



# Morning Brief

By Bruce Carson    Thursday April 29, 2021

## NATIONAL ISSUES

Rebuilding the Canadian Economy in the Post-COVID-19 Era—a webinar hosted by Government Analytics and moderated by Senator Pamela Wallin

This webinar held last Friday is one of a series hosted by Government Analytics. This time the subject was the 2021 budget and to a lesser extent the Bank of Canada and featured an exchange of views between Sean Speer, former economic advisor to Prime Minister Harper, now with the Munk School at the University of Toronto and the Public Policy Forum and Robert Asselin, former economic advisor to Prime Ministers Martin and Trudeau, now Senior Vice President with the Business Council of Canada.

With the background of the two participants, one might expect to find divergent views, but not always, as the discussion reveals.

### General Comments on the Budget:

**Asselin:** There is a disconnect between the budget and the need for long term growth. The budget does not represent a credible and coherent economic strategy going forward with a vision for the future. It is too unfocussed and contains too much spending.

**Speer:** The original context for the budget was that COVID would be on the wane, but now we are back into the pandemic again. Speer refers to Professor Jennifer Robson at Carleton University who said this was two budgets in one; a COVID budget with support measures and a post pandemic budget with the biggest challenge being getting Canada out of the 2% GDP trap. Speer believes that Canada needs to concentrate on increasing productivity to elevate growth. The budget neglects the challenge to get the economy growing.

Asselin: Most of the targeted economic support is still necessary but there should be a focus on sectors that need help.

#### Budget Spending:

Speer: The biggest question is the \$100 billion stimulus program which is twice the size of the 2009 stimulus. Two questions; do we need this and second would you spend \$100 billion on the measures set out in the budget? There is little spending on public R&D, innovation, growth and productivity. The choices made won't lead to high rates of growth and the budget is a missed opportunity.

Asselin: On childcare, the overall objective is sound as it will make the economy more productive as more women enter the labour force. But it took Minister Dryden, in the Martin government, a year to negotiate with the provinces and this time it may be difficult to push the Quebec model on provinces. Regarding spending, he is concerned that there is no comprehensive plan on the supply side as there will probably be too much demand in the economy.

#### Politics and the Budget:

Speer: He stated that there are good ideas in the budget setting out an ideological progressive vision which pushes back on conservative orthodoxy of the last twenty years. He sees a new confident progressive politics in Canada. His advice to the Conservative Party is to articulate its vision to take on this progressive orthodoxy which seems to have found support among Canadians.

#### Inflation and the Bank of Canada:

Asselin: Looked back at 2008-09 financial crisis where some of the recovery policies were not as open ended as the present ones. He is concerned about the advent of inflation as he quoted Larry Summers saying that the problem with inflation is that it is hard to stop once it starts. Asselin is also concerned about the Governor of the Bank of Canada commenting on social policy areas as there are no guidelines for the central bank in these areas.

Speer: Does not believe in expanding the mandate of the central bank. The government needs to focus and exercise discipline to control its spending. Usually a budget is built on trade-offs, but with the 2021 budget there were no trade-offs.

Asselin: He noted that the Bank of Canada has begun retrenchment of quantitative easing. Also the size of the U.S. stimulus will have a huge impact on Canada and the global economy. It could contribute to healthy growth on the consumption side, once again illustrating that the \$100 billion stimulus was not necessary.

## Emission Targets, Transition and East-West Divide:

Speer: He is concerned that the plans to reduce emissions have not been matched by transition plans as this will create dislocation; need a plan in place to support workers, if this isn't done, it could lead to polarization. But the move to reduce emissions represents an economic opportunity and the budget addresses this with the Net Zero Accelerator and similar measures.

Asselin: He referred to what President Biden is doing to aid the transition as he is focussed on a technologically driven approach. Our budget measures should double down on R&D. We should look at carbon capture and other innovative technologies rather than worrying about targets which will not be met.

Speer: He is concerned about national unity and the east-west divide at a time when we need political stability. There is a growing part of the country which does not see itself represented in Ottawa. We need to recommit, ensuring that policies are responsive and inclusive.

Asselin: He is worried that there is now a disconnect between Liberal elites and the rest of the world. He noted that Biden is trying to be inclusive with his policies. He noted that former Prime Minister Chretien was good at including and thinking about ordinary Canadians.

Speer: There is a role for public policy pushing back against concentration of power in big cities and spreading growth into other areas of the country.

## Lack of Focus and Vision in the Budget:

Asselin: The budget lacked focus as it just gave money to everyone and did little to spur on growth. It lacked an industrial policy and was weak on many parts of the supply chain. He noted that the U.S. has determined areas where it wants to lead in the future on the global stage. Canada doesn't have this and Asselin refers to this as lack of ambition.

Speer: Canada has suffered from lack of vision for some time and this is reflected in policies. We don't talk about vision, growing the pie. We need a redoubled commitment to science and technology. We need to think about growing sectors of the economy, moving beyond the 2% trap.

Asselin: There is too much focus on consumption and not enough on productivity. A long term vision would address innovation, R&D and the importance of human capital. He is worried that two years after the pandemic we will have doubled our debt with little to show for it.

Speer: Debt constrains freedom of action and freedom to choose.

Asselin: With regard to inflation, there is not much danger of the economy overheating now, but it could in 2-3 years.

Speer: As a country we need to get out of stagnation and substitute growth and dynamism. This could be an opportunity for Erin O'Toole, to focus on jobs, growth and building a dynamic economy.

Looking Forward:

Asselin: Ecommerce will accelerate and our relationship with typical work, the office and where we live will change.

Speer: The pandemic has changed the world's relationship with China and accelerated the power competition between the U.S. and China. Canada's foreign policy needs to recognize this change in geo-economics. Canada could partner with the U.S. pulling manufacturing out of China into North America

Asselin: Concerned that the U.S. is very protectionist as in this Biden is not much different from Trump. We can't take the Canada-U.S. relationship for granted and we should leverage what we have and what the world needs. We need to concentrate on raising our standard of living but can only do so if we are more productive as a country.

An interesting exchange of views between two people, experienced in public policy development, with different political backgrounds.

To Come

- today, first round of the NFL draft
- April 30, GDP numbers for February to be released
- May 3-4, G7 foreign ministers to meet
- May 4, international trade numbers for March to be released
- May 7, job numbers for April to be released

The Morning Brief will return on Wednesday, May 5--bc

