Budget 2016

Report Card from Business

A government's first budget is the purest distillation of how it intends to govern and where its priorities lie. During an election campaign, a party can express support for everything under the sun, from poverty and pollution to productivity and panda bears. But when it's been costed out in the budget, scrutinized by Finance, vetted by Cabinet and approved by the PM, then we see what the priorities really are. This is also a challenging time for the Canadian economy—weighed down by weak natural resource prices, highly indebted consumers and a vulnerable housing market. We could be in for a prolonged period of slow growth.

At the Canadian Chamber of Commerce, we have heard from businesses across the country on what they need to be more competitive and what barriers hold them back. When businesses succeed, they create new jobs and investments, while paying the taxes to help Canada succeed.

This is our first annual budgetary report card, where each section is assigned letter grades summarizing a numerical score based on (1) overall policy effectiveness, (2) short-term benefits and costs and (3) long-term impact on the economy and business competitiveness.

Overall, we give the government's first budget a B-. We appreciate the investments in skills, the efforts to stimulate the economy and the focus on green technology. However, we were disappointed by the cancellation of legislated reductions in the small business tax rates and that infrastructure spending was so oriented towards social spending goals rather than economically productive investments. We eagerly await the coming announcements on Phase 2 of Canada's infrastructure plan as well as the upcoming Innovation Agenda.

Fiscal Discipline:	**C**	(Needs more effort)

The budget deficit will reach $29 billion this year and next, before gradually declining to $14 billion in 2020. At 1.5% of GDP, Canada's deficit compares favourably to Europe (3.3%) or the U.S. (3.9%) , but a significant deterioration from the $3.4 billion back in November.

The arguments for increased spending do resonate: borrowing costs are cheap in this low interest rate environment, and austerity in the midst of economic weakness can be self-defeating. But if we suddenly withdraw the need for caution, we'll go down the path of too much spending as we have before.

We should point out that if the government can achieve its deficit targets then the overall debt-to-GDP ratio will fall from 2017-2020 simply because the economy will be growing faster than the debt. But this will take tremendous discipline.

Infrastructure	**B**	(Wait and see)

The Canadian Chamber, in concert with economists across the country, has been urging investment in the type of trade-enabling infrastructure that will boost productivity, such as roads, bridges, ports airports and digital infrastructure. The government has announced Phase 1 of its

Infrastructure Plan which includes $3.4 billion in public transit, $5 billion for water and green infrastructure projects and another $3.4 billion for social infrastructure (affordable housing, child care, cultural and recreational infrastructure). We welcome the investment in public transit, which will undoubtedly alleviate congestion, as well as some of the spending on green infrastructure. The latter category contains many worthy objectives, but we're unlikely to see a significant gain in productivity from this type of spending. The stimulus effects will nevertheless help the economy in the short-term.

The government said that Phase 2 of the infrastructure plan, which contains the "fast, efficient trade corridors that allow Canadian exporters to benefit fully from international trade" and measures to modernize the economy, will be announced in the next year.

Finally, we were pleased that the government announced $3.3 million to support Via Rail's proposal to create a dedicated passenger rail service in the Windsor-Quebec city corridor.

Environment	**A**	(A green revolution)

On the environment, we see the government's greatest emphasis, with $1 billion in funding over the next four years to support clean technology in the forestry, fisheries, mining, energy and agriculture sectors.

Budget 2016 also proposes $2 billion over two years to establish the Low Carbon Economy Fund, which will assist provinces and territories with reducing greenhouse gas emissions.

Accelerated Capital Cost Allowance rates will be expanded for a variety of clean energy technologies, including electrical energy storage and electric vehicle charging

The government is proposing $14.2 million to the Canadian Environmental Assessment Agency as well as $16.5 million to the National Energy Board and Natural Resources Canada to improve consultations and environmental assessment processes.

Taxes	**D -**	(A hit to small business)

The previous budget legislated that the Small Business Tax rate would fall by 0.5% per year from 11% to 9% in 2019. The rate is currently at 10.5%, and the government has deferred the decreases that were coming in future years. There was no date or estimate given for the duration of the deferral. This means that small businesses across the country will pay over $1 billion more than expected.

The government has also tightened the rules so that investment income is no longer eligible for the small business rate. Also, the budget announces new rules so that partnerships and corporate structures cannot be used to separate businesses into smaller entities that qualify for the lower rates.

The government clearly thinks that there is massive tax evasion going on. The budget will spend $444 million over five years to crack down on it, and the government expects to raise $2.6 billion. The government so confident in the amount it can collect that the budget includes it as revenue.

On the Canada Pension Plan, which could bring about a significant increase in payroll taxes, the government will launch consultations with Canadians in the coming months. The government maintains its goal of coming to a collective decision with the provinces and territories on enhancing the CPP by the end of 2016.

The Employment Insurance premium rate will decrease from the current 1.88 to 1.61, instead of the previously planned 1.49, due to the deteriorating economy and additional costs in the expansion of EI eligibility.

Tourism	**A**	(Thank goodness)

Every community in Canada can benefit from tourism. The government's announcement of an additional $50 million investment in Destination Canada over the next two years to improve the marketing of Canada as a tourist destination is quite welcome. We want more!

Innovation and Technology	**C**	**(Needs more effort)**

In the 2016 budget, there is $2.26 billion of funding announced, almost all of it destined to Canadian universities via the strategic infrastructure investment fund. This is welcome; however, Canada's public sector expenditure on research and development is already among the highest in the OECD. The trouble is that Canada lags in commercialization, in venture capital and in growing technology businesses beyond a certain size. The government's support for private sector innovation was modest, with additional support for incubators and an extra $50 million for the National Research Council's Industrial Research Assistance Program.

In 2016, the government will launch its Innovation Agenda, a "bold new plan" that will redesign and redefine how it supports innovation and growth. We cannot wait.

Skills	**B**	(Wise investments)

Skills is the #1 challenge for Canadian business and we appreciate the additional investments of $125 million for the Labour Market Development Agreeements, alongside $50 million for the Canada Job Fund Agreements. These provide a range of training and employment programs.

Budget 2016 also will provide $85.4 million over five years to support union-based apprenticeship training. In addition, it will strengthen co-op and on-the-job opportunities for young people.

Stimulus effect	**B+**	(But it's OK)

We expect the stimulus impact to be modest because so many of the areas where spending is destined are already at or near full employment (e.g. Toronto's construction industry). Stimulus impacts are much greater when unemployed people are put back to work by government spending. We estimate that the additional spending will add a cumulative 0.6% to GDP over the next two years.

Accordingly, we are revising up our Canada GDP forecast from 1.1% to 1.3% for 2016 and from 1.3% to 1.9% in 2017.