STRATEGYCORP Institute of Public Policy and Economy

Budget 2021:
COVID Recovery Plan and Pre-Election Manifesto?

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As Canada continues to try and chart a way through the COVID-19 pandemic, the federal Liberal government has also tried to chart a way forward through the current third wave and post-pandemic recovery through today's budget.

The Budget is the first for Finance Minister and Deputy Prime Minister Chrystia Freeland, the first female finance minister in Canadian history – a theme that the finance minister and the Budget highlighted on occasion. It is also the first federal budget since March of 2019, the longest time between budgets in Canadian history.

Of course, given that Canada has a minority Parliament, there has been much commentary about the budget being the trigger for a spring or early summer election should the Liberals be defeated by the opposition parties in the House of Commons. However, given previous NDP entreaties to not force an election during a pandemic, it remains highly unlikely that Canada will see a federal election before fall of 2021.

Budget 2021 and the Political Calculus

The Trudeau Government's 2021 Budget is not only a pre-pandemic-recovery plan, but also a pre-election manifesto. Three distinct political aims are evident in the mass of spending details in this 724-page document. They are keyed tightly to critical political goals as the Trudeau government considers a bid for re-election with a majority:

- **Outreach to suburban households though child care** - Of all the major announcements in today's budget, national child care is one of the largest planks announced by Minister Freeland. The Liberals' massive $30 billion investment over the next five years is a significant offering to these families in these ridings – particularly to the women in these ridings. While the Liberals' historical record on this oft-made promise is a vulnerability, Trudeau and Freeland have clearly doubled-down on child care as the next signature plank of the Liberal Party. Look for the child care offering to be a staple of Liberal pitches in Canada's newest, fastest-growing suburbs, where younger households are more common, commute times are longer, and the need for childcare is pressing.

- **Pushing the Conservatives on the environment/economy nexus** - The Conservative Party membership's recent convention revolt against expressing a clear statement that "climate change is real" only continues to highlight the Conservatives' vulnerability on environmental issues. This issue may not easily be closed by Opposition Leader Erin O'Toole's climate change policy, which was unveiled last week and could face its own internal challenges.

  The Budget, with its significant emphasis on tying economic recovery to green objectives, may be a bugle call for Liberals to go on the offensive with the environmental issue. How? By arguing that traditional CPC resistance to green measures evades the issue of putting a price on carbon. In their own words, Conservatives argue their new environmental carbon pricing measures are not a "tax" and the debate is still on-going whether

O'Toole's new plan will lead to meaningful decarbonization of the economy.

Liberals may strategize that the Budget's environmental/economic spending can be used to carve into the CPC's traditional turf: their reputation for economic competence and jobs. As StrategyCorp noted in its Liberal Convention note, the deployment of Mark Carney – a kind of talismanic embodiment of the decarbonizing dynamic – plays into this Liberal narrative. To attract more suburban voters, the Liberals will want to own the "jobs" issue and their focus on "green jobs" is designed to force the CPC into opposition.

- **Crowding the NDP** - "No enemies on the left" was a battle cry of previous Liberal Prime Ministers. So it may be with Justin Trudeau, if Budget 2021 is any guide. Today's document features a plethora of measures aimed at voter groups who oscillate between the Liberals and NDP. Women, youth, and low-wage workers all are singled out for big commitments. Racialized communities are given specific attention. These spends – and the luxury taxes on yachts and high-end autos – could leave Jagmeet Singh with precious little room to argue that more New Democrats are needed to keep the Trudeau Liberals progressive.

Ever since the 2019 election, StrategyCorp has been keeping watch on the strategic electoral options for the Liberals to wring a majority out of a divided electorate. In essence, two paths have been available: win bigger in Quebec, or advance to the outer limits of Canada's urban ridings.

There's no Quebec-directed mega-overture in this Budget, such as a massive transfer of health dollars to the provinces. There is, rather, a subtler move, that speaks to the Liberals' interests in the Province and its relationship with the popular Legault government. Within the details of the proposed child care program (which largely exists already inside Quebec), the federal government would assume some new costs. This boost from Ottawa enables the Legault government to deploy new funds into better services in under-serviced areas, especially in the fast-growing smaller cities and suburbs.

