



Breaking the deficit spending cycle:

Small business owners calling for fiscal responsibility

October 2024

CFIB
CANADIAN FEDERATION
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Key takeaways



The federal government has run a deficit every year since 2015/2016.



The federal government must allocate an increasingly larger portion of its annual revenues to repay the debt.



Three in four business owners are concerned about the lack of a plan to achieve a balanced budget.



To balance the budget and reduce the debt, business owners are calling for greater fiscal restraint, supporting measures such as:

- reducing the size and cost of the federal public service (89%);
- implementing legislated spending limits (87%); and
- freezing the operational budgets of all departments at their current levels (84%).



Business owners are opposed to raising taxes and fees (92%), which would hinder their operations and discourage the next generation of entrepreneurs.

Introduction

Running a small business is no easy feat. Canadian businesses are facing significant challenges, including softening demand and increased costs of doing business. Still, small business owners do their best to keep their books in order. It is reasonable for them to expect the same from all levels of government, including the federal government.

However, that is far from the case. The Government of Canada is grappling with the daunting fiscal reality of perpetual deficits and ballooning debt. Three out of four small business owners (74%) are concerned about the lack of a plan to achieve a balanced budget¹ and 81% of them think balancing the government budget and paying down the debt should be a priority.² If the government does not fix this situation, it will make it even harder for future generations to build a prosperous economy.

In this report, CFIB looks at the budgetary situation of the federal government since 2012/2013. CFIB also presents small business owners' preferred approach and recommendations to achieving a balanced budget, while providing today's and tomorrow's entrepreneurs the incentives they need to develop their business, innovate, and boost productivity.

“The federal government has every opportunity to draw from the best, the smartest, the most efficient and knowledgeable workers in our country. It's time that they improve their efficiencies and use the talent that's available to them.

Cut red tape. Balance the budget. Use the money collected efficiently. Reinstate the idea and make it possible so if you work hard and contribute you will be successful.”

- Wholesale, British Columbia

”

Federal government's recurring deficits

Since the 2012/2013 fiscal year, the Government of Canada has almost continuously run deficits,³ with spending outweighing its rising revenues (Figure 1). Much of the 2020/2022 spike in expenditures (Figure 1) can be attributed to the pandemic and associated relief measures.

¹ CFIB, Your Voice survey, September 2024, n = 2,120.

² CFIB, Your Voice survey, December 2023, n = 2,966. Note: this data includes net high priority and medium priority.

³ With the exception of the 2014/2015 fiscal year, where the government recorded a \$1.9-billion budgetary surplus.

However, based on Budget 2024,⁴ the current federal government continues to spend at high levels, even post-pandemic, and is projecting deficits well above \$20 billion every year until 2028/2029. For the 2023/2024 fiscal year, Budget 2024 projects a \$40.1 billion deficit, whereas the Parliamentary Budget Office (PBO) estimates a deficit of \$46.8 billion.⁵ About 73% of small business owners are concerned with the current level of federal deficit.⁶ Deficit spending (Figure 2) should be reserved for when the country is facing an economic recession or other unforeseen events. It certainly should not become structural, or a habit outside of specific periods. It is important for government to be responsible with the country's finances, not only to be in a better fiscal position when the next crisis arises, but also to ensure a fiscally healthy country for the next generation.

Figure 1 - Federal government's revenues and expenditures from 2012/2013 to 2022/2023

The federal government's expenditures have outpaced its revenues almost every year since 2012/13

