

Liberals face increasing pressure to spend on infrastructure

[Bill Curry](#)

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The federal government is facing a heightened sense of urgency regarding its plans to stimulate the economy with billions of dollars of spending on new infrastructure.

After the economy closed out 2015 on a disappointing note, private-sector economists are lowering their Canadian growth forecasts for 2016. That could ultimately mean that Ottawa will lose out on billions in anticipated revenue over the coming years as it attempts to deliver on its ambitious election campaign promises.

Economists expect federal infrastructure spending will give the economy a boost, but it is unclear how much extra cash will flow this year. That probably will not be known until the release of the first Liberal budget, which has not been scheduled.

Finance Minister Bill Morneau kicked off his pre-budget consultations on Wednesday and will tour the country next week looking for suggestions. A short round of finance committee hearings is expected to take place after Parliament returns on Jan. 25.

The government has already acknowledged that its campaign pledges would probably require bigger budget deficits than predicted.

Mr. Morneau's November fiscal update assumed real growth in gross domestic product of 2 per cent in 2016. But some private-sector economists, including forecasters with the Bank of Montreal and Toronto-Dominion Bank, have recently lowered their projections to 1.6 per cent.

"It probably would imply that sooner is better than later in terms of getting that infrastructure spending out the door," TD economist Brian DePratto said. "In terms of scope and size, something slightly larger than what they've announced previously would be possibly justified."

The Liberals acknowledge this sense of urgency and say they will be prioritizing smaller infrastructure projects that can be started quickly, such as energy retrofits of social housing.

"One of the critical priorities is to make sure that the money that we send out the door on infrastructure puts people to work quickly and starts building communities fast," said Liberal MP Adam Vaughan, who is parliamentary secretary to Prime Minister Justin Trudeau for intergovernmental affairs.

“The economic growth that we need now needs to be stimulated. ... Worst-case scenario, we’re doing a lot of little things fast.”

Bank of Canada governor Stephen Poloz, who continues to deliver a cautiously optimistic message that a low dollar and stronger U.S. economy will ultimately help Canada deal with the fall in commodity prices, added his voice to how Ottawa might help.

In public comments on Thursday, Mr. Poloz noted that monetary policy is not a panacea and that fiscal measures could play a role in helping the economy adjust. “Infrastructure is an ingredient to economic growth. It’s sort of the enabler of economic growth,” he said.

As for the Finance Minister, he has not signalled any further changes of direction since acknowledging that annual budget deficits could be larger than the \$10-billion promised during the election campaign. The government says it will still balance the books before the next election and will keep Canada’s debt-to-GDP ratio on the decline.

“In recent years, the economy has really not lived up to what our hopes and expectations are and now, more than ever, we really do need to focus on a plan to grow the economy, create jobs and help those in our society who need it most,” Mr. Morneau said on Wednesday afternoon as he kicked off the consultations.

Conservative finance critic Lisa Raitt said the government needs to find the right balance between infrastructure spending and fiscal prudence.

“It’s always been a balancing act,” she said. “This isn’t the recession that we encountered in 2008. It is slow growth and it is of great concern, especially here in Ontario, but saddling Canadians with more debt isn’t the way to grow the economy and increasing taxes isn’t the way to grow the economy either.”

NDP finance critic Guy Caron said the Liberals may have a hard time finding enough “shovel-ready” projects to spend the infrastructure cash allotted for 2016.

“That issue will need to be addressed,” he said. “We should be looking at ensuring that these investments are actually going into worthwhile shovel-ready projects, not just throwing money for infrastructure because we can throw money.”

With a report from Barrie McKenna