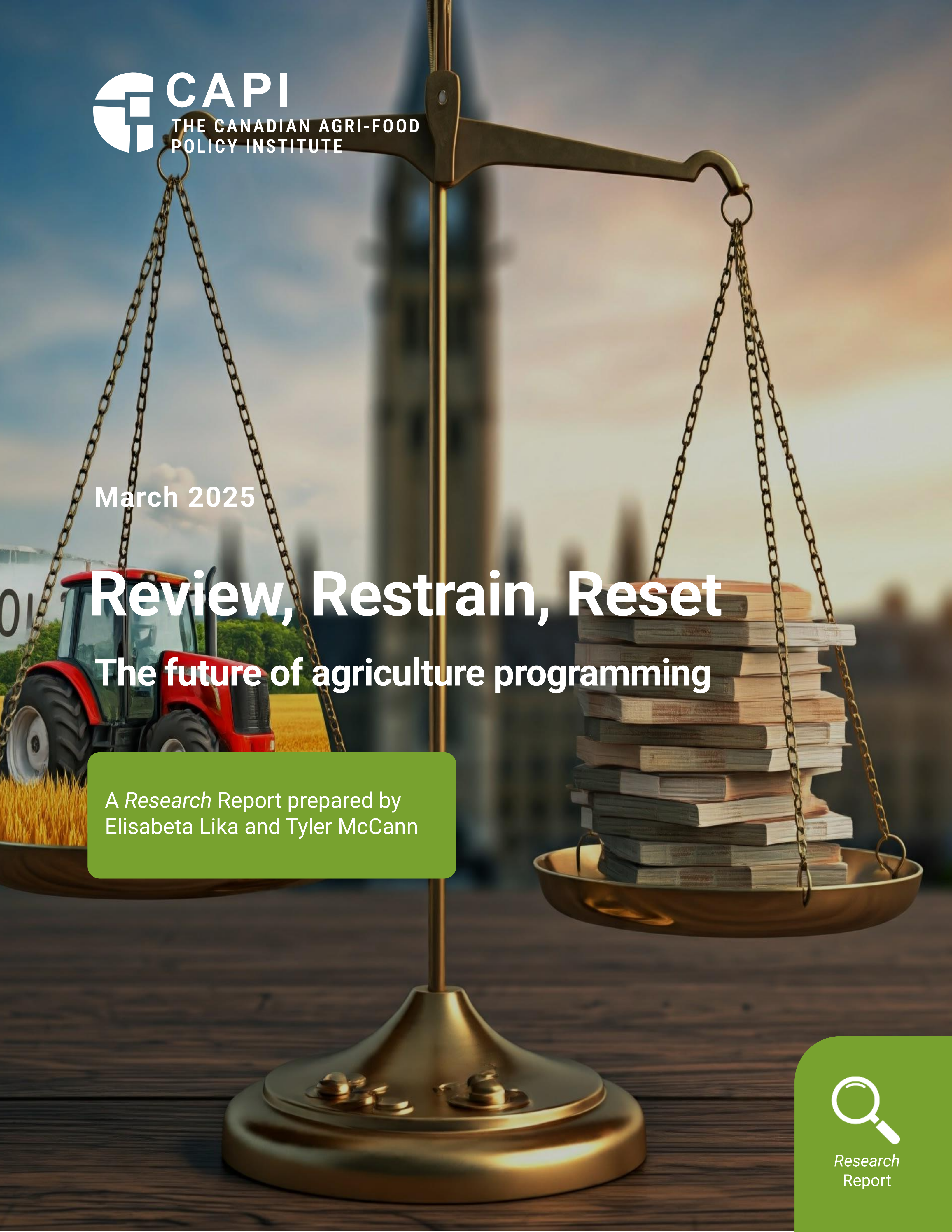

CAPI
THE CANADIAN AGRI-FOOD POLICY INSTITUTE

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Review, Restrain, Reset

The future of agriculture programming

A *Research* Report prepared by
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Research
Report

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The Canadian Agri-Food Policy Institute's mission is to lead policy development, collaborate with partners and advance policy solutions within agriculture and food.

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Note from CAPI

Public spending on agriculture isn't just about numbers - it's about impact. How much we spend, where we spend it, and how we spend it all shape Canadian agriculture. Often, the public debate calls for more spending without really looking at how well current programs work or considering whether some existing spending should be reshaped, reduced, or even eliminated.

Every 15 years or so, there's a big push to reshape government, usually driven by economic pressures or political will to cut spending. The last major effort was in 2012. Now, regardless of the political landscape, it's time for a thorough review of the Canadian agriculture portfolio.

The stakes are high. Canadian agriculture faces unprecedented challenges – from tariff threats to climate change and more. Simultaneously, the government grapples with serious fiscal pressures at a time when it is being called on to spend more. There is a need for increased scrutiny on the effectiveness and results from public spending. However, indiscriminate budget cuts without considering consequences for farms and food security is equally problematic.

Uncertain times like these, with new tariffs and global challenges, make it more important than even to review how Canada supports its agriculture sector. This isn't about costs; it's about making sure the system works better for everyone. A review should be a top priority; not something to put off.

This report offers a fresh perspective on agricultural policy and spending. It aims to offer a serious look at past events, potential future scenarios, and their implications for Canadian farmers and the food system. The analysis focuses on learning lessons from the past and recommending a path forward to review, restrain and reset AAFC expenditures.

Key Takeaways

1. **Comprehensive Spending Review Needed:** Canada's fiscal situation demands an ambitious, comprehensive spending review to address budget constraints, the need for new investments and long-term generational equity.

2. **Focus on Effectiveness, Not Cuts:** The review should be guided by a series of rigorous tests evaluating the necessity and effectiveness of government involvement, rather than arbitrary spending reduction targets.

3. **Swift Action is Crucial**: The next government should articulate priorities, conduct the review, and release results within 180 days, followed by regular implementation updates.

4. **All Spending Under Scrutiny:** No area should be off-limits, including federal-provincial agreements and politically sensitive programs, to ensure a truly comprehensive assessment.

5. **Reset and Reinvest:** While there is a need to reduce spending, the is an opportunity to reset federal programming and reinvest in emerging and priority areas.

Contents

1. Public finances in Canada

Governments in Canada are faced with a significant challenge: How to rein in spending to reduce the deficit and avoid debt crises while not jeopardizing economic recovery and stability, at a time when the country is on shaky economic footing. The challenge may be exacerbated by the economic instability in Canada's largest trading relationship, a relationship that has a significant bearing on the economic health of Canadian governments.

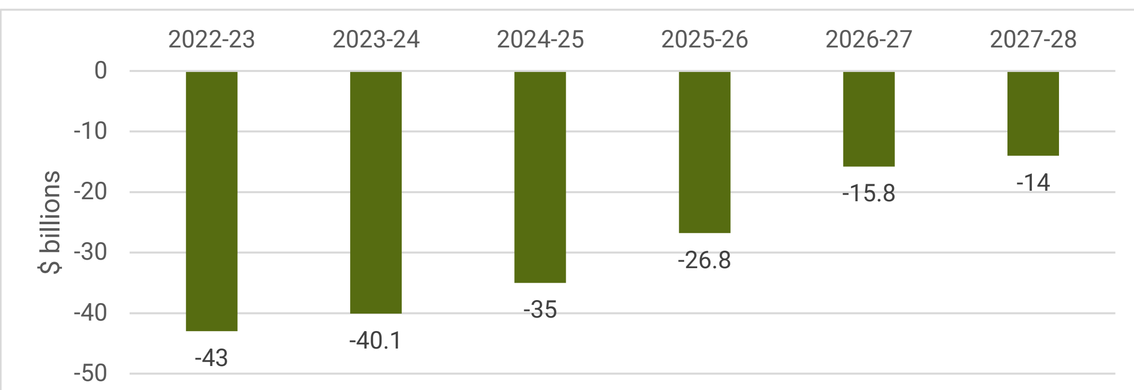
The political change in Canada and around the world has driven home the point that recent budget commitments to revenue growth and spending reviews are outdated. What they will be replaced with remains to be seen, but the need to create space for increased economic support may put additional pressure on existing government spending.

Canada's economic landscape presents several concurrent challenges. The Economic Policy Uncertainty Index has reached unprecedented levels at 650, reflecting broader market concerns. The Canadian dollar has experienced significant pressure against the US dollar, while the Bank of Canada's decision to reduce rates by 175 basis points in 2024 reflects ongoing economic concerns.

International trade dynamics add another layer of complexity. Proposed changes in U.S. trade policies could have substantial economic implications for Canada, with potential impacts across multiple sectors. Companies are delaying decisions, slowing hiring, and holding back on expansion plans. The U.S. Inflation Reduction Act's significant funding towards clean energy initiatives and Climate Smart Agriculture has created new competitive pressures for Canadian industries seeking to maintain their position in evolving markets.