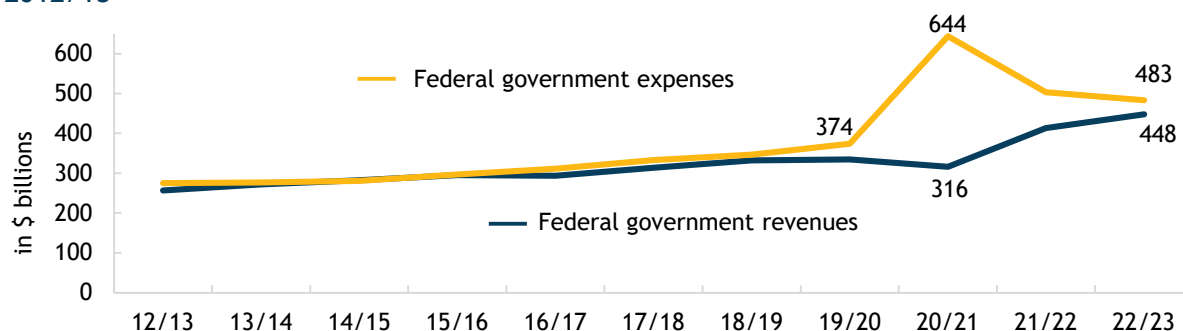
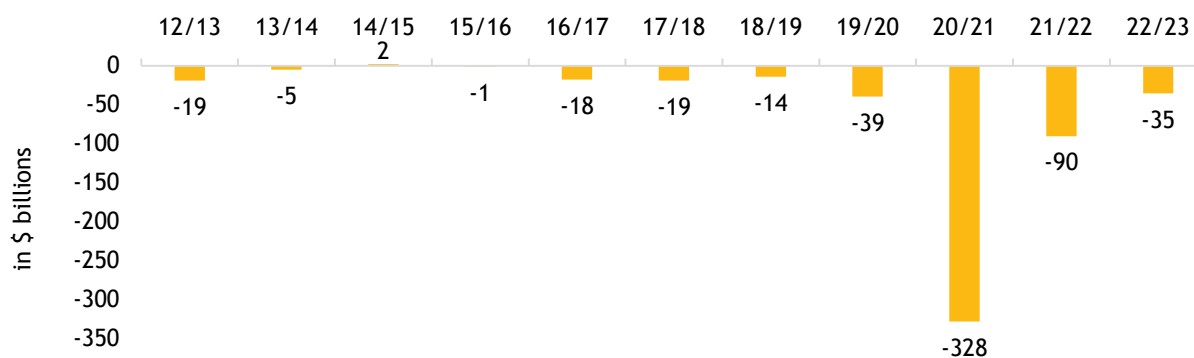


Figure 2 - Federal government's annual deficit from 2012/2013 to 2022/2023

The federal government is spending beyond its means, posting deficits in 10 of the last 11 years



Source for Figures 1 & 2: Government of Canada, Annual Financial Reports of the Government of Canada, from the fiscal year 2012/2013 to the fiscal year 2022/2022, 2023. Accessed in October 2024: <https://www.canada.ca/en/departement-finance/services/publications/annual-financial-report.html>

⁴ Government of Canada, Budget 2024, Fiscal Outlook. Accessed in October 2024: <https://budget.canada.ca/2024/report-rapport/toc-tdm-en.html>

⁵ Parliamentary Budget Officer, Economic and Fiscal Outlook - October 2024, 2024. Accessed in October 2024: <https://www.pbo-dpb.ca/en/publications/RP-2425-018-S--economic-fiscal-outlook-october-2024--perspectives-economiques-financieres-octobre-2024>

⁶ CFIB, Your Voice survey, September 2024, n = 2,120.

Increasing federal debt

Due to consistent annual deficits (Figure 2), the federal debt⁷—or accumulated deficit—has almost doubled from \$602.4 billion in 2012/2013 to \$1,173 billion in the 2022/2023 fiscal year (Figure 3).^{8,9} This is the equivalent of \$29,253 per Canadian.^{10,11}

While Canada's federal debt has nearly doubled, annual debt charges have increased by 21%, rising from \$29 billion in 2012/2013 to \$35 billion in 2022/2023, and are expected to climb to \$54.1 billion this 2024/2025 fiscal year, marking an almost 90% increase over the period.^{12,13} This reduces the funds available for the government to reduce taxes and provide essential services to Canadians. As a matter of fact, all the money to be collected this fiscal year from the goods and services tax (GST) across Canada barely covers the \$54.1 billion in debt charges, which is the equivalent of the total combined provincial budgets of Manitoba, Saskatchewan, and Newfoundland and Labrador in 2024/2025.^{14,15,16,17}

