

## WEEKLY COMMENTARY

# A Nation Can't Tax Itself into Prosperity

By Randall Bartlett, Senior Director of Canadian Economics

In his 1904 address to the inaugural meeting of the Free Trade League, Winston Churchill famously said, “For a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.” The then-young statesman and future Prime Minister of the United Kingdom was arguing against tariffs and in favour of free trade—something that he did often throughout his political career.

Churchill correctly predicted that tariffs and other policies like them would prove disastrous for the economies of the UK and the many other countries that went down that path. And following the stagflation of the '70s and '80s that resulted from these policies, lower taxes, more open trade and freer markets became accepted wisdom among economists and policymakers to spur economic growth. Indeed, smaller and less interventionist government was considered the solution to all that ailed us.

However, the populist shift in politics in recent years, fuelled in part by rising inequality and eroding affordability, has meant that bigger government, larger deficits and greater debt have once again come into vogue. The COVID-19 pandemic helped accelerate this trend. One need only look to our neighbour to the south to see this clearly, as substantial deficit-financed spending leads it to continuously pile on more debt. Many of Canada's other advanced economy peers are following a similar, if less pronounced, playbook.

As [we've often pointed out](#), Canada has more fiscal wiggle room than a lot of other countries. The pandemic aside, federal deficits in Canada have tended to be relatively small, adding less debt to an already comparatively low base. And in Budget 2024, the Finance Minister broadly held the line on deficits, increasing taxes because the tailwind to revenues from a better economic outlook was insufficient to pay for all of the new spending. (See our [analysis](#) of Budget 2024.)

But this begs the question: what is the cost of raising these revenues? The implications of the new tax measures can be examined through the lens of three commonly applied concepts when evaluating any tax policy: fairness, efficiency and administrability.

Some have argued that the tax measures in Budget 2024 come down to fairness. Fairness in tax policy is often thought of as horizontal equity—each taxpayer in similar circumstances should pay a similar amount of tax—and vertical equity—which has typically come to mean the more you earn, the more you pay. ([Page, 2017](#)) And by those criteria, the tax increases introduced in Budget 2024 could be considered fair.

What about the efficiency of the tax system? According to [Bartlett \(2018\)](#), this “speaks to the ability of the tax system to generate revenue in a manner which is least distortive to incentives and behaviours, thereby having the least impact on economic activity.” Extensive research by the federal Department of Finance itself, back when it still published analysis two decades ago, determined that hiking taxes on capital assets or income reduced welfare and real GDP by much more than increasing any other type of tax. ([Baylor and Beauséjour, 2004](#); [Department of Finance Canada, 2004](#); [Baylor, 2005](#)) More recent research in Canada and abroad has reached a similar, albeit at times more nuanced, conclusion. ([OECD, 2023](#))

The final criterion for evaluating a tax policy is administrability. Essentially, is the federal government able to implement the tax in keeping with the letter and the spirit of the law? In the past, we've seen that wealthy Canadians have been able to employ sophisticated tax planning for the purpose of tax avoidance, which has led to less revenues being generated than expected. ([Parliamentary Budget Officer, 2019](#)) Corporations can similarly engage in international tax planning, particularly multinationals.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.  
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Hence the federal government's affection for a global minimum tax.

Taken together, while many may consider the new tax measures to be fair, it is evident that they are likely to lead to distortionary effects on the economy and be difficult to administer. This should cause government revenues to be lower than currently anticipated and investment by both individuals and businesses to be less than it would be otherwise. (Look for our upcoming research on the potential industry implications of the new tax measures.) And it couldn't come at a worse time, as business investment is already in the dumps. So much for taxing our way to prosperity.

# What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Senior Economist, Francis Généreux, Principal Economist, and Tiago Figueiredo, Macro Strategist

## TUESDAY April 23 - 10:00

March	ann. rate
Consensus	670,000
Desjardins	650,000
<b>February</b>	<b>662,000</b>

## WEDNESDAY April 24 - 8:30

March	m/m
Consensus	2.9%
Desjardins	1.8%
<b>February</b>	<b>1.3%</b>

## THURSDAY April 25 - 8:30

Q1 2024	ann. rate
Consensus	2.5%
Desjardins	2.1%
<b>Q4 2023</b>	<b>3.4%</b>

## WEDNESDAY April 24 - 8:30

February	m/m
Consensus	0.1%
Desjardins	0.2%
<b>January</b>	<b>-0.3%</b>

## UNITED STATES

**New home sales (March)** – After two months of gains totalling 9%, new home sales slowed 0.3% in February. We expect sales cooled further in March, but hefty recent revisions and volatile monthly fluctuations are complicating predictions. The 5.7% drop in single-family building permits in March suggests sales fell. But builder confidence remains relatively high. Our expectation is that sales declined to 650,000 units.

