

Intelligence MEMOS



From: John Lester
To: Canada's Next Government
Date: April 22, 2025
Re: **RESPONDING TO TRUMP'S TRADE WAR**

Donald Trump's decision to pause his "reciprocal" tariffs for 90 days doesn't affect Canada. We still face the previously announced 25 percent tariff on all imports that don't comply with the Canada-US-Mexico Agreement and additional levies on autos, aluminum, steel, oil and potash that will seriously harm our economy.

And more may be on the way. Lumber, pharmaceuticals and semiconductors are at risk, and the administration may use punitive tariffs to pry open our border to US exports of dairy and poultry products.

There's a chance Mr. Trump may eventually backtrack on all this, but we need to plan on the assumption he doesn't. The president sees tariffs as necessary to eliminate the US trade deficit and re-industrialize America. Not one to be bothered by inconsistent ideas, he is also convinced exporters will reduce prices to maintain US sales, which will allow him to fund domestic tax cuts with a tax paid by foreigners.

Trump could be knocked off his game if Congress decides to reclaim its authority to set tariffs, but this is unlikely while Republicans control the House of Representatives. Democrats may well prevail in the midterms but, again, it would not be prudent to plan on that outcome.

As I discuss in a recent C.D. Howe Institute [paper](#), the next federal government needs to develop a carefully calibrated response. Our own retaliatory tariffs should pressure Trump supporters so they will in turn pressure the president to back off, all while minimizing harm to Canadians. It makes no sense to hit US products for which reasonably priced alternatives are not available.

Income support for workers affected by tariffs should be generous but temporary. It should come from Employment Insurance and recycled tariff revenue to compensate those directly affected by tariffs. Other measures may be required, but we should not try to sustain the economy through massive income support measures or other demand-side policies.

We should instead emphasize supply-side measures that increase our productive capacity and ability to sell abroad. Trying to prop up industries kneecapped by Trump's tariffs would be an error. It would fulfill Trump's fantasy that exporters will pay for the tariffs, thus encouraging him to make them permanent.

We should certainly subsidize the repurposing of idled factories, particularly for defence production given our security needs and NATO commitments. When repurposing is not feasible, we should focus on helping workers adjust by subsidizing training and skills development, which may require enriching existing programs.

We can increase our exports by upgrading our trade-related infrastructure and speeding approval of major energy and mining projects by ending parallel government assessments. Ottawa and the provinces should agree to a single environmental assessment that meets the standards of both governments. Consistent with a recent Supreme Court ruling, Ottawa should ensure that the jurisdiction that has the primary role in approving a project conducts any public interest tests.

We should develop new export markets by rapidly concluding trade agreements with the UK and ASEAN (the Association of Southeast Asian Nations) and by seeking other opportunities to reduce trade barriers. The effective size of our internal market can be greatly expanded by eliminating interprovincial barriers to trade and mobility. This has always been good policy but the economic assault from the south now makes it urgent. To maintain the current enthusiasm for it, Ottawa should stand ready to compensate those hurt by dismantling barriers.

Now is not the time for large increases in the supply of labour through immigration. Ottawa should reduce immigration to well below planned levels to lessen upward pressure on unemployment, government spending and housing costs.

In responding to Trump's tariffs, the next government needs to restrain its debt. Economic downturns occur with dependable if unpredictable frequency. A downturn induced by a trade war would leave even less time than usual to restore fiscal health, raising the risk that debt reaches unsustainable levels. Deficits and debt rise automatically to stabilize a weakened economy, but to minimize their increase, we should finance any measures to restructure the economy by reallocating existing spending, particularly business subsidies. Ottawa is spending about \$38 billion a year on business subsidies now, rising to over \$45 billion by fiscal year 2029-30. As I discuss in another [recent paper](#), only a small fraction of this spending represents value for money for Canadian taxpayers, so using existing business subsidies to fund new programs that reduce Canada's reliance on the United States would make Canadians better off.

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A version of this Memo first [appeared](#) in the Financial Post.