Looking ahead, debt repayment is set to remain a major concern, with debt charges projected to rise to \$64.3 billion in 2028/2029 due to higher effective interest rates and higher borrowing requirements, according to Budget 2024,¹⁸ and \$64.6 billion according to the PBO.¹⁹ The money that will be spent on debt charges in 2028/2029 is the equivalent of what could have been used to eliminate the GST, energy tax, custom import duties, and excise tax combined in the 2022/2023 fiscal year.²⁰

⁷ The federal debt is the difference between the government's total liabilities and total assets. The government's liabilities include debt, pension, and benefit obligations for federal employees and tax liabilities payable. Assets include taxes owed, financial interest in Crown corporations, and real property.

⁸ Government of Canada, Annual Financial Report of the Government of Canada Fiscal Year 2012-2013, 2013. Accessed in October 2024:

https://epe.lac-bac.gc.ca/100/201/301/annual_fin_rep_gov_can/pdf/2012-2013.pdf

⁹ Government of Canada, Annual Financial Report of the Government of Canada Fiscal Year 2022-2023, October 2023. Accessed in October 2024:

<https://www.canada.ca/en/department-finance/services/publications/annual-financial-report/2023/report.html>

¹⁰ CFIB divided the 2022/2023 debt by the Canadian population in July 2023.

¹¹ Statistics Canada, Canada's demographic estimates for July 1, 2023: record-high population growth since 1957, July 2023. Accessed in October 2024:

<https://www150.statcan.gc.ca/n1/daily-quotidien/230927/dq230927a-eng.htm>

¹² Government of Canada, Annual Financial Reports of the Government of Canada, from the fiscal year 2012/2013 to the fiscal year 2022/2023, 2023. Accessed in October 2024:

<https://www.canada.ca/en/department-finance/services/publications/annual-financial-report.html>

¹³ Government of Canada, Budget 2024, Fiscal Outlook, Table A1.5, Projections for 2024/2025, 2024. Accessed in October 2024:

<https://budget.canada.ca/2024/report-rapport/anx1-en.html>

¹⁴ Government of Manitoba, One Future, One People, One Manitoba, Budget 2024, page 6, 2024. Accessed in October 2024:

https://www.gov.mb.ca/asset_library/en/budget2024/budget2024.pdf

¹⁵ Government of Saskatchewan, Saskatchewan provincial budget 2024/2025, page 41, 2024. Accessed in October 2024:

<https://budget.saskatchewan.ca/pub/docs/budget-docs/22948-2024-25-budget-document-web.pdf>

¹⁶ Government of Newfoundland and Labrador, Budget 2024 Overview, page 5, March 2024. Accessed in October 2024:

<https://www.gov.nl.ca/budget/2024/wp-content/uploads/sites/8/2024/03/Budget-2024-Overview.pdf>

¹⁷ For simplicity, we rounded the expenses to \$23.3 billion for Manitoba, to \$20.1 billion for Saskatchewan and to \$9.9 billion for Newfoundland and Labrador.

¹⁸ Government of Canada, Budget 2024, Annex 1: Details of Economic and Fiscal Projections. Accessed in October 2024:

<https://budget.canada.ca/2024/report-rapport/anx1-en.html>

¹⁹ Parliamentary Budget Officer, Economic and Fiscal Outlook - October 2024 - Table 2, October 2024. Accessed in October 2024: <https://www.pbo-dpb.ca/en/publications/RP-2425-018-S--economic-fiscal-outlook-october-2024--perspectives-economiques-financieres-octobre-2024>

²⁰ Government of Canada, Annual Financial Report of the Government of Canada Fiscal Year 2022-2023, Table 3, October 2024. Accessed in October 2024: <https://www.canada.ca/en/department-finance/services/publications/annual-financial-report/2023/report.html>

