

Intelligence MEMOS



From: The C.D. Howe Institute
To: Concerned Canadians
Date: February 28, 2018
Re: **BUDGET 2018: OUR FIRST TAKE**

OVERVIEW

Bill Robson, President and CEO: Federal budgets show an increasing tendency to put spin ahead of substance. The 2018 budget marks a new low: it buries the key fiscal projections – which in many provinces would be on the front page – in an annex on page 319.

Budget 2018 shows spending on programs up yet again, with interest costs putting further pressure on the bottom line. The government has adopted overspending and red ink as signature policies. Balancing the budget is out of scope.

The 2018 budget shows the federal government's operating expenses at \$95.6 billion in fiscal 2018 – more than 8 percent higher than projected in the 2017 budget, and up 16 percent from the 2016 figure. One-time factors aside, we are seeing previously unreported pension costs coming into spending. There's more bad news coming on that front. If the government does not contain the costs of federal employees, operating costs will continue to crowd out other programs and push taxes up.

US TAX REFORM

Bill Robson: Investors are looking for signals that this government takes the challenge of greater US tax competitiveness seriously. The 2018 budget is all but silent on that challenge – and does nothing at all.

PROMOTING WOMEN IN THE WORKFORCE

Alexandre Laurin, Director of Research: The budget contains a host of initiatives, mostly small, to improve labour market outcomes of women. Those include items like additional weeks of parental benefits, transfers to provinces for child care, national roundtable for Gender Based Analysis, women entrepreneurship strategy, apprentice and pre-apprentice programs for women, support for women in construction, etc.

But a bigger bang for the buck could have been achieved by addressing the bigger problem head on: the child care expense deduction, which is of limited benefit for so many families and mothers. Transforming the deduction into an income-tested refundable benefit would induce thousands of mothers to join the workforce, for a much smaller cost than what's proposed in this budget.

SMALL BUSINESS TAX REFORM

Alexandre Laurin: The government has finally listened to common sense with respect to the proposed changes to small business passive income rules by pretty much abandoning its proposals – a 180-degree turn. As I've shown in a publication this summer, small business owners are not at a major advantage relative to employees who can save for retirement in pension and retirement saving funds. And bigger private corporations are at no advantage compared to anyone else.

CANNABIS, PHARMACARE

Rosalie Wyonch, Policy Analyst and Health Research Lead: There's good news for medicinal marijuana users. The government proposes to exempt low-THC products from excise duties. This is a welcome change that takes a step towards making tax treatment of medicinal cannabis similar to other prescription medications. In addition, this exemption doesn't encourage recreational consumers to get a medical prescription, as there is no excise exemption for cannabis with concentrations of THC high enough to induce a recreational psychoactive effect (or at least that seems to be the intention).

As well, it announced the creation of an advisory council to make recommendations about a national pharmacare plan. However, there is a strong case for limiting the role of the federal government in financing drugs. Namely, provinces are responsible for managing other aspects of healthcare and drug costs should be managed in combination with these other factors.

Ottawa could potentially cooperate with provinces on a model drug formulary and financing of exceptionally high drug costs for patients. Click [here](#) to read the C.D. Howe Institute's recent report, "Righting the Course: A Shadow Federal Budget for 2018."

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