rob Gillezeau is of the Department of Economics, University of Victoria (e-mail: gillezr@uvic.ca). Trevor Tombe is of the Department of Economics and the School of Public Policy, University of Calgary (e-mail: ttombe@ucalgary.ca).

CONTENTS

| | |
|--|----|
| Introduction | 50 |
| A Critical Perspective on LPC Policy Commitments | 52 |
| Aggregate Fiscal Track | 52 |
| Individual Transfers | 55 |
| Health Care | 57 |
| The Environment and Climate Change | 58 |
| Child Care | 60 |
| Housing | 60 |
| Other Expenditure Measures | 61 |
| Minority Party Expenditure Commitments | 62 |
| New Democratic Party | 62 |
| Bloc Québécois | 63 |
| Conservative Party of Canada | 64 |
| Recommendations for the New Parliament | 64 |
| Expenditures and Individual Transfers | 65 |
| Provincial Transfers | 65 |
| Efficient Public Spending | 66 |

INTRODUCTION

The 43rd federal general election in October 2019 left Canada with a fractured minority Parliament, in which the governing party—the Liberal Party of Canada (LPC)—was returned with the smallest share of the popular vote in Canadian history.¹ Despite this, Prime Minister Justin Trudeau has indicated that he will govern without a formal or informal arrangement with any of the opposition parties;² essentially, the government will operate in a manner similar to its majority predecessor, given the likelihood that it can find a supportive partner for most potential policies.³ And while governing involves choices that go beyond platform commitments—which will be unavoidable as unexpected events unfold or administrative and implementation challenges appear—exploring those commitments is valuable.

1 The 43rd Parliament is unique in its divisions with respect to the popular vote. Prior to the 33.07 percent received by the LPC in the 2019 election, the lowest share of the popular vote for the governing party was 35.9 percent for Joe Clark's Progressive Conservatives in 1979. The first- and second-place finishers in 2019, in total, also received a historically small share of the vote. See Parliament of Canada, "Elections and Ridings" (https://lop.parl.ca/sites/ParlInfo/default/en_CA/ElectionsRidings).

2 Kathleen Harris, "Trudeau Rules Out Coalition, Promises Gender Equity in New Cabinet," *CBC News*, October 23, 2019 (www.cbc.ca/news/politics/trudeau-liberal-minority-government-2019-1.5331926).

3 With each of the Conservative Party of Canada (CPC), the New Democratic Party (NDP), and the Bloc Québécois (BQ) holding sufficient seats to independently ensure the survival of the government, there is a broad range of policy spaces in which they could feasibly operate while maintaining support.

To that end, we consider the policy agenda that the LPC offered in the 2019 election and offer suggestions as to how the values articulated by the governing party, and supported by Canadian voters across the political spectrum, may be most effectively and efficiently realized. This is a particularly useful task because electoral platforms, even with their increasing technical complexity, largely remain signals of values rather than providing specific policy prescriptions.⁴

We begin with an overview of the spending path proposed by the new government and provide important historical context. We then consider major spending proposals across a range of areas, relating them to the broader economic literature and the historical context, and suggest how they may be improved. Given the size and scope of individual transfer programs, we start with the proposals in this area laid out during the campaign. Fully one-third of promised spending increases are found in an enlarged old age security (OAS) benefit and Canada child benefit (CCB)—specifically, a 10 percent increase to OAS for individuals over the age of 75 and a 15 percent increase to the CCB for parents of newborns. We argue that while most of the proposed transfers are reasonable, addressing poverty for those over 75 through OAS is not ideal. Rather, much more could be done through targeted measures, such as a substantially expanded guaranteed income supplement (GIS), for the same aggregate cost.

We then move on to exploring a number of direct program expenditure proposals, including health care, the environment and climate change, housing, child care, and other measures. While there are many important details yet to be determined, we highlight several concerns and principles, including the desirability of focusing resources on a small number of programs, the need for piloting otherwise untested policy measures, and—an overarching consideration relevant for many of these programs—appropriate federal-provincial cooperation given the jurisdictional-fiscal divide. Regarding the latter, we argue that it is reasonable for the federal government to be involved if there are potential spillovers from an area of public spending, if there are economies of scale that cannot be fully realized at the provincial level, if harmonization enhances national-level efficiency, or if an area is already one of joint federal-provincial jurisdiction in practice.⁵

Finally, we extend this discussion to areas of viable compromise with potential minority partners, spanning a range of fiscal options, and conclude with a set of selected recommendations for the new government. We argue that the government should be highly focused in its decisions on new expenditures or revenue reductions,

4 This is not to understate the scale of the transformation to platforms with more policy content; most major parties now include viable fiscal plans in their campaign materials. Further, the introduction of high-quality costing services through the Office of the Parliamentary Budget Officer (PBO) should further the shift from values articulation to concrete, well-defined policy proposals.

5 While not necessarily ideal, federal interventions in growth-enhancing areas that may help to relieve the federal-provincial fiscal imbalance are also reasonable in our opinion.

choosing a focus on “affordability,” service provision, or strengthening the fiscal position of the federation. We argue that it is particularly important for the new government to begin to address the large and growing fiscal challenges of provincial governments.⁶ The federal government can help to mitigate some of this pressure by increasing the growth in health-related transfers, for example. Another option—which may be adopted in lieu of or as a complement to expanded health transfers—is direct federal spending on various health-care measures; in particular, multiple parties and the federal government have clearly signalled their commitment to pharmacare and, potentially, government-funded national dental care. We conclude by noting the appropriateness of a program review to provide additional fiscal space to meet priorities and offer some recommendations as to its approach.

A CRITICAL PERSPECTIVE ON LPC POLICY COMMITMENTS

The 2019 election campaign marked a shift in values articulated by Justin Trudeau’s Liberal Party. In the 2015 campaign, Mr. Trudeau set out an agenda grounded in an expanded state with a substantial increase in means-tested transfers to individuals.⁷ The 2019 campaign saw a shift from expenditure growth to tax reductions as the core policy offer. Even with this shift, there are substantial expenditure commitments in the LPC’s platform that, in aggregate, are larger than the proposed tax reductions. Such proposals should be evaluated against best practices and empirical evidence.