**Durable goods orders (March)** – After plummeting 6.9% in January, durable goods orders ticked 1.3% higher in February. These swings were mostly due to fluctuations in nondefense aircraft orders. Based on Boeing’s numbers, those orders increased in March. Industrial production in the automotive sector points to a pickup in auto orders as well. Non-transportation orders are expected to have edged up 0.2%, just below the 0.3% posted in February. All sectors combined, durable goods orders probably gained 1.8%.

**Real GDP (Q1 – first estimate)** – The US economy ran hot in the second half of 2023, with real GDP posting annualized quarterly growth of 4.9% in the third quarter and 3.4% in the fourth. But we expect that real GDP growth faltered in early 2024. Consumer spending likely ramped up 2.6%, fuelled by growth in services. However, we believe investment slipped below the 3.7% recorded at the end of 2023. Both nonresidential construction and investment in equipment probably flatlined. We expect negative contributions from private inventory investment and net exports, but government spending and residential investment probably expanded at a solid clip. Overall, real GDP is expected to have increased an annualized 2.1%. That said, given the data from the previous quarters, there’s a strong possibility the economy will outstrip expectations once more.

## CANADA

**Retail sales (February)** – Retail sales likely edged up 0.2% in February. This is a tick higher than Statistics Canada’s flash estimate of 0.1%. We anticipate motor vehicle sales to have crept up only modestly due to lower prices being offset by relatively slow volume growth. With higher prices at the pump, nominal sales at gasoline stations likely increased. We expect core retail sales to have edged up slightly above 0%. For March’s flash estimate, we anticipate possible negative growth driven by lower auto sales.

**TUESDAY April 23 - 4:00**

<b>April</b>	
Consensus	50.8
<b>March</b>	<b>50.3</b>

**FRIDAY April 26**

<b>April</b>	
Consensus	0.10%
Desjardins	0.10%
<b>March 19</b>	<b>0.10%</b>

**OVERSEAS**

**Eurozone: PMI (April – preliminary)** – In March, the eurozone composite PMI squeaked back above the 50-point boundary between economic contraction and expansion for the first time since May 2023. At just 50.3, the PMI still reflected some weakness in the economy, but it was still well above its recent low of 46.5 in October. This improvement was almost entirely driven by services (51.5 in March), as the manufacturing sector continued to struggle (46.1 in March). It will be interesting to see whether the preliminary data for April shows the composite PMI rising even farther above 50, which would bode well for the economy.

**Japan: Bank of Japan meeting (April)** – The Bank of Japan (BoJ) finally started raising rates at its last monetary policy meeting. But, as far as monetary tightening goes, the BoJ is treading very lightly compared to its peers. This is keeping the yen at historic lows. The BoJ’s messaging doesn’t suggest it’s about to embark on an aggressive rate tightening cycle. Instead, it’s keeping its cards fairly close to its chest. In terms of economic variables, inflation remains above target but is slowly settling down. In addition, unemployment has gone up. But consumer spending has rallied recently. All things considered, it seems likely the BoJ will stand pat at the April meeting, although there is the possibility that it could signal future rate hikes.

