PARLIAMENTARY OVERSIGHT OF (PANDEMIC-INDUCED) EXPLOSION IN PUBLIC SPENDING

Isabelle Watkinson

McGill | School of Continuing Studies

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(SOME INTIAL OBSERVATIONS)

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Background

On March 11, 2020, the World Health Organization[1] declared the global outbreak of the COVID-19 virus a pandemic, marking the beginning of an economic shutdown and recession unlike any other in history. Public health restrictions, such as stay-at-home orders, school and business closures, border closures and travel restrictions, inhibited many sectors of the economy from operating for months at a time. The resulting economic and social ramifications for Canadian households and businesses were devastating; in a matter of months, unemployment rose to 13.7 percent (a historic high) and output fell 18 percent below pre-pandemic levels.[2] By the end of 2020, the Canadian economy had contracted by 5.4 percent (Figure 1): the worst annual decline since the aftermath of World War II.[3]

Shortly after the WHO announcement, the Canadian government launched its COVID-19 Economic Response Plan (ERP), committing over $212 billion in direct support for individuals and businesses, $85 billion in tax and customs duty payment deferrals, $5.8 billion to healthcare and medical supplies, and approximately $14 billion to support the reopening of provinces and territories.[4] Amongst the over 90 programs included in the Plan, the most monumental were the Canadian Emergency Response Benefit (CERB) and the Canadian Emergency Wage Subsidy (CEWS); the former consisted of monthly payments to unemployed individuals while the latter covered 75 percent of employee wages for struggling businesses.[5] Through these programs, the federal government essentially assumed the role of the employer for a considerable portion of the economy.

By the end of 2020, a CBC analysis found that the government spent an average of $952 million per day, totalling about $240 billion[6] in the first eight months of the pandemic (Figure 1). The unprecedented breadth and pace of COVID-19-related spending and borrowing have made determining total public expenditure since the onset of the pandemic more challenging than anticipated. Nonetheless, the immensity of government spending is substantiated by the fiscal position; the budget deficit has soared to $354.2 billion[7], and the national debt burden has exceeded $1 trillion[8] for the first time in national history.

With this in mind, this paper seeks to explore the following question:

Given the monumental increase in public spending following the onset of the COVID-19 pandemic, do Canadian parliaments, at the federal and provincial levels, have sufficient capacity and resources to oversee this magnitude of public expenditure and debt?

Parliamentary Oversight of Pandemic Expenditure

[1] Ducharme, J. 2020.
[2] Statistics Canada. 2021.
[3] Statistics Canada. 2021.
[4] Department of Finance. 2020.
[5] Alini, E. and D'Amore, R. 2020.
[6] Gatehouse, J. 2020
[7] Aiello, R. 2021.
[8] Rabson, M. 2021.

In normal circumstances, the executive cannot spend or borrow funds without both houses' approval.[9] However, in a global public health emergency, the expeditious authorization and distribution of funds were prioritized over time spent on parliamentary discussion and debate. Thus, the government employed orders in council throughout its COVID-19 response, meaning that numerous decisions (i.e. border closure, amendment to Income Tax Act, etc.) did not have to be debated before Parliament.

On March 13, 2020, Parliament agreed to adjourn for five weeks and delay the tabling of the federal budget given public health concerns.[10] The following month, the House made an agreement to meet once per week in person (up to 30 MPs) and hold biweekly virtual meetings for the Special Committee on the COVID-19 Pandemic (all 338 MPs).[11] Despite recommendations to implement remote-voting options (e.g. proxy votes, verbal roll-call vote) from various experts, such as former House Clerk Marc Bosc and international governance consultant Kevin Deveaux, there were no immediate plans to transition to a fully functional hybrid model or re-integrate integral elements of parliamentary procedure (i.e. voting, daily Question Period and debates).