Aggregate Fiscal Track

The LPC’s commitments include moderate revenue and expenditure changes that we detail below.

With respect to revenues, the cost of the LPC proposal to increase the basic personal amount totals nearly \$5.7 billion per year in forgone revenue by 2023-24. This is partially offset by proposed new revenues that include a 10 percent luxury goods tax, a national tax on vacant properties, a proposed “crackdown on corporate tax loopholes,” a levy on certain multinational technology companies, and other

6 The PBO has repeatedly noted that the long-run challenges facing provinces are substantial. An aging population in particular will strain health-care budgets for decades. See, for example, Office of the Parliamentary Budget Officer, *Fiscal Sustainability Report 2018* (Ottawa: PBO, September 2018).

7 Principal among these measures was the introduction of the CCB. For a thorough review of the transformation of child benefits and its impacts, see Adriene Harding, *The Effect of Government Transfer Programs on Low-Income Rates: A Gender-Based Analysis, 1995 to 2016*, Income Research Paper series, catalogue no. 75F0002M (Ottawa: Statistics Canada, 2018).

measures.⁸ Overall revenue increases amount to \$3.7 billion by 2023–24. We illustrate the aggregate changes, as a share of gross domestic product (GDP), in figure 1.⁹

Turning to expenditures, the LPC proposed increased government operations and transfers. While not all commitments may be cleanly separated between direct operating spending by government, transfers to individuals, or transfers to governments and other entities, the majority of LPC spending commitments are increased transfers to individuals.¹⁰ We explore individual proposals below. In aggregate, expenditure commitments exceed \$11.3 billion per year by 2023–24. Over the next four years, this represents an average increase of 0.4 percent of GDP, but is partially offset by spending reductions through a “tax expenditure and government spending review.”¹¹ The average net spending increase is roughly 0.3 percent of GDP.¹² With respect to direct program spending, the LPC platform implies a decrease from the current level of 14.7 percent of GDP to 14.3 percent by 2023–24. We illustrate this change in figure 2, comparing the spending path articulated in the LPC platform with the projected fiscal path generated by the Office of the Parliamentary Budget Officer (PBO) prior to the election.

From a macroeconomic perspective, the change in the federal fiscal stance proposed by the LPC is modest.¹³ Importantly, the government retains the fiscal space

8 Liberal Party of Canada, *Forward: A Real Plan for the Middle Class* (Ottawa: LPC, 2019), at 79–80 (<https://2019.liberal.ca/wp-content/uploads/sites/292/2019/09/Forward-A-real-plan-for-the-middle-class.pdf>).

9 We compare changes in revenues and expenditures under the LPC platform with the projected fiscal path generated by the PBO prior to the election commitments. In this analysis, we exclude the incremental revenue attributed to the trans-mountain expansion project, which reflects estimated corporate tax revenues (largely in upstream oil and gas) from the project. In our view, the baseline projections implicitly incorporate such revenues, and therefore the amount reported in the LPC platform is not incremental.

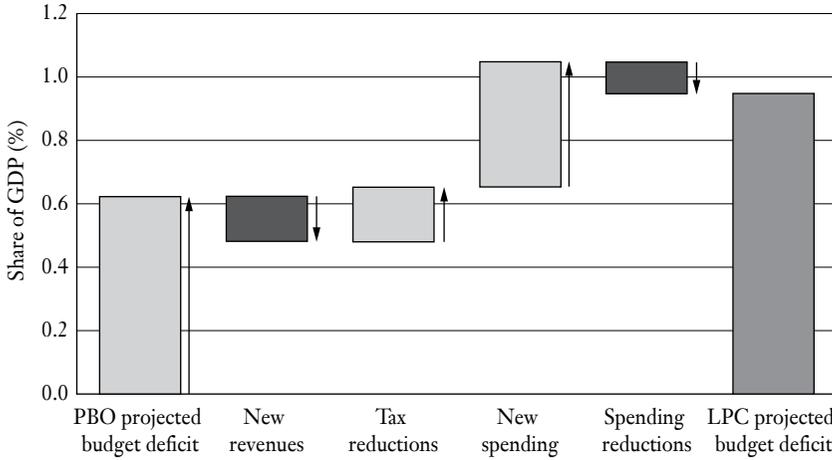
10 For example, boosting OAS benefits by 10 percent for individuals over the age of 75, increasing the CCB for the first year of a child’s life, doubling the Canada child disability benefit, increasing Canada student grants, and so forth.

11 *Forward: A Real Plan for the Middle Class*, supra note 8, at 79–80. There is no indication of what share of this review will draw from operating expenses versus tax expenditures. As we discuss later, a program review focused on new expenditures since 2015 should be able to recover a reasonable share of these allocated dollars.

12 For perspective, this will maintain the overall size of federal expenditures at roughly 15.6 percent of GDP at the end of the four years, fully offsetting the decline to less than 15.3 percent under the PBO’s baseline projection.

