The IMF loves what Canada's doing—but it has a few suggestions

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Source: Canadian Business
Format: Article
Publication Date: 11 May 2016

AVAILABILITY
Read online [2]

EXCERPTS

Not every country appreciates the International Monetary Fund's tutelage. Canada, however, is the teacher's pet.

Prime Minister Justin Trudeau and Finance Minister Bill Morneau invoked the IMF's new thinking on deficits to justify their decision to borrow heavily to finance tax cuts and infrastructure spending. The fund's managing director, Christine Lagarde, took note. She now cites Canada as a rare example of a country trying to do something positive for the global economy.

It is easy to support the IMF's teachings when they show the austerity drive of the governing party you're are trying to beat is bad for the economy. But will Trudeau remain a good student when the fund points the flaws in some of his own programs? We are about to find out.

The IMF economists assigned to keep an eye on Canada completed a fact-finding mission earlier this month. They eventually will write a lengthy report on the state of the economy, complete with recommendations. But they released a preliminary report on May 9. The review was mostly positive. The authors said Trudeau's fiscal stimulus would add 0.5% to economic growth this year and next, allowing the economy to reach its non-inflationary level of potential output faster than if former prime minister Stephen Harper's obsession with a balanced budget had remained Ottawa's priority. "The federal government's pro-growth 2016 budget is appropriate," the report says.

Yet the IMF reviewers see room for improvement. Rather than scrap Harper's balanced-budget law, Trudeau should replace it with a more flexible measure that would legislate restraint over the medium term. So far, Morneau has offered nothing but his word that he and his boss will keep debt from getting out of control. Neither should be surprised if some continue to question whether a prime minister in his 40s and a finance minister with no previous experience in politics have what it takes to hold the line. Their spending program would be stronger if they would put their pledge to restrain debt in writing.

The IMF economists also left Canada with the impression the country was less than serious about improving productivity. They criticized the country's "generous" treatment of smaller companies, when it is new companies that bring about innovation. Morneau might already be listening, as his budget "deferred" an election promise to drop the rate of tax small-and-medium-sized businesses pay on their income to 9% from 10.5%.

He may be less open to criticism of the Canada Child Benefit, which he said in his budget speech would do more for families than any social program since universal health care. Morneau said nine out of 10 recipients of child benefits would do better under the new program than they were previously; a family of two children earning $90,000 per year will get a tax-free bonus of $5,650 per year from the federal government, an increase of $2,500 per year compared with Harper's child-subsidy regime. "That is money in the pockets of mom and dad," Morneau told Parliament. "Money that can go directly to eating healthier food, paying the rent and buying new clothes for back to school."

It might also dissuade mom from getting a job or adding to her hours. The IMF staff report on Canada raises an issue that I wrote about during the election campaign: the unacceptably large gap—10 percentage points—between the labour-force participation rates of men and women. A large body of research shows that the more women a country crowds into the labour market, the more productive will be its economy. "The current gap should be narrowed," the IMF staff write of Canada. The best way to boost the labour participation rates of women is affordable daycare. Sending families cheques worth thousands of dollars a year could help, provided those families opt to use the windfall to let mom get out of the house. Studies show that doesn't always happen. "The new Canada Child Benefit is a step in the right direction in providing benefits to low and middle income families, but could be better targeted to boost female labor force participation, including providing more generous child care subsidies to working parents," the IMF review of Canada says.

The most important social program since universal health care could use a tweak. However, the emphasis of Trudeau and Morneau in their first budget was on sops for the middle class, not productivity. The IMF's favourite student still is in need of instruction.

-reprinted from Canadian Business

Region: Canada [3]

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