

Intelligence MEMOS



From: Benjamin Dachis and William B.P. Robson
To: Canadian Federal Parties
Date: September 3, 2021
Re: **MORE ECONOMIC POLICY ISSUES FOR THIS ELECTION CAMPAIGN**

Economic policy has featured in the federal election campaign. But not enough. Canadians have heard a few things about housing (the [main focus](#) should be boosting [supply](#)), childcare (parties should put [money in the hands of parents](#) and [boost supply](#)), the environment (rely on [a price on carbon](#)) and even monetary policy ([focus on keeping inflation low](#)). We need more. Here are some further issues that will matter for Canadians' future prosperity.

Healthcare: These expenses are already driving [provincial and federal governments](#) on an unsustainable fiscal track. Increased federal transfers, especially if financed by borrowing, will not solve the fundamental problems of rapid growth in spending, especially [in provinces](#) like Newfoundland and Labrador with the bleakest fiscal outlooks.

The main [role](#) for the federal government in drugs should be to set a minimum floor for coverage and some maximum on insurance copayments and premiums for particular groups. Other priorities should be ensuring that Canada is an attractive place for pharma investment, and making the drug prices negotiated by the pan-*Canadian* Pharmaceutical Alliance available to private insurers.

Federal Budgets and Intergovernmental Transfers: Federal [transfers](#) to provinces, territories and local governments are one [third](#) of Ottawa's spending, and one-fifth of recipients' revenues. To repeat, debt-financed transfers are unreliable. Parties need to present a plan on how sustainable fiscal federalism will work in the post-COVID world.

The federal government's failure to produce a budget in 2020 was an unprecedented abdication of accountability. Fiscal promises from all parties in this election appear to assume that governments can continue to borrow to finance consumption indefinitely. Canadians should be hearing more about how to ensure sustainable programs without endless increases in debt.

At the same time, the 2021 budget [implied](#) that federal employment will fall 5 percent from now to 2023/24. That would be a welcome change from recent profligacy, but the government has said nothing about how it will do this. Is that forecast serious? If it is, what's the plan?

Economic Growth and Investment: Notwithstanding an uptick in an otherwise disappointing second quarter GDP report, business investment in Canada is too low. [New capital per worker](#) in Canada is [far below the United States and other advanced economies](#) – which suggests that businesses see Canada as a relatively unattractive place to invest, and bodes ill for future productivity, competitiveness, and incomes. A key part of boosting investment is comprehensive tax reform. That should cover everything from creating a tax regime that would distinguish businesses that are small from young, growth-oriented enterprises; [reforming out-of-date R&D](#) and intellectual property tax policies; and reforming our corporate income tax through an [allowance for corporate equity](#) or a [cash-flow tax](#).

A key area of investment squarely under federal policy is telecommunications. The degree of penetration of digital technologies will [shape Canadian productivity growth](#) and international competitiveness across services and goods-producing sectors. The federal government should take steps to streamline [provincial-federal policies](#), [ease access to spectrum](#), and continue to [focus on investment needs](#) rather than arbitrary price targets.

Talent and Entrepreneurship: Canada needs entrepreneurs. We want talented people to choose to live and work in Canada. High [personal tax rates](#) already discourage entrepreneurialism and deployment of talent in Canada. Further tax hikes will not help.

Some have argued that election campaigns are not the time for discussion of serious policy issues. We at the C.D. Howe Institute feel differently. Canadians deserve more substance on the questions that will affect their future prosperity. Our federal political leaders have a duty to provide it.

Benjamin Dachis is Director of Public Affairs for the C.D. Howe Institute, William B.P. Robson is CEO.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the authors. The C.D. Howe Institute does not take corporate positions on policy matters.