Moreover, in the first quarter of 2020, a series of sweeping bills maximized the executive's financial autonomy. On March 13, 2020, legislature passed Bill C-12 enabling government to circumvent parliament and spend funds with the Governor General's authorization.[12] Less than two weeks later, Bill C-13 further tightened the executive's hold on the public purse strings by amending the Financial Administration Act to allow the Minister of Finance to borrow money without the Governor in Council's authorization.[13]

Given that Bill C-12 passed just two days after the WHO's declaration of the pandemic, there were concerns that MPs lacked time to review and scrutinize its contents properly.[14] Furthermore, scrutiny of Bill C-13 was limited to Members of the Special Committee: just 32 Members of the House (14 Liberals, 11 Conservatives, 3 NDP, 3 Bloc Quebecois, 1 Green) and a similarly limited number of Senators in the Senate. Notably, however, the Conservative opposition party was able to revise the deadline for the executive's 'temporary' financial autonomy from December 2021 to September 2020. Ultimately, from the onset of the pandemic until after summer recess, the House only sat for a total of 15 days.[15]

The weakened degree of intra-pandemic parliamentary oversight and scrutiny exemplifies an inherent challenge in national governance – achieving a balance between efficiency and effectiveness. While legislature retains the authority to empower *efficient* executive action, it is also tasked with ensuring that such action most *effectively* serves public interest.[16] Brock and Turnbull (2020) argue that given the precarious nature of the pandemic, the relationship and work of parliament and government has shifted in favour of efficiency over effectiveness. While this acceleration in government decision-making was crucial to Canada's emergency response and

[9] Smith, A. and Pu, S. 2019.
[10] Brock, K. et al. 2020.
[11] Brock, K. et al. 2020.
[12] Smith, A. 2020.
[13] Bill C-13, 2020.
[14] Bill C-12, 2020.
[15] Brock, K. et al. 2020.
[16]Brock, K. et al. 2020.

recovery, a proportionate increase in parliamentary scrutiny has yet to follow. Therefore, within the context of democratic governance, the COVID-19 pandemic has been characterized by an exceptionally high degree of executive spending subject to an exceptionally limited degree of legislative oversight and scrutiny.

A notable example of the dangers of this situation is the WE Charity contract scandal. On June 25, 2020, the Liberal government announced that WE Charity was chosen to administer the $912 million Canada Student Service Grant (CSSG).[17] Under this contract, $43.53 million would be awarded to WE Charity to connect students with volunteer opportunities and grant them financial compensation based on the terms of the grant. Cabinet attested that the contract was awarded through a fair, open bidding process, stating that "when our public servants looked at potential partners, only the WE organization had the capacity to deliver the ambitious program".[18] However, shortly after the partnership was announced, a controversy regarding the integrity of the tendering process emerged.

News surfaced that the Minister of Finance (Morneau) and PM Trudeau had personal ties with WE Charity.[19] In view of the fact that Finance Minister Morneau and PM Trudeau failed to recuse themselves from the contract deliberation, opposition MPs called for the Conflict of Interest and Ethics Commissioner to investigate if Cabinet was guilty under the Conflict of Interest and Ethics Act.[20] At the height of the widespread criticism, WE Charity decided to withdraw from the contract in early July 2020.[21]

The Committee on Access to Information, Privacy and Ethics found that the contract was awarded through a sole-source contribution agreement rather than an opening bid tendering process: "no efforts were made to seek out competing bids or other groups who could have delivered the program".[22] What is more is that the contract was actually awarded to a shell company called WE Charity Foundation, supposedly established to hold real estate assets (which were not present at the time of signing). The Committee's investigation concluded that "the decision of the Liberal government of Canada to sign a contract worth over $500 million with a shell company "WE Charity Foundation" is deeply troubling". Therefore, the former Finance Minister was found in violation of the Conflict of Interest Act; however, PM Trudeau was not found legally guilty (although he does admit wrongdoing in failing to recuse himself).[23]

As argued by Brock (2020), the CSSG contract would likely not have been awarded to WE Charity if adequate parliamentary scrutiny and oversight had been afforded to the deliberation process. At the time, House sittings were highly irregular and standard procedures such as the daily Question Period were not in operation. As a result, opposition MPs were unable to fulfill their duty in scrutinizing and questioning the terms of the grant or recipient of the contract, allowing the decision to be shrouded in executive-driven bias. When considering that the CSSG was only one of the hundreds of programs launched by the Liberal government in the past year, it is important

[17] CBC News. 2020.
[18] Tasker, J. P. June 2020.
[19] Murphy, J. 2020.
[20] Zimonjic, P. 2020.
[21] Tasker, J. P. July 2020.
[22] House of Commons. 2021.
[23] Tunney, C. 2021.

to consider how the limited degree of parliamentary oversight during the COVID-19 pandemic may have manifested in other forms of fiscal and financial mismanagement.