# Economic Indicators

## Week of April 22 to 26, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 22</b>	---	---				
<b>TUESDAY 23</b>	10:00	New home sales (ann. rate)	March	670,000	650,000	662,000
<b>WEDNESDAY 24</b>	8:30	Durable goods orders (m/m)	March	2.9%	1.8%	1.3%
<b>THURSDAY 25</b>	8:30	Initial unemployment claims	April 15–19	215,000	215,000	212,000
	8:30	Real GDP (ann. rate)	Q1f	2.5%	2.1%	3.4%
	8:30	Goods trade balance – preliminary (US\$B)	March	-90.6	-92.0	-90.3
	8:30	Retail inventories (m/m)	March	n/a	n/a	0.6%
	8:30	Wholesale inventories – preliminary (m/m)	March	0.3%	n/a	0.5%
	10:00	Pending home sales (m/m)	March	1.0%	n/a	1.6%
<b>FRIDAY 26</b>	8:30	Personal income (m/m)	March	0.5%	0.7%	0.3%
	8:30	Personal consumption expenditures (m/m)	March	0.6%	0.7%	0.8%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	March	0.3%	0.3%	0.3%
		Excluding food and energy (m/m)	March	0.3%	0.3%	0.3%
		Total (y/y)	March	2.6%	2.6%	2.5%
		Excluding food and energy (y/y)	March	2.7%	2.7%	2.8%
	10:00	University of Michigan consumer sentiment index – final	April	77.9	77.9	77.9
<b>CANADA</b>						
<b>MONDAY 22</b>	8:30	Industrial product price index (m/m)	March	n/a	n/a	0.7%
	8:30	Raw materials price index (m/m)	March	n/a	n/a	2.1%
<b>TUESDAY 23</b>	---	---				
<b>WEDNESDAY 24</b>	8:30	Retail sales				
		Total (m/m)	Feb.	0.1%	0.2%	-0.3%
		Excluding automobiles (m/m)	Feb.	0.0%	0.2%	0.5%
13:30	Release of the Bank of Canada Summary of Deliberations					
<b>THURSDAY 25</b>	---	---				
<b>FRIDAY 26</b>	---	---				

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

# Economic Indicators

## Week of April 22 to 26, 2024

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
<b>OVERSEAS</b>							
<b>MONDAY 22</b>							
Eurozone	10:00	Consumer confidence – preliminary	April	-14.3		-14.9	
Japan	20:30	Composite PMI – preliminary	April	n/a		51.7	
Japan	20:30	Manufacturing PMI – preliminary	April	n/a		48.2	
Japan	20:30	Services PMI – preliminary	April	n/a		54.1	
<b>TUESDAY 23</b>							
France	3:15	Composite PMI – preliminary	April	48.9		48.3	
France	3:15	Manufacturing PMI – preliminary	April	46.8		46.2	
France	3:15	Services PMI – preliminary	April	48.9		48.3	
Germany	3:30	Composite PMI – preliminary	April	48.5		47.7	
Germany	3:30	Manufacturing PMI – preliminary	April	42.7		41.9	
Germany	3:30	Services PMI – preliminary	April	50.5		50.1	
Eurozone	4:00	Composite PMI – preliminary	April	50.8		50.3	
Eurozone	4:00	Manufacturing PMI – preliminary	April	46.5		46.1	
Eurozone	4:00	Services PMI – preliminary	April	51.8		51.5	
United Kingdom	4:30	Composite PMI – preliminary	April	52.6		52.8	
United Kingdom	4:30	Manufacturing PMI – preliminary	April	50.5		50.3	
United Kingdom	4:30	Services PMI – preliminary	April	53.0		53.1	
<b>WEDNESDAY 24</b>							
Germany	4:00	ifo Business Climate Index	April	88.8		87.8	
Germany	4:00	ifo Current Assessment Index	April	88.7		88.1	
Germany	4:00	ifo Expectations Index	April	88.9		87.5	
Italy	4:00	Consumer confidence	April	96.7		96.5	
Italy	4:00	Economic confidence	April	n/a		97.0	
<b>THURSDAY 25</b>							
Japan	1:00	Leading index – final	Feb.	n/a		111.8	
Japan	1:00	Coincident index – final	Feb.	n/a		110.9	
Germany	2:00	Consumer confidence	May	-26.0		-27.4	
France	2:45	Business confidence	April	101		100	
France	2:45	Production outlook	April	n/a		-7	
United Kingdom	19:01	Consumer confidence	April	-20		-21	
Japan	19:30	Tokyo Consumer Price Index	April		2.5%		2.6%
<b>FRIDAY 26</b>							
Japan	---	Bank of Japan meeting	April	0.10%		0.10%	
France	2:45	Consumer confidence	April	92		91	
Eurozone	4:00	M3 money supply	March		0.6%		0.4%
Russia	6:30	Bank of Russia meeting	April	16.00%		16.00%	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).