

The background of the slide features a low-angle, upward-looking perspective of several large, light-colored stone columns. The columns are part of a classical building, with their capitals and fluted shafts clearly visible. The sky is a clear, pale blue, providing a bright backdrop for the columns. The overall composition is symmetrical and emphasizes the grandeur and stability of the architecture.

INTRODUCTION TO PUBLIC FINANCE IN CANADA

Chapter 1

Questions For Discussion (1 of 4)

Use the data in [Table 1.1](#) to calculate the following: the rate of growth in total government expenditures, in real government spending, and in real, per capita spending over the period from 2000 to 2009.

- (i) What do the data tell you about the growth in government spending relative to population growth in Canada over this nine-year period?
- (ii) Based on the data for the period 2000 to 2009, would you argue that the size of government has increased or decreased over this period? Explain.

Table 1.1 Local, Provincial, and Federal Government Expenditures, Selected Years

	Total Expenditure (\$ millions)	2007 Dollars (\$ millions)	In 2007 \$ Per Capita	Percentage of GDP
1991	352,796	493,421	17,599	50.9%
1995	390,496	511,790	17,466	47.5%
1999	418,762	524,764	17,261	41.8%
2003	493,117	557,194	17,610	39.6%
2007	589,927	589,927	17,937	37.7%
2011	720,678	667,913	19,448	40.9%
2014	774,877	685,732	19,294	39.6%

Sources: Statistics Canada. CANSIM data from the following series v52531007, v62471023, v466668, v62471340 series.

Key Points – Question 1

- i. Growth in spending relative to population growth has increased
- ii. Depending on which measure of government spending an analyst looks at from the table provided between 2000 and 2009, they could argue either an increase or decrease in the size of the government

Questions For Discussion (2 of 4)

In each of the following circumstances, decide whether the impact of government on the economy increases or decreases and why. In each case, how does your answer compare to that given by standard measures of the size of government?

- a. Provincial governments mandate that employers provide daycare centres for the use of their employees.
- b. Provincial governments subsidize daycare centres with parents paying \$5 in user fees per day.
- c. Provincial governments open government-run daycare centres.
- d. The federal budget is brought into balance by reducing grants to provincial governments.

Key Points – Question 2

- a) The size of the government increases because regulation increases government influence over society's resources
- b) This will increase the size of the government by the standard measure (which are expenditure based, as in Q1). It also increases government influence on society's resources (as in part 1).
- c) The size of the government increases. Both government expenditures and overall government influence on society's resources increase.

Key Points – Question 2 (Cont.)

- (d) The impact on the size of the government overall is uncertain. The transfer will decrease the size of the federal government in terms of expenditures, and increase provincial government revenues

Questions For Discussion (3 of 4)

High and rising health care expenditures are one important element that has contributed to provincial government deficits. New, or additional, payroll taxes may be one way to finance the higher health care costs. If adopted, how would the higher payroll taxes affect the size of the provincial budgets? How would this affect the role of government in the economy?

Key Points – Question 3

- The increase in payroll taxes will likely increase provincial revenues. It may or may not increase the size of the government as measured by provincial expenditures. The government's payroll tax decision will affect the labour market (it changes worker's after tax wages), so this policy changes the government's role in the economy

Questions For Discussion (4 of 4)

Consider the data presented in the table below. Suppose that the federal government increases grants to provincial governments by \$6 billion in 2010. Does the increase in grants necessarily lead to an increase in total government spending? Why or why not?

Government Expenditures before and after Intergovernmental Grants (millions of dollars)

	Federal Government		Provincial Governments		Local Governments		Total
	Including Grants	Excluding Grants	Including Grants	Excluding Grants	Including Grants	Excluding Grants	Excluding Grants
2009	258,209	193,130	377,313	324,778	144,736	144,589	662,497
<i>Source:</i> Data taken from Karin Treff and Deborah Ort, <i>Finances of the Nation, 2010</i> (Toronto: Canadian Tax Foundation, 2011), B5. Note that for this example CPP and QPP have not been included in the total. "Excluding grants" refers to grants made to other levels of government.							

Key Points – Question 4

- The effect on total government spending is uncertain. It depends on how the provincial government uses the grants.