These external pressures coincide with domestic economic challenges. The 2024 Fall Economic Statement projects a budgetary deficit of $38.4 billion (1.3% of GDP) for 2024-25, improving to $37.2 billion (1.2% of GDP) in 2025-26, though the Parliamentary Budget Office suggests higher deficit figures of $46.4 billion. The government's commitment to limit annual program spending growth to 2.3% over the next two years will require careful consideration of resource allocation across various sectors.

Figure 1: Changes in the budgetary balance



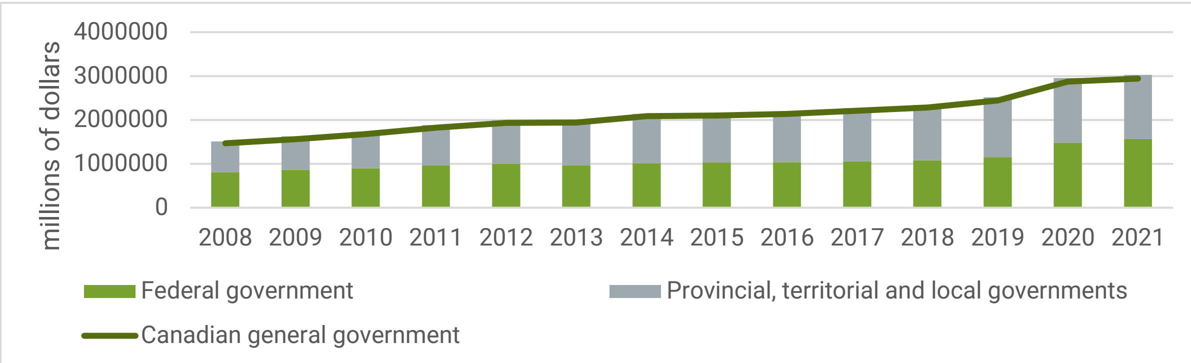
Source: 2023-2024 federal budget

Canada is among the most indebted advanced economies and that fellow G7 countries Germany and the United Kingdom have lower debt than Canada.

Since taking office in 2015, the Canadian government has significantly increased its spending, resulting in eight consecutive budget deficits. Budget 2024 projects this trend to continue in the coming years. The current government has overseen the five-highest years of inflation-adjusted, per-person program spending in the country's history, even excluding COVID-related expenditures.

While the government uses the debt-to-GDP ratio as its fiscal anchor[1], projecting a decline to 37.3% in 2028-29 from 42.4% in 2022-23, this metric requires careful interpretation as it relies on net debt, which subtracts financial assets from total government debt. When comparing total government debt relative to the size of the economy among advanced economies, Canada ranks 26th out of 32, indicating room for improvement in fiscal management.

Figure 2: Total liabilities (gross debts), 2008 to 2021

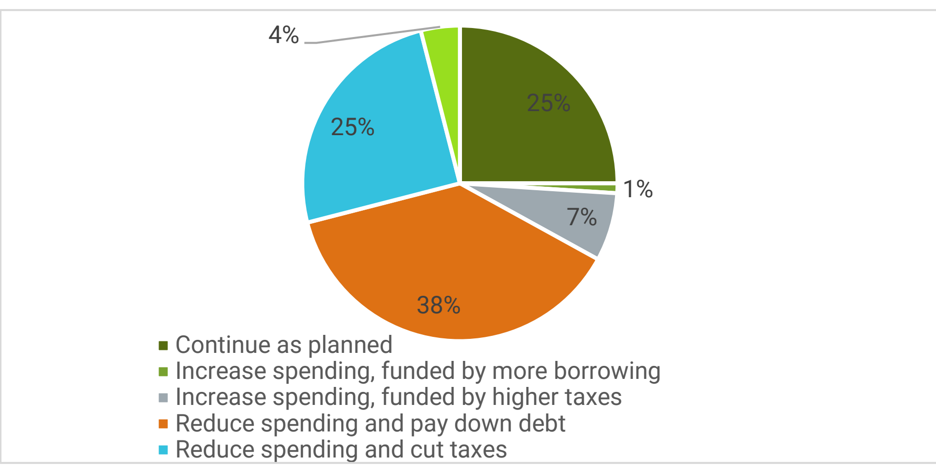


Note: Canadian general government debt includes all federal, provincial, territorial, and local government debts.

Source: Statistics Canada

The federal fiscal framework operates without legislative restraints https://www.iedm.org/canadian-debt-clock/on indebtedness, unlike some provinces. The Financial Administration Act sets a borrowing ceiling of $1.168 trillion, including amounts borrowed by Crown corporations and Canada's mortgage bonds guaranteed by the Canada Mortgage and Housing Corporation. The Borrowing Authority Act allows for additional borrowing under exceptional circumstances with Parliamentary approval.

Figure 3: What the government should do regarding the $38.4 billion deficit



Source: Nanos Research

Note: Weighted to the true population proportion.

Public sentiment reflects these economic realities, with 70% of Canadians believing the economy is in recession. This perception stems from tangible challenges in housing affordability, food costs, and wage growth. A recent Angus Reid Institute poll indicates that nearly 66% of Canadians believe the government is overspending, with many advocating for cuts to reduce the national debt rather than increasing taxes.

[1] This term refers to key indicators or guardrails that the government uses to demonstrate fiscal responsibility to international markets and economists.

The current economic environment and fiscal position signal the need for a thorough evaluation of government spending patterns and priorities.

This fiscal situation carries immediate costs- debt interest payments alone were projected to surpass $54.0 billion in 2024 at the federal level, with Canadian taxpayers expected to pay another $37.1 billion in provincial debt interest costs. If no changes are made and no evaluation takes place, one potential scenario suggests the debt could increase by $14.4 billion by March 31, 2025, - that's $136.7 million each day starting in December 2024.

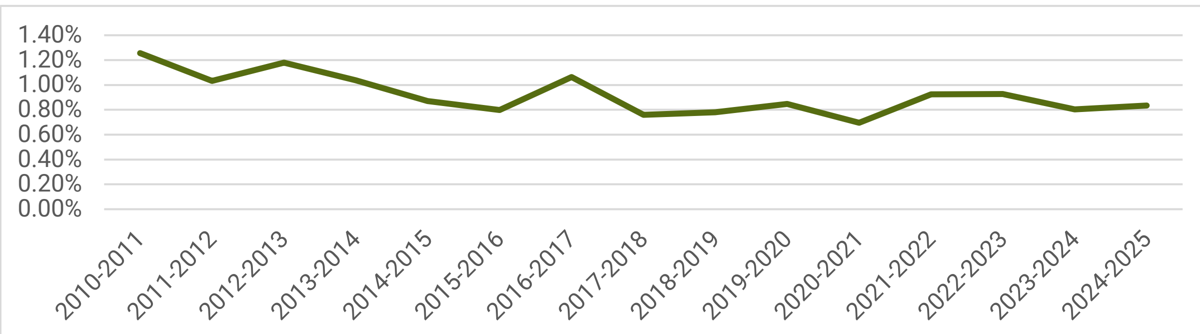
This situation presents an opportunity to assess how effectively public resources are being used and to consider strategic adjustments that ensure long-term fiscal sustainability while maintaining essential services and economic stability.

2. Agriculture support is more than a question of money

Like the broader fiscal challenges facing Canadian governments, the agricultural sector demonstrates how increased spending without addressing underlying systemic challenges risks further straining public finances while failing to achieve intended outcomes. The sector has long been a recipient of substantial government support through multiple channels, programs, and jurisdictions, yet stakeholders consistently call for additional funding - a disconnect that highlights how focusing solely on funding levels overlooks fundamental structural issues. This becomes evident when examining the scale and scope of current agricultural support mechanisms.

