2017 FEDERAL BUDGET ANALYSIS

Analysis

Budget 2017 is as much an elaboration of Budget 2016 as it is new. Projected earlier to be the Innovation Budget, circumstances and events intervened to limit its ambition, scope and the money available to fund it. The reality of a continuing difficult fiscal outlook, combined with extraordinary uncertainty driven by potential US economic and fiscal policies, have clearly forced the government's hand. From its perspective, it had little choice and is making entirely prudent and realistic choices. In turbulent times or uncertain ones, the Department of Finance always prefers to buy time rather than get caught short when circumstances evolve.

To call it a "stay the course" Budget is accurate. In many ways, there seems to be an inverse relationship between the number of pages in the budget papers and the dollars expended. In fact, in virtually every year for the next five, new spending is matched by reallocation (without specifying what has been cut) or minor revenue increases. The net fiscal impact is marginal (less than half a billion) in three of the five years.

The budget did move the yardsticks on a number of 2016 budget measures, including criteria and priorities for infrastructure spending in the various categories it has developed. It also advanced their thinking on the innovation agenda, including their view that scale-ups in strategic sectors and scale will be key drivers of economic growth and on skills and development.

In the final analysis, the government's determined efforts to lower expectations for this budget reflected a realistic view of its contents. None of the dramatic and speculative rumours—from the capital gains tax changes to the sell-off of airports—turned out to be correct.

Economic Growth Projections

The problem for the government and minister of Finance is clear from the budget's economic projections and their impact on the fiscal track. Private sector growth projections are even lower now than they were in November, and average an anemic 1.7 percent real GDP growth over the next five years. It is easy to see why the minister was so concerned about his long-term deficit and debt numbers and why he insisted on a minimalist spending budget.

Deficit and Debt

The net result is a deficit track similar to the one projected in November but one that includes a $3 billion contingency fund. The deficit barely gets below $20 billion by 2021/22 although it stays well below 1 percent of GDP. There is no plan for balance anywhere in the five-year horizon. Perhaps more to the point for the minister, he managed to keep his fiscal anchor – the debt/GDP ratio – relatively steady around 31.5 percent.

Table A1.5
Summary Statement of Transactions
billions of dollars

		Projection					
	2015–2016	**2016–2017**	**2017–2018**	**2018–2019**	**2019–2020**	**2020–2021**	**2021–2022**
Budgetary revenues	**295.5**	**292.1**	**304.7**	**315.6**	**327.7**	**340.3**	**356.0**
Program expenses	270.8	290.9	305.4	313.7	319.8	328.6	338.5
Public debt charges	25.6	24.3	24.7	26.3	28.3	30.4	33.3
Total expenses	**296.4**	**315.1**	**330.2**	**340.0**	**348.1**	**359.0**	**371.8**
Adjustment for risk			-3.0	-3.0	-3.0	-3.0	-3.0
Budgetary balance	**-1.0**	**-23.0**	**-28.5**	**-27.4**	**-23.4**	**-21.7**	**-18.8**
Federal debt[1]	**616.0**	**637.1**	**665.5**	**692.9**	**716.3**	**738.1**	**756.9**
Per cent of GDP							
Budgetary revenues	14.9	14.4	14.4	14.4	14.4	14.4	14.5
Program expenses	13.6	14.4	14.5	14.3	14.1	13.9	13.8
Public debt charges	1.3	1.2	1.2	1.2	1.2	1.3	1.4
Budgetary balance	0.0	-1.1	-1.4	-1.2	-1.0	-0.9	-0.8
Federal debt	31.0	31.5	31.6	31.6	31.5	31.3	30.9

Note: Totals may not add due to rounding.
[1] The projected level of federal debt for 2016–17 includes an estimate of other comprehensive income of $2.0 billion.

Innovation

The government is going ahead with its "big bet"—an industrial strategy designed to foster innovation in order to grow world-competitive Canadian companies. It has identified six priority technologies and sectors on which to focus:

- advanced manufacturing
- agri-food
- clean tech
- digital industries
- health and bio sciences
- clean resources

It is creating a new agency under ISED called Innovation Canada that will set up strategy tables for each priority and the department will use that lens to dictate much of its innovation policy and investment. The long talked about Super Cluster candidates will all come from these sectors – initial criteria were outlined in what will be a savage competition for $950 million ($150 million was added through reallocation) in funds over the next year. The BDC and EDC are getting massive injections of cash to promote venture capital and direct investment in some of the sectors, particularly clean tech.

