Intelligence MEMOS

From: Don Drummond and William B.P. Robson

To: Fiscal Observers

Date: November 1, 2023

Re: **A Grading Framework for the Upcoming Federal Economic & Fiscal Update**

The 2023 federal fall Economic Statement is due shortly. This update is intended to foreshadow budget actions and put into the public domain ideas for addressing Canada's problems. It will be tempting to grade it against our serious economic, fiscal and environmental challenges. And any fair grading requires a clearly understood framework, so here is ours.

1. Cut the spin and give us the facts

Updates and budgets of late have buried economic and fiscal information behind pages and pages of spin on government policies. Take the real purpose to heart and give us the straight goods on the economic and fiscal situation and outlook up front.

2. Clean up irregularities in fiscal accounting and the budget process

The update should end the inconsistent accounting practices in budgets and the main estimates. These compromise the ability of members of Parliament to scrutinize spending plans prior to approval.

Commit to releasing the 2024-25 budget at least a month before that fiscal year begins April 1. Of late budgets have been creeping into the new fiscal year, undercutting Parliament's oversight.

3. Cut the spin on recent fiscal progress

It was surely unprecedented to have three cabinet ministers arrayed to announce the final fiscal figures for 2022-23. The spin was that the $35.3-billion deficit was down a lot from the $90.3 billion in the restated 2021-22 figures and that this reduction reflects competent fiscal management. A simpler and more appropriate perspective is that, with the economy operating at capacity (the Bank of Canada's October 2023 Monetary Policy Report estimates an "output gap" around zero), the budget should be close to balance. Better yet, with the federal debt-to-GDP ratio being too high (more than 42 percent), it should be in surplus.

4. Set out a credible plan to fiscal sustainability

The October 2023 Parliamentary Budget Office report sets a benchmark showing the federal debt-to-GDP ratio still close to 38 percent by 2028-29. The update should embrace a more ambitious target. The 2023 C.D. Howe Institute **Shadow Budget** laid out a plan to generate surpluses by 2025-26 and get the debt burden down below 36 percent by 2027-28. It can and should be done.

5. Acknowledge Canada's economic, fiscal and environment challenges and lay out credible plans to address them

Canada's growth in real GDP per capita has been and is widely projected to be weaker than both our historical level and the performance of many other countries. That is not good enough. The government's high-immigration strategy will not help. Labour force participation, productivity and business investment all need to rise.

The government also has ambitious greenhouse gas reduction targets and has introduced many supporting plans. But things appear to be in disarray. The recent exemption of home heating oil from carbon pricing in Atlantic Canada just poked another massive hole in the system. The Canada Growth Fund has only recently made its first grant. Allegations of mismanagement have led the Government to suspend funding from Sustainable Development Technology Canada. Other incentives, notably the clean technology tax credit, have still not been legislated. The Supreme Court opinion on the *Impact Assessment Act* and Alberta's suspension of clean energy project applications have made project approvals even more uncertain. The update cannot solve this problem, but must not add to it.

6. Pledge to stop making Swiss cheese out of the tax system with populist measures

The tax system should have three simple goals: Raise money to pay for public services, be fair in treatment across individuals and companies, and minimize economic damage. The government has of late been breaking all three principles. We now have special taxes on financial institutions for reasons that are not apparent. The door has been flung open to exemptions: The GST removed from multi-unit residents and now the carbon tax moratorium for home heating oil in Atlantic Canada. The Update should make no more holes in the cheese; the 2024 Budget should start filling them.

7. Acknowledge Canada is not prepared for 500,000 new permanent residents per year

Before raising immigration levels further, the update should acknowledge we need to fix some fundamental deficiencies in public services, access to primary health care and affordable housing heading the list. Provincial and municipal governments hold many of the levers, but the C.D. Howe Institute has **outlined** several tax measures the federal government could take. Meanwhile, the Update should signal that the federal government will calibrate its immigration policy to match our capacity to deliver services, and our desire for rising living standards per person.

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