



From the Editor / L. Ian MacDonald

Budget 2016

Welcome to our issue on Budget 2016, the first of the new Liberal era.

It's a very different fiscal framework than the one the Liberals were costing their promises on during the 2015 election. In the campaign, the Liberals said they would run stimulative deficits of \$10 billion in each of their first two years in government before returning to balance in 2019. Even before the budget on March 22, Finance Minister Bill Morneau warned Canadians the deficit would be much higher than \$10 billion, and that it would be a steep challenge to return to balance by the 2019 election.

This is called managing expectations. The Liberals' new bottom line for the fiscal framework was their hope of reducing the debt-to-GDP ratio below current levels of 30 per cent. But that's also unlikely, given the Liberals taking on at least \$113 billion of new debt over five years.

On Budget Day, we learned the final fiscal forecast of a \$29.4 billion deficit in the current fiscal year and \$99 billion over four years. The Liberals also tipped the books into deficit territory for 2015-16 by booking \$3.7 billion of veterans' benefits at the end of the fiscal year. Welcome to Creative Accounting 101.

Our take on the budget begins with an overview from BMO economists Douglas Porter and Robert Kavcic who note the budget projects "a string of deficits as far as the eye can see." Jack Mintz, President's Fellow at University of Calgary's School of Public Policy, writes that "it is hard to believe that deficits will come in below \$30 billion in any year."

BMO Vice-Chair Kevin Lynch, a former clerk of the Privy Council and deputy minister of finance, offers a

beyond-the-budget view of the larger and longer-term growth challenges facing the Canadian economy. He looks at the "ongoing decline in productivity growth and slower labour force growth" and suggests that "longer-term Canadian growth over the next decade(s) will be less than two per cent" per year "and perhaps well less."

Across the aisle, Conservative finance critic Lisa Raitt offers an Opposition critique of Budget 2016. In her take, the Conservatives left the Liberals with a balanced budget for 2015, indeed, a small surplus. She points to the Finance Department's own Fiscal Monitor as evidence of this. As for the deficit, she is quite unsparing in her comments.

And Don Newman, who has covered budgets going back several decades, offers his impressions of the first Morneau budget in his column.

Such has been the response to the thematic of our last issue on electoral reform that we've decided to make *Democratic Reform* an ongoing feature in *Policy*. Though the debate has barely begun, the debate on the debate—whether there should be a referendum on whatever the government proposes or passes—has already taken hold. In an article titled "Referendum, Yes or No", Contributing Writer David Mitchell notes that while waiting for the proposed reforms, "there appears to be support at this stage for a referendum to approve changes to the way we vote."

From the Institute of Governance, Davide Cagnello and Karl Salgo consider the Westminster system meeting the challenge of the digital age. "Governments," they write, "are being confronted with the reality that they no longer hold the monopoly on defining citizens' roles, responsibilities and interests."

And in a *Guest Column*, Green Party Leader Elizabeth May predicts "there will be an open and honest national consultation" on electoral reform, and writes that Democratic Institutions Minister Maryam Monsef "is off to an impressive start."

Turning to *Canada and the World*, Jack Hughes looks at the Trans-Pacific Partnership trade deal, and feels "certain that Canada will be part of it." How could Canada not be, given our reliance on trade, especially with the U.S. and Mexico in NAFTA, with the 12-nation TPP opening up 40 per cent of the world's economy?

Jeremy Kinsman, our lead writer on foreign affairs, considers the Middle East as a failed region, with Syria at the epicentre of it.

From the University of Regina, Fulbright Fellow Cheryl Camillo notes that eight provinces and 11 U.S. states have a shared border, and suggests that provincial health ministers could benefit from a dialogue with their U.S. colleagues. Time for a meeting, she suggests. Hands across the border on health.

Michael Bourque, CEO of the Railway Association of Canada, writes that short-line railways are essential lifelines for remote communities, and for moving their products to markets in Canada and the U.S.

Finally, in a *Verbatim* from a keynote at the Manning Conference, *Washington Post* columnist Michael Gerson, former chief speechwriter to President George W. Bush, weighs in on the candidacy of Donald Trump and concludes that "Trumpism is Putinism by another name." **P**