Hill+Knowlton Strategies

INSIGHT

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Federal Budget 2017

Overview

In light of lower than expected domestic economic growth and brewing international uncertainty, Finance Minister Bill Morneau's second budget is best described as Phase Two. If Budget 2016 laid out a bold vision for Canada and the middle-class, then Budget 2017 is its worker-bee cousin. Short on new spending commitments or grand gestures, Budget 2017 lays out the government's plan for implementing previous commitments, tidies up the many pots of money and programs already scattered throughout government, and adopts a "wait and see" approach to more substantive changes to areas such as our complex tax structure.

The Liberals were elected on the promise to put the middle class first, and they have doubled down on that promise. This budget includes investments in traditional Liberal priorities such as more child-care spaces, improved affordable housing, and expanded home and mental health care, while also providing more clarity on their economic plan centred largely on investments in infrastructure, skills training and innovation.

Reinforcing the theme of preparing Canadians for the future, Budget 2017 outlines details on the government's plan to build a more-skilled labour force, mainly through retraining unemployed workers and focusing on early learning in schools. A clear sign of evolving technological trends, the focus on skills and training highlights the government's concerns about Canada's ability to adapt to the changing workplace of the future.

------------WHERE TO FIND IT ---------------

This budget also clearly speaks to the influence of Dominic Barton and the Advisory Council on Economic Growth, with more clarity about the Canada Infrastructure Bank and improving frameworks for trade and investment, such as increasing the net-benefit review for global foreign investments to $1 billion and promoting regulatory alignment with Canada's trading partners. Further investment initiatives include a new $400-million Venture Capital Catalyst Initiative to give innovative companies the resources they need to grow.

While there is little new spending, over-commitments in 2016 and lower economic growth have caused the projected federal budget deficit to increase to $23 billion for 2016 and $28.5-billion for the 2017-18 year —

both higher than projected last fall. Making the clear political calculation that deficits aren't deal-breakers for Canadians, this budget offers no timeframe for when the government will balance the books.

Agriculture and Food

Despite few indications prior to the budget that agriculture is a high priority for the government, industry had hoped the government would take action on a recommendation from Dominic Barton, the Chair of the Prime Minister's Advisory Council on Economic Growth, calling for strategic investment in Agriculture and Agri-food sectors to generate economic growth, including funding for research, food manufacturing, market access and exports. The farming community has used this recommendation to lobby government to invest in farming practices across the country to boost innovation.

Budget 2017 referenced the Council's recommendations and pointed to many previously announced programs and investments, as well as announcing new funding for innovation-related initiatives, including:

+ $200 million over four years, starting in 2017–18, to support clean technology research for Natural Resources Canada, Agriculture and Agri-Food Canada, and Fisheries and Oceans Canada.
+ $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, Budget 2017 proposes to provide funding to Agriculture and Agri-Food Canada to support the expanded adoption of clean technology by Canadian agricultural producers.

The budget included up to $149.3 million over five years, starting in 2017–18, to renew core food safety inspection programming delivered by the Canadian Food Inspection Agency and Health Canada.

It also noted that, by 2050, global demand for food will have risen significantly, leading to an increased demand for items such as for Prairie canola (which Mr. Morneau mentioned specifically in his budget speech).

An outstanding commitment from the 2015 Liberal election platform is $160 million to create a Agri-food Value Added Investment Fund, which would be funded over four years. As this was not mentioned in Budget 2016, many within the industry had hoped it would be in Budget 2017; it was not.

Indigenous Affairs

With innovation and skills taking centre-stage in this budget, skills training for Indigenous Peoples figures prominently among its Indigenous-related items. The Finance Minister's Advisory Council on Economic Growth highlighted the importance of engaging more Indigenous People in the workforce and the benefit this could bring to the overall economy.

Notable skills-related investments include:

+ An additional $90 million, over two years, for the Post-Secondary Student Support Program;
+ $5 million per year for five years for bursaries and scholarships for First Nations, Inuit and Métis students;
+ $50 million in 2017–18 for the Aboriginal Skills and Employment Training Strategy;
+ $39.2 million in 2017–18 to provide case-management services for youth living on-reserve to help acquire better pre-employment skills, access education and training, and overcome barriers to employment; and
+ $14.7 million over three years to extend and enhance the Northern Adult Basic Education Program to provide territorial residents with training so they can participate more fully in the labour market.

