

## Canadian Federal Speech from the Throne

### MONEY CAN'T BUY LOVE (BUT THIS GOVERNMENT WILL TRY)

- Canada's 43rd Parliament opened today with a ceremonial *Speech from the Throne* delivered by the Governor General.
- The Speech holds few surprises as it set out priorities broadly consistent with the Liberal Party's election platform. Themes include advancing middle class prosperity, fighting climate change, and protecting Indigenous interests.
- It also stresses national unity in recognition of regional and political differences across the country, emphasizing a commitment to bringing Canada's natural resources to market.
- Opposition will no doubt seek stronger commitments around the latter, but it will be in no party's interest to bring down the government over this Speech.
- Thus, a tax cut can be expected to follow shortly. This will provide a modest and transitory bump to consumption, but insufficient (in magnitude or timing) to materially impact the economic outlook.

### POMP AND CIRCUMSTANCE

Today's *Speech from the Throne* delivered by Governor General Julie Payette officially opens Canada's 43rd Parliament. These speeches traditionally lay out in broad swathes the key priorities that will guide the sitting government's policy actions (and fiscal spending) over the course of its mandate. This Speech was no exception as it touched on recurring themes that dominated the discourse during the recent federal elections.

**Improving middle income prosperity, fighting climate change, and advancing Indigenous reconciliation are clear priorities.** These issues were repeated throughout the Speech (chart 1). In the near term, the government pledges to cut taxes for middle income households and introduce legislation to implement the United Nations Declaration on the Rights of Indigenous Peoples in the first year of the new mandate. Climate goals are generally longer term, including aiming for zero-emissions by 2050. References to growth-enhancing policies such as infrastructure are scant, much like they were in the election debate.

**By and large, the Speech reiterates campaign promises under the Liberal platform.** It did extend some olive branches in various directions in acknowledgement of some clearly divisive issues across regions and parties. This includes a reference to the government's 'unwavering support' for Canada's oil workers as the government seeks to re-set relations with the West. It also carefully reaffirms a step-wise approach to universal pharmacare, while encouraging debate on universal dental care in a nod to NDP priorities. In the same vein, it references cooperation with provinces on broader health care issues.

### CONTACTS

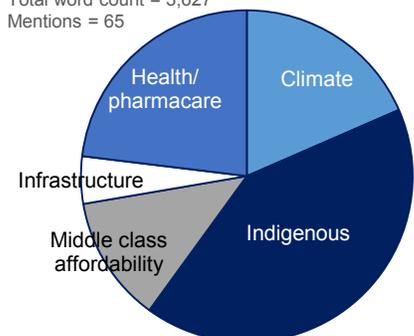
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Chart 1

### Clear Priorities in Speech from the Throne

Total word count = 3,627  
 Mentions = 65



Sources: Scotiabank Economics, Speech from the Throne.

**We will have to wait for details.** By design, the Speech provides little by way of concrete actions. These will unfold over the ensuing months and years. First moves are usually the quick-win, crowd-pleasers that garnered votes (e.g., the tax cut in this instance). In a minority government context, next steps are carefully measured. This time around there are many lines of division—across party lines and geographical boundaries—that will require substantive debate before details are confirmed.

**FIRST CUT IS THE DEEPEST**

**Canadians will not have to wait long for another tax cut.** The Speech indicates its first act will be a tax cut for all but the wealthiest Canadians, “giving more money to middle class families and those who need it most.” The Liberals had campaigned on a promise to increase the basic personal amount with a cut-off for high income earners. We can expect swift action to bring this into force. The 2015 middle income tax cut was introduced by the last Liberal government within weeks of Parliament’s opening. We can anticipate similar speed whether through a stand-alone motion or as part of a fall economic update.