And the government isn't even waiting to jump start one of those technologies, it is contributing $125 million to further current work on artificial intelligence.

The government is putting current aerospace and automotive program dollars into what it calls a Strategic Innovation Fund and it too will be accessible by clean tech and agri-food companies.

Other parts of the innovation agenda outlined in the Budget are smaller in scope, detail and reach. The government promises to use its purchasing power strategically to buy from innovative companies with innovative products; it promises a new intellectual property strategy in 2017; it will appoint a Chief Science Advisor as it awaits the publication of the Science Review and on the trade side, it will advance by two years raising the threshold of foreign investments subject to a net benefit review to $1 billion.

The limitations imposed by fiscal conditions and the new sector strategy produced some very surprising decisions involving research and science organizations. For the first time in recent memory, the Granting Councils received no new money, although the NRC did get another year of incremental money. Several national research networks or specialized operations were shut out as well, and some of these are approaching budget crunches. The government is creating yet another review to inventory innovation spending including the NRC, the Granting Councils and the SRED tax credit and reassign priorities and reallocate. This will create another intense competition for funds outside those competing for Cluster money. Some historically funded operations may reach the end of their road under this process.

Tax Expenditure Review

The innovation agenda and the US uncertainty about taxes ended up turning the long-awaited Tax Expenditure Review into much less than was originally intended. Virtually every big revenue draining tax expenditure survived while the government eliminated only a handful of measures. Obviously, what would in effect be tax increases did not square easily with the need to incent innovation investment or with the probable tax cuts for individuals and corporations coming in the US.

Investment Canada Review Thresholds

To support global investment that is beneficial to Canada, Budget 2017 proposes to amend the Act to increase the net benefit review threshold to $1 billion, two years earlier than planned, and to require the publication of an Annual Report on the administration of the national security provisions. It further proposes $1.25 million for Public Safety Canada and the Canadian Security Intelligence Service for continued operations related to the Investment Canada Act's National Security Review Program.

Healthcare and BioSciences

On healthcare policy, in addition to the growing Canada Health Transfer (totalling $200 billion over five years), Budget 2017 documents the federal government offer to provide the provinces and territories with an additional $11 billion in funding over ten years for better homecare and mental health. Budget 2017 will also invest $828.2 million over the next five years to address immediate health needs of First Nations and Inuit peoples. A number of other initiatives were also identified in the budget to strengthen Canada's healthcare system, such as data collection, e-prescribing, electronic health records and leveraging other technology.

The federal government is also following through on Health Minister Jane Philpott's commitment to improve access to prescription medicines, lowering drug prices and supporting appropriate prescribing. In particular, Budget 2017 proposes new funding of $140.3M over five years, with $18.2 M/yr ongoing, for Health Canada, the Patented Medicines Prices Review Board and the Canadian Agency for Drugs and Technologies in Health. This new funding will presumably be destined to improve processes and increase capabilities on the one hand, but will also embolden regulators and health technology assessment bodies to raise the hurdle for industry to bring products to market, notwithstanding the government's preoccupation with innovation policy.

Clean Tech & Clean Growth

Innovation, clean technology, and infrastructure are linked throughout the budget, with the clean technology and clean growth sector being viewed as one of the three sectors that will drive the Canadian economy into the future. Infrastructure spending has been structured such so that new technologies that support the greening of the built environment and transportation also address the desire to build capacity within the clean technology sector.

Specifically, clean technology and clean energy funding is divided between the innovation and adoption agendas. $1.4 billion has been allocated specifically for financing from start-up to scale-up and implementation. This money will be divided between BDC, EDC, and SDTC to support the industry at every step. In addition, Canada has pledged a doubling of its support for Mission Innovation, a mechanism identified in last year's budget as a driver of clean energy research.

Another facet of the push towards the clean growth economy focuses on a suite of initiatives that will provide the impetus for a smaller carbon footprint, and more sustainable cities. $21.9 billion in spending will support green infrastructure and the implementation of the Pan-Canadian Framework on Clean Growth and Climate Change.