There's no certainty of any one-to-one conversion of dollars, but ample room exists for Legault to add to the mix some lessening of the provincial child care burden. This transaction, if it is truly in the offing, would be a quick win for Legault's CAQ government, and good for the Trudeau Liberals as well.

The political implications are twofold, and significant. First, the Liberals may have settled their strategic question by saying "yes" to suburbs in English Canada, and "oui" to Quebec – in the suburbs. Second, Premier Legault may be hedging his bets, and putting some of his abundant political capital into a working arrangement with the Trudeau Liberals. Such an arrangement would be of great benefit to Trudeau, and could provide one of the key pieces to the overall electoral puzzle.

In sum then, the Budget lays down the Liberals' bets. Reach to the suburbs – nationwide – with child care. Carry the environmental fight all the way into the Conservatives' economic credibility. And keep the NDP with as little to say as possible.

Of course, the timing of the election remains very much at issue. But it now seems the content is pretty much settled for the Liberals.

Fiscal and Economic Outlook

It is undeniable that the COVID-19 pandemic and its enduring economic impact are major forces defining Minister Freeland's first budget.

In the Fall Economic Statement, the deficit for 2020-21 was estimated to reach nearly $400 billion. However, today's budget confirms a slightly lower estimated $354 billion deficit, which is still a record.

One of the Liberals' major commitments from the Fall Economic Statement of $100 billion in stimulus spending has been reiterated through two planks:

1. **"Securing the Recovery"**: focusing on rapid and sustained economic recovery, with a plan for "targeted and robust stimulus"
2. **"Building a Stronger Economy"**: focusing on a higher and more inclusive growth path, the Liberals' vision of a stronger economy includes removing barriers to the labour force, including child care, creating opportunities for young workers, restarting the immigration system and generating labour market momentum, fighting climate change, and incentives to encourage businesses to invest and adapt to new technologies and a digitized economy.

To fund these planks, the government is proposing significant budget deficits for the next five years, although these deficits are estimated to decline:

2021-22	2022-23	2023-24	2024-25	2025-26
$157.4 billion	$59.7 billion	$51.0 billion	$35.8 billion	$30.7 billion

In addition, the debt-to-GDP ratio, an economic scorecard that Liberals have heavily relied upon since coming to power in 2015, is estimated to decline over the next five years with forecasts lower than projected in the Fall Economic Statement:

Debt-to-GDP Ratio	2021-22	2022-23	2023-24	2024-25	2025-26
Budget 2021	51.2%	50.7%	50.6%	50.0%	49.2%
Fall Economic Statement	58.1%	58.5%	57.6%	57.6%	56.6%

Looking beyond the ratio, federal debt reaches new heights in this budget. In 2020-21, the federal debt crossed the trillion-dollar threshold, reaching $1.1 trillion. Projecting ahead, the debt continues to grow:

2021-22	2022-23	2023-24	2024-25	2025-26
$1.23 trillion	$1.29 trillion	$1.34 trillion	$1.38 trillion	$1.41 trillion

Rather than defining a specific "fiscal anchor" as some have called for, Budget 2021 positions four "fiscal guardrails" that are used to assess and gauge the impact of fiscal policy support:

- Employment rate
- Unemployment
- Total hours worked
- Additional labour market metrics, including youth unemployment, long-term unemployment rate and share of involuntary part-time work

Looking at the government's revenues, tax revenues are anticipated to recover as the economy and employment recovers. Growth in personal income tax is limited, reflecting the COVID pandemic's negative impact on household incomes. Personal income tax revenue is anticipated to rebound as employment levels recover and return to an average of 4.3% growth, in line with GDP growth. Corporate income tax, similarly, is anticipated to rebound as the economy recovers, and is projected grow at a rate of 7.6% per year, reflecting an optimistic view of corporate profitability.