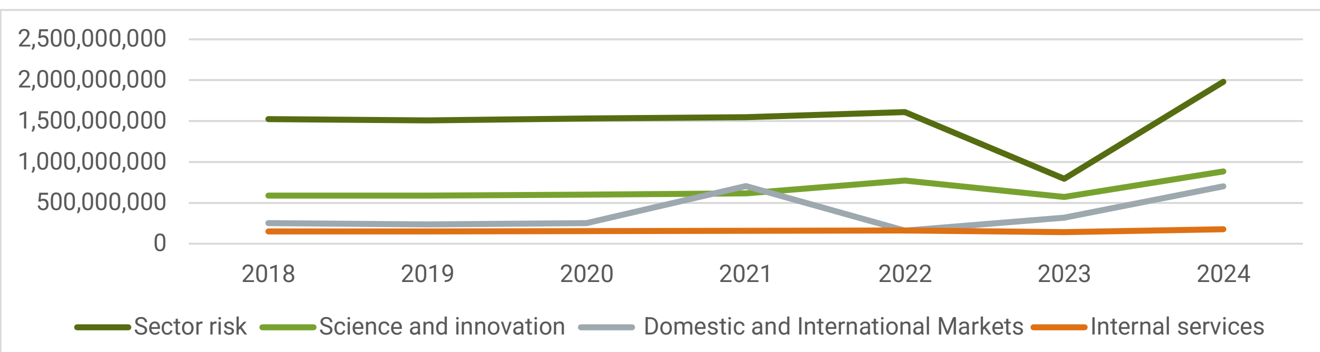
While direct government support to agriculture has evolved over the years, significant resources continue to flow into the sector year after year through various channels. Agriculture and Agri-Food Canada's (AAFC) share[2] of federal Main Estimates has fluctuated between 0.70% and 1.26% over the past 15 years (Figure 4), with planned spending for 2024-25 fiscal year is approximately $4.2 billion, distributed across four core areas (Figure 5): Domestic and International Markets ($700.8 million), Science and Innovation ($883.8 million), Sector Risk Management ($1.98 billion), and Internal Services ($176.8 million).

Figure 4: AAFC's share of federal budgetary main estimates



Source: Calculations using Government Expenditure Plan and Main Estimates

Figure 5: AAFC expenditures by core responsibilities (2018-19 to 2024-25)



Source: Calculations using AAFC Departmental Result Reports

For a detailed historical table of AAFC spending data, click here.

[2] These percentages represent only AAFC's share of expenditures requiring annual Parliamentary approval through Main Estimates and do not reflect the department's total spending, such as all statutory spending (spending pre-approved through other legislation) and supplementary estimates.

This substantial investment is further supplemented by other federal departments and agencies. The Canadian Food Inspection Agency's budget of approximately $850 million, Pest Management Regulatory Agency's two year budget of $39 million announced in Budget 2024, Innovation, Science and Economic Development (ISED) Canada's $49.5 million investment in the Canadian Agri-Food Automation and Intelligence Network, the Federal Economic Development Agency for Southern Ontario's $8 million investment in agri-food innovation, and the ISED $136.7 million funding to Genome Canada all contribute to the sector's support.

The Sustainable Canadian Agricultural Partnership (CAP) represents another significant federal-provincial investment, providing $3.5 billion over five years (2023-2028). This includes $1 billion in federal programs and $2.5 billion in cost-shared programs[3] between federal and provincial governments.

Recent spending patterns show significant commitments to specific sectors. Over $4.8 billion has been allocated to compensate dairy, poultry, and egg producers for market changes from trade agreements. This includes $1.75 billion to dairy producers (2019-2023), with an additional $1.2 billion committed over six years. Since 2021, Canada has invested $1.573 billion to help farmers and ranchers reduce emissions and build resilience, though this trails behind other countries' commitments to sustainable farming systems.

Like other departments, AAFC faces fiscal restraint measures. The department's planned reductions start at $17.5 million in 2024-25 and increase to $39.4 million by 2026-27. These cuts align with the government's broader commitment to limit program spending growth to 2.3% over the next two years. Given the current fiscal environment and the projected deficit, there is a strong possibility that additional cuts could be implemented.

While funding reductions are inevitable in the current fiscal environment, the agricultural sector fundamental challenges can no longer be ignored. Persistent issues highlighted in successive audit reports demand attention now more than ever. A key issue lies in the short-term memory of program cycles. The five-year framework of initiatives like CAP creates a pattern of ramping up and winding down that disrupts continuity in policy development and program planning. This cyclical nature often results in a loss of institutional knowledge and hinders the ability to build upon past successes or learn from previous shortcomings. Consequently, each new cycle risks reinventing the wheel rather than evolving based on accumulated experience and data.

Moreover, the decentralized model of program delivery, while allowing for regional customization, presents challenges in understanding the sector-wide impact of investments. Different emphases placed on priority areas by provinces and territories can lead to incoherence in progress towards national objectives. This disparity is further exacerbated by data lags from provincial and territorial partners, making it difficult to assess results from current programming in time for the next negotiation cycle.

The agricultural support landscape is also marked by a lack of robust performance measurement. Despite some improvements, there remains a lack of outcome and impact data across all priority areas. This gap in quantifiable evidence makes it challenging to demonstrate the effectiveness of programs thoroughly and to justify continued or increased support.

Perhaps most concerning is the tendency for certain programs to become entrenched, remaining "off the table" when it comes to evaluation or potential cuts.

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[3] Agriculture is a shared jurisdiction and for more than 20 years FPT governments have built strong collaborations in support of the sector to increase its competitiveness, profitability and sustainability. This collaboration occurred through a series of negotiated policy frameworks including the Agricultural Policy Framework (2003-08), Growing Forward (2008-13), Growing Forward 2 (2013-18), the Canadian Agriculture Partnership (CAP) (2018-23), and the Sustainable Canadian Agricultural Partnership (2023-2028). Programs are designed and delivered by provincial and territorial governments. Costs to administer the programs are cost-shared between federal and provincial governments on a 60:40% basis. While provinces and territories may determine the suite of programs that best suit their regional needs, all provinces and territories must commit to meet the broad objectives of the priority areas outlined in each framework. The combined FPT contribution for the Cost-shared Program under CAP was approximately $2 billion over the 5-year evaluation period.

This status quo bias can perpetuate inefficiencies and prevent the reallocation of resources to more effective or innovative initiatives. Audit reports consistently highlight problems and gaps, yet these findings often fail to translate into meaningful changes, instead gathering dust on shelves.

These structural issues in agricultural spending mirror the broader challenges in public finances, suggesting that the sector's concerns about insufficient support stem not from a lack of investment, but from deeper systemic issues. The challenge lies not in the quantity of funding, but in its quality – how funds are allocated, programs are designed, and outcomes are evaluated. As the government grapples with fiscal pressures and the need for spending restraint, these systemic issues in agricultural support programs require the same careful reassessment as the broader public finance landscape.

3. A review, but what kind?

Canada's fiscal woes didn't appear overnight. They're the product of years of choices made—and choices avoided—often made worse by economic headwinds.

The Canadian government has recently taken steps to address its fiscal challenges. In 2023, it announced a fiscal restraint initiative aiming for reduction of 15.4 billion over five years, including initial cuts of $500 million for the 2023-2024 fiscal year. Treasury Board emphasized that these cuts are necessary to demonstrate fiscal responsibility while still supporting essential services.

This patchwork approach to fiscal management does not solve the underlying issues. The government's approach has been insufficient to address the deeper fiscal crisis, with projections indicating ongoing deficits and increasing debt levels for the foreseeable future. Recent events, such as the resignation of the Minister of Finance over disagreements about budget cuts, highlight the growing tension between fiscal responsibility and political considerations.

Indeed, the Canadian government once again faces significant fiscal challenges, a situation similar to past economic difficulties. This is not an unprecedented scenario; Canada has faced the need to reassess its spending priorities and fiscal strategies multiple times. The current fiscal landscape presents significant challenges, but it's part of an ongoing cycle of fiscal management rather than an unprecedented crisis.

Throughout its history, the country has implemented various types of spending reviews in response to different economic pressures and fiscal realities. Since the early 1980s, Canada has implemented several spending reviews in response to various economic pressures and fiscal realities. These reviews have ranged from comprehensive reassessments of government roles to more targeted efficiency initiatives, each designed to address the specific economic circumstances of its time. The Nielsen Task Force of 1984-1985, the Program Review of 1994-1996, the Strategic Review of 2007-2011, and the Deficit Reduction Action Plan (DRAP) of 2011-2012 all represent different approaches to fiscal restraint and government reform.