13 The implied change in the federal debt-to-GDP ratio as a result of the LPC platform commitments is also modest. This metric is central to long-run debt sustainability and therefore an important gauge of a government’s overall fiscal stance. Previously accumulated federal debt grows at the rate of interest while the aggregate federal tax base grows with GDP. So long as growth rates exceed interest rates, the federal government can sustain a primary budget deficit—the difference between spending and revenues without considering debt costs—in perpetuity. And under the LPC platform commitments, the federal primary balance is positive, with a projected surplus of roughly \$13 billion in 2023–24. The sustainability of the

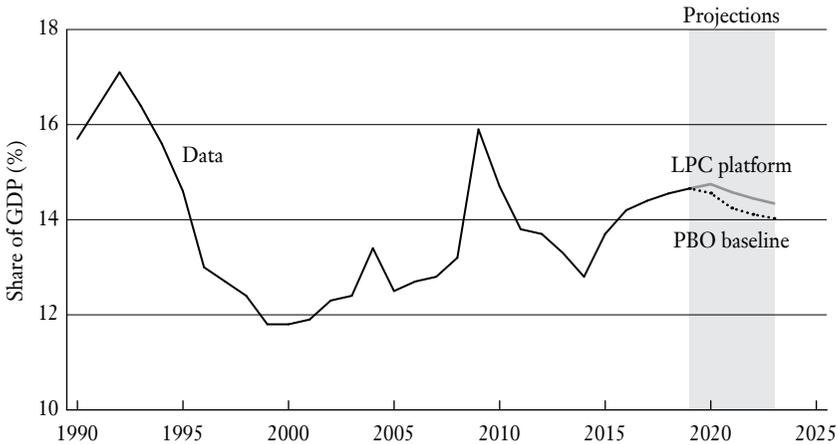
FIGURE 1 Change in the Projected Federal Budget Deficit, 2019-20 to 2023-24, Under the 2019 LPC Platform



GDP = gross domestic product; LPC = Liberal Party of Canada; PBO = Parliamentary Budget Officer.

Sources: Authors' calculations from Liberal Party of Canada, *Forward: A Real Plan for the Middle Class* (Ottawa: Liberal Party of Canada, 2019); and Office of the Parliamentary Budget Officer, *Election Proposal Costing Baseline* (Ottawa: PBO, June 2019).

FIGURE 2 Federal Program Spending as a Percentage of GDP—Historical Data Versus LPC Platform Projections, 1990-2025



GDP = gross domestic product; LPC = Liberal Party of Canada; PBO = Parliamentary Budget Officer.

Sources: Royal Bank of Canada, “RBC Economics: Canadian Federal and Provincial Fiscal Tables,” November 27, 2019 (www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov_fiscal.pdf); and authors' calculations from Liberal Party of Canada, *Forward: A Real Plan for the Middle Class* (Ottawa: Liberal Party of Canada, 2019) and Office of the Parliamentary Budget Officer, *Fiscal Sustainability Report 2018* (Ottawa: PBO, September 2018).

to respond through both automatic stabilizers and active fiscal policy in the event of a recession of reasonable size, and we would urge the government to time its capital projects, particularly in relatively overheated labour markets, to align with a potential future downturn. However, depending on both the depth and the length of a future downturn, the federal government may face substantial pressure to increase transfers to provinces that are already experiencing fiscal sustainability challenges.

While Canada's fiscal health is sound, individual spending proposals detailed in the LPC platform come with important strengths and weaknesses to be evaluated. We explore each in turn below.

Individual Transfers

The single largest area of expenditure commitments in the LPC platform is transfers to individuals. These include targeted increases to OAS and the CCB. Together, these measures comprise well over a third of promised new expenditures. The largest of these commitments is a 10 percent increase to OAS for individuals over the age of 75 at a cost of \$2.2 billion annually in the first full fiscal year of 2021-22, increasing annual OAS expenditures by approximately 5 percent. This commitment addresses an important policy concern regarding increasing levels of poverty among older individuals.¹⁴ Poverty is a particular concern among older women, since the male/female poverty gap widens for older cohorts, as shown in figure 3.

While there is a clear rationale for this policy, does the LPC's proposed measure lower seniors' poverty efficiently and as cost-effectively as possible? The answer is undoubtedly "no." Given that adverse work incentives are of minimal concern to a population over the age of 75, the rationale for a near-universal benefit like the OAS is weak.¹⁵ Alternatively, increasing GIS benefits for the 75+ population would achieve the same objective at a substantially reduced cost or, alternatively, achieve greater poverty reduction (by a 15 percent boost to the GIS) for the same incremental cost.

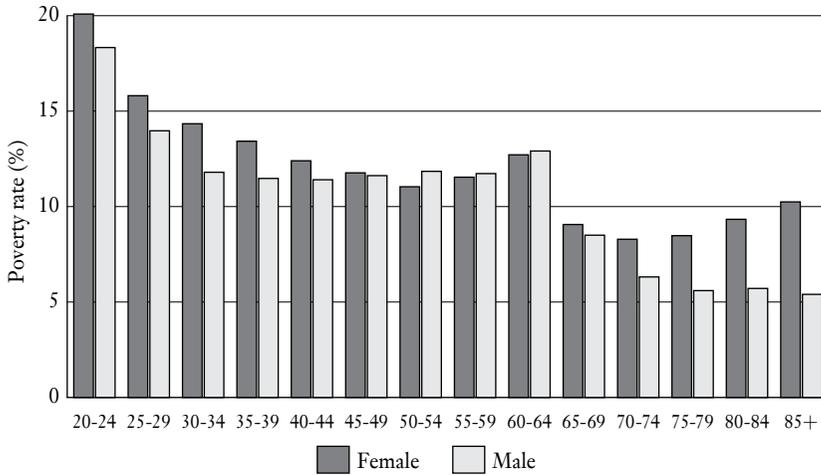
The second substantial LPC proposal is a 15 percent increase to the CCB for parents of newborns. Over the child's first year, the CCB maximum base benefit will rise to \$7,750 by July 2020. According to the PBO, the incremental cost of this

federal debt is visible in the clearly non-increasing debt-to-GDP ratio (discussed in the text below following note 58). It is also worth reflecting on the scale of the debt increase that occurred during the financial crisis. If a similarly large negative shock were to hit Canada, the debt-to-GDP ratio may increase from the LPC platform's path of roughly 30 percent by 2024 to 36 percent—a level that Canada experienced as early as 2004, and not one that raises concerns over federal long-run fiscal sustainability.

