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A TACTIX Commentary - Budget 2021 Conquer COVID, Punch the Recession, Build a Better Future

Imagining a Post-COVID World

Let us, for a moment, imagine a world in which Canada is approaching herd immunity from the ravages of the COVID-19 pandemic, thanks to the miraculously fast production of effective vaccines and the willingness of a sufficient number of Canadians to be jabbed. This world we are imagining has not, however, returned to "normal". Far from it.

We continue to wear masks when venturing out in public. Our hands remain badly chapped from incessant washing and the application of alcohol-based sanitizer. And we are just beginning to get used to passing each other on the sidewalk once again without a giggling fear in the back of our minds that the virus, silent and potentially deadly, is about to attack us.

But there is, nevertheless, a bright light shining at the end of the long, dark tunnel we have all inhabited for the past 14 months.

This is the emerging world that occupied the minds of those who crafted the 2021 Budget, the first since March 2019 and, indeed, the first since Prime Minister Trudeau's Liberals were re-elected in October of that same year. It is also the longest budget in Canadian history.

The key budget decision-makers challenged themselves by asking hard, yet essential, questions:

- As Canada's economic engines begin to start up again, what role can the federal government play in making those engines roar, today and over the next decade?
- What do Canadians need to imagine their world becoming better after the fight of their lives?
- What measures can help unlock the potential and possibilities of Canada's business community after so many had their doors shut, then re-opened, only to be shut once again as COVID-19's vicious variants stormed relentlessly across the country?

Hands on the Tiller (and in the Till)

Who asked themselves these tough questions? Who, together with scores of bright and able aides and advisors, imagined a post-COVID world as Budget 2021 was cobbled together?

- The Honourable Chrystia Freeland, Canada's first female Minister of Finance, and the Deputy Prime Minister who is to Prime Minister Trudeau what C. D. Howe was to Prime Ministers Mackenzie King and Louis St. Laurent.
- Michael Sabia, the newly installed Deputy Minister of Finance, whose entire career has placed him at the intersection of government and business.
- And last, but certainly not least, the Right Honourable Justin Trudeau, he who, in his wildest nightmares, could never have imagined when he first became Prime Minister in 2015 that he would be confronted with four years of Donald Trump in the White House and a once-in-a-hundred years global pandemic.

The buck stops with this triumvirate.

And there are so many bucks! A total of \$101.4 billion is allocated to measures in the 2021-22 to 2023-24 period. Notably, these new expenditures are not matched by massive tax increases.

The Scorecard

Breaking down the new measures set out in Finance Minister Freeland's budget, approximately one-third can be categorized as extending the financial supports provided to individuals and businesses to help cope with the devastating impact of COVID-19. As the Minister said, "this budget is about finishing the fight against COVID". This message is intended to provide reassurance to Canadians that the Government of Canada is prepared to spend what it takes to help them get to the other side of the pandemic.

The balance of new spending can perhaps best be characterized as investments rather than direct stimulus. In fact, the term "investment" or "investments" can be found 484 times in the budget.

Making the Economic Engines Roar

The 2021 budget includes several investments aimed at spurring broad economic growth across the country, in the immediate aftermath of the global pandemic and for many years beyond.

To assess these investments, we check them against categories identified by the government's Economic Strategy Tables as being required for Canada to "Own the Podium", a reference to being gold medal winners in international competition.

Admittedly, these Tables were established before the pandemic began and could not, obviously, have anticipated what would transpire in 2020 and early 2021. Nevertheless, what they identified as core components of a growing and successful economy, one whose engines will roar, remain relevant today.

Skills and Talent Development:

Budget 2021 devotes considerable attention to building a Canadian advantage in skills training and to developing the talent required for individuals and businesses to succeed. Initiatives include:

- Provide \$960 million over three years to Employment and Social Development Canada for a new Sectoral Workforce Solutions Program.
- Provide \$470 million over three years to Employment and Social Development Canada to establish a new Apprenticeship Service.
- Invest \$298 million over three years, beginning in 2021-22, through Employment and Social Development Canada, in a new Skills for Success program that would help Canadians at all skills levels improve their foundational and transferable skills.
- Provide \$250 million over three years, starting in 2021-22, to Innovation, Science and Economic Development Canada for an initiative to scale-up proven industry-led, third-party delivered approaches to upskill and redeploy workers to meet the needs of growing industries.
- \$708 million over five years for Mitacs, a not-for-profit organization that connects young workers with innovative businesses, for research and training opportunities.
- \$80 million over three years to help kids learn coding through CanCode.

Technology Adoption:

One of the single largest investments announced in the budget is to fund the existing Strategic Innovation Fund (SIF) with an additional \$7.2 billion over seven years, on top of the \$3 billion in new money announced in December 2020.

Importantly, this new SIF funding is targeted to key technology sectors the government views as critical to Canada's success in a globally competitive marketplace. SIF will devote \$1.75 billion to our aerospace sector and, in a world now more wary of pandemics than ever before, \$1 billion will be targeted to bio-manufacturing and life sciences.

Fully \$8 billion will be dedicated to what the government calls the Net Zero Accelerator, announced in December 2020 as part of the government's net zero economy plan. The Net Zero Accelerator is designed to decarbonize large GHG emitters by accelerating the adoption of clean technology across Canada's economy. The federal government views this as an Own the Podium initiative, helping to grow and secure Canada's clean industrial advantage globally and create the jobs of a low carbon future.

Moreover, \$2.6 billion over four years will be provided to the Business Development Bank of Canada to help small and medium-sized businesses finance technology adoption.

Agile Regulations:

Budget 2021 commits the government to continuing to conduct targeted regulatory reviews aimed at identifying and eliminating bottlenecks to economic growth. The next round of what the federal government calls Regulatory Roadmaps, to be released soon, focus on digitization and technology neutral regulations, international standards, and clean technology.

