SASKATCHEWAN
CHAMBER *of* COMMERCE

Policy Position

April 2015

Controlling Provincial Government Operational Spending

Background

In the 1980s and early 1990s, the Government of Saskatchewan consistently ran budget deficits and spending growth was greater than nominal GDP growth. This led to a rapid increase in government debt. From 1994 to 2006, growth in spending was reduced to a rate below that of both operational revenues and nominal GDP, and the government achieved a modest reduction in the level of general public debt. Thereafter, the Saskatchewan economy surged with strong GDP and population growth. The rate of government spending growth has since remained below the rates of revenue growth and of nominal GDP growth, and the debt load has been substantially reduced.

Table 1 presents annual growth rates for nominal GDP, population, government spending, government revenues, and resource revenues, over three distinct periods of growth in Saskatchewan, 1981-1994, 1994-2006, and 2006-2013, as well as over the entire period. GRF Government Public Debt is also presented at specified years.

Table 1: Annual growth rates for key Saskatchewan indicators and Saskatchewan GRF debt

Period	Nominal GDP	Real GDP	Population	Government Operational Spending	Government Operational Revenues	Total Resource Revenues	SK CPI	GRF Gov't General Public Debt (given year), in $M
1981-2013	5.50%	2.23%	0.39%	4.83%	4.97%	3.70%	2.96%	176 (1981)
1981-1994	4.20%	1.90%	0.26%	5.55%	5.22%	-4.17%	4.23%	8,278 (1994)
1994-2006	5.17%	1.91%	-0.13%	3.77%	4.43%	10.82%	1.96%	7,245 (2006)
2006-2013	8.66%	3.14%	1.56%	4.75%	4.82%	5.57%	2.04%	3,805 (2013)

Notes: GDP data is for calendar years, government data is for fiscal years with a March 31 year end, population data is for July 1 of the year. Data for the 2014 calendar year is not yet available.

Data sources: Saskatchewan Public Accounts, and Statistics Canada CANSIM database (population - Table 051-0001, nominal and real GDP – Table 384-0038, CPI - Table 326-0021).

Issue

Growth in government expenditures is driven by many factors including inflation, population growth, and capital and infrastructure investment, while government revenues are driven by general economic conditions, as well as by volatile non-renewable resource royalties. In general, expenditures should experience smooth growth to address the basic needs of citizens, and should not fluctuate wildly as revenues do.

Based on these considerations it is accepted that government should run surpluses in good economic times, and run deficits in bad times. The province currently holds debt as the result of weak revenues and higher spending, and this debt should be closely monitored and reduced during good economic times to free up resources for investment in the future and create savings for bad times.

With disciplined spending, there will be years of surplus and excess revenues. These should continue to be directed to debt retirement to meet long-term goals. Without disciplined spending these monies could easily be directed towards wasteful endeavors.

Given that Saskatchewan requires significant investment into building and maintaining infrastructure in order to encourage greater economic growth, the capital expenditures of the government should be allowed to increase at a rate greater than operational spending rate increases, providing that the government continues to justify specific capital expenditures as strategic investments to facilitate growth.

Saskatchewan Chamber of Commerce Recommendation

1) That the Government of Saskatchewan separate its operational expenditures from its capital expenditures and limit operational spending increases in periods of "normal" economic growth to the rate of inflation plus the growth rate of the population, currently around 3.5%.

Even during strong periods of growth as in recent years, growth in operational spending should not exceed growth in operational revenues, currently around 4.8%, in order to maintain surpluses and debt reduction. Spending should be constrained in order to pay down public debt during stable and good times, and so that Saskatchewan residents will not be adversely affected with any possible downturn in the economy in the future.