In terms of new taxes, the most significant measure is the new digital services tax expected to be in effect as of January 1, 2022, which is budgeted to raise $3.4 billion over five years. The 3% tax will apply on revenue from digital services that rely on data and content contributions from Canadian users and would apply to large businesses with a gross revenue of 750 million euros or more.

The other new tax measures in the budget include:

- A luxury tax on cars and personal aircraft over $100,000 and boats over $250,000, which is expected to increase federal revenues by $604 million over five years.
- National, annual 1% tax on the value of non-resident, non-Canadian owned residential real estate considered vacant or underused. This is expected to generate $700 million over four years, beginning in 2022-23.

Complementing the revenue side of the balance sheet is increased focus on tax collection. The Canada Revenue Agency will receive over $300 million to combat tax evasion and tax avoidance which is estimated to recover $810 million over five years. Additional funding will enable the Agency to improve its ability to collect outstanding taxes, leading to the collection of an additional $5 billion in outstanding taxes over five years.

Key Budget Measures

Child Care and Social Infrastructure

As mentioned previously, early learning and child care is a centerpiece of the budget, with almost $30 billion invested over the next five years and $8.3 billion in ongoing annual funding. The Budget projects that average fees for regulated early learning and child care outside of Quebec will ultimately be reduced by 50 per cent. The goal: $10 a day daycare across Canada within the next 5 years.

In terms of implementation, $27.2 billion will be invested in initial 5-year agreements with the provincial and territorial governments which will bring the federal government to a 50/50 share of child care costs. $2.5 billion will be invested over the next five years in Indigenous Early Learning and child care. An asymmetrical agreement with Quebec will enable improvements to their child care system.

From an economic perspective, the National Early Learning and Child Care Plan projects up to 240,000 additional workers in the labour force and is estimated to raise real GDP by as much as 1.2% over the next two decades. Liberals contend that this is "one of the most significant actions taken since the introduction of North American Free Trade Agreements to expand economic opportunity for Canadians."

Alongside the flagship investment in child care, there are billions in other spending to support youth, skills, and support for workers, including:

- $5.7 billion targeted towards youth, including support to pursue and complete education, relief from student debt and creating 215,000 new jobs
- $960 million for a new Sectoral Workforce Solutions Program to support jobs in growing sectors
- $470 million to establish a new Apprenticeship Service
- $298 million over three years a new Skills for Success program to improve foundational and transferrable skills, and
- $250 million to scale up industry-led, third-party delivered approaches to upskill and redeploy workers.

Other major planks in Budget 2021 include a $15 federal minimum wage, enhancing the Canada Worker Benefit, labour protection for gig workers, assistance for personal support workers, consultations on barriers to creation of employee ownership trusts and action on predatory lending.

Housing and homelessness programming is projected to receive $2.5 billion over seven years. This includes:

- $1.5 billion to the Rapid Housing Initiative, with 25% focused on women-focused housing projects and units constructed within 12 months of when funding is provided
- $600 million to renew and expand the Affordable Housing Innovation Fund,
- $315.4 million for the Canada Housing Benefit and over $118 million will support community housing through the Federal Community Housing Initiative.

An additional $567 million will be invested in two years to Reaching Home: Canada's Homelessness Strategy and an additional $45 million will be aimed at reducing veteran homelessness.

To support **charitable, non-profit, social purpose and community service organizations**, the Budget proposes to:

- Launch the $775 million Social Finance Fund and deploy $220 million in the first two years (projected to attract up to $1.5 billion in private sector capital)
- Renewing the Investment Readiness Program with $50 million over two years, to support capacity building activities for charities, non-profits, and social purpose organizations
- $400 million to create a temporary Community Services Recovery Fund to help charities and non-profits adapt and modernize, and
- Launch public consultations with charities on updating tools at the Canada Revenue Agency's disposal, potentially increasing unlocking $1-2 billion annually for the charitable sector

Within **healthcare**, a significant new investment is made in long-term care, with $3 billion over five years to support ensuring standards and permanent changes are made, along with additional supports for better palliative care and seniors aging at home and increasing Old Age Security for seniors age 75 and older – a demand of some provinces in the leadup to the Budget.