**The tax cut should pump about a cumulative \$15 bn back into the economy over the course of the mandate.** This transfer to households (along with a modest enhancement to child benefits for children under one) is commensurate in size to 2015/16 middle income tax cut and child benefit enhancements (chart 2). These earlier measures provided a transitory bump to consumption in the several ensuing quarters following its introduction before tapering off sharply (chart 3). Today, Canadian households likely have a similar propensity to spend the windfall given prolonged affordability challenges and stretched balanced sheets, along with a waning growth cycle.

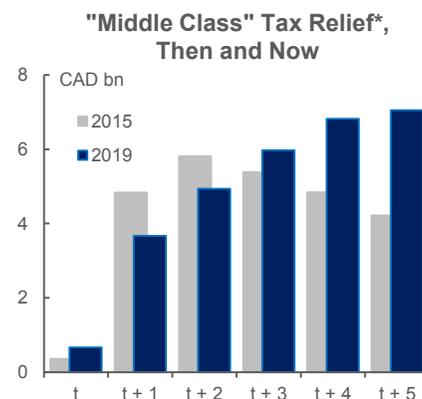
**The impact will nevertheless be relatively small.** As a percentage of GDP, it will be negligible this fiscal year and a rounding error the next few years in the range of 0.1–0.2 percent of GDP (chart 4). Finance Canada estimated the fiscal multiplier of its 2015/16 measures in the range of 0.2–0.4. The multiplier today could be even smaller given the smaller weighting towards child benefits where the propensity to spend is higher than average households targeted under the broad-based tax measure.

**Targeting middle income households will provide a welcomed backstop to consumption, but it will unlikely shift the growth outlook, inflation expectations, or the policy rate path.** Ultimately a resumption of business investment and activity will be required to durably shift expectations.

**TURNING UP THE HEAT ON CLIMATE**

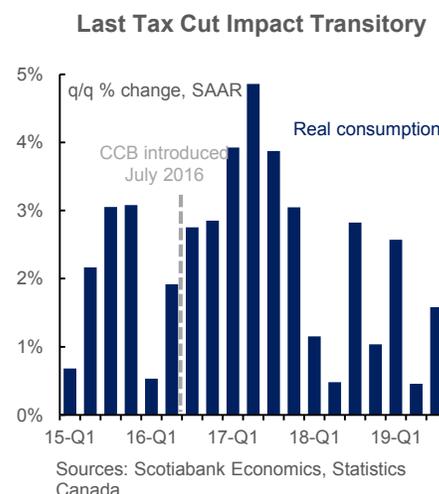
**The government will continue to pursue lofty climate change goals.** The Speech emphasizes that a “clear majority of Canadians voted for ambitious climate action now”. It commits to setting a target to achieve net-zero emissions by 2050, including through pollution-pricing, along with a plethora of specific measures such as tree-planting, electric vehicle incentives, and plastics-reduction targets outlined in campaign pledges. Not coincidentally, the newly-minted Environment Minister Jonathan Wilkinson spoke to media ahead of the Speech indicating he has been tasked by the Prime Minister with figuring out how Canada could surpass its 2030 greenhouse gas reductions.

Chart 2



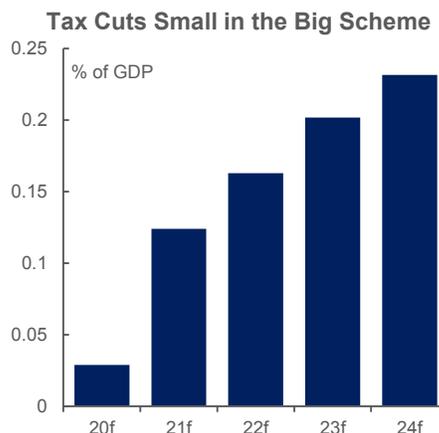
\* Includes tax relief plus Canada Child Benefit and enhancements. Sources: Scotiabank Economics, PBO, Finance Canada.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, PBO, Government of Canada.