Figure 3 - Federal government yearly public debt charges between fiscal years 2012/2013 and 2022/2023

The federal government’s debt charges increased by 21% between 2012/2013 and 2022/2023

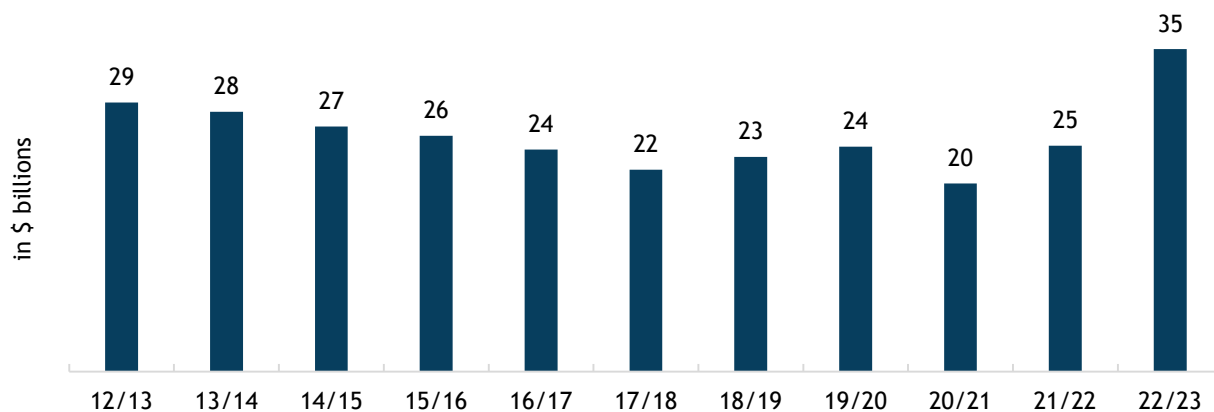
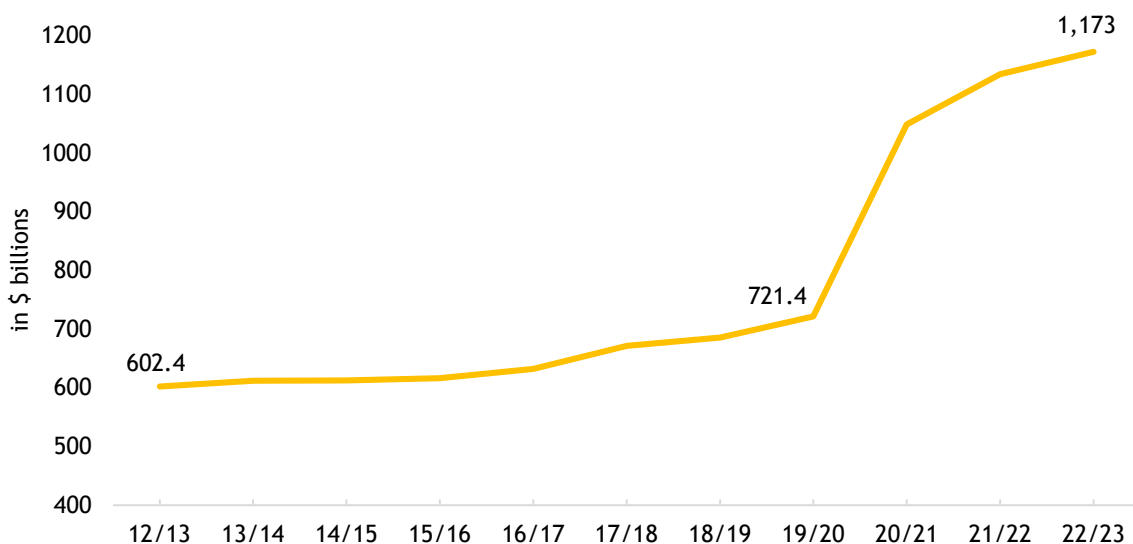