Specifically, $630 million over 4 years has been dedicated to support the Framework through items such as coal-replacement technologies, enabling northern communities to come off diesel for energy generation, transportation solutions to reduce greenhouse gasses, and energy efficiency in the built environment (including retrofits to federal buildings). In addition, the CIB will dedicate $5 billion to green infrastructure projects.

While no carbon pricing mechanisms were outlined in the budget, a promise to engage in a consultative process on how exactly the federal government can backstop provincial carbon pricing mechanisms is forthcoming.

Agriculture

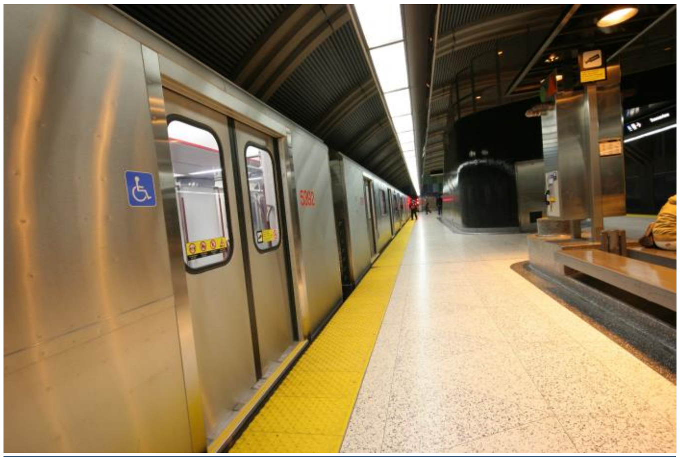
The budget supported the Barton Council's suggestion that agri-food will be one of the most important sectors in the world over the next 20 years – and that Canada has "all the right ingredients" to be a global leader in it – by highlighting the sector as one of only six identified for targeted government investment.

In specific new developments, the budget adds to the $30 million over six years announced last year to support advanced research in agricultural science and genomics at Agriculture and Agri-Food Canada, and builds on this funding by proposing to invest $70 million over six years, starting in 2017–18, to further support agricultural discovery science and innovation, with a focus on addressing emerging priorities, such as climate change and soil and water conservation. In addition, as part of the $200 million provided for the Clean Growth in the Natural Resources program, the Budget proposes to provide funding to Agriculture and Agri-Food Canada to support the expanded adoption of clean technology by Canadian agricultural producers.

The government also used the budget to confirm that further details of the next agricultural policy framework will be announced over the coming year, with a formal announcement in 2018, as well as to confirm that it will launch a competition for funding its "Innovation Superclusters", sectors which enhance Canada's global competitiveness by focusing on highly innovative industries, including agriculture and agri-food.

Infrastructure

As was expected, the budget continues the government's emphasis on infrastructure spending. Following the roll-out of Phase 1 spending, this year's budget provides additional details regarding how Phase 2 infrastructure spending as well as how other infrastructure initiatives would roll-out.



Public Transit

To support the next phase of ambitious public transit projects, the government, working closely with the provinces and territories, will invest $20.1 billion over 11 years and to ensure that public transit dollars are invested in a way that makes the most sense for Canada's diverse communities.

In addition, the new Canada Infrastructure Bank (CIB) will play a role in defining and building public transit infrastructure in Canada. As part of its mandate to structure, negotiate and deliver federal support for infrastructure projects with revenue-generating potential, the CIB will invest at least $5 billion in public transit systems.

Canada Infrastructure Bank

The budget offers additional detail regarding the structure and intent of the CIB. In addition to being responsible for investing at least $35 billion over 11 years in strategic, large, transformative projects using loans, loan guarantees and equity investments, the CIB will work in partnership with provinces, territories, municipalities and Statistics Canada to undertake an ambitious data initiative on Canadian infrastructure.

Smart Cities Challenge

To encourage cities to adopt new and innovative approaches to city-building, the government proposes to provide Infrastructure Canada with $300 million over 11 years to launch a Smart Cities Challenge Fund. Participants will create ambitious plans to improve the quality of life for urban residents, through better city planning and implementation of clean, digitally connected technology including greener buildings, smart roads and energy systems, and advanced digital connections for homes and businesses.