There are commitments for spending to address mental health, including $45 million to develop national mental health service standards and direct funding totaling $150 million for those impacted by COVID-19 in dealing with mental health challenges. Additional line items include funding for a national autism strategy, strategic research on pediatric cancer, a national institute on women's health research, and a national framework for diabetes.

However, the Budget somewhat avoids the sticky shared jurisdiction problems of healthcare funding and pharmacare. The Liberals have proposed a one-time $4 billion increase to the Canada Health Transfer in separate legislation, Bill C-25, which is less than the significant and sustained increase to the transfer that Premiers were seeking. Similarly, on pharmacare, the Budget reiterates the government's commitment and its previously announced $500 million for high-cost drugs for rare diseases. Actual implementation of pharmacare itself seems to have taken a backseat to child care in terms of priorities. The question remains - if there isn't room for pharmacare in such a free-spending Budget, will this longstanding Liberal commitment ever make it past the high-level sketches of a political platform?

Business and Industry

The Liberals have laid out two planks to "secure the economy" for businesses to hire and train workers, and to spend in the innovation sector as part of long-term recovery.

In addition to extending the wage subsidy, rent subsidy and lockdown support to September 2021, $595 million for a new Canada Recovery Hiring Program will help employers hire by offsetting costs as they reopen or hire more staff. The program would be available between June 6 and November 20, 2021, with employers claiming the higher of the new subsidy or the Canada Emergency Wage Subsidy (CEWS). The Recovery Hiring Program and CEWS will be slowly wound down over time, encouraging employers to begin hiring as soon as possible.

Looking at long-term growth, an incremental $7.2 billion will be invested in the Strategic Innovation Fund, with targeted investments over the next seven years:

- $1.75 billion towards aerospace, augmented by the $250 million Aerospace Regional Recovery Initiative (combined support of $2 billion)
- $1 billion over seven years to support the life sciences and bio-manufacturing sector (combined $2.2 billion)
- $5 billion top-up for the Net Zero Accelerator, supporting projects to reduce greenhouse gas emissions, expedite decarbonization, scale up clean technology and accelerate industrial transformation (combined $8 billion investment)

Additional measures to support business and industry have a heavy focus on support for Canada's innovative sectors, including digital adoption and the life sciences sectors:

- Introducing the Digital Adoption Program, to create jobs and help SMEs adopt new digital technologies. ISED will receive $1.4 billion over four years to support organizations, provide microgrants and create training and work opportunities. $2.6 billion will go to the Business Development Bank of Canada to help SMEs finance technology adoption.
- $700 million over three years for Regional Development Agencies to support business financing. A new regional development agency would be created for British Columbia, with $533.1 million over five years. The federal government will also work to make FedNor (Northern Ontario regional development agency) a standalone agency rather than part of a department.

There are also several "national strategies" announced in the Budget including:

- Up to $44.8 million in support of the Pan-Canadian Artificial Intelligence Strategy over ten years

- $360 million over seven years to launch a National Quantum Strategy, amplifying Canada's strength in quantum research
- $400 million over six years to launch a Pan-Canadian Genomics Strategy

Other innovation and economic announcements include:

- Renewal of the Venture Capital Catalyst Initiative, with up to $450 million on a cash basis over five years, with $50 million dedicated to life sciences venture capital and $50 million to support venture capital for women and racialized communities.
- $250 million over three years to implement a new Clinical Trials Fund at the Canadian Institute of Health Research.
- An additional $1 billion to the Universal Broadband Fund, bringing the total investment to $2.75 billion.
- Establishing a Data Commissioner to inform government and business approaches to data-driven issues.
- $1.9 billion over four years to recapitalize the National Trade Corridors Fund, which would attract $2.7 billion from private and other public sector partners to invest in roads, rail, and shipping routes.