In addition to skills-related investments, Budget 2017 includes various items to address other Indigenous funding priorities, including $4 billion over 10 years for housing, water-treatment systems, health facilities and other infrastructure for Indigenous communities. Aligning with the government's goals around climate change, $21.4 million over four years is allocated to help northern and Indigenous communities reduce their dependence on diesel as a power source.

First Nations and Inuit health was a priority in this budget, with the government proposing $828.2 million over five years to help members of these groups receive timely medical care, including mental-health services. This includes funding to expand maternal and child health services for First Nations and Inuit families with children under the age of six.

In its effort to build a nation-to-nation relationship with Indigenous Peoples, a number of legal and governance-related proposals are included in the budget. However, while lifting the two-per-cent cap on funding for First Nations programs was included in both the Liberals' 2015 election platform and the current mandate letter of the Minister of Indigenous and Northern Affairs, it is conspicuously absent from Budget 2017. Lifting this funding cap has proven difficult for the government to prioritize amid its myriad spending commitments and will remain an irritant with First Nations as the government continues to seek a new fiscal relationship with them.

Defence and Procurement

As anticipated, Budget 2017 was short on defence spending, with detailed defence plans possibly being revealed later in 2017, most likely in the Fall Economic Update, following recommendations from the Defence Policy Review which, according to last year's budget, will take into account the government's international priorities as well as domestic considerations.

In the area of defence procurement, Budget 2017 allocates $83 billion in total funding to National Defence (DND) for large-scale projects over the next 30 years. Funding for large-scale capital projects is managed on an accrual basis, which allows for the government to reallocate funds to the future for spending when it is required, and Budget 2017 reallocates $8.48 billion from the 2015-16 to 2035-36 period to future years to accommodate the procurement of fixed-wing search and rescue aircraft and the modernization of light armoured vehicles.

However, Budget 2017 remains significant as it establishes DND's fiscal framework for the forthcoming results of the Defence Policy Review and is an indicator of the overall budgetary direction for National Defence moving forward. So while new defence funding is limited in this budget, substantial future expenditures have already been set aside in the fiscal framework for defence.

The government has indicated that it will continue to support veterans and work with the veterans' community to examine and improve the current system of veteran financial support programs. Budget 2017 allocates $208 million over the next six years to help veterans transition from military service to civilian life by offering skills training and education needed for civilian employment. It also commits $211 million over the next six years to better support families and caregivers of ill and injured veterans. A further $205 million is allocated over the next six years to mental health services and care for veterans at risk.

Skills, Employment and Education

Minister Morneau was not exaggerating when he foreshadowed how of much this budget would be skills-focused. Packaging skills and innovation together, Budget 2017 includes a number of high-profile skills- and training-related items, some of which were recommended by the Minister's Advisory Council on Economic Growth. These allocations set out a path for creating a culture of lifelong learning, a government priority aimed at helping Canadians develop the skills needed at every stage of life in order to succeed in a changing economy.

Notable investments include:

+ $7 billion over 10 years to increase child-care spaces;
+ $225 million over four years to establish a non-governmental organization designed to identify skills gaps, promote skills development and share information and analysis;
+ $1.8 billion over six years to expand the Labour Market Development Agreements with the provinces and territories to support unemployed Canadians with employment assistance and training, with a special emphasis on underrepresented groups, including women;
+ $59.8 million over four years to expand eligibility for Canada Student Grants and Canada Student Loans;
+ $221 million over five years to provide 10,000 work-integrated learning placements for Canadian post-secondary students and graduates each year; and

- $50 million over two years to support teaching initiatives on coding and digital skills for young Canadians.

Many of these areas of skills training are the domain of the provinces and territories and will be collaborative endeavours, also involving private-sector entities, universities and not-for-profits.

Budget 2017 re-emphasizes the government's December 2016 commitment to improve the Temporary Foreign Worker (TFW) Program, including stronger recruitment requirements for low-wage employers, while also allocating $279.8 million over five years for the continued delivery of both the TFW Program and the International Mobility Program and reallocating $27.5 million over five years to streamline the recognition of foreign credentials in Canada.