Figure 4 - Federal debt from fiscal years 2012/2013 to 2022/2023

The federal debt nearly doubled over 10 years



Source for Figures 3 & 4: Government of Canada, Annual Financial Reports of the Government of Canada, from the fiscal year 2012/2013 to the fiscal year 2022/2022, 2023. Accessed in October 2024: <https://www.canada.ca/en/departement-finance/services/publications/annual-financial-report.html>

Failure to maintain fiscal anchor

In 2015, balancing the budget by 2019/2020 was the federal government’s stated fiscal anchor.²¹ This “cast in stone” promise was abandoned to prioritize the reduction of the federal

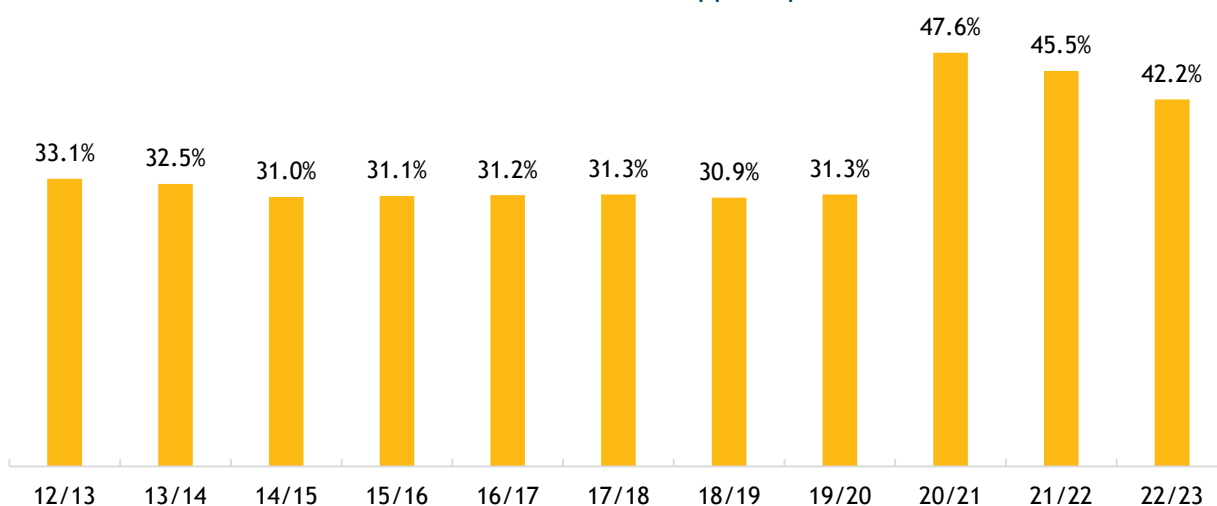
²¹ Department of Finance Canada, Update of Economic and Fiscal Projections 2015, November 2015. Accessed in October 2024: <https://www.budget.canada.ca/efp-peb/2015/pub/toc-tdm-en.html>

debt-to-GDP ratio.²² While the federal debt-to-GDP ratio remained relatively stable from 2012/2013 to 2019/2020, it increased considerably during the COVID-19 pandemic and is now sitting at 42.2% of GDP, according to the Department of Finance (Figure 5). According to the Parliamentary Budget Officer,²³ the federal debt-to-GDP ratio is projected to further increase in 2023/2024 and in 2024/2025, moving away from the government’s objective of reducing debt-to-GDP ratio.²⁴

While debt-to-GDP ratio may be a good fiscal anchor in periods of strong economic growth, this approach can falter when the economy experiences low growth. Additionally, with persistent deficits, the government is not in the position to set aside resources to cushion against a downturn. This raises questions about whether relying on a target debt-to-GDP ratio alone is the appropriate fiscal anchor in a time of slow GDP growth (0.2% GDP growth in July 2024).²⁵

Figure 5 - Federal government debt-to-GDP ratio from 2012/2013 to 2022/2023

Efforts to reduce the debt-to-GDP ratio need to be stepped up



Source: Government of Canada, Annual Financial Reports of the Government of Canada, from the fiscal year 2012/2013 to the fiscal year 2022/2022, 2023. Accessed in October 2024: <https://www.canada.ca/en/department-finance/services/publications/annual-financial-report.html>

The debt-to-GDP ratio is one of various fiscal anchors governments use to manage public finances. For example, other countries have implemented a “debt brake,” a mechanism designed to manage federal expenditures. Some components of this approach include maintaining a balanced budget and capping expenses based on expected revenues.