Table 1: Characteristics of Canadian Spending Reviews

	Mulroney Government	Chrétien Government	Harper Government		Trudeau Government
Name of review	Task Force on Program Review (Nielsen)	Program Review	Strategic Review	Strategic & Operating Review (DRAP)	Spending Review
Time horizon	1984-1986	1994-1996	2007-2010	2011-2015	2022-
Motivation	New government, growing deficits, improving delivery	New government, serious deficit interest payment challenge	New government, maintain fiscal and spending discipline	Securing savings for deficit reduction after Economic Action Plan	Dealing with post-Covid pandemic spending and deficits, reallocation
Purpose	Improving management & accessibility of federal programs	Identifying core federal programs, alternative service delivery, and deficit reduction plan	Focus on contributions to third party entities and administration; exempted transfers	Direct spending of the government, emphasis on savings on operating expenses & productivity	Cross-govt. program effectiveness & cuts to professional services & federal entities

Scope	All programs delivered by federal government (1000 programs)	Comprehensive, but some departments and programs excluded	Programs were selected for review each year	Focus on savings from administrative functions	Targeted reviews, but widespread cuts
Coordination	Special ministerial committee and staff	Small secretariat in the Privy Council Office	Small secretariat in the Treasury Board Sect.	Small secretariat in the Treasury Board Sect.	Small secretariat in the Treasury Board Sect.
Undertaking reviews	Study teams of private & public experts from outside the government	Departments produced reviews addressing tests of Program Review team	Departments and external consultants	Departments and external consultants	Likely departments
Governance	Reviewed by Private Sector Advisory Council & Ministerial Task Force	Reviewed by a Deputy Minister committee, and finally full cabinet	Treasury Board and Minister of Finance	Treasury Board and Minister of Finance	Likely Treasury Board and Minister of Finance

Source: Lindquist & Shepherd, 2023

The continued high level of government spending without sufficient restraint poses risks not only to current financial stability but also to future economic growth and long-term sustainability. Research indicates that increased debt-financed spending can hinder capital accumulation and labour productivity, ultimately increasing the tax burden on future generations. It also risks undermining Canada's AAA credit rating, which helps maintain investors' confidence and keeps Canada's borrowing costs as low as possible.

It's not just about how much cash the government spends—it's about how wisely it's spent. And when it comes to tightening the belt, the method matters as much as the amount saved.

Given this history and the current fiscal situation, Canada faces a pressing need for a thorough examination of government spending, driven by both immediate fiscal imperatives and long-term generational considerations.

The question now is not whether a review is needed, but what kind of review will best address the complex fiscal challenges Canada faces. Should it mirror the comprehensive scope of the 1994-1996 Program Review, which examined all areas of government spending? Or should it follow a more targeted approach like the 2011-2012 DRAP, focusing on operational efficiencies. History has shown that in similar situations, there is often a need for more comprehensive spending reviews.

Two of the most significant reviews in recent history are the 1995 Program Review and the 2012 Deficit Reduction Action Plan (DRAP). Both offer valuable lessons on what has worked in addressing fiscal challenges, what hasn't, and how different approaches can be adapted to suit present-day economic realities. To understand which approach might be most effective today, it's important to examine the fiscal challenges that led to these reviews, what they consisted of, and their outcomes.

By examining past approaches, the government can start from a foundation of proven methodologies rather than attempting to reinvent the wheel. The experiences of previous review exercises should inform the design and implementation of future initiatives. At the same time, any new review must account for the unique challenges and government priorities such as responding to the threat or impacts of tariffs or climate change.

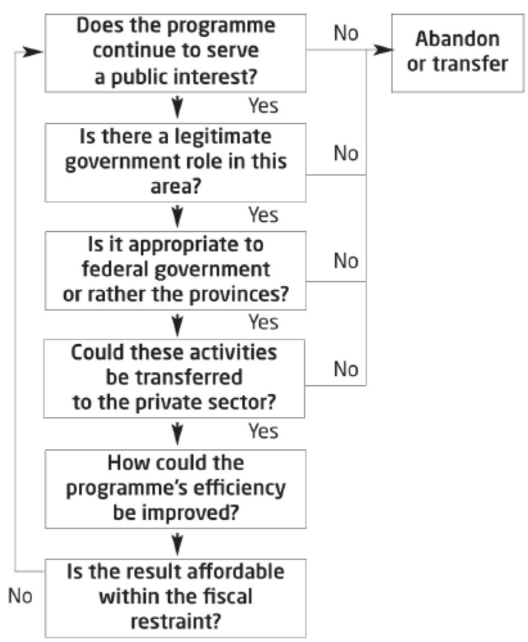
3.1 1995 Program Review: "Smaller…Smarter Government"

Canada's fiscal crisis leading to the 1995 Program Review stemmed from decades of persistent federal deficits and growing debt. From 1970-71 to 1995-96, the federal government ran deficits every year, the longest string in Canadian history. The federal debt-to-GDP ratio increased from 20% in 1973-74 to 73% in 1995-96. By the early 1990s, debt servicing consumed one-third of federal revenues, creating a vicious fiscal circle. Several factors contributed to this crisis, including the 1973 OPEC oil shock, expansionary fiscal policies, rising interest rates, and weaker revenue growth. The situation was exacerbated by the 1994 Mexican peso crisis, which served as a wake-up call. These circumstances ultimately forced Finance Minister Paul Martin to respond with the 1995 Program Review, often called the "Budget that changed a nation".

The 1995 Program Review was a comprehensive, principle-based approach to fiscal reform, that went beyond simple cost-cutting. It fundamentally reassessed the federal government's role in program and service delivery, with dual objectives of eliminating the deficit and evaluating government policies based on 'value for money'.

Unlike across-the-board cuts[4], the Chrétien government used a methodical approach to review federal roles and programs. This strategy prioritized important areas while reducing spending in lower-priority sectors. The review asserted that evaluating the relative importance of government programs within the overall fiscal framework was the only viable alternative, rejecting the view that increased productivity alone could eliminate a sizable deficit.

Figure 4: Program Review's test - decision tree



The review was role-focused rather than based on performance indicators. This approach allowed the government to consider policy options' efficiency after determining their importance. It involved all government entities reporting to ministers and Parliament, leaving nothing off the table. Ministers and deputy ministers developed proposals based on six interconnected principles, forming a sequence of inquiries from examining program roles to assessing their effectiveness and affordability.

The impact on the agriculture sector during the mid-1990s deficit reduction period was transformative. The 1995 budget led to significant cuts, including a 30% reduction in subsidies for the dairy industry and other agricultural sectors over two years, forcing farmers to adapt quickly to a more market-oriented environment. The landscape of agricultural support in Canada was fundamentally altered by several key changes. These included the elimination of the historic Crow Rate, export grain subsidies, and feed freight assistance. Additionally, a new suite of income stabilization programs was introduced, shifting the focus from direct price supports to broader income stabilization measures.

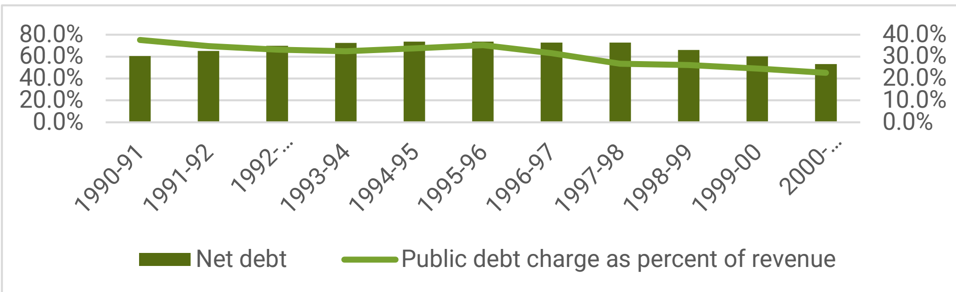
The Program Review led to significant reductions in government spending and dramatic improvements in Canada's fiscal position. Between 1994-95 and 1996-97, programme spending declined by over 10% in absolute terms, with half of these reductions coming from changes to statutory programmes like employment insurance and fiscal transfers to provinces.

[4] The method of uniform cuts distributes spending reductions among functions across the board without discrimination. While this method is effectively easier to put in place, and appears to be more egalitarian, it makes little or no distinction between efficient programs and those that are less useful.

Relative to GDP, the decline was even more pronounced, with programme spending falling from 16.8% in 1993-94 to 12.1% in 1999-2000, its lowest level since 1949-50.

These spending cuts, introduced in Budget 1995, exceeded the government's deficit reduction targets. By 1997-98, just two years after implementation, the budget achieved a surplus of $3.0 billion-the first in a quarter century. This surplus position continued for the next decade. The fiscal reforms also significantly reduced the burden of public debt. By 2008-09, public debt charges consumed only 11.9 cents for each dollar in tax revenue, down from 38.0 cents in 1990-9. Over this period, the federal debt decreased by $95 billion, from its peak in 1996-97 of $563 billion to $468 billion.

Figure 5: Federal net debt/public debt charges



Source: Federal reference tables, 2008

3.2 2012 Deficit Reduction Action Plan: "Tighten our belts and trim the fat"

In 2011, Canada faced a different set of fiscal challenges compared to the mid-1990s. The 2008 global fiscal crisis had led to six consecutive budget deficits totalling over $144 billion between 2008-09 and 2013-14. The Harper government's $50 billion stimulus plan, while necessary to combat the recession, had further increased these deficits. By 2011, there was mounting pressure to address the accumulated deficits and return to a balanced budget.

Unlike the severe fiscal crisis of the 1990s, the 2011 situation was less dire but still concerning. The Conservative government had made balancing the budget by 2015 a key political priority, viewing it as crucial to maintaining their reputation for fiscal responsibility. Long-term fiscal challenges from an aging population, rising healthcare costs, and slow economic growth after 2010 also factored into their decision-making. There was also international pressure for fiscal consolidation from other G20 countries implementing austerity measures post-recession.