Environment, Energy and Clean Technology

Budget 2017 reiterates Canada's efforts to build a clean economy by investing in initiatives to support the implementation of the Pan-Canadian Framework on Clean Growth and Climate Change, noting that, globally, markets are changing and industries are moving away from products and services that create carbon pollution and turning to cleaner and more sustainable options.

The environment is one of the backbones of this budget, with significant investments in clean technology and green infrastructure. Given the overlap between environment, innovation and natural resources, some of the clean technology funding envelopes are shared between Innovation, Science and Economic Development Canada (ISED) and Natural Resources Canada (NRCan). Of significant importance, the government has created a new branch of ISED called Innovation Canada. The creation of "superclusters," which will be decided by Innovation Canada, could include clean technology and clean resources. Budget 2017 is supporting the creation of these "superclusters" with $950 million over five years.

Budget 2016 included investments of $5 billion over five years on infrastructure to protect communities and support Canada's ongoing transition to a clean-growth economy. The 2016 Fall Economic Statement announced an investment of $21.9 billion over 11 years to support green infrastructure, including through targeted investments by the new Canada Infrastructure Bank. Budget 2017 repeats these pledges.

Other investments of note include:

- A one-time payment of $30 million to the Government of Alberta to support provincial actions that will stimulate economic activity and employment in Alberta;
- $1.4 billion of new funding to finance clean technology firms through Export Development Canada and the Business Development Bank of Canada;
- $400 million over five years, starting in 2017–18, to recapitalize the SD Tech Fund to support projects across Canada to develop and demonstrate new clean technologies that promote sustainable development, including those that address environmental issues such as climate change, air quality, clean water and clean soil;
- Establishment of a Clean Technology Data Strategy with $14.5 million over four years, starting in 2017–18, to NRCan and ISED for the creation of the strategy;
- $11.4 million over four years, starting in 2018–19, to Environment and Climate Change Canada to support the accelerated replacement of coal-fired electricity generation by 2030 and set leading performance standards for natural-gas-fired electricity generation;

- $9.2 billion to provinces and territories over the next 11 years, on a base plus per capita allocation basis, to support priority projects, including those that reduce greenhouse gases, deliver clean water, safely manage wastewater and help communities prepare for challenges that result from climate change; and
- An additional $2.8 billion over the next 11 years through a series of national programs.

In line with the government's previous efforts to phase out corporate tax cuts, the budget announced the intention to abolish additional tax measures in the areas of oil and gas and mining. Specifically, Budget 2017 states the government's intention to ''…(m)odify the tax treatment of successful oil and gas exploratory drilling. The success rates for exploratory drilling have increased substantially since the 1990s and, in a majority of cases, discovery wells now lead to production, which makes the well an asset of enduring value. Consistent with the usual treatment of enduring assets, expenses associated with oil and gas discovery wells will be treated as Canadian development expenses, which are deducted gradually over time, rather than as immediately deductible Canadian exploration expenses, unless and until they are deemed unsuccessful." Budget 2017 also says the government will "…(r)emove the tax preference that allows small oil and gas companies to reclassify Canadian development expenses as immediately deductible Canadian exploration expenses when they are renounced to flow-through share investors. This will ensure that these development expenses, which create an asset of enduring value, are deducted gradually over time.''

As expected, the budget mentioned the Great Lakes specifically, with the government committing $70.5 million over five years, starting in 2017–18, to Environment and Climate Change Canada to protect Canada's freshwater resources, including in the Great Lakes and Lake Winnipeg Basins. Minister Catherine McKenna recently met with her U.S. counterpart, with protecting the Great Lakes one of the top items for discussion. Budget 2017 mentioned the government will continue to build on the long-standing environmental co-operation between Canada and the United States to address climate change, as well as enhance the quality of air and water.

Financial

Budget 2017 recommits the government to previously announced undertakings such as the review of federal financial sector legislation, the modernization of the deposit insurance framework and the oversight of financial market infrastructures, as well as evaluating and taking action to stabilize the Canadian housing system.

The government's financial commitments expand on the overarching theme of innovation, with a promise of $950 million over five years to create investment in business-led "superclusters" and $400 million over three years to help launch a new Venture Capital Catalyst Initiative. The Building Growth Fund and the Infrastructure Bank are also relevant new initiatives for the financial service sector.

In addition, with the increasing use of digital products and services – including mobile payments, lending, insurance and securities – the government's Innovation and Skills Plan is intended to help fintech entrepreneurs maximize growth by bringing together high-skilled talent, financing solutions and business advisory services.