In addition to these areas, infrastructure funding will support a number of other broader government priority areas including:

- Clean growth through green infrastructure
- Early learning and childcare through social infrastructure
- National Housing Strategy and Affordable Housing through an investment in the National Housing Fund
- Cultural and Recreational infrastructure through an investment in the Canada Cultural Spaces Fund

National Trade Corridors Fund

To address urgent capacity constraints and freight bottlenecks at major ports of entry, and to better connect the rail and highway infrastructure that delivers economic growth across Canada, the Government proposes to establish a new National Trade Corridors Fund. Budget 2017 proposes to provide $2 billion over 11 years to support the Fund's activities. At least an additional $5 billion will be provided through the Canada Infrastructure Bank to address trade and transportation priorities.

In addition to identifying priority investments that will help streamline transportation along Canada's major trade corridors, the Fund will look for ways to improve the flow of supplies to northern communities, and unlock economic development in Canada's three territories.

Defence

Today's budget indicated that the soon to be announced Defence Policy Review (DPR) will commit the level of investment required to restore the Canadian Armed Forces to a sustainable footing with respect to finances, capital and people, and equip the Forces to meet the challenges of the coming decades. When it is released, the DPR needs to satisfy two key objectives: first, it must placate the criticism of some of our NATO allies, especially President Trump, that Canada is not living up to its commitment to reach two percent of GDP in defence spending; and second, it must provide the necessary resources to expand defence

capabilities in line with the vision that is to be set out in the DPR.

To support the new Canadian Space Strategy promised earlier by ISED Minister Bains, the budget provides the Canadian Space Agency with an additional $80.9 Million on a cash basis over five years starting in 2017/2018, for new projects (missions) that demonstrate and utilize Canadian innovations in space, including in the field of quantum technology, as well as for Mars surface observation. The Mars mission will enable Canada to join NASA's next Mars Orbiter Mission.

International Development

With an eye to the government's 2016 international assistance review, Budget 2017 includes two specific items on international development: (i) $650M on sexual and reproductive health and rights in fragile states (almost a doubling of current levels); and (ii) a $300M fully-capitalized new Development Finance Institution to be housed at Export Development Canada and focussed on sustainable development and poverty reduction.

Skills, Training & Benefits

The growth in precarious work, increasing automation of the workforce, along with what Finance Minister Morneau has called "job churn" resulted in Budget 2017 focusing heavily on skills, training, and workforce learning opportunities.

The measures adopted in Budget 2017 are targeted at attracting into the work force those that have a lower rate of labour participation: women with children under 16 years, aboriginals, low-income and low skilled workers, and workers aged 55-69. Those demographic targets are, for the most part, also needed politically by the Trudeau government to ensure a second mandate in 2019.

Skills Gaps & Life Long Learning

The federal government allotted $225 million over four years, starting in 2018-2019 to build a highly skilled and resilient Canadian workforce by establishing an organization (as yet unnamed) to support skill development and measurement in Canada. This was recommended by the Barton Advisory Council on Economic Growth, and the details will be released in the coming weeks.

Employment Insurance Training Opportunities

Budget 2017 invests $132.4 million over four years beginning next year in 2017-2018. For unemployed workers receiving EI, this means that they can return to school to get the training they need to find a new job—without fear of losing the EI benefits.

New Caregiver Benefit

$691.3 million over five years, starting in 2017–18 to create a new EI caregiver benefit to allow Canadians to take up to 15 weeks for those who need to care for an adult family member who needs significant support to recover from a critical illness or injury.

Expanded Parental Benefits

Allow parents to choose to receive EI parental benefits over an extended period of up to 18 months at a lower benefit rate of 33 percent of average weekly earnings. EI parental benefits will continue to be available at the existing benefit rate of 55 per cent over a period of up to 12 months.

Youth Employment Strategy

Prime Minster Trudeau is also Youth Minister and as such it is significant that Budget 2017 invests $395.5 million over three years to expand the youth employment strategy.

Indigenous Skills Training

$90 million increase over two years for post-secondary student support for Indigenous Canadians, which is expected to help 4,600 students.

Global Skills Strategy and Global Talent Stream

Budget 2017 confirmms the already announced *Global Skills Strategy* that will help high-growth Canadian companies recruit global talent. Considering this, the federal government will fast-track work permits and visas for highly trained people with in-demand skills, condensing the process from 14 to 2 weeks. Set to be active June 12, 2017 the *Global Talent Stream* is a part of the Temporary Foreign Worker Program and the government is allotting $7.8 million starting in 2017-2018 to allow those in highly skilled trades to work for 30 days or less in Canada within a 12-month period.