The Harper government's response, the Deficit Reduction Action Plan (DRAP), differed significantly from the 1995 Program Review in its approach and scope. While the 1995 review was a comprehensive reassessment of the government's role, DRAP focused more on operational efficiencies, eliminating non-essential functions, and selective targeted cuts. The government conducted a government-wide review of program and operational spending, with every department asked to present proposals to achieve 5 to 10 percent in savings. This approach aimed to restrain growth in federal spending by freezing departmental operating budgets and capping certain expenditures, yielding ongoing savings of approximately $5.2 billion annually.

Deficit Reduction Action Plan (DRAP) achieved $45.2 billion in ongoing savings with relatively minor political impact and contributed significantly to balancing the budget by 2015. However, its cautious approach fell short in addressing deeper structural issues or preparing for long-term fiscal challenges. The plan's limited scope, focusing primarily on operational efficiencies, missed opportunities for more substantial reforms. Its short-term focus on balancing the budget by 2015 potentially prioritized quick savings over long-term structural changes. Moreover, uneven implementation across departments and lack of clear baselines for reductions in full-time equivalents hampered Parliament's ability to assess the progress of announced cuts.

In the agriculture sector, DRAP's impact was less dramatic than the 1990s reforms but still noteworthy. Agriculture and Agri-Food Canada streamlined its funding programs, altering how farmers and agricultural businesses accessed government support. Business risk management programs underwent adjustments, likely affecting farmers' strategies for managing financial risks tied to market volatility, production losses, and income fluctuations. The Canada Border Services Agency, responsible for agricultural inspections at borders, implemented stricter approaches to revenue and expenditure management in response to DRAP. While less sweeping than the 1990s overhaul, these changes represented significant shifts in agricultural policy and support structures in Canada.

4. Delivering the review – the hard part

Effective fiscal management isn't about reinventing the wheel or devising untested solutions. It's about applying proven principles, drawing insights from past successes and failures, and adapting these lessons to current economic and political realities. The 1995 Program Review offers a robust framework for addressing today's fiscal challenges, providing a set of six fundamental questions that should form the backbone of a comprehensive review.

The urgency of Canada's current fiscal situation demands a program review anchored in several core principles, drawing heavily from the lessons of the 1995 Program Review. While this report centers on the agriculture sector, the principles outlined here are broadly applicable across all government domains. The intent is to establish a framework that ensures the review is not just visionary on paper, but effective in practice, capable of driving meaningful change and fiscal responsibility.

Source: Image created by the authors

However, the experience under the Chretien government demonstrated that a meaningful review is not for the faint of heart. It requires a significant commitment from the political leadership, meaningful engagement with the civil service, clarity of purpose and more.

During the development of this report CAPI reviewed analysis of previous fiscal restraint exercises and engaged with former senior civil servants. The following represent essential elements that will deliver a successful fiscal restraint review.

1. **Clear priorities that are clearly communicated**

While fiscal restraint exercises are often driven out of necessity due to the economic situation of the government, their success at a policy and political level is influenced by the ability of governments to clearly articulate the why and what of the process. Establishing clear priorities and communicating them internally and externally is essential to the review's success.

For example, the government should be able to articulate what will be prioritized and why. In the agriculture portfolio this could include prioritizing trade as a avenue for economic growth or on-farm environmental efforts to improve the sustainability of the sector. Achieving consensus on the priorities is likely not possible and may not be desirable but needed to determine the direction of the review.

Communicating the priorities internally is vital to ensuring the recommendations made by the civil service and how they are implemented is in line with the mandate from the government. Communicating them externally is essential to building buy-in from stakeholders and the public for what may be significant changes at the end of the process.

Communications should not drive policy, but communications are vital to successful public policy.

2. **Setting a high threshold**

The first test that policies and programs need to pass in a review is whether it still serves a genuine public need in today's context. This question forces a look beyond the need at the time the program was launched and considers how the context has evolved. It also demands a critical examination of how legitimate and necessary role for government in this area. Just because government is doing something, or can do something, does not mean government should do something.

If there is a clear need for government involvement there must then be a serious consideration of the efficiency and effectiveness of governments approach. To often a legitimate need for public investment is poorly served by poor program design and delivery. There must be a serious consideration of the potential for process-streamlining technology adoption and service delivery redesigns.

In agriculture, with a shared jurisdiction between the federal-provincial and territorial governments there must also be serious consideration about whether the program or policy should be delivered federally or by a lower level of government. Provincial delivery is often the easy, and appropriate, solution to dealing with regional differences in Canada. The Agriculture Policy Framework should undergo a serious revamp to better define the roles and responsibilities of the different levels of governments, recognizing that intergovernmental cooperation often leads to more effective outcomes.

In addition to questions about programs, the test should also consider alternative approaches to regulatory frameworks. For example, should regulations be replaced by voluntary standards. As outlined by the Canadian Standards Association, standards can often serve as an effective alternative to regulations, offering several advantages[5]. Prioritizing regulations with a clear health and safety component and moving others to voluntary standards, such as much of the Seeds Regulations, would reduce regulatory burden while still maintaining necessary safeguards and public protections.

The final test, if the policy and programs have met the high thresholds set under the previous tests, is to determine if they are affordable within current fiscal constraints. This does require a better understanding of the budget envelope the review is targeting, but this should be the last test, not the first and rather than targeting a percent reduction, it should focus on whether the policy or program warrants public investment in an era of fiscal restraint.

3. **Whole-of-government and public engagement**

Serious deficit reduction should not merely be a budgetary exercise but a comprehensive societal project. It likely requires a substantial realignment of the government's role that can only be successfully executed on if there is a coordinated approach across departments, all levels of government and the private sector and civil society. This is particularly true in agriculture, where government and public policy plays a significant role in the sector.

Unlike conventional budget exercises involving a small group working in secrecy, deficit reduction of this magnitude requires a more open and inclusive process. It demands active participation from the entire government apparatus, ensuring a cohesive and coordinated effort.

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[5] - Standards are developed through a consensus-based process involving diverse stakeholder, which can drive trust and buy-in from industry.
- They are founded on evidence and provide access to diverse expertise, ensuring high-quality and up-to-date requirements.
- Standards can enhance compliance-monitoring capacity through conformity assessment mechanisms.
- They can speed up regulatory response or serve as an alternative to regulation altogether, saving time and resources for both government and industry.

The 1995 Program Review demonstrated the success of this approach. The federal budget process was strategically opened up, with the Minister of Finance initiating broad dialogue with private sector experts, parliamentarians, and citizens. This transparent communication built public understanding and support for an ambitious reform program.

Engaging diverse stakeholders in discussions about fiscal challenges and potential solutions allows the government to foster shared responsibility, tap into a wider pool of expertise, ensure balanced measures, build credibility, and create broader support for difficult decisions. This inclusive approach enhances the quality and effectiveness of the deficit reduction strategy while strengthening democratic participation. It is essential though that any engagement be meaningful and avoid the appearance of empty consultations.

However, the decisions ultimately rest with Cabinet, and many may be disappointed with the decisions that are made. If there is meaningful engagement in advance, and governments can demonstrate how the feedback was incorporated it should help build support for changes.

4. **Speed, scale, and scope of the review**

The current fiscal situation demands a comprehensive review characterized by swift action, significant scale, and broad scope. While reforms are often implemented incrementally, the size of the deficit, the significant pressures from external actors require decisive and urgent action.

The scale of the review must be substantial enough to balance the individual interests with collective needs. Large-scale reforms make possible changes that would be politically unfeasible if attempted in isolation. All programs have beneficiaries, and cuts to individual programs typically provoke strong reactions from those affected. However, a review of significant scale helps balance single interests against collective interests, with public judgement hinging on the perceived fairness of proposals across regions, groups, and income levels.

Speed is also crucial in this process. While successful public sector reforms are often implemented gradually, a high level of societal consensus allows for more expeditious action. Moving quickly creates hope and momentum for positive change.

The review should apply to the greatest possible range of public policies, maximizing the probability of identifying saving opportunities. Following Canada's 1995s approach of "nothing off the table" all ministries should be potentially subject to spending cuts. This comprehensive approach promotes the acceptability of expenditure reductions both within the government and among the public.

This report considers the potential impacts within the agriculture portfolio, but the changes to agriculture support should be part of a much broader review.

5. **Swift and decisive implementation**

With some exceptions, governments appear to have struggled recently with effective implementation and rapid execution. However for a significant spending review to be successful governments must move quickly to conduct the review, announce the decisions and move to implementation. It will take time to implement the decisions made in a spending review, but the systems need to be put in place so that decisions can be made quickly.

