



# Morning Brief

By Bruce Carson    Thursday June 3, 2021

## NATIONAL ISSUES

Report on another webinar from Government Analytics on the topic of “Rebuilding the Canadian Economy in the post-COVID-19 era –Who is influencing political and economic decisions?”

The webinar took place fittingly at a time between the Parliamentary Budget Officer’s Report on the 2021 federal budget and the interview by Bloomberg’s Stephanie Flanders with Deputy Prime Minister and Finance Minister Chrystia Freeland on that same budget.

The PBO report focussed on interest rate increases that could come in the latter part of next year due to the impact of the government’s stimulus plan.

The Freeland interview focussed on the budget and its three objectives; finish the fight against COVID-19, support a strong and fast recovery and put in place measures to push Canada onto a long term growth trajectory.

The Government Analytics webinar featured a combination of economic information and opinion and political analysis. Parliamentary Budget Officer Ives Giroux presented the economic information while the political layer came from John Ibbitson of the Globe and Darrell Bricker of Ipsos Market Research. The hour was as usual, ably moderated by Senator Pamela Wallin.

## Federal Budget, 2021

Ives Giroux delivered a frank assessment of the federal budget. His view is that there is not much in it to spur on growth and productivity, but there was a “vast amount” of spending; \$131

billion in incremental spending. He is very skeptical that the government's prediction of the creation of 100s of thousands of jobs will materialize.

He forecasts that the Bank of Canada will increase interest rates by 50 basis points in the latter part of 2022.

Growth will be in the neighbourhood of 5% -6% this year based on pent up demand, higher oil prices and the Biden stimulus packages which will have a ripple effect on the Canadian economy.

He is concerned with the government layering on \$100 billion in stimulus spending, that could stoke inflation while the Bank of Canada's quantitative easing continues. He also noted that government revenues would be less than forecast, leaving the budget deficit larger than anticipated.

He believes the government should not have proceeded with its \$100 billion stimulus plan, calling it "too much and too late."

He concluded bluntly by saying if the government wants to structurally change the Canadian economy it should come clean and "be honest about why you are spending."

The focus then shifted to opinion and comments from Darrell Bricker and John Ibbitson.

## Budget and Deficits

Ibbitson called the budget a "classic election budget" presented in an election year.

Bricker's view is that people see the budget deficit as "COVID specific" dealing with an emergency situation. Public awareness as to what is occurring at a macro-economic level is not high. All of the borrowing and spending hasn't really had an impact except to support Canadians. People aren't really engaged regarding what the long term effect is going to be.

For Ibbitson there are three matters to take into account dealing with the budget and the economy. First, as long as we are in crisis and the government says massive support is needed, there will be acquiescence that we need the government to manage the economy. Second, as long as the United States is spending under the Biden stimulus plan, it means we are in lock step with the U.S.

Third, running deficits to stimulate the economy started in the 1970s and it took 25 years before Paul Martin as Finance Minister stepped in to restore confidence in the economy and bring the budget into balance. Those under 40 won't remember this and the slashing of spending that occurred and the pain that occurred as a result. It could be 20 years before we face the consequences of the present spending.

## Political Parties and Possible Federal Election

Bricker believes the public's perspective of government is that there is a lot of talk, but government doesn't do a lot. Commitments don't achieve anything, but cost a lot of money.

He thinks the Liberal government is not as secure as it seems as he believes public opinion is fragile, even though it looks solid. He sees a lot of "false positives" in public opinion. Campaigns matter under these conditions.

As far as Ibbitson is concerned, if an election was held today, the result would be either a Liberal majority or minority. In the Liberals favour he places the fact that the Conservative winning coalition has not come together. That coalition sees strong support in the West, the interior of B.C. and rural Ontario. But in order to win government, support is needed from suburban immigrant voters found in the 905 area around Toronto and suburban Vancouver.

Liberals are doing better in the 905 area, having assured voters that they have their backs and care about climate change. These voters will not support a party which is against immigration and climate change. Unless and until the Conservative Party can access these voters, the Liberal Party wins.

Bricker has another way of looking at the Conservative Party's dilemma. The Liberals need to be in government and are willing to compromise and align with public values to get there. The Conservative Party knows what it is against, but it just can't just be angry with those in power. Conservatives have to answer the question; "do you want to form a government or not?"

He believes there is a "new way to win" but it can only be achieved by aligning with issues that people support. Canadians don't want to be embarrassed by their government's position on social issues. There is a definite need to manage the group that only cares about single issues.

Ibbitson sees the Conservatives and NDP as parties that would rather be right than in government. As opposed to the Liberals who only want to be in government. He notes that former Prime Ministers Mulroney and Harper led parties which wanted to be in government. They were "strong, effective leaders" who could impose discipline on the party in order to govern.

If Conservatives want to win, a coalition must be formed, but discipline must be imposed. There are issues that favour the Conservatives such as countering the need to run endless deficits as this is not the way for Canada to go into the future.

Bricker added to this by saying that the public is not supportive of rethinking government. The public doesn't trust governments and particularly doesn't trust this government to run things. There is "a lot of fertile ground" for the Conservatives. For the NDP, it can argue that the Liberals are all talk and the NDP will actually do things, while the Liberals chase the next shiny object.

But as Ibbitson points out leadership is about selling a brand and Trudeau can effectively sell the Liberal brand and vision for the country. As he said Trudeau “can make a Canada that you will be happy and proud to live in.”

This is the issue that both the Conservatives and NDP face going into the next election and particularly the Conservatives if they cannot impose discipline.

### Interest Rates meet Politics

One final issue was discussed which combined economics and politics and that was the question of the possible impact of interest rates, should they begin to rise. Giroux sees this as an issue for businesses and Canadians who have taken on more debt during the pandemic and particularly if rates go above 2%.

Bricker’s view was that if such a hike started to hit mortgages and credit cards, then it affects a segment of the population the Trudeau Liberals are counting on for support, the middle class.

Senator Wallin finished off the session by saying that this would seem to mean an election sooner than later.

### To Come

- June 4, job numbers for May
- June 8, international trade numbers for April
- June 9, Bank of Canada deals with interest rates
- June 11-13, G7 meeting in Cornwall, UK
- June 14, NATO meeting in Brussels

Due to some scheduling issues next week, The Morning Brief may appear only on June 10--bc