14 See Tammy Schirle, "Senior Poverty in Canada: A Decomposition Analysis" (2013) 39:4 *Canadian Public Policy* 517-40 (<https://doi.org/10.3138/CP39.4.517>), which reports rising elderly poverty (measured as the share of individuals with incomes less than the median after-tax income among the working-age population) that started in the mid- to late 1990s.

15 As of the 2019 income year, the OAS pension recovery tax begins to phase in at \$77,580 and fully recovers OAS payments for individuals with an income of \$126,058.

FIGURE 3 Poverty Rates by Age Category, Canada, 2016



Note: We thank Tammy Schirle for highlighting these poverty rates and for generous assistance with the data. Any errors are our own.

Source: Authors’ calculations from Statistics Canada, “2016 Census Public Use Microdata File (PUMF), Hierarchical File” (www150.statcan.gc.ca/n1/en/catalogue/98M0002X), using market-basket measure.

will be \$345 million annually once fully implemented in 2021-22.¹⁶ While there is mixed evidence as to whether costs are highest for parents in a child’s first year,¹⁷ there is a reasonable policy rationale for this single-year age adjustment, given the possibility of higher costs associated with purchases of durable goods, lower income as a result of maternity or parental leave, and the importance of infant nutrition for positive long-run outcomes. A decision to simply modify the existing CCB cost schedule by a flat percentage is a similarly reasonable approach.¹⁸

16 Office of the Parliamentary Budget Officer, *Measures To Support Parents with Children Under One* (Ottawa: PBO, September 29, 2019), at 4 (www.pbo-dpb.gc.ca/web/default/files/Documents/ElectionProposalCosting/Results/33100547_EN.pdf).

17 See Mark Lino, Kevin Kuczynski, Nestor Rodriguez, and TusaRebecca Schap, *Expenditures on Children by Families, 2015*, United States Department of Agriculture, Center for Nutrition Policy and Promotion, Miscellaneous Report no. 1528-2015 (Washington, DC: USDA, January 2017) (https://fns-prod.azureedge.net/sites/default/files/crc2015_March2017_0.pdf).

18 It is worth noting that the CCB increase is part of a package of commitments to increase after-tax income available to new parents. The additional measure, making parental benefits “tax-free,” potentially by exempting such benefit income from taxation in the first place, totals \$725 million annually as of 2021-22. If the government’s policy goal is to help families with relatively low incomes, or if the government wants its measures to be progressive distributionally, these funds (or a share of them) could instead be channelled to an additional increase in the CCB.

Health Care

Health-care spending¹⁹ is another dominant spending area in the LPC platform. This is a particularly difficult area to unravel, given a lack of details in many of the proposals. The primary commitment is an ongoing \$1.75 billion expenditure as of 2021-22²⁰ that will

- theoretically guarantee that all Canadians have a family doctor,
- set and fund national standards for timely access to mental health care,
- expand home and palliative care, and
- implement a national pharmacare strategy based on the recommendations of the federal government's advisory panel.²¹

While this is a substantial incremental expenditure, it is an order of magnitude smaller than necessary to achieve its stated goals.²² In particular, the PBO has estimated that a national pharmacare program would require over \$20 billion on an annual basis.²³ While full implementation would take years,²⁴ the funding allocated would still likely be insufficient to bring the provinces to the table.²⁵ If the federal

19 Presumably through transfers made to provincial governments under prescribed conditions.

20 See Liberal Party of Canada, "Liberals To Boost Investments in Health Care for Canadians" (<https://2019.liberal.ca/wp-content/uploads/sites/292/2019/09/2019-backgrounder-health-ENG-6.pdf>).

21 See Advisory Council on the Implementation of National Pharmacare, *A Prescription for Canada: Achieving Pharmacare for All: Final Report of the Advisory Council on the Implementation of National Pharmacare* (Ottawa: Health Canada, June 2019).

22 This point has generally been acknowledged by the prime minister, who has referenced this spending commitment as a "down payment." See Hannah Thibedeau, "Liberals Aren't Setting Aside Enough Cash Yet for Pharmacare, Says Advisory Panel Chair," *CBC News*, October 7, 2019 (www.cbc.ca/news/politics/pharmacare-hoskins-trudeau-liberals-1.5311601). The LPC was cautious in the early weeks of the campaign regarding the scope of its pharmacare commitment, but toward the end of the campaign it mirrored the NDP and CPC in committing to a national, universal program. See Justin Trudeau, @JustinTrudeau, *Twitter.com*, October 18, 2019: "And that's why we're going to implement universal pharmacare, so all Canadians can get the prescription drugs they need. Read more about our plan to close the gaps in our health care system: <http://lpc.ca/aptl>."

23 See Parliamentary Budget Officer, *Federal Cost of a National Pharmacare Program* (Ottawa: Office of the Parliamentary Budget Officer, September 2017), at 2.

24 While the government does inherently control the timing of such a rollout, the civil service would likely need several months, or even a year, to complete the preparatory work before negotiations with the provinces could begin. Those negotiations in turn would take several months, followed by the provincial-level preparatory and legislative work for provinces opting to engage in the process. Depending on the timing of the rollout, both the federal government and appropriate provincial governments would need to allocate funds through their estimates process.

25 If any of the major Canadian provinces were to opt into the program, the current allocation would prove insufficient.

government intends to pursue a national pharmacare program, additional funds may be necessary. Presumably the federal government would also set conditions for a national model and offer a high cost-share for provinces in a manner similar to the Pearson government's approach to medicare.²⁶ Given the scale of the fiscal commitment, only some provinces may agree to participate at first. But after a period of adjustment, and the resulting political pressure in non-participating provinces, it is reasonable to expect that with an appropriate cost-share most provinces would opt to join.²⁷

In light of the inadequate funding commitment and the jurisdictional challenges associated with the health portfolio, the new Cabinet should focus on a single major challenge. A commitment to pharmacare would be consistent with the message that the LPC articulated in the election campaign, but this comes with an important caveat: while the federal government would be able to fund a national pharmacare program with a small number of initial signatories using existing resources, additional revenue would be necessary to maintain fiscal sustainability over the long run if a majority of provinces were to join. There are potentially both meaningful economies of scale and efficiencies in cross-provincial harmonization to justify federal involvement in this area of provincial jurisdiction.