For example, the government should aim to articulate priorities, undertake the review, and release results within 180 days of the start of the review. Once decisions on are made, they must be implemented quickly and decisively. Delaying implementation can tempt ministries and administrators to revisit or undermine the decisions, potentially derailing the entire review process.

A crucial strategy is to not withhold final decisions until all proposals are on the table. This approach prevents ministries from adopting a wait-and-see attitude, hoping that pressure for cuts will diminish as other departments reveal their savings plan. It ensures a comprehensive view of potential savings across government rather than only doing what is necessary to meet targets.

A focused agenda is important. The government should avoid overloading its agenda with other reforms during this critical period, concentrating efforts on successfully executing the spending review decisions.

Clear objectives and metrics must be established for each reform initiative, enabling progress tracking and result demonstrating.

Public accountability is crucial in an era of tighter spending. Robust mechanisms should be developed to ensure and demonstrate accountability throughout the implementation process, showing the public that money is being used effectively. The spending review is just the first step; continuous monitoring and adjustments of the reform program are essential to achieving lasting change.

It is important to acknowledge that in an era of increased economic and political risk because of changes outside Canada's borders, the agenda cannot be so focused as to prevent meaningful and substantial action. However, the need to potentially deliver financial support to Canadians and Canadian businesses should compel a comprehensive, ambitious review, not discourage it.

6. **Empowering decision-makers and collective responsibility**

The success of a comprehensive spending review hinges on empowering key decision-makers while fostering collective responsibility. Ministers and deputy ministers must be given the authority to make and implement decisions swiftly, but within a framework that promotes unified action and prevents fragmented approaches.

The 1995 Program Review demonstrated the effectiveness of relying on ministers and deputy ministers as a cohesive team. They were tasked with developing joint proposals for their departments' future roles in serving Canadians, aligned with the government's three-year fiscal plan. This collaborative approach created a strong link between policy choices and implementation, minimizing the risk of tactical behaviour or blame-shifting between political and administrative leadership.

By empowering ministers and deputy ministers to work as a unit, the government can ensure swift action once decisions are made. This rapid implementation is crucial to prevent ministries from revisiting or undermining agreed-upon cuts. The approach also fosters a sense of shared responsibility for the outcomes of the review process. The recent trend has been for consolidation of power into PMO and Central agencies, the review provides an opportunity to rebalance the relationship between departments and "the center."

7. **Conviction and political will**

A successful comprehensive spending review demands unwavering political determination and boldness. This principle is foundational to the entire process and encompasses several key elements such as uncompromising commitment, 'no sacred cows', avoiding early protections, willingness to make significant changes and political courage.

Political leaders communicate clearly the reality of the deficit and the fiscal situation of the government and its commitment to a meaningful review. Early political communications will set the tone for the entire review process and the seriousness of the undertaking.

All departments, including those traditionally protected, must be subject to equal scrutiny. This includes statutory payments, which are often considered untouchable. By avoiding ring-fencing of departmental budgets, the review can achieve a truly comprehensive assessment of government spending. That does not mean that the government will cut programs or spendings, but that governments will be able to justify an affirmative decision to continue spending.

The mantra should be to “go big”, spreading the impact across the entire government. This approach prevents rivalries and resentment that can arise from perceived favoritism. It also enables a more substantial overall reduction in spending.

It remains to be seen whether bold action in fiscal management can yield political rewards. Public opinion research highlights that the size of a deficit may not be a priority. However, there is increasing recognition that Canada may not be in a sustainable financial position. It is worth noting that part of the reason that the Chretien government was able to make the cuts it did was because it faced vocal opposition parties calling for it to go further.

8. **Prudent planning and risk management**

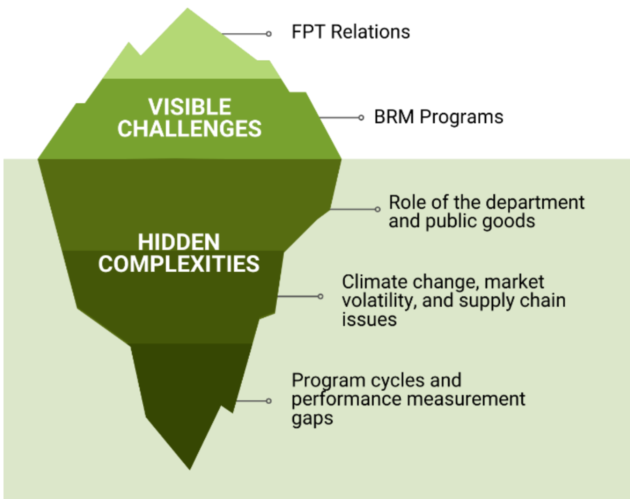
Prudent planning is a cornerstone of effective fiscal reform, safeguarding the process against unforeseen circumstances and maintaining momentum towards financial goals. The 1995 Program Review exemplified this principle through key strategies, such as the use of lower-than-average fiscal hypotheses, the creation of a contingency reserve and the elimination of policy reservices for funding new initiatives, that remain relevant today. This conservative stance creates a realistic buffer against unexpected challenges and enhances credibility with financial markets and the public.

However, while building in safeguards is essential, prudent planning requires a delicate balance. Excessive caution can lead to unnecessarily restrictive policies. Moreover, the program review should reduce existing investments but should not preclude new investments targeted to emerging issues. For instance, the government must retain the flexibility to respond to urgent matters such as the impact of potential US tariffs on Canadian industries.

By adhering to these eight principles and prioritizing effective implementation, the design and implementation of such a comprehensive review can drive a broader realignment of government roles. The goal must not just be fiscal balance, but a more responsive, efficient, and efficient government that delivers tangible value to Canadians.

5. Reviewing of the Agriculture Portfolio

5.1 The Challenges of the six-tests



Source: Image created by the authors

Every department and portfolio have its unique circumstances that provide important context as it approaches a program review. Often those circumstances and that context is a justification for avoiding spending cuts. That said there are elements within the agriculture portfolio that complicate the six tests.

Federal-Provincial-Territorial (FPT) relations: Agriculture is a shared jurisdiction and for the last 25 years the two levels of government have worked together through an Agriculture Policy Framework. Today it is more program framework than policy agreement, but much of the spending at AAFC is tied up in the FPT Agreement. For example, more than $200 million per year is sent to provinces to subsidize the cost of provincial programs. Any changes to the agreement will need to be negotiated with provinces.

The current five-year agreement ends March 31, 2028. That said, undertaking a program review in 2025-26 would allow the review to be completed in advance of the launch of negotiations on the next version of the APF. It could potentially strengthen the federal position during the negotiations by compelling changes to meet the outcomes of the review.

Business Risk Management (BRM) programs: A large majority of the spending within the FPT agreement, and more than half of the AAFC budget is invested in business risk management programs. BRM programs are intended to help farmers manage risks out of their control. While they can play an important role in risk management, the cost of the programs has increased substantially, and AAFC spending is projected to increase from $1.1 billion in 2019-20 to $1.9B in 2024-25. BRM programming is one of the potential “sacred cows” within the agriculture portfolio that farm groups and politicians would like to spare from cuts. This is an example of where it should not just be a question of how much is spent, but of how it is spent as there are likely opportunities to improve the effectiveness of the BRM suite of programs.

The role of the department: At times the answers to the tests may be less than black and white. For example, the decision around whether there is a role for government is likely to be vigorously debated. Whether it be public plant breeding delivering varieties that deliver improved benefits to farmers, or innovation program that supports commercialization there may not be consensus on the need for federal government involvement.

Public goods: Conversely there are times when governments raise expectations for farmers to undertake actions for a public good which legitimizes the need for public spending. A recent example includes the federal government’s fertilizer emission reduction target. Funding for several on farm environmental programs was justified in part by the need to meet that target. If the government were to eliminate the spending it should also revisit its targets to ensure that farmers aren’t left trying to achieve a public good benefit without public support.

The polycrisis: It is not an easy time to be a food producer in Canada and around the world. Extreme weather and climate change is making production more difficult. The rules-based trading system has effectively broken. Supply chains are increasingly vulnerable. Consumers are demanding higher standards, but are often not willing to pay the true cost of producing food to the standards they expect. Urban expansion is driving up land values and taking some of the country's best land out of production. In short, Canadian farmers are being asked to produce more, more sustainably, on less land and in an increasingly complex, challenging environment.

Given the intersecting crises that farmers face there is an argument that governments should be spending more on the sector, not less. A program review, and a change in the department's roles and responsibilities does not mean that it should not do more, it just means that the tests applied to existing programs should be fully considered when before new investments are made.