Health

Health stakeholders were eagerly anticipating Budget 2017 given the almost complete absence of health spending commitments in Budget 2016 and government reassurances that health would be addressed in a transformative way this year. While some health stakeholders will be disappointed the government did not make more “new” investments in health, Health Minister Jane Philpott can take some pride in that the budget touched many of the items in her mandate letter (home care; prescription medicines; mental health; substance abuse; First Nations and Inuit health).

Funding for the provinces and territories is slated to grow at a minimum of 3 per cent per year for the next five years so that, by 2021-22, $42.9 billion will be provided through the Canadian Health and Social Transfer. An additional $11 billion is an offer for home care and mental health – with a focus on providing access to mental health support for as many as 500,000 young Canadians under the age of 25. A new tax credit, expected to cost the government $310 million over five years, will be available for individuals caring for dependent relatives with infirmities, including persons with disabilities.

The government committed to addressing the substance abuse crisis by creating a new Canadian Drugs and Substances Strategy (replacing the National Anti-Drug Strategy) and building upon commitments it made earlier this year with an investment of $100 million over five years. An interesting side note: the government has committed $9.6 million for public education and surveillance regarding the use of cannabis, a clear signal that legislation regarding the legalization of cannabis will be introduced this year.

With the health accords with the provinces almost completed, it is likely Minister Philpott’s attention will turn to improving health outcomes in First Nations and Inuit communities, and Budget 2017 committed to providing $828.2 million over five years, starting in 2017-18.

Other notable investments include:

+ $140.3 million over five years to improve access to pharmaceuticals, lower drug prices and support appropriate prescribing;
+ “$53.0 million over five years, starting in 2017–18, with $15.0 million per year ongoing, for the Canadian Institute for Health Information” to address health data gaps, support improved decision-making and strengthen the reporting on health system performance;
+ $300 million over five years for Canada Health Infoway to expand e-prescribing, virtual care initiatives and the use and adoption of electronic medical records; and
+ “$51.0 million over three years, starting in 2019–20, with $17.0 million per year ongoing, for the Canadian Foundation for Healthcare Improvement” to continue to accelerate innovations in all provinces and territories.

Finally, there were very few direct investments in health research, with the exception of the Canadian Institutes of Health Research, which received funding through two small envelopes: a national action plan to respond to health risks caused by climate change, and the Canadian Drugs and Substances Strategy.

Infrastructure and Transportation

Infrastructure development has been a key element of the government's economic plan and Budget 2017 continues to emphasize its importance to innovation, community building, job creation and economic growth, and offers more information about the Canada Infrastructure Bank (CIB), including some details about how it is expected to invest its $35 billion in funds over the next 11 years.

Announced in the 2016 Fall Economic Statement, the CIB is intended to work with the private sector to fund large, transformative projects through loans, loan guarantees and equity investments. While there are no new details about how the government intends to attract private-sector dollars, the budget indicates the government intends to formally establish the CIB and have it operational before the end of 2017, a timeline that will require enabling legislation to be introduced in the coming months. There are no new details on bank governance or structure, but the budget does provide some clarity on general areas of investment, including public transit, green infrastructure projects, and trade and transportation priorities. The CIB will be used as a tool for gathering information and data on the state of municipal and provincial infrastructure.

