If you give it, they will spend

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A key Liberal policy plank kicked into gear this summer, and in the weeks ahead, we're supposed to see how that played out. A revamping of Canada support system for families with children ended a universal benefit and a tax credit and rolled it all into more generous, income-tested Canada Child Benefit cheques. Relative to the system previously in place, the benefits stand to lift year-on-year disposable income growth by 0.6% in the third quarter.

While the changes were aimed at addressing income inequality rather than growth, Ottawa is hoping that Canadians will spend their newfound money. So too is the Bank of Canada, which cited it as a factor that should boost Q3 consumption in its latest policy announcement. But will that actually happen?

In theory, yes. For one, these middle and low income households tend to have lower savings rates than those higher up the ladder who aren't eligible. Just this week, a survey from the Canadian Payroll Association found that 48% of Canadians live paycheque to paycheque, with no nest egg set aside. So if more dollars come in, and aren't simply a one-time boost, spending should accelerate.

Not so, screamed the media headlines this week. A survey from Bloomberg-Nanos found respondents plan to spend only 15% of the funds, with the vast majority going to paying previous bills (47%), savings (19%) or debt-repayment (14%).

Take such surveys with a grain of salt. As far back as the 1950s, Vance Packard documented how individuals will lean towards answers that make them appear sensible and rational. It sounds much more prudent to deny that you will rush to spend additional funds.

Which brings us to the actual data. What's happened in the past when government money rained down on households? As always, the facts are messier than the theory.

A huge jump in the savings rate showed that most of Bush's 2008 tax rebates were saved, not spent. But that was a one-time cheque, not a lasting program, and Milton Friedman's "permanent income hypothesis" would have predicted the lack of added spending. In 2015, the Harper government paid out six months of new family benefits in July of that year. Governor Poloz anticipated that there would be a "noticeable bump" to 2015 third quarter consumption. But subsequent reports saw real consumption decelerate in 2015 Q3, with nominal consumption growing only a hair faster than the prior quarter.

But one quarter's figures didn't end the story. Households might indeed be responsible and opt to pay down credit card balances, for example, as a first step. But that could open up room to spend a quarter or two later.

There was no sustained upturn in the savings rate in Canada, nor was there a sustained pull-back in debt accumulation in 2015. That suggests that at some point, the extra funds were indeed added to spending patterns. We just can't count on seeing a "noticeable bump" when they first get mailed or, these days, electronically deposited.