

# THE HIDDEN SCOURGE OF INFLATION

The Conference Board of Canada said: "... the budget did not have enough on tackling near-term inflationary pressures, which have been exacerbated by higher commodity prices and supply chain disruptions. For example, there was no mention of providing Canadians with some respite from inflation in the form of targeted and temporary tax cuts."

As I write this, inflation is at 6.8%, a 31-year high, and predicted to go even higher.

When the cost of everything goes up, the government's fixed percentage take on that goes up also.

What doesn't go up at the same rate is your take-home pay or pension. So inflation acts as a taxation accelerator.

**Good for government revenues. Not so good for you.**



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## BUDGET 2022:

### More Spending, More Deficit, More Debt

The Federal Budget 2022 was billed as being prudent and responsible. The Minister of Finance said it would make life more affordable for Canadians, but I challenge you to find ways this budget will make your life more affordable.

Some of the raw numbers are troubling:

- ✗ Deficit: \$52.8 Billion
- ✗ Accumulated Debt: \$1.14 Trillion
- ✗ Increased Spending: \$63 Billion more to total \$434 B

The biggest failure is the Budget's refusal to tackle inflation, now at 6.8%.

Big spending leads to big inflation. Inflation is good for governments - it increases revenues, such as escalating the amount of GST you pay when the price goes up - but it is **bad for ordinary Canadians, and particularly bad for those on low and fixed incomes.** The government can't just keep borrowing and printing money, and expect that excess cash will not cause prices to rise.

Promising expensive programs today that are predicated on the taxpayers of tomorrow paying the bill is morally indefensible.

Big debt has implications today too. We pay interest on the debt - **this year, annual payments will be \$26.9 Billion.** That is \$26.9 Billion that we can't use to pay for higher priority spending needs or for tax relief.

*Those of us with kids should be particularly concerned with debt and deficit,*

*because that is the legacy we are leaving to our loved ones.*

Please be in touch if I can be of service.



## CONTACT ME

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Mon cabinet est heureux d'offrir le service en français et en anglais.

## INSIDE

Debt and Deficits: A legacy to our kids and grandkids. A look at what it means and why it matters.

**GregMcLeanMP.ca**



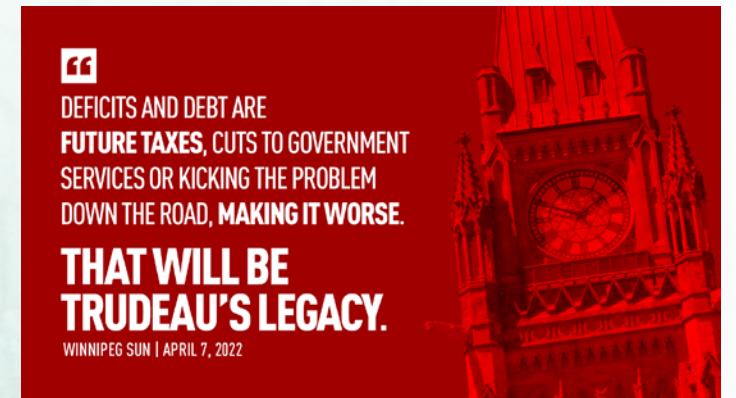
# DEFICITS AND GOVERNMENT DEBT

I talk a lot about government overspending, resulting in annual deficits and accumulated debt. Why should you care about this as much as I do?

Because debt has consequences. A new theory called Modern Monetary Theory argues that sovereign nations can't go bankrupt, so it is OK for governments to just keep spending, because the most important priority is for governments to provide the subsidies and supports that people want.

There are, however, consequences. Inflation is one of them. Injecting too much money into the system increases demand when supply can't keep up. We're already seeing that in Canada, in part due to high pandemic spending. Last month inflation hit 6.8%.