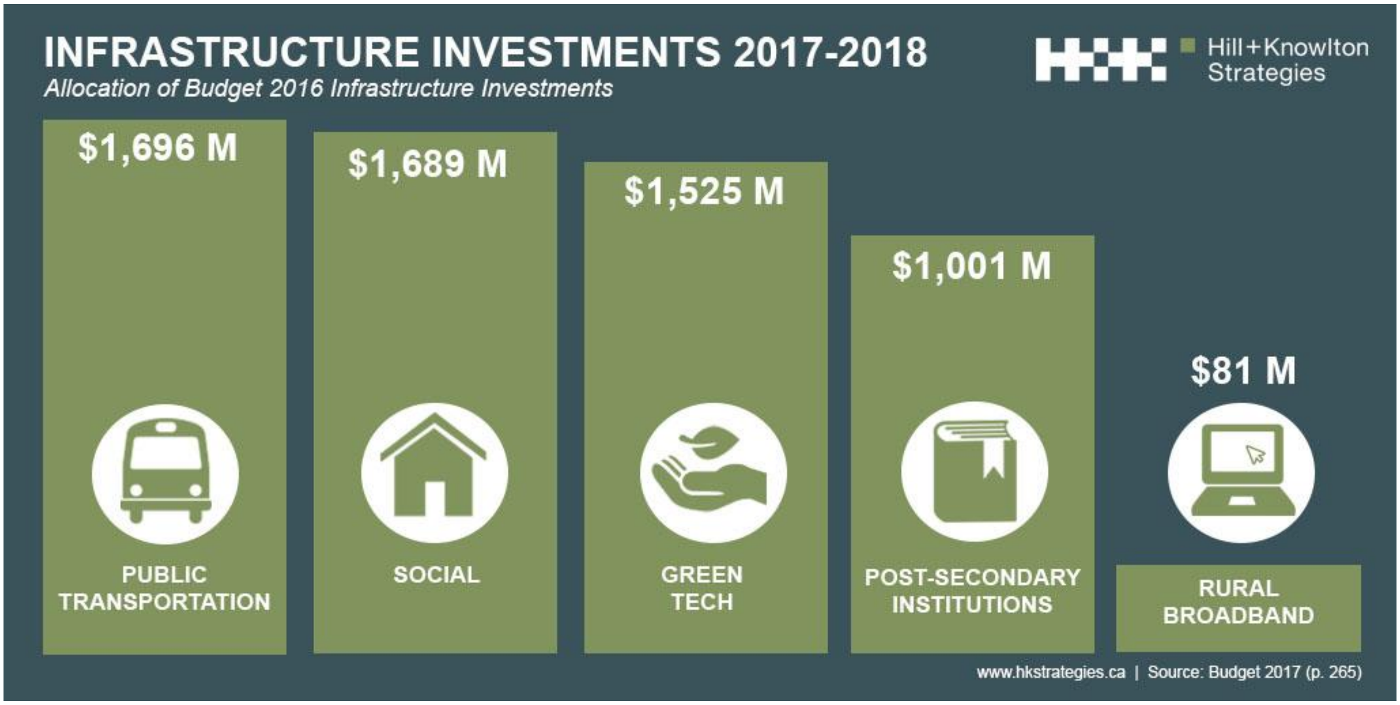
Phase I of the government's infrastructure spending plan included a focus on modernizing public transit across Canada, and Budget 2017 specifies it will provide $20.1 billion of transit funding over 11 years through bilateral agreements with provinces and territories. Funding allocations for each jurisdiction will be based on a formula that considers ridership (70 per cent) and population (30 per cent).

The budget commitments on transportation are framed in the context of infrastructure development that supports trade, consistent with the $10.1 billion that was dedicated to trade and transportation projects in the Fall Economic Statement. However, while announcing these new investments, the government also intends to eliminate the public transit tax credit because it has not resulted in increased ridership that would reduce greenhouse gas emissions.

Budget 2017 specifies that the government will:

+ Provide $2 billion over 11 years (in addition to CIB project funding) to support a National Trade Corridors Fund that will make investments to improve the efficiency of Canada's marine ports and rail and highway infrastructure;
+ Top up funding for evaluating and certifying innovative transportation technologies, including autonomous vehicles and drones;
+ Earmark $152 million in new funding in 2017-2018 for the Canadian Air Transport Security Authority, Transport Canada and the RCMP to ensure consistent and effective screening of air passengers;
+ Move forward with previously announced limit increases on foreign investment in Canada's airlines and passenger protection measures;
+ Allocate $229 million over four years for R&D activities as part of the government's clean energy and clean transportation innovation programming; and
+ Launch a $50-million Trade and Transportation Information System.

After consulting broadly in 2016 on housing needs across Canada, Budget 2017 introduces $21.9 billion in social infrastructure funding over the next 11 years, including $11.2 billion for a National Housing Strategy, with $5 billion dedicated to a new National Housing Fund. Budget 2017 articulates affordable housing as a pressing concern and priority, establishing a Federal-Provincial-Territorial Partnership that will seek to address unique housing needs across the country.



Science, Research and Innovation

Budget 2017 had been expected to focus on that hard-to-define-but-much-loved theme of "innovation," and while it did not define the term, it did lay out a plan for helping Canada become more innovative. The government's approach is supported by research and centred on three pillars: talent, technology, and helping companies scale up and grow.