These challenges show why applying the six tests to agriculture isn't straightforward. Budgets can't just be slashed without considering how doing so affects farmers, provinces, and Canada's food system. At the same time, money cannot continue to be thrown at problems without asking tough questions. The review needs to find a balance -cutting where it makes sense after applying the six-tests but also recognizing the sector's unique needs and challenges.

5.2 Applying the methodology to the agriculture portfolio

The application of the six-test methodology to agricultural programs provides a structured framework for evaluating their continued relevance, efficiency, and alignment with current fiscal realities. Given the challenges outlined in the previous section, including FPT relations, BRM programs, and the polycrisis facing farmers, it's crucial to establish clear priorities for the agriculture portfolio before applying the six tests.

The following are offered as examples of key priorities for the agriculture portfolio, recognizing that a comprehensive review may identify additional or refined areas of focus: Protect health and safety; Clarify federal-provincial roles; Enhance risk management programs; Support research and development; Enable trade and market access. The ability to clearly define priorities is essential to the success of the review.

For example, simply declaring research and develop a priority is insufficient. A better articulation is to say that the priority is to create a 21^{st} century agriculture innovation system by modernizing AAFC's approach to science. The review will prioritize is aligning research capacity with emergent priorities, streamlining approaches to co-funding innovation along the continuum and ensuring that public science catalyzes rather than substitutes for private innovation. Priorities need to go beyond buzzwords and offer a clear vision that can guide the review and justify outcomes at the end of it.

This review should extend beyond Agriculture and Agri-Food Canada to encompass related entities such as the Canadian Food Inspection Agency, Farm Credit Canada, and the Canadian Grain Commission.

Figure 6: Key areas or functions that could be emphasized or focused on in the agricultural portfolio

Protect Health & Safety

- Focus services on health and safety, reduce or eliminate market facilitation role.
- Strengthen CFIA's role and resources to ensure food safety and animal health are delivered effectively.

Clarify Federal-Provincial Roles

- Clearly delineate responsibilities between federal and provincial governments to avoid duplication and confusion.
- Focus federal efforts on areas of clear federal jurisdiction.

Risk Management Programs

- Review the effectiveness of existing programs, including those like AgriInvest, to ensure they meet current needs and are operating efficiently.
- Improve the delivery and efficiency of programs through better use of innovation, data, and the private sector.

Research and Development

- Maintain investment in R&D but explore structural changes to improve outcomes and effectiveness.
- Focus on areas where there is a clear federal role and gap that can only be filled by the federal government.

Enable Trade and Market Access

- Prioritize market access negotiators and let private sector lead on market development.
- Focus on trade development and having people on the ground who understand local conditions for Canadian exporters.

The analysis presented here is illustrative not exhaustive. It offers a guide for how to approach a comprehensive review in the agricultural sector, demonstrating the type of critical thinking and tough decision-making required to address systemic issues and ensure long-term fiscal responsibility. Four areas of AAFC expenditure are examined: On-farm programs, the Science and Technical Branch, Trade Negotiations and Market Access, and AgriInvest.

Examining the suite of risk management programs is a challenge, but necessary. The simplicity of AgriInvest lends itself to an illustrative review. The 6-questions test reveals that while the program is efficiently administered, its focus on shallow risk may no longer align with fiscal priorities or provide significant value to farmers. This conclusion challenges policymakers to consider eliminating a long-standing program, a decision that would likely face resistance but could free up resources for more effective risk management tools.

Similarly, the examination of on-farm programs (On-Farm Climate Action Fund; Agricultural Clean Technology Program) highlights potential duplication with provincial efforts. The lack of clarity between federal and provincial roles has increased as AAFC has shifted to funding more on-farm activities. However, the historic practice has been to let the provinces lead on on-farm programming, enabling programming to be targeted to regional realities. Therefore, federal on farm programming does not meet the federalism test and should be eliminated or redirected to areas where there is a federal role such as R&D into low emission agriculture.

Examining the Science and Technical Branch (STB) is a complex situation. While the STB fulfills a crucial public interest by driving research and development that enhances productivity, sustainability, and profitability in the agricultural sector, concerns exist about its efficiency and effectiveness. The review suggests maintaining investments levels but exploring structural changes to improve efficiency and outcomes. This conclusion challenges decision-makers to consider a significant reorganization of a key research arm, a decision that could face resistance from established interests but potentially lead to more impactful and targeted research outcomes.

The analysis of Trade Negotiations and Market Access efforts presents a clear case for continued support. This area serves a public interest, given the export-dependent nature of Canadian agriculture, and represents a core federal responsibility. The review indicates that these activities require relatively small, targeted investments but can deliver significant outcomes for the sector. This finding encourages the government to prioritize and potentially increase resources for trade negotiation and market access efforts, a decision that aligns with the government's goal of reaching $75 billion in annual agriculture and agri-food exports by 2025. However, it also suggests exploring opportunities to share trade development efforts with provinces or increase private sector involvement in market development initiatives, which could optimize resource allocation and enhance overall effectiveness.

Once again, this is a high-level example of the process for a review. Reality is much more challenging and will require significant attention and resources and should be driven by data, evidence and experience. While the detail will be more comprehensive in such a review, the thought process should be the same. Does the spending pass the six tests. If not, the spending should be eliminated or reinvested in an activity that does.

On Farm Programs

On Farm Programs
(OFCAF, Ag Clean Tech)

Public Interest
Yes - Sustainability outcomes provide public good.

Role of government
Yes - Risk-sharing with farmers is appropriate.

Federalism
No clear federal role – Provincial delivery may be more appropriate.

Partnership
Yes- Involves provinces, farmers, companies, NGOs and value chains.

Efficiency
Yes- Sustainability outcomes provide public good.

Affordability
Low priority in fiscal constraint - Consider shifting federal focus to R&D.

Outcome
Eliminate federal spending on farm programs.

Science and Technology Branch (STB)

Science and Technology Branch (STB)

Public Interest

Yes - R&D is crucial for advancing productivity, sustainability, and profitability.

Role of government

Yes - Conducts fundamental research beyond private sector investment scope.

Federalism

Yes - Requires national coordination to achieve critical mass.

Partnership

Essential – Industry involvement needed for outcome absorption and priority setting.

Efficiency

Concerns exist regarding STB's efficiency and effectiveness.

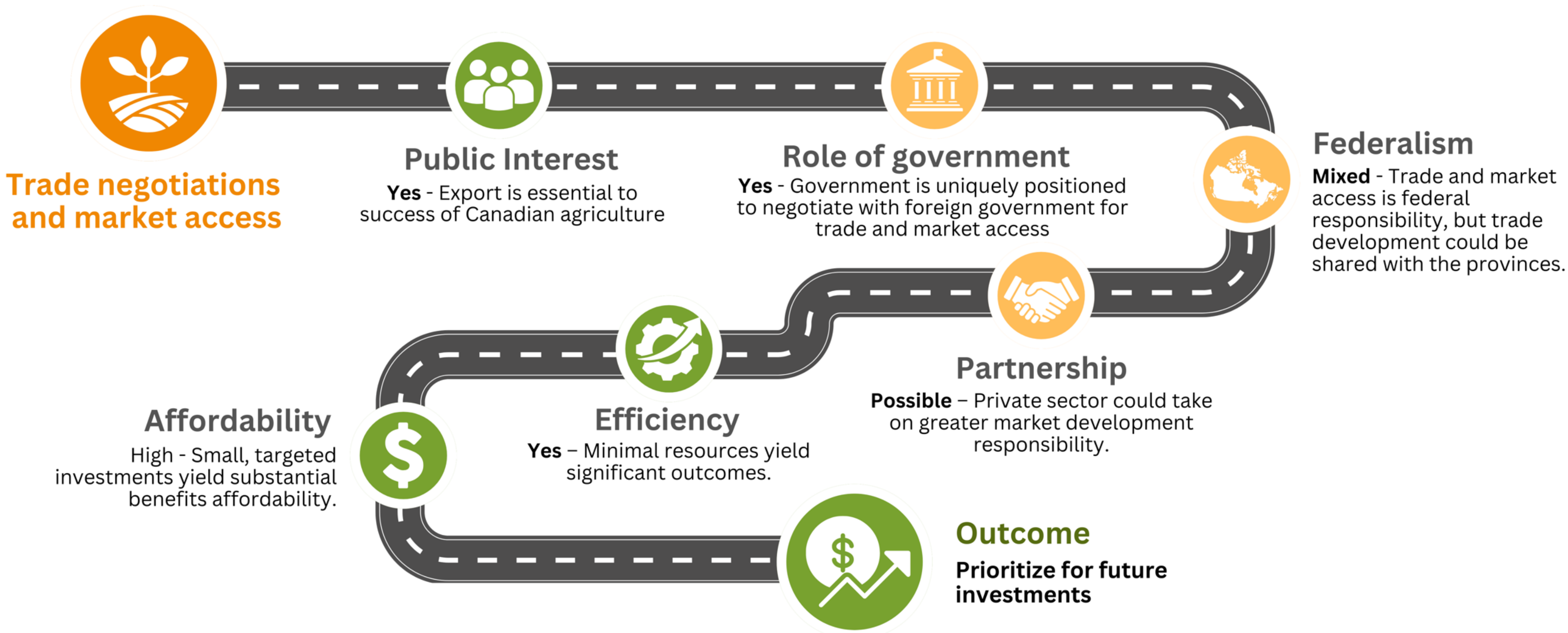
Affordability

Potential for high ROI, but effectiveness improvements needed.

