

Counting platform pennies (trillions and trillions of them)

By Warren Lovely

We're in the thick of Canada's 44th general federal election campaign, as the vote itself (on September 20th) is now barely 10 days away. As we write this, we're in between two pivotal leaders' debates, where associated verbal fireworks, well-placed barbs and witty rejoinders could end up swaying some political fence-sitters. Just ahead of this week's debates, and as previously promised, Erin O'Toole's Conservatives presented a costed fiscal plan, putting dollars and cents on the assorted commitments made thus far. So let's compare the Conservative fiscal plan with the costed platform and related budgetary trajectory presented by Justin Trudeau's Liberals last week (and initially covered [here](#)).

Glancing quickly at the budget deficits telegraphed by both the Conservatives and Liberals (Chart 1, for instance), you might not spot a material difference in what the two parties are offering. Both see a sizeable residual shortfall this year, reflecting ongoing pandemic programming and the first tranche of new initiatives. Both anticipate that outsized red ink will give way to notably smaller deficits starting in 2022-23. Both likewise envision trimming the deficit each and every year. And both imply the federal government's deficit would be around 1% of GDP by 2025-26—the end of a standard four-year term (assuming the next parliament were to last that long). But the similarities end there.

On the face of it, the Conservative plan appears less costly, the five-year total of net new spending coming to nearly C\$54 billion (after controlling for reallocations from Budget 2021 and incremental interest charges). As a reminder, the Liberal plan had previously outlined some C\$95 billion in new investments/prudence over the same five years (including marginal interest), only partially offset by roughly C\$25 billion in new taxes. The net cost of the Liberal platform is thus ~C\$70 billion. So if you're counting pennies, be patient, as Erin and Justin have so far promised new investments worth between 5 to 7 trillion pennies on the campaign trail.

On balance, the Trudeau plan would add an extra C\$16 billion to the federal debt over five years vs. what the Conservatives are pledging. To be clear, that's just the marginal red ink one party vs. the other. Even the Conservatives acknowledge that federal debt would likely jump C\$320 billion by 2025-26 if elected (Chart 2). We note that the Conservatives have taken some liberties with the Liberal plan, grossing up spending above and beyond what's detailed in the official Liberal platform, a hypothetical exercise designed to show an even larger potential fiscal gap between the two parties. For the purposes of this note, however, we're taking each party's platform at face value.

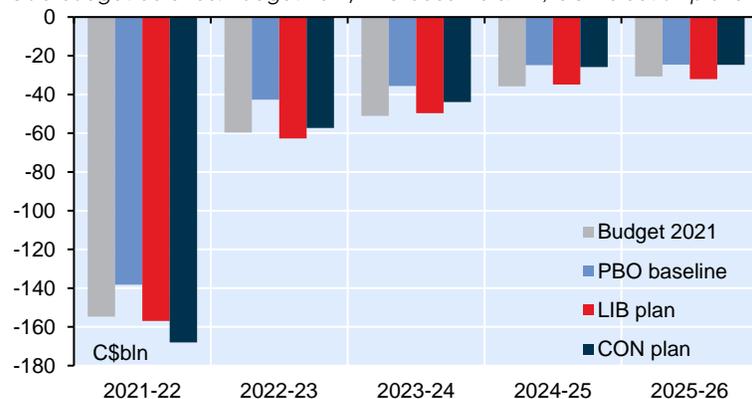
While less costly, the Conservative plan is more front-loaded. Of the C\$51 billion in net new spending, almost 60% is booked into year one (2021-22), while more than 85% gets accounted for by the end of year two (Chart 3). This is consistent with the Conservative pledge to (a) bolster a still-vulnerable economy but (b) wind down extraordinary pandemic supports in a timely fashion. Such an approach would mean a larger deficit in the here and now but could theoretically result in less of a structural shortfall over the medium and longer term.

Chart 4 identifies the five most expensive pledges contained in the Conservative platform. A caution: When looking at the Conservatives, Liberals or any other party for that matter, there are important policy planks that may not carry a large direct fiscal price tag. In other words, keying on the fiscal cost of initiatives is but one way to assess party platforms. Of note, the Conservative plan reallocates some funding committed in Budget 2021, most notably related to the Liberal \$10/day child care plan. Not surprisingly, both the Liberals and the Conservatives promise to deliver jobs and growth, although specific elements of their economic and tax policies differ in important respects. Fair to say that one particular element of the Liberal plan—a surtax on the largest banks and insurers and a so-called temporary "Canada Recovery Dividend"—has already sparked much discussion in the business community. For their part, Conservatives see their plan spinning off as much as 1.5% in marginal employment and real GDP next year, gains driven via enhanced R&D, a job surge plan, incremental workers benefits, accelerated investment, regulatory reform and renewed mojo in the energy sector.