²² The Fraser Institute Blog, Picking a federal fiscal anchor is not enough—you must stick to it, March 2023. Accessed in October 2024: <https://www.fraserinstitute.org/blogs/picking-a-federal-fiscal-anchor-is-not-enough-you-must-stick-to-it#:~:text=Fiscal%20anchors%20help%20guide%20policy%20on%20government%20spending%2C,fiscal%20anchor%20of%20balancing%20the%20budget%20by%202019-20.>

²³ Parliamentary Budget Office, Economic and Fiscal Outlook, March 2024. Accessed in October 2024: <https://www.pbo-dpb.ca/en/publications/RP-2324-027-S--economic-fiscal-outlook-march-2024--perspectives-economiques-financieres-mars-2024.>

²⁴ The Parliamentary Budget Office recently released a report, *Budget 2024: Issues for Parliamentarians*, highlighting an increase in federal debt-to-GDP ratio. However, their figures for 2022/2023 differ from those provided by the Department of Finance.

²⁵ Statistics Canada, Canadian Economic Tracker, October 2024. Accessed in October 2024: <https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2023022-eng.htm>

Business owners’ approach to balancing the federal budget

Most small business owners (95%) are concerned about the federal government’s current spending and debt levels.²⁶ Small business owners are particularly worried about the lack of a plan to achieve a balanced budget (74%).²⁷

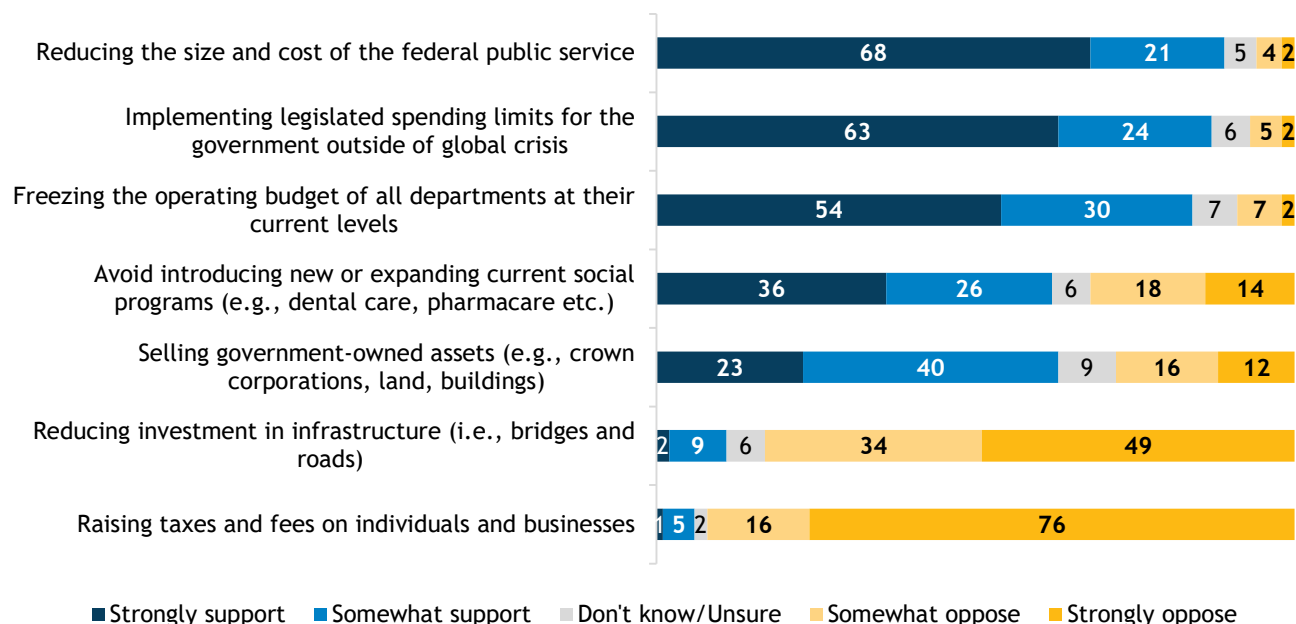
When asked how government should return to balanced budgets, the vast majority of small business owners supported **reducing the size and cost of the federal public service (89%)** (Figure 6). Small business owners in Quebec (93%) were particularly supportive of this approach. Small business owners also supported the notion of **implementing legislated spending limits for the government outside of a global crisis (87%)**. Further, 84% of small business owners felt that government should **freeze the operating budget of all federal departments**.