Future Projections & Considerations

The Bank of Canada (BOC) has positively revised its projections to forecast GDP growth of six percent[24] this year. Nonetheless, many sectors of the economy are still grappling with unemployment rates and remain heavily reliant on transfer payments. In response, the 2021 budget proposed by the Liberal minority government committed $70 billion to $100 billion of expenditure over the next three years.[25] These estimates place the projected deficit at $154.7 billion[26] and national debt at $363.4 billion[27] (51.2 percent of GDP) by the end of the 2021-22 fiscal year.[28] Evidently, Canada will not meet the Maastricht Criteria any time soon.

According to the Parliamentary Budget Officer (PBO)'s "Fiscal Sustainability Report 2021"[29] published in June, the provincial and territorial governments' prevailing fiscal policy is not sustainable in the long term (Figure 2). Considering rising healthcare costs and debt service payments, the PBO estimates that under the current fiscal policy, the total net debt to GDP ratio will remain above 50 percent of GDP by 2095[30] (Figure 3), and the government will be running deficits until 2070.[31] Nonetheless, these estimates are projected to be revised downward as long as program spending does not increase and/or taxes are raised.[32]

Given historically low interest rates set by the BOC's near-zero key policy rate (0.25 percent)[33], the government attests that the current budget deficit and level of debt are manageable. Many economists argue that so long as the growth in debt service payments does not exceed GDP growth, the carry cost associated with the debt is negative relative to the returns generated from public expenditure. [34]

However, as argued by Andolfatto: "An ongoing issuance of debt that is not met by a corresponding growth in the demand for debt is likely to manifest itself as a higher rate of inflation".[35] Thus, should inflation rise above the tolerance band, the BOC would have to scale back purchases of government securities, putting upward pressure on bond yields and interest rates.[36] The heightened cost of borrowing for both the public and private sectors would lead to a fall in private sector wealth and investment as well as a rise in the government's liabilities.[37] Moreover, although interest rates have remained low in recent years, many economists expect the

[24] Press, J. July 2021.
[25] Press, J. March 2021.
[26] BDO Canada. 2021.
[27] CBC News. July 2021.
[28] BDO Canada. 2021.
[29] Office of Parliamentary Budget Officer. 2021.
[30] Office of Parliamentary Budget Officer. 2021.
[31] Snyder, J. 2021
[32] Snyder, J. 2021
[33] CBC News. July 2021.
[34] Andolfatto, D. 2020.
[35] Andolfatto, D. 2020.
[36] Andolfatto, D. 2020.
[37] Andolfatto, D. 2020.

BOC to begin raising the key policy rate in 2022.[38] This could negatively impact GDP growth as it would effectively increase the cost of borrowing for the government and discourage private sector investment.

Overall, the pandemic has caused pervasive economic and social changes in such a condensed time frame, highlighting the global economy's susceptibility to external shocks and disturbances. In consideration of how climate change, population growth and globalization will continue to affect the world moving forward (e.g. public health, natural disasters, diminishing resources, Canada will likely encounter another scenario in which parliamentary operations are interrupted while extensive public expenditure is necessary. Thus, prevailing Standing Orders and procedures need be adapted to address the magnitude of emergency-related debt and further expenditure over the long-term. In general, more comprehensive research should be conducted on how the Canadian democracy was affected by weakened legislative powers during the pandemic and what Canadian parliaments need to better oversee the national deficit and debt burden moving forward.

[38] Alini, E. 2021.

Figure 1: Canada GDP Growth Rate[39]

