

Intelligence MEMOS



From: Don Drummond
To: Finance Minister Chrystia Freeland
Date: April 20, 2022
Re: **THE 2022 FEDERAL BUDGET MEASURES MIS-ALIGNED WITH NEEDS**

A common reaction to the 2022 federal budget is “not as bad as expected.”

What kind of evaluation is this? Faint praise simply because fears of massive new spending did not materialize? But that fear was stoked by the government's own statements. Do you get credit for setting a low barrier and then hopping over it?

I am pleased to see, or not see, certain things in the budget.

For instance, it did not lower CMHC mortgage insurance premiums as that would have stoked demand and increased the taxpayer exposure to CMHC risk. But that is nothing more than the government not proceeding, at least not yet, with its own inappropriate proposal. It did not further raise the very high marginal personal income tax rate; or increase the capital gains inclusion rate. But again, we cannot rejoice absent measures.

When it comes down to it, this is a budget that needs a “But” after each measure.

Housing Affordability

Good on the government for addressing housing affordability.

BUT its flagship measure of a tax-assisted savings plan increases demand. And why create a new vehicle with a new administration when existing RRSP plans have long been used for such purposes?

Good on the government for acting to increase housing supply in the limited areas they can.

BUT how will municipalities respond? To move the yardsticks there must be acceptance of higher urban density, as is now being advocated in Edmonton.

Good on the government for steps to help the successful integration of immigrants.

BUT does the government not see the arithmetic problem it creates? Last year housing starts hit a record high of 244,025. Ottawa's immigration targets for increases in permanent residents are 431,645, 447,055 and 451,000 for 2022 through 2024. So much for improving the demand-supply imbalance in housing. What sense does it make to treat the housing and immigration files as separate entities?

Economic Growth

Good on the government for recognizing growth challenges facing Canada. The discussion echoes the C.D. Howe Institute's 2022 [Shadow Budget](#).

BUT the budget does not present much of a plan to address them. Many measures are variants of previous initiatives that have not worked very well, yet another fund to support investment for example. It is little more than a plan to make a plan.

Good on the government for recognizing the value of a collaborative approach with the private business sector.

BUT then it declares tax war on the financial sector simply because it has been successful. We will never make the transition to a net zero economy without collaboration between the private and public sectors, but when the banks offered to allocate much of their profit gain to green financing, the government said “nope, not interested.” Instead, it is bent on punishing success. What kind of message does that deliver?

Good on the government for accepting the advice in the C.D. Howe Institute Shadow Budget to raise taxes at least temporarily to help fund the extraordinary COVID-related spending.

BUT it should not have chosen the corporate income tax, which has the greatest downside for the economy.

Good on the government for raising the asset limit for the small business tax deduction.

BUT why do we have two tax regimes at all? Why do we want to apply higher tax rates as companies grow? Larger companies are more productive, export more, pay higher wages, offer more secure employment, research more and invest more. Why penalize their growth?

Good on the government for putting out the Emissions Reduction Plan, the most comprehensive environment plan to date.

BUT almost everything in the plan remains inchoate. As just one example, the carbon levy is to rise to \$170 per tonne by 2030 but nobody has a clue how and when that will happen. Some had hoped the budget would fill in the gaps. It did fill in a few, but not many.

Health

Good on the government for expanding coverage of public health, dental care, in this first baby step. Canada has this myth that we have comprehensive publicly funded care, but our 30 percent of private spending is one of the highest among developed countries.

BUT it seems the federal government intends to run the dental program itself, despite this health service being in the provincial jurisdiction. And there is much more to come, such as the commitment on pharmacare.

Conclusion

The best that can be said about the 2022 But Budget is that it is not as bad as feared. Threats, however, have not waned. The government is clear that more spending increases are to come.

Don Drummond is Stauffer-Dunning Fellow and Adjunct Professor, School of Policy Studies, Queen's University.

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

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