Smaller spending line items include support for entrepreneurs, increasing support to the Industrial Research Assistance Program, removing internal barriers to trade, work towards reducing credit card transaction fees and continuing to address regulatory modernization and regulatory competitiveness.

Environment

Today's Budget also provides an additional $17.6 billion in spending for environmental initiatives.

Beyond the new $5 billion investment in the Net Zero Accelerator, the Budget proposes to encourage private sector investments in support of a net-zero economy, including supporting private sector investment and proposing a 50% reduction in general corporate and small business tax rates for businesses that manufacture zero-emission technologies. Tax incentives for clean energy technologies will also be expanded, along with support for the supply of critical materials, zero-emission vehicles, and investing in the forest-based bio-economy.

On the mitigation and adaptation front, there is $1.4 billion over 12 years to top up the Disaster Mitigation and Adaptation Fund and $1.9 billion over five years to support provincial and territorial disaster response and recovery efforts, along with additional spending for flood and fire resilience and preparation.

For conservation programming, the Budget seeks to achieve a goal of conserving 25% of lands and oceans by 2025 and creating green economy jobs. Land conservation, the acceleration of the creation of protected areas, and action to protect species at risk has been given $2.3 billion in funding. Additional investments will support ongoing work in ocean conservation, reducing ocean plastic, preserve wild pacific salmon, and sustainable aquaculture management.

Opposition Reaction

Conservatives already pre-positioned their response to the budget on Monday morning, with leader Erin O'Toole issuing a brief statement outlining the party's general opposition to the Budget. While the Conservatives continued their critique of the budget after it was tabled, it was framed as a "let-down."

- Criticisms from the Conservatives included the timing of the budget – the first in over two years and accusing the Liberals of "picking winners and losers" by sector and region of the country.
- The Conservatives were also critical of the size of the deficit, a government-regulated child care system that has been promised but never implemented by the Liberals for over 20 years, and has done nothing to create actual child care spaces.
- At the same time, the Conservatives used the opportunity to pitch O'Toole's "Canada Recovery Plan" which he announced during the Conservatives' March convention. The plan committed the Conservatives to recreating the one million lost jobs during COVID-19 within one year, a Canada Mental Health Action Plan, stockpiles of essential products and vaccine manufacturing capacity, and balancing the budget within ten years.
- Of note, the Conservatives did not immediately say they would oppose the Budget, suggesting the Caucus would make this decision together at its weekly meeting.

For the **Bloc Quebecois**, criticism of the Budget by leader Yves-François Blanchet was also muted.

- Prior to the budget, the Bloc were calling for several key elements in the budget, including increased supports in the areas of COVID-19 relief, healthcare, seniors, and child care. Blanchet's reaction to the Budget was more focused on the how and why – how will these funds work and will there be strings attached? Criticism was also focused on payments for seniors being inadequate as well as the lack of increased health transfers to Quebec.
- Based on comments today, it does not appear the Bloc is anxious to defeat the government soon.

New Democrat leader Jagmeet Singh made it clear that he would support the Budget because the focus needs to be on getting out of the pandemic.

- In the lead-up to the Budget Singh called for a stronger federal role in on-the-ground COVID-19 vaccine administration, as well as actionable steps toward a national child care plan.
- Other priorities included funding for a universal pharmacare program, a national minimum wage, new tax hikes on the wealthy and corporations that profited substantially during the pandemic. With the exception of pharmacare, many of the other measures made their way into the Budget, which could challenge Singh and the NDP in defining new ground.

The **Greens** had four priority areas for the Budget: a national strategy for COVID-19 recovery with a rapid response task force; ambitious climate action; support for students, frontline workers, and the vulnerable; and a "safety net" for all Canadians.

- Leader Annamie Paul expressed her concern post-Budget about the lack of universal basic income (UBI) in the Budget. She also suggested that an election is imminent but called on other parties to find ways to deliver cross-party collaboration on issues like child care, pharmacare, expanded mental health supports, as well as help during the third wave of COVID-19.

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