Of the other health items detailed by the LPC, increased targeted transfers to combat the opioid crisis are sufficiently time-sensitive that they could be pursued alongside a national pharmacare program.

Finally, we want to touch briefly on the promise to “guarantee all Canadians a family doctor.”²⁸ This appears to be modelled after a similar initiative implemented by the government of British Columbia between 2010 and 2015, which included a website matching doctors to patients along with other initiatives. Given the limited evidence regarding this program's efficacy, we would urge the federal government to target funds at more evidence-based health programming or generalized transfers. Further, there are no clear economies of scale or advantages to national harmonization justifying federal intervention.

The Environment and Climate Change

Environmental protection and climate-change mitigation are priorities for the Trudeau government. The 2019 LPC platform included a number of new spending

26 See Tom Kent, “When Minority Government Worked: The Pearson Legacy,” *Policy Options Politique*, October 1, 2009.

27 With a sufficiently generous federal contribution to the cost-sharing regime, it is certainly feasible that all provinces could opt into the program. There is a reasonable case for the federal government to offer more than a 50 percent share, owing to the fiscal unsustainability faced by the provinces. As noted below, this is an area where the LPC could likely secure a full mandate in the minority Parliament with NDP support, given the length of time required to implement this policy item.

28 “Liberals To Boost Investments in Health Care for Canadians,” *supra* note 20, at 1.

measures consistent with this agenda, although many of these measures lack details or costing.²⁹

The largest expenditure in this area is the commitment of more than \$300 million annually, rising to more than \$430 million by 2023–24, to increase home and business energy efficiency. The proposed program involves a free energy audit, a \$250–\$750 cash grant, and a 10-year interest-free loan of up to \$40,000 for efficiency renovations.³⁰ This measure mirrors a series of similar federal and provincial programs over the last decade.³¹ While this is highly popular and is consistent with lower carbon emissions, it is important for the government to consider this type of programming from a distributional perspective. Prior retrofit programs have typically tended toward usage by higher income cohorts, particularly given the necessary constraint of home ownership. Since the policy rationale for these initiatives is primarily to tackle a liquidity constraint, there could be substantial savings to the government if a meaningful income test were applied. The same may apply to the government's rebate commitment for electric vehicles.³²

The government's other signature environmental promise is an expenditure of \$300 million a year to plant 2 billion trees in the next decade.³³ A growing body of evidence suggests that, at the margin, tree-planting initiatives are a relatively cost-effective way to manage carbon.³⁴ There may also be non-environmental benefits, such as increased property values,³⁵ to consider. But a global perspective is also important here. Avoiding deforestation is a substantially more cost-effective measure to address greenhouse gas emissions than reforestation. And the abatement effect of

29 In particular, the environmental measures were generally not made subject to PBO costing, and the relevant backgrounders contain only topline details on the programs.

30 *Forward: A Real Plan for the Middle Class*, supra note 8, at 32 and 81.

31 See Natural Resources Canada, *Financing Energy Efficient Retrofits in the Built Environment*, report prepared for Energy and Mines Ministers' Conference, Winnipeg, Manitoba, August 21–23, 2016 (www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/emmc/pdf/Financing%20Report-acc_en.pdf).

32 Canada, Department of Finance, *Budget 2019: Investing in the Middle Class* (Ottawa: Department of Finance, March 2019), at 82. In both cases, there would likely be meaningful industry opposition to such an income test since this would be viewed as lowering uptake. However, apart from a recession, the demand shock element of such a program should be second order to climate and distributional concerns.

33 *Forward: A Real Plan for the Middle Class*, supra note 8, at 30. This is likely an underestimate of costs, given the lack of PBO costing and an indication that the measure will be cost-shared.

34 See, for example, Bronson W. Griscom et al., "Natural Climate Solutions" (2017) 114:44 *Proceedings of the National Academy of Sciences of the United States of America* 11645–50 (<https://doi.org/10.1073/pnas.1710465114>).

35 See Liqing Li, *The Effect of Urban Tree Planting on Residential Property Values and Gentrification* (Urbana, IL: University of Illinois, Department of Agricultural and Consumer Economics, September 2019).

reforestation varies by country. There may be scope to allocate some funds to international reforestation efforts or deforestation prevention with greater carbon abatement effects per dollar spent than are achievable by tree-planting initiatives within Canada.

Child Care

While child care did not play a central role in the campaign,³⁶ the LPC platform did commit half a billion dollars annually to “lower child care fees for before and after school programs by 10 per cent across the board.”³⁷ How this will be accomplished is unclear, since direct fee reduction is a provincial matter. Given the absence of any discussion of provincial negotiations, the most viable federal policy option is a refundable tax credit calibrated to reduce costs by 10 percent. While achievable, it is unclear why the federal government should add an additional layer to the already complex series of provincial and federal credits, benefits, and deductions for parents using child care. Further, such an approach would provide minimal benefit to provinces that have the most robust pre-existing child-care regimes, and would essentially create a disincentive to provincial child-care provision.³⁸ Rather than adding to the patchwork federal approach supporting child-care provision, funds should be reserved until a formalized agreement with the provinces is reached.³⁹ That being said, there are justifiable grounds for federal involvement in the area, given efficiencies with national harmonization and the potential to relieve pressure on provincial finances over the medium to long term.

Housing

Housing affordability is a growing concern for many Canadians, especially those in Vancouver, Toronto, and other cities with rapidly rising real estate prices.⁴⁰ In response, the LPC platform committed to making it easier to qualify for the existing

36 Child care and the provision of universal versus targeted support were a central topic of policy debate in the 2015 federal election campaign and have remained a dominant political issue in both Quebec and British Columbia.