Many business owners (62%) also felt that the federal government should avoid introducing new social programs, or expanding existing ones (e.g., dental care, pharmacare, etc.), and should consider selling government assets (e.g., Crown corporations, land, buildings) (63%).

However, most small business owners (92%) opposed higher taxes and fees on individuals and businesses, as well as measures that would reduce investments in infrastructure (83%).

Figure 6 - Policy recommendations supported by small businesses

To what extent do you support or oppose each of the following potential measures for the federal government to achieve a balanced budget and reduce its debt?



Source: CFIB, Your Voice survey, September 2024, n = 2,120.

²⁶ CFIB, Your Voice survey, September 2024, n = 2,120.

²⁷ In the following paragraph, we use net support and net opposition for our data.

Conclusion and recommendations

Canada's revenues have nearly doubled over the past decade, yet expenses have surged at an even faster rate, resulting in a near doubling of the national debt. While COVID-19 has contributed to this imbalance, deficit spending has become a habit that must be reversed.

CFIB is raising the alarm: the federal government must curb its spending tendency. Raising revenues through higher taxes and fees is not supported by 92% of small business owners.²⁸ They already identify taxes and regulatory costs as a major cost constraint.²⁹ High taxes hinder a small business' ability to grow, thrive, and drive the economy, and they discourage the next generation of entrepreneurs.

The government should see the 2024 Fall Economic Statement and the 2025 Budget as great opportunities to set the foundation for a more prudent spending approach. As part of these exercises, CFIB recommends that the federal government:

- Implement a clear path to balancing the budget with specific indicators to measure progress, aimed at breaking the cycle of deficit spending.
- Commit to a fiscal anchor that will reduce the deficit and debt.
- Implement legislated spending limits for the government outside of a global crisis.
- Commit to undertaking meaningful internal reviews to reduce the size and cost of the federal public service.
- Freeze the operating budgets of all departments at their current levels.
- Avoid introducing new social programs or expanding existing ones (e.g., dental care, pharmacare, etc.).
- Sell government assets (e.g., Crown corporations, land, buildings) where it makes sense.

Methodology

CFIB is a non-partisan organization representing the interests of 97,000 small and medium-sized businesses in Canada. CFIB is entirely funded by our members and takes direction from them through regular surveys. For this report, CFIB presents small business owners' opinion on the fiscal situation based on a survey conducted in September 2024 with 2,120 respondents. CFIB also references data from the Government of Canada's annual financial reports for fiscal years 2012/2013 to 2022/2023. The latest available annual financial report is for the 2022/2023 fiscal year. This is not intended to serve as an economic analysis.

²⁸ CFIB, Your Voice survey, September 2024, n = 2,120.

²⁹ CFIB, Monthly Business Barometer, September 2024.

Authors



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About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 97,000 small and medium-sized businesses in Canada. CFIB's research capacity is second-to-none because it is able to gather timely and concrete information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada's small business community. To learn more, visit cfib.ca.