**While the targets are there, there is still no tally.** The Liberals had campaigned on new green investments in the order of \$1 bn per year, while the NDP pledged three times the amount. Achieving ambitious targets set out by the government will carry a higher price tag, but the pathway will determine who bears the costs. The timeframes will also be critical as many of the goals extend well-beyond a four-year mandate. Mobilizing private capital will likely be a key feature of an eventual plan, where we can expect the work of the Expert Panel on Sustainable Finance to (eventually) receive some airplay, including through the development and scaling of market structures and financial products to facilitate a green(er) transition.

**But again we will have to wait for details on actions.** Oil-producing regions are critical players in a sustainable—environmental and economic—transition of the Canadian economy. The government will want to re-set relations, which includes helping secure recovery in these provinces, before setting out actions that pose (real or perceived) risks to these economies.

### **MENDING FENCES (AND BUILDING PIPELINES)**

**The Speech provides a nod to Canada's oil workers.** Specifically, it dovetails its climate commitments with a pledge to “work just as hard to get Canadian resources to new markets, and offer unwavering support to the hardworking women and men in Canada's natural resources sectors”. Again there are few details. Opposition will likely seek an amendment to repeal the contentious Bill C-69, but the Speech offers little insight into lines in the sand on this front.

**Affected provinces will likely continue to put pressure on the government for greater fiscal relief in the near-term.** The government no doubt sees a political—if not economic—imperative to act swiftly to pacify discontent. Saskatchewan is teetering in recessionary territory while Alberta has taken yet another hit with its recent downgrading by Moody's despite reasonable path to balance. After a \$9 bn revenue loss in 2016, Alberta received federal support of \$250 mn. Longer term issues aside with respect to federal-provincial transfers, oil-producing provinces in Canada have taken a substantive hit with the recent downturn.

**Premiers of all political stripes have united behind their commodity-producing counterparts.** In a joint statement earlier this week, Premiers unanimously called for modifications to the Fiscal Stabilization Fund, a federal program that transfers funds to provinces that experience a significant decline in revenues following an economic downturn. Their proposed changes, including a retroactive clause, could increase Alberta's claim by as much as ten-fold according to University of Calgary estimates.

**As the government reviews its fiscal position mid-year, it may find it palatable to compensate affected regions with revenue windfalls that can be expected this year.** This move would be temporary as crude prices are expected to recover and egress challenges abate. It may also buy good-will to advance an ambitious climate agenda.

### **PUTTING A PREMIUM ON HEALTH**

**Universal pharmacare is still on the table.** The Speech notes that “pharmacare is the key missing piece of universal health care in this country”. This is consistent with steps under the previous government, including measures in Budget 2019 to set up the Canadian Drug Agency with a mandate to create a national formulary. However, the Speech stops shy of committing to a universal, single-payer model, rather indicating it will “take steps” to introduce national pharmacare.

**Pharmacare thus remains a big-ticket, but largely unfunded, promise.** During election campaigns, the debate was less about whether to proceed, rather at what pace among left-leaning parties. The NDP Party promised to act immediately with universal pharmacare as early as 2020 at an average annual cost of about \$11 bn per year over the mandate. This was even more ambitious than the expert Advisory Council that recommended a phased implementation starting at \$3.5 bn in 2022, ramping up to \$15 bn by 2028. The Liberals meanwhile promised a ‘downpayment’ of \$1.75 bn per year to grease the wheels with provinces. The question coming out of elections was not so much if—or even how—but when.

**Premiers however have recently thrown a wrench into plans.** Premiers earlier this week also demanded unconditional increases to the Canada Health Transfer in the order of 5.2% annual growth. They placed clear emphasis on closing existing health care funding gaps above universal pharmacare. They also sought an opt-out clause for any national pharmacare plan, with several major provinces already indicating they would likely opt out.

