Deficit to rise as Liberals unveil $22.8-billion in new spending aimed at seniors, young Canadians

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The Trudeau government's fourth budget unveiled $22.8-billion in new spending across more than a hundred different areas as the Liberals aim to win the support of key voters ahead of the fall election campaign.

In his final budget before an expected vote in October, Finance Minister Bill Morneau stressed the need for government "investments" over reducing the deficit. Before Tuesday's budget, stronger tax revenue had Ottawa on track to substantially reduce the federal deficit over the short term, but the government chose instead to announce billions in new spending over six years.

During the 2015 election campaign, then-Liberal Leader Justin Trudeau said he would run short-term deficits of no more than $10-billion a year to stimulate a sluggish Canadian economy, but vowed to balance the books by the end of his first mandate. The budget confirmed that his promise will not be kept.

The Liberal spending targets key demographics that voted for the Liberals in 2015 and that the party will need to win over again this fall.

For postsecondary students, the government will reduce interest rates on Canada Student Loans and move to eliminate interest charges on student debt during the six-month grace period on loan payments, which starts when a student graduates. For young Canadians looking to buy a home, $1.25-billion over three years will launch a new interest-free loan for first-time home buyers that will be run by the Canada Mortgage and Housing Corp.

For workers concerned about their careers, Mr. Morneau announced new benefits under the Employment Insurance system worth $586.5-million a year to pay for training and to help cover lost income when a person leaves work to a course. For Indigenous people in Canada who may be questioning the government's commitment to its reconciliation pledges, the budget includes $4.7-billion in new spending over six years to settle land claims and boost health and social services.

What the budget does not include is a plan to tackle tax competitiveness issues, as advocated by many Canadian business groups. The budget leaves federal personal and corporate tax rates unchanged. It does increase taxes on stock options for highly paid executives at large companies, a move that could be seen as an effort to win over NDP supporters.

"I think the most important promise we made to Canadians is that we would invest in the future and that's exactly what we have done since we came into office," Mr. Morneau told reporters, when asked about the 2015 commitment to balance the budget. He insisted the government remains on a sound fiscal path.

The new measures announced Tuesday add up to $22.8-billion over six years. The budget also books an additional $4-billion in spending that had been announced since the government's November fall update.

Craig Alexander, chief economist of Deloitte Canada, said the deficits are not large, but he would prefer to see balanced books so that the government can prepare for the eventual next recession.

"I'm not keen on running deficits when you're 10 years into an economic cycle, but Canadians aren't concerned and the deficits allowed the government to invest in the priorities they have before the next election," he said.

The announcements will force tough decisions on federal parties as they craft their election campaign platforms, forcing opposition parties to accept the planned deficits or campaign on spending cuts. It also leaves the Liberals with limited options this fall.

"There isn't much room for election measures unless they're willing to increase the deficit," said Mostafa Askari, chief economist at the Institute of Fiscal Studies and Democracy at the University of Ottawa.

In a nod to the populist movements that have roiled Western democracies, the Finance Minister told the House of Commons that many Canadians are anxious about their futures.

"We live in a world that is changing and changing rapidly," the minister said in his budget speech. "Canadians understand that. … All they ask for is a chance to find their way in this new world, with help from the government so that they can have their best shot at building a good future for themselves, and their children and grandchildren."

Mr. Morneau's speech was delayed and frequently drowned out by opposition MPs who criticized the fact that Liberal MPs used their majority Tuesday to shut down any further hearings into the controversy over the government's handling of the criminal prosecution of SNC-Lavalin Group Inc., which is facing bribery and fraud charges and is seeking a deferred prosecution agreement.

"For Justin Trudeau to shut down a committee investigating his corrupt practices and only hours later turn around and present a budget to Canadians as though everything was normal was something we could not sit in the House and stomach," said Conservative Leader Andrew Scheer after Conservative MPs walked out during the minister's speech. "This budget has no legitimacy and we could not legitimize it by remaining in the Chamber."

Conservative finance critic Pierre Poilievre said: "This latest spending splurge will cost Canadian taxpayers a fortune. … We as the official opposition will champion amendments to this budget, which will require the government to live within its means, leave more in people's pockets, make life more affordable and let Canadians get ahead."

NDP MPs criticized the budget for falling short of announcing a national pharmacare plan and for not doing enough on climate change. "Like previous budgets, this is a lost opportunity," NDP MP Pierre-Luc Dusseault said.

Mr. Morneau also promised that the Liberals will flesh out their plans for a national strategy on pharmacare after they receive a report from an advisory committee, headed by former Ontario health minister Eric Hoskins.

The government was on track to cut its annual budget shortfall to less than $4-billion in five years, but Mr. Morneau's new spending measures will increase the deficit to $6.8-billion that year, not including a $3-billion cushion for risk.

In the current year ending March 31, the deficit will drop to $14.9-billion, down from $19-billion last year. It is then forecast to come in higher in each of the next two years, reaching $19.8-billion in 2019-2020 and $19.7-billion the following year, before declining gradually to $9.8-billion by 2023-24, the last year of the government's projections. The estimates for future years include an annual $3-billion risk adjustment to cover unforeseen events or economic changes.

Throughout the forecast period, deficits would remain below 1 per cent of gross domestic product, a key measure of the shortfall relative to national income. The federal debt-to-GDP ratio is projected to decline from 30.8 per cent this year to 28.6 per cent in 2023-24 – one of the lowest levels among leading industrialized countries.

Federal revenues for the fiscal year that ends March 31 came in nearly $9-billion higher than projected in last year's budget, due to stronger than expected tax revenues. However, program expenses were $11.3-billion higher than projected. As a result, the estimated 2018-19 deficit of $14.9-billion remained roughly in line with the $15.1-billion deficit projected last year, before the $3-billion risk adjustment was added to the forecast.