Budget 2021 analysis: Does it deliver? [1]

Federal Budget 2021 was expected to deliver between $70-100B in COVID-19 recovery funds. Does it deliver and will funds be allocated in meaningful ways? Our experts weigh in.

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EXCERPTS

The federal government tabled its first official budget since COVID-19 struck and it is a budget for the history books, both in size and scope.

It delivers big-time on a national $10-a-day child care program and makes progress on long-term care. There are supports for businesses and people to help get through this third, and possible fourth, wave of COVID-19. And it's forward looking, if not transformative.

This budget does deliver on its promise to spend $100 billion of additional dollars to get us ready for a recovery. It helps that the fall economic update was pessimistic on the economic growth picture, and in fact revenues will be $70 billion more in the next three years.

About two-thirds of the spending is short-term, related to COVID-19 and the final third carries over to the third year. The programs that extend to the long-term are child care (for which this budget is transformative), long-term care, some business supports and some environmental measures (around clean fuel and climate adaptation).

It's a historically large budget, but it's within Canada's ability to both deal with the impact of a global pandemic and to plant the seeds for a public-led recovery.

Have we learned any of the lessons the pandemic has taught us at a terrible cost?

Long-term care

This was the largest public health and economic event of the past century and it has clearly illustrated how our health and social safety nets are lacking. Terribly inadequate long-term care (LTC) is the most obvious lesson. We had among the worst mortality rates in the developed world. Seniors were left totally abandoned in residences with shocked military personnel stepping in to fill the void. This is likely the most difficult lesson that COVID-19 taught us: we have for a long time abandoned our seniors in LTC and the pandemic converted that abandonment into appalling death rates. The announcement of national standards that see substantial improvements in LTC are critical and we do find those in the budget. Unfortunately the money to back those standards won't arrive until 2022 as they'll have to be negotiated with the provinces.

When it comes to the broader picture of public health and health care transfers beyond LTC there is little change beyond backstopping provincial pandemic expenditures. Post-pandemic, the provinces have been left holding the bag generally on health care despite the feds absorbing almost all of the COVID-19 specific health care costs.

Public health

The COVID-19 pandemic has made clear the strong connections between health on the one hand, and broader social and economic circumstances on the other. It has exposed longstanding weaknesses in the social determinants of health—that is, decades of underspending and privatization in social and economic domains that have led to the massive inequities in who is most affected.

A test for this historic budget is whether it recognizes that health and socioeconomic circumstances are always connected—not just in pandemic circumstances—by planting the seeds for a public-led recovery, including a plan to pay for it in the long term.

Does it achieve?

Focusing on the public health arm of the health care system, there are no significant changes in the budget. In fact, the budget largely conflates public health and the broader health care system, which dilutes public health's unique concerns such as the health of populations, prevention and root causes of poor health. There are no strong signals in this budget of efforts to shift provincial/territorial health spending more towards prevention, versus downstream treatment.

In terms of strengthening the social determinants of health, the budget contains some very important new commitments, such as the robust plan for high quality, affordable child care. This initiative signals a significant commitment to strengthening conditions for health and social equity, especially for women and families.

Transformative change for wellbeing and health equity, however, demands a comprehensive vision for improving people's living conditions and tackling inequities in money and power. From that point of view, some important omissions from this historic budget become evident including deep investment in affordable housing, substantive commitment to decarbonizing the economy via a just transition, and fair taxation beyond the increased tax on luxury items.

Child care

Child care and its closure has shown how important the sector is to families, and how disruptive its and school closures can be. This budget could well be transformative for childcare.

We've been here before, the 1987 Mulroney CAP plan, in 1993 with the Liberal "Red Book", with Martin's pre-election 2005 budget and the 2017 bilateral agreements. The last one was the only one fully implemented and even then there was substantial provincial flexibility. Some provinces (like NFLD) used the money to expand their set fee system. Other provinces (like Alberta) cut their child care programs.

This time it may actually be different. This plan is much larger, particularly a few years out than any previous proposal. The closest was actually the Mulroney plan in 1987, although most of it was left unimplemented. By the third year, this program will be twice the size of the Mulroney one in 1987, it is seven times larger than Liberal Red Book (from the 1993 election) and four times the size of the 2005 Martin plan (adjusting for GDP). History has been cruel to childcare plans with elections dashing all of those previous plans (well besides the bilateral agreements of 2017). See the sordid details on page X of Childcare Resource and Research's 2020 report here [3].