Talent: Budget 2017 included several key investments in fostering Canadian talent:

+ $225 million over four years, starting in 2018-19, and $75 million thereafter, to address skills gaps and support lifelong learning;
+ $221 million over five years, starting in 2017-18, to create new co-op placement and work-integrated learning opportunities for post-secondary students enrolled in science, technology, engineering and mathematics; and
+ $50 million over two years, starting in 2017–18, to help provide coding and digital skills education to young Canadians.

Technology: Budget 2017 features some new funding, but mostly repurposes previous funding commitments, including:

+ $950 million ($800 million of which will be drawn from Budget 2016) over five years, starting in 2017-18, to be provided to a small number "superclusters" that have potential to accelerate economic growth. While it is not clear how many "superclusters" will be created and where they will be located, they will highlight key industries where Canada is particularly competitive, including manufacturing, agri-food, clean and digital technology, health/bio-sciences, and clean resources, as well as infrastructure and transportation.

- $8.2 million over five years, starting in 2017-2018, to *The Impact Canada Fund* which will focus on solving the country's big challenges, particularly around clean technology and greenhouse gas reductions. The fund will initially include two streams: a clean-technology stream that will receive up to $75 million over two years, starting in 2017-18, to reduce rural and remote communities' reliance on diesel as a source for power; and a smart-cities stream, which will receive $300 million over 11 years to support the Smart Cities Challenge, intended to help create cities where people and places are better connected, where machine-to-machine communication helps to ease traffic congestion and protect water systems, and where communities are better able to prepare for future challenges.

Helping Companies Scale-Up and Grow: Budget 2017 establishes a new platform called *Innovation Canada*, which will streamline the federal government's innovation programs and grants, and help entrepreneurs access federal funding. It also consolidates existing business innovation programming by creating a $1.26-billion, five-year *Strategic Innovation Fund* that will bring programs such as the Strategic Aerospace and Defence Initiative, Technology Demonstration Program, Automotive Innovation Fund, and Automotive Supplier Innovation Program under one umbrella.

Telecommunications and Technology

While Budget 2017 did not include a highly controversial "Netflix Tax," it did focus on measures intended to ensure Canadians have the skills they need to flourish in an increasingly digital society, with connectivity serving as common theme. Despite this, only limited funds were allocated to broadband and Internet, which is now deemed a basic service. The 2017 issue in many communities is about the speed of broadband, which is critical to e-commerce and education applications.

Artificial intelligence, seen as a key driver of economic growth and an area where Canada is competitive, received a $125-million investment to launch a Pan-Canadian Artificial Intelligence Strategy to retain and attract top talent.

Budget 2017 also included an $81-million investment in rural broadband, but this money will be drawn from the $500 million announced in Budget 2016.

Additional financial investments in broadcasting and telecommunications were not included in Budget 2017, as changes to both the *Broadcasting Act* and *Telecommunications Act* are currently awaiting cabinet deliberation.

Trade

While Budget 2016 did not contain any detailed discussion of the Canada-US economic partnership, Budget 2017 reflects the seismic shifts that have unsettled the foundation on which the tenets of North American trade policy have been based for more than a generation. Adopting the recommendation made by his Advisory Council on Economic Growth, Mr. Morneau has made preserving and promoting Canada's integrated economic partnership with the United States a key priority, with explicit language in Budget 2017 highlighting the critical importance of the Canada-U.S. bilateral relationship in the areas of trade and investment.

Interestingly, Budget 2017 does not expressly reference the North American Free Trade Agreement (NAFTA) or Mexico. Similarly, while it reaffirms the importance of the Canada-European Union Comprehensive

Economic and Trade Agreement (CETA), it is curiously silent on the impact of the United Kingdom's intention to leave the EU as a result of last year's Brexit referendum. Canadian officials have offered general assurances that they are working with their British and European counterparts to ensure that the benefits and preferential access secured through CETA are preserved – it is therefore surprising that the budget makes no reference to these efforts.

Budget 2017 again identifies China, India and Japan – the three countries specifically named in the Minister of International Trade's mandate letter – as priority markets in Asia. It provides $256 million over five years for Canada to join the Asian Infrastructure Investment Bank (AIIB) and commits the government to tabling legislation "to operationalize Canada's membership at this institution in 2017." The budget notes that Canada is the first North American country to join the AIIB – a sign of Canada's commitment to multilateral institutions.

