

Key question on budget decisions, says Morneau: Do they grow the economy?

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OTTAWA - Any new spending measures being pitched for the federal budget will have to demonstrate potential to help grow the economy if they expect to find favour with the Liberal government, Canada's finance minister says.

In an interview with The Canadian Press, Bill Morneau said that as he crafts his second budget as finance minister, the economic-growth test is the first of multiple screens he is using to ensure debt levels don't spiral out of control.

Too late, the opposition parties might jeer.

The Liberals used up a lot of their fiscal wiggle room this week with a fall economic update that included \$32 billion in infrastructure spending over the next 11 years, accompanied by an equivalent amount of red ink on the federal books.

The document also warned the federal balance sheet would stay in the red even longer than the Liberals first promised — a total of \$114.9 billion in deficits between 2016-17 and 2020-21, up from the \$83.2 billion outlined in the last budget.

Nor have the Liberals said when they expect to see the budget back in balance, instead choosing to hold to a decidedly less sexy measure of ongoing fiscal prudence: the ratio of debt to gross domestic product.

In order for that figure to remain on a downward trajectory, the economy must grow at a faster rate than the debt, Morneau explained.

"That means that we've got to be thinking about all of our investment decisions in the context of how they enable us to grow the economy," Morneau said.

"That will be my screen as we think about Budget 2017 and beyond: How we can grow the economy and be fiscally prudent? Certainly it will present a challenge, but we believe that with this plan we can make a real impact on Canadian families."

Building a budget involves complex tradeoffs between doing things that have to be done for short- and medium-term growth and those measures that may have to wait for another budget cycle, he added.

"Is there a way to do more with less? Is there a way to consider being more cost-effective against every initiative? That's my ongoing approach to dealing with the things I'm hearing from Canadians and the things I'm hearing from my colleagues."

In doubling down on an infrastructure program that was originally pegged at \$60 billion over 10 years but now totals nearly \$100 billion, the Liberals are hoping that program can spur growth and jobs, creating the tax base needed to help balance the budget.

Some of those changes won't be felt right away — spending infrastructure money takes time and only leaves the federal treasury once project proponents submit receipts to show that work has progressed — and Morneau suggested that Canadians won't see the effects of the long-term plan in the fiscal update for several years.

But the government believes its changes to tax rates for so-called middle-income earners, along with a new income-tested child benefit and short-term infrastructure spending, will create or maintain 100,000 jobs over the next two years, Morneau said — even though the parliamentary budget watchdog has cast doubt on the figure.

"We still believe those estimates are appropriate and we think that the implementation...of the infrastructure projects, which takes a little more time, is going largely at the pace that we expected," he said.

"So we can expect that those positive job impacts will come out in 2017 and 2018."

The government is putting more money into public transit — \$25.3 billion budgeted for the next 11 years, more than the \$21.9 billion set aside for green infrastructure like water treatment systems and \$21.9 billion for social infrastructure, such as affordable housing.

Affordable housing projects can create jobs in the short term and also fuel longer-term economic stability, Morneau said.

"Families are better off if we have strong housing, whether it's affordable housing for people who are struggling to find places, whether it's housing for seniors or housing for people in very challenged situations," he said.

"Similarly, we need to have resilient wastewater systems as we face up to climate change and transportation; transit systems are so important as our living environments become more dense."

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