37 *Forward: A Real Plan for the Middle Class*, supra note 8, at 9.

38 A similar critique applies to the child-care expense deduction, which involves greater federal benefits accruing to provinces with less expansive child-care programming.

39 While we view any greater expansion of the federal role in child care as unlikely in the current Parliament, the LPC could plausibly secure a full mandate with both NDP and BQ support, since rollout would take several years and the BQ would likely endorse a meaningful increase in federal transfers to Quebec for an already existing program.

40 In a recent report, the Royal Bank of Canada estimates that the share of income a household needs to cover home-ownership costs is nearly 85 percent in Vancouver, 66 percent in Toronto, and 52 percent nationally. See Craig Wright and Robert Hogue, “Housing Trends and Affordability,” *Royal Bank of Canada Economic Research*, March 2019, at 7, summary table (www.rbc.com/newsroom/_assets-custom/pdf/house-mar2019.pdf).

first-time home buyer incentive in certain high-cost markets.⁴¹ For qualifying buyers, the federal government effectively partners with home buyers by directly purchasing 5-10 percent of the home.⁴² This lowers the amount that the buyer puts up, and on the sale of the property the government is entitled to a corresponding share of the proceeds. The LPC proposed to increase the income threshold from \$120,000 to \$150,000 and the property value threshold to \$800,000, and to raise the maximum mortgage-to-income ratio from 4:1 to 5:1.⁴³

While there are limited expenditures associated with such a change, there is a potential balance-sheet risk to the government if real estate prices decline. We are concerned that the government would actually be undermining the most elegant aspect of its own proposal, which has prevented it from boosting demand in overheated markets like Vancouver, Victoria, and Toronto. We see little rationale for the government's looking to increase demand for housing at all, let alone in markets that may be in bubble-like conditions.

Other Expenditure Measures

While individual transfers and health and environmental spending measures are the dominant features of the LPC plan, there are other areas that are worth exploring, given the scale of the fiscal commitment. These include new spending on post-secondary education (PSE), starting at \$172 million and increasing to \$1.03 billion over the mandate; expanded employment insurance (EI) sickness benefits at a cost of roughly half a billion dollars; \$250 million up front to tackle gun crime; and \$150 million annually to fund canoeing and camping lessons.⁴⁴

The PSE commitment, while lacking in detail or timelines, is reasonable from a policy perspective, with increases to the Canada student grants program and furthering income contingency in the loan repayments. The extension of EI sickness benefits from 15 weeks to 26 weeks is consistent with the program's design, and while there may be some labour force impacts, there is a values-based decision as to the right degree of benefits. The \$200 million to tackle gun crime appears to be funding to buy back assault rifles. If the government does opt to ban these weapons, a buyback program is reasonable from an equity perspective. Finally, the government's promise to introduce broad, travel-based camping and canoeing education appears to intrude on provincial jurisdiction⁴⁵ and has little grounding in evidence. We would strongly urge the government to consider piloting this initiative and considering the opportunity cost of these funds before pursuing it on a broad scale.

41 *Forward: A Real Plan for the Middle Class*, supra note 8, at 8.

42 *Ibid.*

43 *Ibid.*

44 *Ibid.*, at 81-82.

45 It does so without any grounding in economies of scale, benefits related to national harmonization, or fiscal relief for the provinces.

MINORITY PARTY EXPENDITURE COMMITMENTS

The Trudeau government appears likely to govern unilaterally. However, there remains a chance that it will introduce individual policies to secure support from potential minority partners on a case-by-case basis or engage in a longer-term governing framework that could be linked to a major, ongoing policy commitment.

New Democratic Party

The New Democratic Party (NDP) has been traditionally viewed as the most likely minority partner to Liberal governments,⁴⁶ and there are sufficient areas of policy overlap to imagine the two partnering to maintain the government. In a speech shortly after the election⁴⁷ and again in mid-November, the leader of the NDP, Jagmeet Singh, clarified the party's priorities for providing its support in a minority Parliament: first and foremost is a national, single-payer universal pharmacare plan, followed by a national, potentially means-tested dental-care program, increased investments in affordable housing, the waiving of interest from student loans, the ending of fossil fuel subsidies, the capping of cellphone fees, and the introduction of a wealth tax.⁴⁸

At their first post-election meeting in early November, it was clear that both Mr. Singh and Mr. Trudeau saw pharmacare as an area of common ground,⁴⁹ and Mr. Singh clearly staked this out as his primary issue for the minority Parliament. Given the central place of pharmacare in the campaign narrative for both parties, the LPC would certainly have a mandate from the public to take this route. Further, the fiscal pressures related to implementation could potentially be alleviated by drawing on one or more of the fiscal measures proposed by the NDP.⁵⁰

Of the remaining NDP fiscal priorities, there is a reasonable rationale for policy intervention in the provision of dental coverage, expansion in affordable housing, and funding for First Nations communities. While there is little likelihood that the

46 Canada does not have a history of grand, centrist coalitions, and the NDP has traditionally been the only federalist party with sufficient seats in the House of Commons to secure a majority of votes for a formal or informal coalition.

47 See Alex Ballingall, "NDP Leader Jagmeet Singh Lays Out 'Urgent Priorities' for a Minority Government," *Toronto Star*, October 10, 2019 (www.thestar.com/politics/federal/2019/10/10/ndp-leader-jagmeet-singh-lays-out-urgent-priorities-for-a-minority-parliament.html).

48 This announcement also included fiscal commitments to reconciliation and the United Nations Declaration on the Rights of Indigenous Peoples, along with proportional representation as additional priorities.

49 While the NDP and the Green Party of Canada incorporated full-scale pharmacare into their platforms and the LPC did not, all three used language referencing universal pharmacare in their campaigns.

50 The most viable fiscal tools with respect to scale would be increasing the capital gains inclusion rate or increasing the corporate income tax rate. The introduction of wealth taxation was another notable proposal, though it comes with more revenue and implementation uncertainty.

