



NEWS RELEASE

Debt-financed government spending—even with low interest rates—imposes real costs on Canadians and the economy

July 07, 2022
For immediate release

VANCOUVER—Contrary to what many Canadians, and interestingly some policymakers and even economists think, debt-financed government spending has real economic costs, even when interest rates are very low, finds a new study by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“There is no free lunch when it comes to debt-financed government spending. Even with record low interest rates, there are real costs imposed on the economy and Canadians,” said Bev Dahlby, a senior fellow with the Fraser Institute and co-author of *The Fiscal Costs of Debt-Financed Government Spending*.

The study is a timely review of basic fiscal policy, that is the spending, taxing and borrowing policies of governments, which for the better part of almost a decade have favoured debt-financed spending in part because of low interest rates.

These costs include:

- **Slower economic growth:** When a country’s government debt grows compared to the size of the economy, the rate of economic growth declines and real interest rates increase.
- **Lower private sector incomes:** Government borrowing can crowd out and displace private sector investment, which ultimately results in lower incomes for Canadians.
- **Destabilization:** Growing government debt, particularly as interest rates are rising relative to growth in the economy can force significant spending cuts and/or tax increases by government to stabilize debt levels.

“These costs are not theoretical as Canadians have already endured them during periods like the late 1980s and early 1990s, which necessitated large fiscal reforms,” comments Dahlby.

“The evidence is clear— the notion that debt-financed spending has a low fiscal cost is misleading,” said Ergete Ferede, also a senior fellow with the Fraser Institute, and study co-author.

“Policymakers would be wise to re-examine their fiscal policies in light of the substantial increases in government debt due to the pandemic and the environment of rising interest rates,” Ferede said.

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