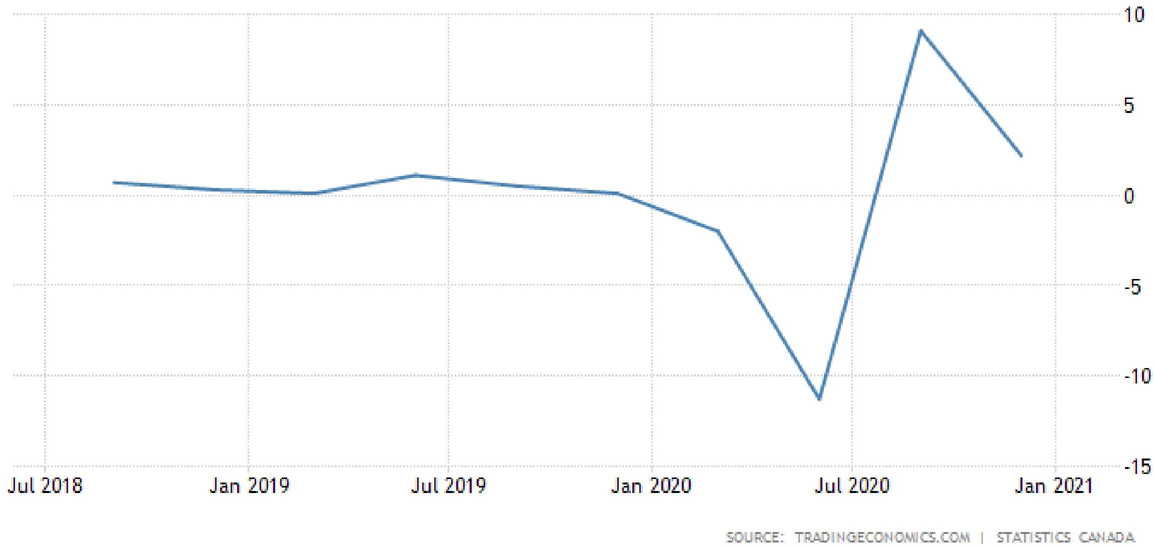


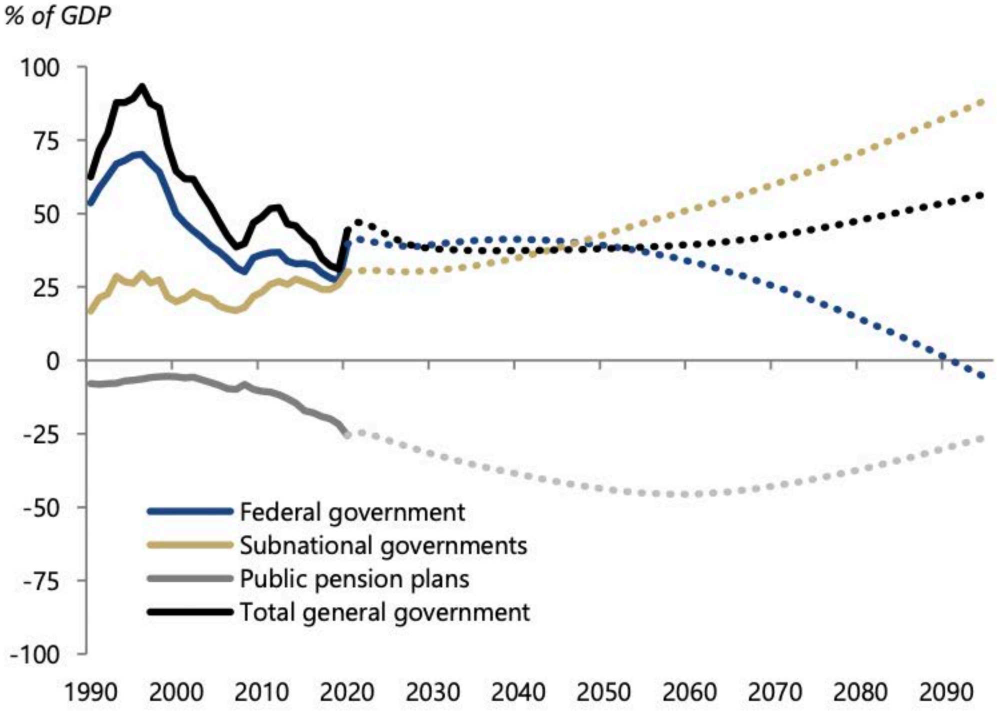
Figure 2: Net Debt: Subnational Governments[40]

% of GDP

	2020	2045	2070	2095
Subnational	30.1	38.6	60.1	89.1
Newfoundland and Labrador	34.0	78.5	235.2	454.8
Nova Scotia	28.3	-1.2	-11.1	2.7
Prince Edward Island	26.5	36.9	129.4	282.7
New Brunswick	38.7	83.6	142.1	211.7
Quebec	43.8	19.7	-15.1	-52.9
Ontario	38.1	27.3	26.8	34.3
Manitoba	40.9	75.3	158.4	279.6
Saskatchewan	15.8	74.9	174.2	281.8
Alberta	15.6	72.9	132.7	196.5
British Columbia	3.8	16.6	27.6	10.0
Territories	-3.3	236.6	591.3	982.0

[39] https://tradingeconomics.com/canada/gdp-growth
[40] https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e

Figure 3: Government Net Debt Relative to GDP[41]



[41] https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e

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