



MARCH 22, 2017

# BUDGET 2017

## From Infrastructure to Innovation, the federal budget highlights

**O**n March 22, Federal Finance Minister, Bill Morneau tabled the federal government's 2017 budget—a document Mr. Morneau calls “Chapter Two” in the economic story of this Liberal Government.

Apart from updates on anticipated revenues and program expenditures for the 2016-17 fiscal year, and projections for this and subsequent years, the budget's core message stayed true to the Trudeau Government's policy mantra of working to improve the lot of middle class Canadians and those seeking to join it, and continued the vision set out in Budget 2016.

The budget projects a deficit of \$28.5 billion in 2017. This will maintain the debt to GDP ratio at or about the same level that it has been at for the past 10 years; it is forecast to remain at that level for

the foreseeable future. Interestingly, the document anticipates no budget balance until the year 2055.

### Taxes

As anticipated, significant tax changes and large new program expenditures were absent in the budget. Many political observers agree that ongoing uncertainties surrounding the

Trump administration's trade and tax policy plans make it extraordinarily difficult for a Canadian Finance Minister to make significant changes in this area, pending more information. There is some tinkering with taxes including small increases in “sin” taxes on alcohol and tobacco and the repeal of some “boutique” tax credits introduced by the previous government including the Public Transit Tax Credit.

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### Skills Training

The prevailing wisdom says that, notwithstanding relatively high employment levels, most experts are expressing concern that the pace of technological innovation and the increasing adoption of automation in the workplace will displace workers at an alarming rate. With a view to addressing that challenge the government

is proposing a suite of policies designed to help the workplace prepare for the jobs of the future by:

- beefing up co-op programs with universities,
- investing some new money in Labour Market and Workforce Development Agreements with the provinces,
- making changes to the Employment Insurance program to enable unemployed workers to go back to school without losing EI benefits,
- rendering more flexible the rules for parental leave, and
- making it easier to attract skilled foreign workers to Canada.

## Innovation

A recent paper published by former Parliamentary Budget Officer, Kevin Page revealed that Canada already spends \$22.6 billion on over 150 programs and tax credits in the innovation space. In this budget, the government proposes to “consolidate and simplify” this complex web. In addition, there is a plan to invest \$950 million in “super clusters”, to promote business led innovation. In a move reminiscent of a previous era of industrial policy, there will be specific focus on advanced manufacturing, agri-food, clean technology, health

and bio-sciences, as well as infrastructure and transportation. There will also be an investment of \$1.26 billion over 5 years in a new Strategic Innovation Fund for aerospace, automotive innovation and related fields. The government also announced a renewed commitment to science and evidence-based decision making with the creation of a Chief Science Advisor and a supporting secretariat.

## Infrastructure

In 2016 the government announced that it would seed an Infrastructure Bank with a \$35 billion capital infusion over 11 years. This budget says that enabling legislation for the Bank will soon be introduced. This budget also fills in program details for the substantial infrastructure spend announced in budget 2016.

## Housing

The budget fleshes out how the government intends to spend previously announced social infrastructure funding via a new National Housing Strategy. There is a commitment to allocate \$11.2 billion over 11 years to build, renew and repair the stock of affordable housing across Canada.

## Conclusion

As advertised, this budget is a steady-as-she-goes prescription for the economy in the year ahead. Remarkably, it only proposes \$1.3 billion in spending that has not previously been announced. The government did, however, reinsert the \$3 billion contingency/prudence reserve that was not included in budget 2016. Moreover, predictions that there would be a significant increase in allocations to some ministries, notably defence, did not materialize.

Until the U.S. government provides clear scope and definition to its fiscal and trade policies, nothing in Canada will be etched in stone. Assuming clarity south of the border over the spring and summer, we can reasonably expect Minister Morneau to make what could amount to significant mid-course adjustments to his economic plan come the fall session of Parliament. ■