Budget 2017 underscores the importance of eliminating physical as well as economic barriers to trade. It commits funding to enhance transportation infrastructure under the Trade and Transportation Corridors Initiative, which includes a National Trade Corridors Fund and a Trade and Transportation Information System. The budget announces $2 billion over 11 years to support the Fund, supplemented by an additional $5 billion from the Infrastructure Bank, with an additional $50 million over 11 years to launch the transportation information system.

On trade remedies, Budget 2017 contains proposed legislative changes designed to "provide a more rigorous response to unfair trade" and align Canada with other trading systems. The measures are the product of consultations and related commitments made in Budget 2016. The enhanced trade remedy regime is intended to improve enforcement of international trading rules, address the circumvention of customs duties, better account for market and price distortions, and "provide unions with the ability to participate in trade remedy proceedings."

Opposition Reaction

Interim Conservative Party Leader and Leader of the Official Opposition, Rona Ambrose, said the Conservatives are the only voice for taxpayers, repeating that Canadians are being hit by tax hikes on small businesses, and students are being made to pay for reckless spending by the Liberals. She said the budget confirms that the Prime Minister broke his election promise to keep deficit spending under $10 billion a year and to balance the budget by 2019, a message she had been pushing in the days leading up to today's budget. She said the Liberal economic plan isn't working for ordinary Canadians, noting that Budget 2016 did not grow the economy and failed to create the jobs it promised.

Interim New Democratic Party Leader Thomas Mulcair said Canadians are struggling with unemployment, rising costs and record household debt, and those individuals got nothing in the budget. He said budgets are about choices, and the government has chosen tax breaks for wealthy CEOs and giveaways to large corporations. He criticized the budget for not including a concrete plan to address unemployment, with no tax relief for small- and medium-sized businesses. He characterized the budget as a missed opportunity to make medicine more affordable and to implement a pharmacare plan, noting that Canada is the only country with universal health care that doesn't include prescription drug coverage.

What it Means and Next Steps

Today's stay-the-course budget illustrates two very important signals coming from the government: first, it thinks it is on the right path and is staying the course for the economic plan it laid out in 2016; second, the United States is a more significant factor in federal decision-making than it has been in a long time.

Budget 2016 laid out an ambitious, expensive plan to help the middle class and grow the economy. The major funding pieces announced then – infrastructure, innovation and skills training – were multi-billion-dollar, multi-year funding initiatives that are staying the course through 2017. There was no need to announce new spending in Budget 2017, given that it was all announced last year (and even more convenient because there is no new money to spend). This is good news for stakeholders who have already aligned with government priorities and are looking for details on how to move forward on these initiatives.

The government will tell you that new spending was not required in Budget 2017 because its plan is working – the economy has grown and nearly half a million new jobs were created in the last quarter. But the truth is, even if that were not the case, fiscal over-commitments in 2016 mean the government's hands were tied and there was no money left to spend this year. In the absence of new money, the government did what any government would do – it re-announced previous funding and focused on feel-good measures such as gender equality that speak to its base.

It is also clear that the new administration in the United States is having a significant impact on decision-making in Ottawa. The last few months have seen a range of reactions – from Cabinet shuffles to staffing changes and increased travel – in direct response to the uncertainty coming from the U.S. The government spent most of 2016 consulting with Canadians on a range of issues, and almost all of these consultations were to be wrapped up with new policies tabled this spring. Many of those new policies were delayed, however, so they could be reconsidered against the backdrop of a new U.S. administration. The delay of any major changes to the fiscal framework, such as the tax system, is further indication that the government is waiting to see what happens in the U.S. in the coming months. The federal government has wisely left itself room to maneuver around any surprises coming from President Donald Trump.

Overall, this is a cautious budget, indicative of what is still a relatively new government trying to balance changing external factors with fulfilling its activist promises. This is a government, after all, that got elected because Canadians wanted change. It has big ideas on how to help the struggling middle class, grow social programs and invest in people, and genuinely wants to move forward on these principles. However, now half way through their mandate, Prime Minister Justin Trudeau and his government are learning the tough lesson of governing with limited resources and complicating external factors.

For More Information

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