

Doubling Down:

Justin Trudeau's first budget responds to slow economic growth with big spending – and more to come

Six months into their mandate, the new Justin Trudeau-led Liberal government is delivering on their campaign commitments as expected – but going even further in response to slower than expected economic growth. With immediate spending led by First Nations and “shovel ready” infrastructure priorities, they have set the stage for even greater future investments – especially in infrastructure – further into their mandate.

When faced with slower than expected economic growth, the new government could have curtailed their spending program – but has instead chosen to add several significant new commitments to their campaign promises. They also clarified their intention to take a two-step approach to infrastructure spending – with details on their biggest investments yet to come.

Budget Winners:

- **First Nations** – with \$8 billion in spending over five years, far exceeding the Martin government's Kelowna Accord commitments, including \$1.8 billion to end boiled water advisories on reserve, \$3.7 billion for education and schools, \$638 million for child welfare, and an initial \$554.3 million, two year investment in housing.
- **Shovel ready projects** - \$11.9 billion in spending will go towards an initial phase of infrastructure spending in transit, green and social infrastructure projects, leaving the full \$120 billion plan to be defined in phase two.
- **Post-secondary education and youth** – with an unexpected \$2 billion strategic innovation infrastructure fund on top of expected student aid reforms.
- **Renewable energy** – with a \$2 billion fund to support provincial projects that demonstrably reduce GHG emissions.
- **Unemployed workers** – with expanded EI eligibility in hard-hit parts of Canada including Alberta, Northern Ontario and Newfoundland & Labrador.
- **Middle class families** – with follow-through on signature campaign promises to cut taxes in the \$45,000-\$90,000 income bracket and the repurposing of pre-existing programs into the new Canada Child Benefit, which is simpler, tax-free, better targeted to low-and middle-income families – and more generous.

Budget Losers:

- **Deficit hawks** – given lower than expected economic growth, the budget deficit clocks in at nearly \$30 billion for the next two years – a far cry from the election pledge of three \$10 billion deficits followed by balance. However, this sum includes a \$6 billion contingency and is predicated on an overly grim GDP forecast, setting the stage for future, better than expected budgetary performance.
- **The 1%** - as promised, middle class tax cuts are offset by an increase in the highest tax bracket for Canadians earning over \$200,000, from 29% to 33%.

- **Health care** – the budget holds back on campaign commitments to invest in home care, mental health and drug reforms, perhaps in anticipation of future funding commitments after forthcoming Health Accord talks with the provinces.

Other budget highlights:

Infrastructure

The government has split its infrastructure program into two phases. Phase one invests \$11.9 billion over five years, with an emphasis on the first two years, focused on short-term priorities. This immediate infusion is expected to increase GDP by 0.5% in year one and 1% in year two. Budget 2016 focuses on phase one, and includes:

- \$3.4 billion over three years to upgrade and improve public transit
- \$5 billion for green infrastructure, including:
 - \$2 billion for Clean Water and Wastewater
 - \$1.8 billion for First Nations clean water
 - Innovative First Nations green infrastructure and capacity building programs
- \$3.4 billion for social infrastructure including affordable housing, early learning and child care, cultural and recreational infrastructure, and first nations community health care infrastructure.

Phase two will deliver on the remaining eight years of the government’s \$120 billion infrastructure plan, with broader and more ambitious goals – a cleaner economy, more inclusive society and capitalizing on global trade through integrated transportation networks. The government has committed to engage provincial, municipal and first nations stakeholders on the development of this plan. They also reference the need for “new institutions” to improve infrastructure management – hinting at the Canada Infrastructure Bank included in the Liberal platform.

Innovation Agenda

The budget contains a new “Innovation Agenda” that will redefine how it supports innovation and growth, in partnership with the private and not-for-profit sectors, provinces and post-secondary institutions, including:

- A new \$2 billion “Post-Secondary Institutions Strategic Investment Fund” over three years, starting in 2016, that will provide up to 50 per cent of the cost of projects that enhance and modernize research and commercialization, as well as industry-relevant training.
- Significant investment in clusters and innovation networks, with \$800 million over four years starting in 2017-18.
- \$95 million more annually to the research granting councils.
- Commitment to the current agriculture policy and funding framework, including business risk management.

Clean Growth Economy

The new government has committed \$2.9 billion over five years to reduce climate change, meet Canada's Paris Climate Conference commitments and address air pollution, focusing on a pan-Canadian framework and reducing energy and transportation emissions. These funds include a \$2 billion Low Carbon Economy Fund, starting in 2017, to support provincial actions that reduce GHG emissions. Resources will go towards projects that produce the greatest reductions.

Additional programs supporting clean economic growth include:

- \$10.7 million over two years for renewable energy projects in off-grid First Nations communities.
- \$1 billion over four years to support clean technology in forestry, fisheries, mining, energy and agriculture – with more details to be provided in coming months as part of the Innovation Agenda.
- \$197.1 million to invest in ocean and freshwater science
- Doubling investment in clean technology activities supported by Regional Development Agencies to \$100 million annually.
- \$50 million to invest in technologies reducing GHG emissions in the oil and gas sector
- Tax support for electric car technology and electrical energy storage.

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