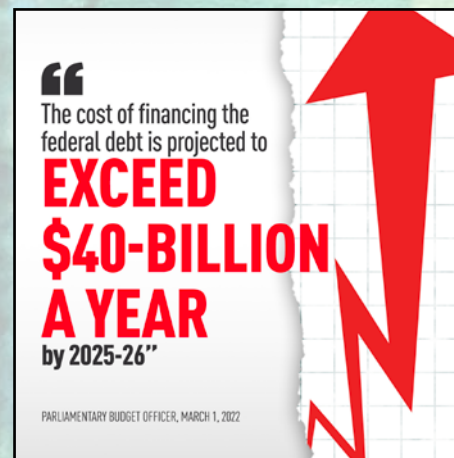
And, to paraphrase former UK Prime Minister Margaret Thatcher, eventually you run out of other peoples' money.



## WHAT WOULD \$27 BILLION BUY (If we didn't spend it to pay interest on debt)

In economics, there is a principle called "opportunity cost", which means identifying what you could do instead, if you didn't do this. When we spend billions on servicing debt, it isn't available for other priorities. Here are other options:

- ⇒ Canada transfers about \$36 Billion every year to provinces for health care. The provinces have asked for \$28 B for post-COVID health care to raise staffing levels, speed up treatments/surgeries, or purchase new equipment/facilities. With no interest payments, we could say "yes".
- ⇒ Our Defense budget is about \$25 Billion. The Liberals added just \$9 B over 5 years. In light of global instability and Arctic vulnerability, many want to aim for 2% of GDP in line with our NATO commitment. \$27 Billion could double it to \$52 Billion - very close to the target \$58 Billion.
- ⇒ Elderly benefits cost \$48 Billion annually. If you feel seniors deserve more support, \$27 Billion could increase current benefits by just over 50%.
- ⇒ Children's benefits cost \$22 Billion, so \$27 B could more than double those supports.
- ⇒ Each GST point is worth about \$7.5 B in revenue, so with \$27 B, we could reduce GST to 2% or less, instead of 5%, benefitting every single Canadian.



⇒ We could increase the Basic Personal Exemption which would also help almost every Canadian and relieve many lower income people of paying taxes altogether. The PBO estimates the cost at approximately \$7 Billion per year for every \$1000 increase (it is now \$13,808), applied to people earning less than \$200,000.

⇒ Or we could buy about 20,000 affordable housing units; or 5,000 MRIs; or 3,000 water treatment plants for First Nations, each year.

The provinces have asked for an additional \$28B in Canada Health Transfers from the federal government

**BUT THIS WAS NOT INCLUDED IN THE BUDGET.**



## TOP BUDGET SPENDING PRIORITIES (all projected over five years)

- \$12 B - Green energy subsidies and programs
- \$10.5 B - Indigenous reconciliation
- \$10.2 B - Housing subsidies and programs
- \$9.4 B - Defence
- \$7.1 B - Health care (dental plan, mental health)
- \$6 B - Workforce initiatives: immigration settlement
- \$5.5 B - Corporate subsidies intended to promote growth
- \$3.8 B - Critical Minerals development strategy
- \$1.7 B - To raise small business tax levels more gradually

## BUDGET BY THE RAW NUMBERS

**Deficit:** \$113.8 B for last year; projected at \$52.8 B for this year

**New Revenue:** \$85 B

**New Spending:** \$63 B for a total of \$434 B in spending

**Rate of growth in spending:** Up 8% per capita over 2020

**Debt:** \$1.14 Trillion

**Servicing Cost for that Debt:** \$26.9 B this year, projected to rise to \$40 B by 2025-26

**Debt to GDP Ratio:** The government's new "fiscal anchor", the budget reports the ratio at 45.1%, but this is a mischievous number as everyone calculates it differently so comparisons are pointless.



## Choose the statements with which you generally agree:

- ☐ The government has got to curb inflation; it is hurting everyone
- ☐ Tax relief, even if temporary, would help people handle inflation
- ☐ I'm worried that the debt is escalating out of control
- ☐ We are recovering from a pandemic; government needs to spend
- ☐ Health care must be the highest priority, even if it means other cuts
- ☐ Deficits and debt are at manageable levels and we need the supports

**Other issues or comments?** \_\_\_\_\_

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You can alternatively answer Greg's surveys online at [GregMcLeanMP.ca](http://GregMcLeanMP.ca)