Trudeau government would support the first of these proposals, we could certainly see case-by-case support for budget measures grounded in the latter two.

Bloc Québécois

As a strictly regional party, the Bloc Québécois (BQ) campaigns on a more limited set of issues than most others. Despite this, its campaign commitments touch on at least two areas where broader party support may be achieved: environmental initiatives and provincial transfers.

On the environment, the BQ proposed relatively large home renovation subsidies to support “eco-responsible” improvements and increased subsidies for electric vehicles.⁵¹ Since all parties have proposed environmental spending initiatives of varying degrees, this is one area of potential cooperation.

The BQ’s proposals for federal-provincial transfers are significantly larger in scale. Federal transfers are a recurring source of concern for the government of Quebec. In response, the BQ proposed to boost the growth rate in the Canada health transfer (CHT) to 6 percent per year until federal transfers represent one-quarter of total public health spending, and to boost the Canada social transfer (CST) to 6 percent per year until the CST share of GDP returns to its 1996 level. By 2023-24, these proposals would increase the total value of the CHT by \$4.3 billion and the CST by \$2 billion per year.⁵² Further, the BQ proposed a change in the formula for CHT allocations, from the current equal per capita rule to distribution on the basis of the population aged 65 and over. This would be a substantial reallocation. For perspective, allocating the 2019-20 CHT on this basis would increase Quebec’s entitlement by nearly \$1 billion and decrease Alberta’s by \$1.1 billion.⁵³ Though the BQ’s proposal could be challenging to implement, because of the adverse consequences for some provinces, there may be scope to provide supplementary support to provinces with older populations without subtracting from other provinces. As we discuss below, there is an increasingly strong case for increasing and potentially reforming certain federal transfers, particularly given the fiscal sustainability imbalance between federal and subnational levels of government. And there is a clear opportunity for cooperation with the BQ on this issue, which could span the life of a minority Parliament.

51 Bloc Québécois, *Le Québec, c’est nous: Plateforme politique du Bloc Québécois* (Québec: BQ, 2019), at 13 (www.blocquebecois.org/wp-content/uploads/2019/09/Plateforme_Bloc2019_web.pdf). Over the four years ending in 2023-24, the BQ proposed to spend nearly \$4 billion on home renovation subsidies, delivered primarily through a 20 percent refundable tax credit to eligible homeowners.

52 In terms of health transfers, the federal contribution might approach one-quarter of health-care spending by 2027. In that year, the BQ proposal would boost transfers by 20 percent relative to current projections—equivalent to \$10 billion per year. Our calculations based on *Le Québec, c’est nous*, supra note 51, at 20.

53 Quebec has 22.5 percent of Canada’s total population but 24.8 percent of the population aged 65 and over, whereas Alberta accounts for 11.6 percent of the total population but only 8.8 percent of those 65 and over.

Conservative Party of Canada

Although the platform of the Conservative Party of Canada (CPC) featured greater emphasis on tax reductions than spending increases, there are some potential commitments that may achieve broader support across party lines. Three areas stand out in particular.

First, the CPC proposed that \$1.6 billion be used to support “green home renovations.”⁵⁴ Although delivered in the form of a tax credit, this may be seen appropriately as a spending proposal. It is also close to the \$1.5 billion committed for a similar purpose over the same four-year period by the LPC. Given the priority of climate policy, and Canada’s commitment to meeting the Paris agreement’s target by 2030, subsidies to homeowners to improve energy efficiency is a potential area of cooperation, particularly within a budget that includes the kind of broad-based, targeted income tax reductions that both parties campaigned on.

Second, both parties have an emphasis on infrastructure spending. This is another area where cross-party agreement and cooperation may be seen. The government’s previous mandate saw an emphasis on infrastructure but with only limited (and highly delayed) results. Its second mandate may provide an opportunity to refocus and reprioritize this area.

Third, health-care spending was highlighted in the CPC platform, with a commitment to ensure that federal transfers grow at their current rates and to boost funding for magnetic resonance imaging and computerized tomography equipment, with a four-year commitment of over \$1.5 billion.⁵⁵ Measures to increase health-care spending or transfers to the provinces may also find cross-party support if enacted in a fiscally sustainable manner.

While there are reasonable areas of policy overlap between the LPC and the CPC,⁵⁶ the likelihood of cooperation across the aisle remains extremely low.

RECOMMENDATIONS FOR THE NEW PARLIAMENT

While the government clearly has a number of viable paths available, both fiscally and politically, we view it as appropriate to conclude this article with some recommendations for the new Parliament. In general, we recommend that the government should

1. focus incremental resources on doing a few things well rather than spending a little in a scattershot fashion;

54 Conservative Party of Canada, *Andrew Scheer’s Plan for You To Get Ahead* (Ottawa: CPC, 2019), at 6 (https://cpc-platform.s3.ca-central-1.amazonaws.com/CPC_Platform_8.5x11_FINAL_EN_OCT11_web.pdf).

55 *Ibid.*, at 72.

56 For example, the two parties’ platforms included similar fiscal offers with an emphasis on tax cuts for the middle class.

2. pilot new measures where there is little existing evidence as to their efficacy;
3. help to tackle the federal-provincial fiscal sustainability imbalance; and
4. review program spending, particularly for new programs, to identify funds that can be reinvested elsewhere.

Expenditures and Individual Transfers

The federal government, in general, has a responsibility to move forward on the expenditure path conveyed to the electorate. However, as is often the case, the fiscal platform articulated by the newly elected LPC is not necessarily consistent with what the government can actually afford. Further, consideration should be given to grounding particular policies in evidence and implementation. In particular, governments often attempt to do too much in the early stages of their mandate, spending small-to-modest amounts across many areas and accomplishing relatively little in the process. We therefore urge the government to selectively choose priority areas and focus expenditures there. If the focus is to put more dollars in the pockets of individuals, then start with the promised increase in the basic personal amount and perhaps a new GIS adjustment for those over the age of 75. If the focus is on program provision, then invest time and resources toward delivering on the commitment to a national universal pharmacare program. If the priority is to strengthen the federation from a fiscal perspective, then consider some of the proposals below.

