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5 Minutes for Business

Where the Rubber Hits the Road: Tough Decisions Ahead

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Canada's new government is off to a great start! The Canadian people and the media are cheered by pictures of the most inclusive Cabinet ever. The return of the long-form census was the fastest public policy reversal in Canadian history. Minister Bains must have been texting Statistics Canada on his cellphone during the swearing-in ceremony.

It's customary now, when everything is going so well, for an economist to come in and rain on the parade. There are tough decisions ahead.

The outlook for the Canadian economy has darkened. The recession is old news by now, and we expect modest (1%) growth to return in the second half of 2015. But, the International Monetary Fund has again revised down its outlook for the global economy, mainly because of weakness in China. The Canadian Chamber's outlook for oil and commodity prices has also been revised lower. All this is coming amid CMHC's warnings of overvaluation in Canadian housing markets.

The Parliamentary Budget Office now projects larger deficits, $3 billion next year and almost $5 billion in 2017. This is before the government has spent a penny on additional infrastructure.

This means there are tough decisions on the horizon. On taxes, the Prime Minister's mandate letter to Finance contains straightforward instructions such as implementing the middle class tax cut (lowering the rate on income of $44,700 to $90,000 from 22% to 20.5%) and cancelling income splitting for families. However there are also tough policy choices such as reducing "wasteful" tax expenditures and enhancing the Canada Pension Plan (CPP).

At the Canadian Chamber, we are focused on the promise to enhance the CPP because it could be damaging to business. The contribution already is 9.9% on earnings, split equally between employee and employer, and must be paid regardless of whether a business is flush with profits or on the verge of bankruptcy. The government will also have to convince all the provinces to buy into the plan. This is a very tall order.

The government has also announced a "fresh start" on energy after the rejection of the Keystone XL pipeline. Minister Dion promised to put in place sufficiently rigorous environmental assessments and enough clean-energy investment to restore Canada's image, "then our product will be welcome everywhere."

A credible plan to reduce carbon emissions is undoubtedly of great benefit to Canada and is fully supported by the Canadian Chamber. It may also be true that the Harper government mishandled Keystone XL so that it became a victim of the Conservatives' environmental record. But is the purpose of environmental policy to impress foreign countries and make them pat us on the back? What do we do if the U.S. or the Europeans are not sufficiently pleased? Back to the drawing board?

With a weak economy and rising deficits, the government has less room to maneuver. That's why it's critical that infrastructure spending be targeted at the trade-enabling investments that improve our competitiveness. That's also why the CPP enhancement and the plan to reduce carbon emissions must be sound public policy choices that are not burdensome for business.

For more information, please contact:

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