This time around there is a clear focus on fees and getting them eventually to $10-a-day in 2026, but there is perhaps a more significant short term goal of seeing 50% reductions in fees by 2022. This is a very tangible if ambitious goal. We also need increases in spaces and improvements in wages, although these were less specific. We actually need all three, even if $10-a-day heads the press releases.

Green investments

There were no big surprises on the climate and energy file. The federal government announced a new, $15 billion climate plan in fall 2020 and then in February it announced an additional $15 billion for a permanent public transit fund. Those promises form the core of the environment and infrastructure commitments in this budget.

Much of this climate spending is directed toward the clean tech industry. A variety of incentive programs and preferential tax treatments are intended to help scale up the sector. For individuals, there are new and expanded programs for home energy efficiency retrofits and electric vehicles.

Unfortunately, the budget falls short of an explicit industrial strategy that would see the federal government take the lead in decarbonizing the economy. Despite the big numbers attached to this budget, the government is still relying on the private sector to take the necessary steps to get us to net zero.

Postsecondary education

Despite the fact that post-secondary education has been totally upended by COVID-19, there's little that could be considered transformative on this file in the federal budget.

There are no fundamental changes to the funding model, nor substantive support to the institutions themselves (which don't qualify for the federal wage subsidy). As we review the budget, Laurentian University in Sudbury is in receivership and programs there have been gutted.

As for students facing record-high tuition and fees, grants are doubled for low-income students until 2023, and disability supports have been extended to students whose disabilities are persistent and sustained though not necessarily permanent.

But, for the most part, the federal government has chosen to focus on loan repayment through higher income repayment thresholds, a lower cap on monthly student loan payments, and temporarily waiving interest accrual on loans. They could have chosen a more transformative route by focusing on what's actually causing the accumulation of student debt in the first place: increased reliance on a user-pay model of financing post-secondary education as government transfers continue to be inadequate.

Upfront costs are barely addressed in this budget. Instead, the focus is on "making student debt easier to pay down." Students are allowed to delay debt repayment and are then provided with a longer repayment period. This isn't about removing the burden—instead, it will only postpone and prolong the effects of it.

There is additional funding for summer employment opportunities and skills training—a welcome announcement, given the abysmal state of youth employment. As of February 2021 (when we were in lockdown), employment for young women (15-24) was down by 15%, and young men by 8%, compared to February of last year—the worst of any other major age and gender categories on a full 12 months comparison.

But, given the current volatility of the labour market and the devastating third wave that we are facing, the degree to which these jobs will be available—even with additional funding—is uncertain. Which means that employment income may be questionable while tuition fees continue to, almost without question, increase.

There has never been a better time to use low interest rates to improve the country

On the budget itself, I wrote up a research note a few days ago looking at the debt and deficit issues. One of the things that I found most surprising in the research for it was how little we're paying in interest on debt right now. I don't mean the interest rate itself, although despite the increases recently we're still near record lows, unmatched since at least WWII. The actual amount of interest in dollars at $20 billion in 2020-21 is the lowest we've seen since at least 1983 (when accrual accounting started). For comparison, in 1990 we paid $80 billion in interest charges (in $2020 dollars). That's straight dollars, not relative to anything!

If we're concerned about federal government debt loads, where's the fire? Because I don't see one and on this front, I don’t smell any smoke. On the other hand, households and corporations are drowning in debt at levels that we've never seen before. They have more debt and they pay far higher interest rates than the feds do. Interest rates increasing may be a concern, but it will bankrupt households and businesses long before there is a significant impact on the federal books.

To my mind, the idea of stimulus or not isn't terribly useful, as it's a very neutral economic discussion of returning to a target GDP or unemployment target. It ignores very real issues that urgently need fixing in Canada.

New revenue measures

There were a few new revenue measures, although nothing revolutionary. You can search through this budget's 724 pages for a wealth tax all you want, but you won’t find it.

The current tax on luxury boats, cars, planes, etc. that is currently set at 10% increases to 20%.

There will be a 3% tax on the revenue of digital giants. This may seem like an extension on the Netflix tax, but it’s actually significant. For the first time, it puts in a proxy for corporate taxation on companies that provide services in Canada but aren’t resident here. It isn’t worth much here, but it could set a precedent in getting companies to stop cooking the books to avoid taxation in Canada.

As usual, CRA is continuing to play whack-a-mole with various tax “strategies” as accountants continue to “innovate” new ways of getting big companies out of paying their fair share.

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