We heard one rating agency recently dismiss differences between the two parties. But we're not so sure. Some less-than-subtle differences in preferred policy posture and governing style are being flagged in this race, with likely important implications for the national economy and public sector finances. Once more, we'd encourage readers, and certainly all eligible Canadian voters, to explore each party's plan in detail.

Chart 1: Political variations in Canada's fiscal path

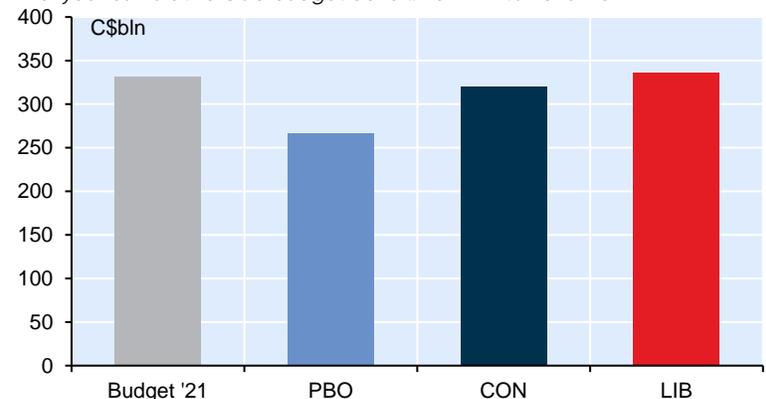
GoC budget balance: Budget 2021, PBO baseline & LIB/CON election plans



Source: NBF, GoC, PBO, Liberal Party of Canada, Conservative Party of Canada | Note: Refer to official platform costing for details: Liberal [here](#), Conservative [here](#)

Chart 2: Federal debt expanding notably regardless

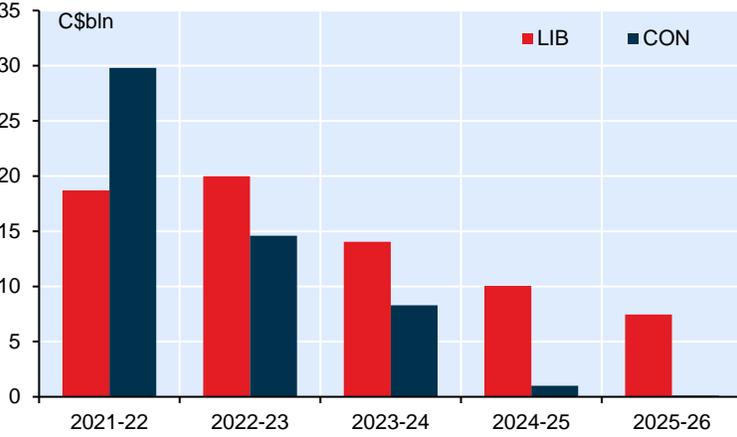
Five-year cumulative GoC budget deficit: 2021-22 to 2025-26



Source: NBF, GoC, PBO, Liberal Party of Canada, Conservative Party of Canada | Note: Cumulative deficit closely approximates increase in federal debt over five-year period

Chart 3: CON promises... less costly, more front-loaded

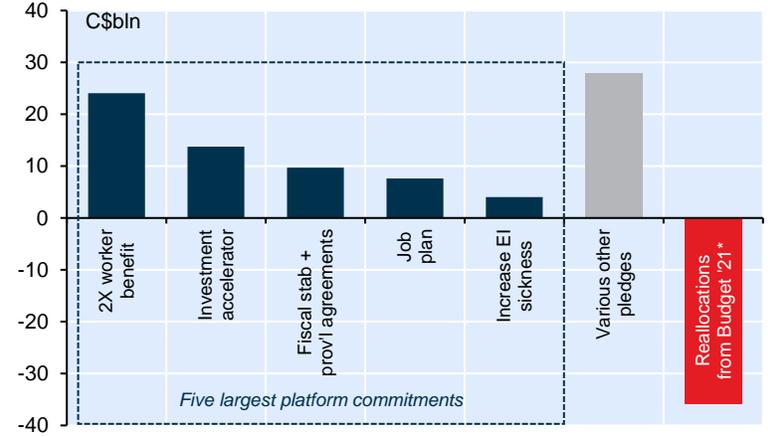
Net fiscal cost of Liberal & Conservative platform commitments by year



Source: NBF, Liberal Party of Canada, Conservative Party of Canada | Note: Net of new taxes/reallocations, inclusive of marginal public debt charges

Chart 4: A look at key Conservative commitments

5-year cost of Conservative spending pledges: 2021-22 to 2025-26



Source: NBF, Conservative Party of Canada | Note: Single largest reallocation from Budget 2021 relates to child care (C\$26.7bln reallocated starting in 2022-23)

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