MANDATE LETTERS

As Canada forms its next government, the Prime Minister's Office will be preparing ministerial mandate letters. In this special Intelligence Memo series, policy experts highlight key challenges and priorities in each minister's portfolio.

From: Alexandre Laurin

To: The incoming Minister of Finance

Date: November 8, 2019

As you embark on your term as Minister of Finance, your top fiscal policy priorities should include the following:

- Bring the budget back to balance by the end of fiscal year 2023/24. Chronic deficits add to the debt burden and the cost of servicing this additional debt means Canadians ultimately will pay more taxes for fewer federal services. Allowing debt to accumulate in expansionary periods of the business cycles is imprudent: it reduces the government's ability to run generous income stabilization programs in bad times and to use fiscal policy to stimulate the economy. Over the long run, talented individuals deciding where to live and work, and businesses considering where to invest, respond negatively to the prospects of unsustainable budgetary policies.
- Restate the value of federal pension obligations incurred after 2000. The 2018 public accounts restated the value of these obligations incurred before 2000, using an economically meaningful measure crucial to assessing the government's overall fiscal position and ability to meet its commitments. All federal pension obligations are alike, and the public accounts should show the entire obligation on a consistent basis.
- In its next budget, the Department of Finance should include a measure of provincial business property taxes (BPTs) in its interprovincial comparison of Marginal Effective Tax Rates. Provincial BPTs are general-revenue taxes that affect businesses incentive to invest in the same way as other taxes on capital income and stock.
- Reform **eligibility conditions for employment insurance** by phasing out regionally differentiated entrance requirements and benefit periods, and adopting coast-to-coast uniform requirements, tied to the national unemployment rate to add a countercyclical income stabilization element to the program.
- Hold the line on **provincial transfers and consider a transfer of tax room** in favour of the provinces. Cutting federal business and personal taxes would provide fiscal room for provinces to pick up and pay for the escalating costs of healthcare due to the aging population. One straightforward way to mitigate the negative impact of tax cuts on the federal budget would be to **calibrate the starting age of eligibility** for Old Age Security to the increase in longevity, such that the proportion of an average person's adult life spent in retirement stays is constant.
- Stop netting the amounts of the GST Tax Credit from GST revenues, and show them instead in spending. The GST Tax Credit is a fiscal benefit program unrelated to tax paid, and it should be reported as spending (a transfer payment to households) rather than netted against tax revenue. The same logic applies to **more than 30 other tax expenditure measures** that are really equivalent to spending programs.
- Release the 2020/21 Main Estimates simultaneously with the 2020 federal budget, and presented on the same accounting basis. Parliamentary scrutiny and control of the federal government's spending is weaker than it could be. Many provincial governments present the estimates that legislators vote to authorize specific spending simultaneously with their budgets, and do so using accounting that lets legislators see how their votes match – or not – the budget's fiscal plan. The federal government does neither of these things. Ottawa typically presents its estimates after the budget. These spending estimates focus on cash, rather than the accrual accounting that underlies the budget, and do not sum the figures to allow comparison with the fiscal plan.

Alexandre Laurin is Director of Research at the C.D. Howe Institute.

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