Moreover, the government intends to table its second Annual Regulatory Modernization Bill in the House of Commons, targeting outdated and redundant regulations across multiple sectors, and devotes \$6.1 million over two years to renew the government's External Advisory Committee on Regulatory Competitiveness.

Infrastructure:

Infrastructure, both physical and social, is mentioned 150 times in Budget 2021. This emphasis is consistent with the Trudeau government's massive budget investments in infrastructure going back to its first budget in 2016.

In her budget, Minister Freeland refers to the content of Bill C-25, tabled in the House on March 25, that provides \$2.2 billion to address infrastructure priorities in municipalities and First Nations, funneling direct payments from the Gas Tax Fund (being renamed the Canada Community-Building Fund).

In addition, the 2021 budget introduces new funding for the following infrastructure initiatives:

- \$200 million over three years to establish a Natural Infrastructure Fund.
- \$17.4 million to support the development of the Canada Water Agency.
- \$22.6 million over four years to conduct Canada's first National Infrastructure Assessment.

In addition to funding these initiatives, which the government's Economic Strategy Tables identified as core components of a successful modern economy, the 2021 budget devotes considerable sums to increasing labour force participation by women. A core policy item in Budget 2021 is a Canada-wide Early Learning and Child Care (ELCC) system, with investments of \$30 billion over five years and \$8.3 billion ongoing.

Minister Freeland put forward this new measure while pointing out that she was the first working mother to present a federal budget. She said, "COVID has brutally exposed something women have long known: Without childcare, parents - usually mothers - can't work."

This initiative will test the resolve of the federation as Ottawa negotiates this new system with provincial and territorial governments. Perhaps the government could ask Ken Dryden how he negotiated an ELCC system with the provinces in 2004-05.

Another measure aimed at making the economic engines roar is the 100% write-off for up to \$1.5 million in capital investment by privately held corporations. Small business owners can upgrade their capital equipment; farmers can purchase a new tractor or combine. This relatively low-cost initiative could reap huge rewards.

It remains to be seen, of course, whether this wave of spending achieves the government's policy objectives in the years ahead. The government is betting on it.

Imagining a Better World for Canadians

Although the Government of Canada has expended billions of dollars over the past year-plus supporting individual Canadians whose lives and livelihoods have been ravaged by COVID-19, it is apparent that meeting those needs must continue for some time. Accordingly, the budget addresses the ongoing needs of Canadians in the following ways:

- The Canada Emergency Wage Subsidy (CEWS), rent subsidy, and lockdown subsidy, introduced in 2020, are proposed to be extended by Budget 2021 until September 25, 2021. Attempting to begin weaning people away from these supports, the CEWS and rent subsidy will gradually decrease, starting July 4, 2021.
- The Canada Recovery Benefit is proposed to be extended by another 12 weeks, to a maximum of 50 weeks, as a support for workers. Likewise, the Canada Recovery Caregiver Benefit is proposed to be extended an additional 4 weeks, to a maximum of 42 weeks.
- Flexible access to EI is being maintained, and \$3.9 billion is proposed over three years to make EI more accessible and simpler to use while the job market improves during the recovery.
- A new program proposed in Budget 2021 is the "Canada Recovery Hiring Program," meant to assist employers who continue to see revenue declines by offsetting a portion of the cost employers take on as they reopen, either by increasing wages or hours worked, or hiring more staff.

Seniors were given a special mention by the Minister during her budget speech, noting on long-term care during the pandemic that "we owe you so much better than this." \$3 billion is being earmarked for long-term care facilities for the provinces and territories, and the government is moving forward on the long-awaited increase to Old Age Security.

While the economy has already been improving and significant job (re)gains made, the extension of these programs is an indication that the recovery has not been an entirely even one among sectors, and we are not yet at the end of this pandemic.

In Conclusion - What You Really Want to Know (Election Timing)

Public policies aimed at meeting the needs of individual citizens and unlocking the potential of Canada's business community are deeply intertwined. Hundreds of thousands of Canadians lost their jobs during the pandemic; businesses need well-trained employees to grow and succeed.

Budget 2021 seeks to marry these needs.

The House of Commons will be locked in debate over Budget 2021 for the next several days. A vote on the budget will be held soon thereafter. It is long-standing Parliamentary tradition that votes on a budget are votes of confidence in the government. Minority Parliaments ensure that such votes are "interesting".

If a budget is defeated, the government is defeated. Consequently, the Governor General (or in the current case, the Chief Justice of the Supreme Court) would either accept the Prime Minister's request to dissolve Parliament, leading to a general election, or invite the leader of the Official Opposition to form a government that would have the confidence of the House.

Dear Reader, this budget will NOT trigger an election.

Jagmeet Singh, leader of the New Democratic Party, which holds enough seats in the House to keep the Trudeau Liberals in office, has stated repeatedly that it would be irresponsible of him to cause an election to be held in the middle of a pandemic. He will keep his word, even though the budget does not include two of his top priorities, namely a National Pharmacare Plan and a Universal Basic Income.

For those of you who believe the Prime Minister will use this budget as a springboard to dissolve Parliament on his own, leading to an election this spring/early summer, do not hold your breath. We have believed for months that the timing of the next election is tied directly and indelibly to the success, or failure, of the roll-out of the COVID-19 vaccines.

Although over 8 million Canadians have received at least their first dose of a vaccine, the virulence of the virus' Third Wave washing over the country today, particularly its most populous and politically rich provinces, has almost certainly removed the spring election arrow from Prime Minister Trudeau's quiver.

So, when do we think the next general election will be conducted?

Watch for Tactix' 2021 Campaign Pulse this fall!