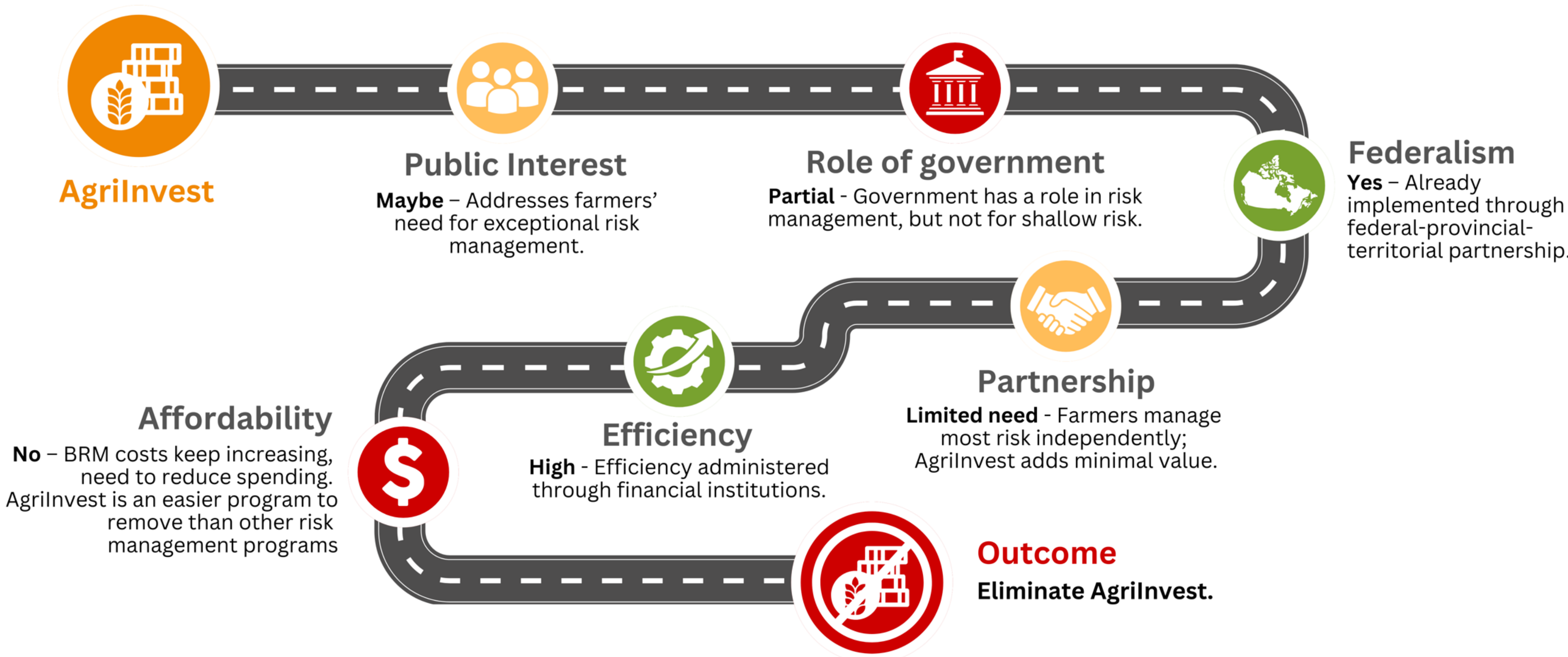
Outcome

Maintain investment, but explore structural change to improve.

Trade Negotiations and Market Access



AgriInvest


AgriInvest
Public Interest
Maybe – Addresses farmers' need for exceptional risk management.
Role of government
Partial - Government has a role in risk management, but not for shallow risk.
Federalism
Yes – Already implemented through federal-provincial-territorial partnership.
Partnership
Limited need - Farmers manage most risk independently; AgriInvest adds minimal value.
Efficiency
High - Efficiency administered through financial institutions.
Affordability
No – BRM costs keep increasing, need to reduce spending. AgriInvest is an easier program to remove than other risk management programs
Outcome
Eliminate AgriInvest.

5.3 The positive potential of a program review

Spending reviews are often seen as a negative and can be very challenging for those involved internally and those impacted by the decisions made. However, they also present an opportunity for a positive reset. The reality is that part of the political impact can be offset by reinvestment in new programming and priorities.
For example, in the current challenging environment, it could be reinvested in targeted measures to offset the impact of a broken Canada US trading relationship or in more substantial efforts to develop new, better solutions to improve climate change adaptation and mitigation. The federal government could leverage this review to fix some of the structural issues facing the sector.

It is also an opportunity to pivot to a more forward-looking role for government. A priority driving the review could be to make Canada a world leader in the development and adoption of digital agriculture and the services needed to maximize its potential. The pivot could lean into artificial intelligence, leveraging Canada's leadership position. Investing to build a digital ag ecosystem, support ag-tech startups and accelerate AI-driven precision agriculture could be a new promising priority for federal investment. There is a public interest in developing the new technology and a role for government to catalyze its development and adoption. There can be clearly defined roles for the federal government in R&D and the provinces in adoption. There is a real potential for partnership with the diverse community of farmers, business, academia and more. Targeted investments can be efficient and affordable. A pivot to digital agriculture has the potential to pass the tests.

The positive potential will only be achieved if there is an opportunity for reinvestment and reinvigoration. Whether it is digital agriculture, adding more value to Canadian commodities, or moonshots of nitrogen-fixing commodities, the opportunities for reinvestment are endless. What it takes is a clear commitment and a drive for an ambitious outcome.

While there may be a temptation to use the chaos caused by the US and the potential impact of tariffs as a justification to avoid a review, it may be the biggest driver of the positive potential of a review. Given how integrated Canadian agriculture is with the US, the negative consequences could be far reaching. Changes will likely need to be made and a program review and free up spending to meet that new reality. However, it may also mean waiting for the reinvestment. Waiting to assess the damage to the sector and the consequences of a US focus on supply management.

Finally, a review is an opportunity to prompt a broader reflection on government support and its impact on the sector. Subsidies can become capitalized into input costs, impede innovation and distort markets. They can also be critical in a period of extreme volatility. Canadian agriculture is a mature, export-dependent industry.
It has benefitted from strong fundamentals, growing demand, a positive climate, open borders, that are all now at risk. There is an opportunity to shake off the confines of being a mature industry and develop new ways of thinking and doing business. Shifting resources toward forward-looking priorities such as climate adaptation, technological innovation, and trade competitiveness can help Canadian producers survive and thrive in this new reality.

Ultimately, fiscal restraint need not signal retreat but can catalyze renewal.

6. Conclusion

Canada faces a critical moment. The fiscal challenges are not minor setbacks, but fundamental issues that demand a comprehensive reassessment of government roles and spending priorities. The agricultural sector, like many others, finds itself at the heart of this potential fiscal reckoning.

The review process outlined in this report is not easy. It requires political courage, clear communication, and a willingness to challenge the status quo. However, it is necessary. The current approach of incremental changes and patchwork solutions is no longer sufficient to address the complex challenges facing Canadian agriculture.

This review process should not be seen as a threat, but as an opportunity to streamline operations, to innovate in service delivery, and to refocus efforts on areas where government can make the most significant impact.
For the agricultural sector, this means critically examining every program and initiative. Does this serve a genuine public need? Is it the most effective way to achieve goals? Can the same outcomes be delivered more efficiently? These are not easy questions, but they are essential ones.

Too often these reviews are driven inside government with little outside engagement. In part that is how they need to function. Too often cuts face resistance. Long-standing programs have created entrenched interests, and change is often met with skepticism.

However, the policy and political environment can not always be about asking the government to do more. Sometimes it needs to be about doing less. This report should encourage greater reflection on the potential and possibilities of a review and while policy actors may choose not to advocate for reductions, they should be aware of the real potential for them to be coming and consider their own recommendations for what a review should consider.

At the end of the day the goal should not simply be to cut costs, but to create a more responsive, efficient, and effective support system for Canadian agriculture. This may mean difficult decisions in the short term, but it can help the long-term health of the sector and the country's finances. The more that are prepared and engaged in that process the better its outcomes will be.