**Tough choices lie ahead for the government as the Speech hedges its bets.** The Speech in fact puts emphasis on working with provinces to strengthen health care above pharmacare (at least chronologically). However, both are high-cost commitments (chart 5). The government cannot afford to both increase health care transfers and introduce a full-blown, universal pharmacare in Canada without jeopardizing its fiscal position in the absence of stronger growth (chart 6).

**The government recognises the need to walk a fine balance.** It will need to gain and maintain the support of NDP members of parliament, while also fostering collaborative relations with provinces, where fractions already exist. Needless to say, much debate and negotiation lie ahead.

**STATUS QUO FOR SPENDING FOR NOW**

**Fiscal plans are unlikely to change substantively for now from the path laid out during the elections.** This is an issue referenced only once in the Speech, suggesting the government “will pursue a responsible fiscal plan to keep the economy strong and growing”. We interpret this to mean that the government will continue to run modest surpluses that maintain support across parties and regions, while staying under the radar of markets by keeping the deficits relatively low and the debt-to-GDP ratios low. This will provide a degree of constraint on spending pressures beyond the Liberal platform fiscal path.

**Beyond the immediate tax cut, other expected measures will have mixed fiscal effects.** The increase to the basic personal amount comprises about a third of new spending commitments under the Liberal platform. Other transfers to individuals—including seniors, veterans, and the disabled—will provide an even smaller boost, while other major promises such as health transfers to provinces as a “downpayment” for pharmacare will likely take time to execute in light of conflicting demands. Meanwhile, there is little mention in the Speech of an expenditure restraint exercise that is intended to substantially offset spending increases. This could further moderate any modest impulse to growth.

Chart 5

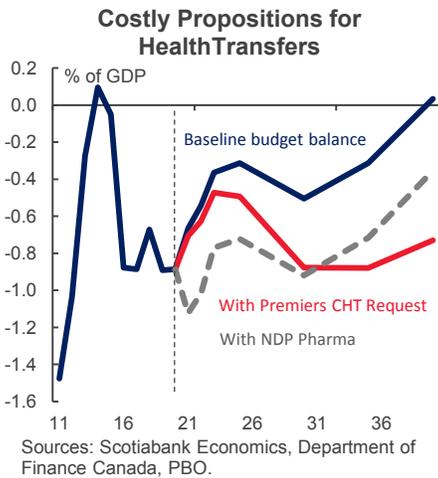


Chart 6

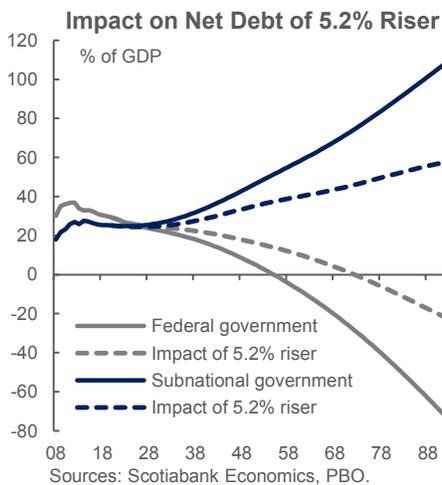
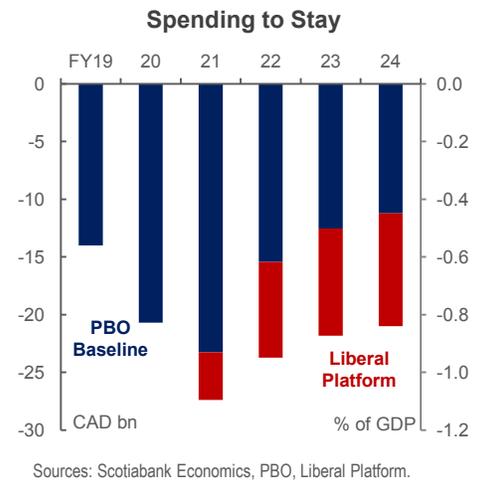


Chart 7



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