Gender Based Analysis

Of note, the proudly feminist Trudeau government applied Gender Based Analysis to Budget 2017 dedicating a whole section of the budget plan to outlining measures that were particularly beneficial for Canadian women, including women entrepreneurs, domestic violence, labour market participation, parental leave and caregiver benefits. This is a first for a Canadian government.

Annex 1 – Official Budget Links

Click here to read the full budget documents

Annex 2 – Budgetary Process

Budgetary Process Going Forward

Finance Minister Bill Morneau presented the 2017 federal budget just after 4:00 PM, after financial markets closed in the Eastern time zone, according to tradition.

After the Budget's presentation, the House adjourns following a brief question and answer period and a subsequent motion by the Official Opposition finance critic to adjourn the debate. This is a traditional ritual based on the pre-lock-up days, when Opposition leaders and critics would say they need time to read and digest the budget's contents before responding formally and comprehensively. These days, it is used as a period to calibrate political communication in response.

The Budget is followed by four days of debate, including three votes:

- Vote on the Third Party (NDP) sub-amendment, *at the end of Debate Day 2*
- Vote on the Official Opposition (Conservative) amendment, *at the end of Debate Day 3*
- Vote on the main motion – **to accept the budgetary direction of the Government of Canada** – *at the end of Debate Day 4*

All of these votes would generally be considered tests of confidence in the government; however, given the fact that the government enjoys a majority of seats in the House of Commons, the confidence test is more of an academic point. The amendment and sub-amendment are primarily used by the Opposition parties to highlight their own themes and messages on how the budget falls short. Debate and Opposition amendments tend to focus on general policy themes – inadequate funding for *X*; or the budget is completely silent on the issue of *Y*, etc. – rather than focusing on the fiscal numbers.

While the final decision is subject to the fiat of the government house leader, it can be presumed that the second day of debate will be tomorrow, with the leader of the Opposition starting debate, followed by the leader of the Third Party. The four days of debate need not necessarily be consecutive.

The Three Real Budgetary Tools

While the federal budget consumes the lion's share of attention, budgets as we see them presented today are primarily political and communications tools – essentially, economic throne speeches. The real presentation and approval of budgetary measures is done through three tools: *Notices of Ways and Means* (a.k.a. "Ways and Means motions"), *Budget Implementation bills*, and the *Supply* or *Appropriation* process (including approval of the "Estimates" and the appropriation bills that flow from them).

- Taxation changes require a separate *Notice of **Ways and Means*** to be tabled (and passed) prior to the tabling of enabling legislation that codify those tax changes. These "Ways and Means motions" are typically tabled very shortly after the presentation of the budget speech and tabling of accompanying documents. Unlike other legislative initiatives, Ways and Means motions are *normally deemed to be in effect immediately upon tabling*, with the eventual legislation stipulating that it is retroactive to the date of tabling. Technically, Ways and Means motions are only necessary for taxation *increases*, however, recent practice has also seen them used for tax decreases as well – more than anything else, to draw attention to politically popular initiatives.
- Non-taxation items that require legislative approval are effected in the form of **Budget Implementation bills**. Normally, a federal budget is followed by *two* Budget Implementation bills – one on the spring, and one in the fall. Generally, the more political and signature items are contained in the spring bill, whereas the measures that are more technical and require additional consultation, planning or legal scrubbing follow in the second bill. These bills, once tabled, become major legislative imperatives – Parliament will not recess in June until the spring Budget Implementation Act is passed.
- The granting of "**Supply**" is the central role of Parliament in the Westminster parliamentary system, and this is done through the Estimates process. These are the votes that approve the actual expenditures for government operations. The Supply Cycle is divided into three trimesters: January-March, April-June, and September-December. Every Supply Period ends in votes on spending estimates and at least one supply bill. These are inherently confidence votes (again, more of an academic point in a majority parliament). The House must pass the *Main Estimates* no later than June 23rd. The two other supply periods culminate in votes on *Supplementary* Estimates and/or *Interim Supply*. These are effectively top-ups to, or cash-advances against, the Main Estimates voted on in June. This is the thrice-annual *real* approval of expenditure to fund government operations.