Provincial Transfers

The federal government is on a sustainable fiscal path. The provinces, however, are not. And as populations age and health-care spending mounts,⁵⁷ provincial finances will be increasingly strained. Increased provincial tax rates or reduced spending in other areas will, in the medium term, be required. This observation is not new and is repeatedly highlighted by long-term fiscal forecasts—most notably the PBO's annual fiscal sustainability reports. In its 2018 report, the PBO forecasts substantial debt-to-GDP ratios among provincial governments with the sole exception of Quebec.⁵⁸ The federal government, meanwhile, is projected to see consistently declining debt to GDP. By the PBO's estimate, there is scope to immediately and

57 Currently, health transfers increase with Canada's national economy, subject to a lower-bound growth rate of 3 percent per year even though health-care spending projections consistently exceed this rate of growth. The PBO, for example, estimates that the average annual growth rate of provincial and territorial health-care spending will be a full percentage point higher than nominal GDP growth between 2020 and 2040. Over this period, subnational health-care spending will increase from 7.5 percent of GDP today to over 9 percent, while the CHT will remain at its current rate of 1.6 percent of GDP. Over time, the federal transfer for health will account for a declining share of provincial health-care spending, and by 2040 will potentially decline by nearly 4 percentage points. Our calculations using data from the PBO's *Fiscal Sustainability Report 2018*, supra note 6.

58 *Ibid.*, at 25. British Columbia is the only other province near the threshold of long-run fiscal sustainability.

permanently increase federal spending or decrease federal taxes by 1.4 percent of GDP and still maintain long-run debt sustainability, while the provinces face the need to undertake the reverse fiscal adjustment, in the order of 0.8 percent of GDP. Enhanced federal transfers may mitigate some of these vertical imbalances.

There are a number of paths available to ensure provincial fiscal sustainability. Most directly, provinces may increase their own revenues. Aligning tax effort with expenditure responsibility is, after all, important in any federation. But there is a strong economic efficiency argument for the federal government to raise funds through tax instruments that have particularly elastic tax bases at the provincial level. Income tax—especially on corporate income—is more efficiently levied federally, for example.⁵⁹ Further, redistributing federal revenue to provinces can also help improve interregional equity. We would urge the federal government to consider measures to enhance health transfers to provincial governments. This could be as simple as adding a 1 percent growth increment over and above the current formula. Or it could be as complex as adjusting for differences in population demographics between provinces to help address differences in health expenditure needs. Alternatively, if the federal government were to pursue a national child-care program with an aggressive cost-share, the longer-term impacts on growth would improve the provinces' fiscal track even if there were a short-run increase in expenditures.⁶⁰ Whatever form adjustment takes, the federal government has a role to help address the long-run fiscal pressures that nearly all provinces currently face.

Finally, given the recent pressure from Alberta and Saskatchewan, reforms to Canada's fiscal stabilization may be in order. The federal government should continue to resist calls to eliminate or dramatically shrink equalization payments, but expanding the role for federal insurance of provincial tax bases may provide some relief. The case for insurance of provincial revenue is to efficiently and equitably pool risk across provinces and to shift some of the debt burden to the federal level, where debt-service costs are lowest. Current stabilization payments cover revenue drops in non-resource revenues in excess of 5 percent and resource-revenue drops in excess of 50 percent. There is a limit of \$60 per person, however, which is roughly equivalent to 1 percent of provincial revenue. Thus, the current stabilization program plays no material insurance role at all. This may be an area ripe for reform in the new government's first budget to address rising concerns in the West.

Efficient Public Spending

Finally, we want to conclude with ensuring the efficient use of public funds. The LPC platform commits to \$3 billion in savings from a new "tax expenditure and government spending review" by the end of the government's mandate.⁶¹ Given the

59 Health transfers, for example, are equal per capita even though some provinces have larger own-source fiscal capacities than others.

60 For which they could likely rely on both NDP and BQ support in the House of Commons.

61 *Forward: A Real Plan for the Middle Class*, supra note 8, at 80.

scale of government, this represents less than 1 percent of federal operations per year. Since economic, social, and political circumstances evolve continuously, such reviews are valuable and should be undertaken regularly. There is particular value in such a review today given the rapid and somewhat scattershot approach of new federal spending commitments post-2015.⁶²

The process for such a review matters, and to ensure its efficacy, we would urge government to conduct this review in its first year.⁶³ A quarter of a century ago, during the Chrétien-Martin program reviews, individual departments were given targets and the responsibility to meet them. Programs were evaluated on the basis of six tests, ranging from whether the program continues to serve the public interest, whether there is a legitimate role for government, whether the federal government is the appropriate level for delivery of the program, whether the program could be more efficiently structured, and so on. A specific secretariat within the Privy Council Office was created to facilitate this process. While the most appropriate model today may differ, detailing a specific and concrete approach for undertaking program and spending reviews will not only improve external transparency and predictability, but also improve internal decision making. Regardless, it is essential that the exercise have buy-in from the Prime Minister's Office, the finance minister, and the Cabinet, and that incentives be in place such that ministers and departments actively cooperate, particularly with respect to finding administrative savings.

62 With sufficient time since the rollout of these programs, their efficacy can be reasonably determined, and the political risk of discontinuing Trudeau-era enabled programs should be low.

63 See Rachel Curran, "Returning to Balanced Budgets Requires a Careful Game Plan: Stakes Are High When a Government Shifts Away from Deficit Spending. Landmines Abound. The Harper Government's Strategy in 2011-12 Offers Lessons," *Policy Options Politique*, August 27, 2019 (<https://policyoptions.irpp.org/magazines/august-2019/returning-to-balanced-budgets-requires-a-careful-game-plan>).

