



From the Editor / L. Ian MacDonald

Budget 2017

Welcome to our annual issue on the federal budget. On March 22, Finance Minister Bill Morneau rose in the House at the close of markets to deliver the Liberal government's second budget, *Building a Strong Middle Class*, following 2016's *Growing the Middle Class*. Innovation was supposed to be the theme of the budget, but in funding terms, it remains a work in progress.

Morneau's margin of manoeuvre was limited by two evident constraints, the deficit with no path to budgetary balance, and the imperative of Canada not being competitively misaligned with the Trump administration on personal and corporate income taxes. Infrastructure and defence spending increases were also themes of Trump's February 27 address to a joint session of Congress. But in his March 16 budget, President Trump did not propose tax cuts, alleviating any concerns Morneau might have had about Canada being uncompetitive. Indeed, Canada enjoys a significant comparative advantage on large corporate taxes at 15 per cent compared to 35 per cent in the U.S., while Canada's top marginal rate of 33 per cent on personal taxes is very competitive with the U.S.

But Morneau has plenty of challenging issues in managing the fiscal framework, beginning with Finance's own projection, two days before Christmas, that the budget wouldn't be balanced until 2055, and that along the way Canada would accumulate another \$1 trillion in new debt.

For a breakdown and detailed analysis of the budget, we're delighted that BMO Financial Group Chief Economist Douglas Porter and his colleague Robert Kavcic have again shared their insights with us.

Jack Mintz, one of Canada's leading economic authorities, shares his take on innovation and other budget themes. And Conservative Finance critic Gérard Deltell offers an opposition critique on a budget that projects no path to balance.

Contributing Writer Geoff Norquay, a veteran of many Ottawa and Ontario budgets, takes us on a journey through the budgetary process, from departmental and parliamentary consultations in the middle of the previous calendar year, to the writing and delivery of the speech, usually before the end of the fiscal year the following March 31. It's not a sprint but a marathon, and the single most important governance event of the year. Finally, columnist Don Newman, a close observer of budgetary mood swings over more than four decades, offers his take on the second Liberal budget.

In *Canada and the World*, Contributing Writer Anthony Wilson-Smith looks at Russia, where he served as Moscow correspondent for *Maclean's* in the years leading to the dissolution of the former Soviet Union under Mikhail Gorbachev, later resulting in the remarkable 18-year tenure of former KGB operative Vladimir Putin as the Russian strongman. Wilson-Smith considers Putin's potent recipe for longevity. From Russia with Love? Not exactly.

Our lead foreign affairs writer, Jeremy Kinsman, looks at the train wrecks of Brexit and Trump, and wonders what else lies ahead this year with important elections still to come in France and Germany, where populist right-wing movements are on the rise, with Putin's Russia as a nosy neighbour. A former Canadian ambassador to the UK, Russia and the EU, Kinsman of-

fers uniquely informed insights into Europe's year of living dangerously.

Contributing Writer Robin Sears shares his sense of the mood of America under Donald Trump, from the cocktail crowd of New York to the beaches of the Florida Panhandle. He writes that America has seldom been a nation so divided, and wonders where it is going, especially "as the drip by drip revelation of Trump's relations with the Russians continues to unfold." Sears asks a pertinent question: "If we are heading into another Watergate moment, can Mike Pence successfully play Jerry Ford?"

BMO Vice Chair Kevin Lynch, a former clerk of the Privy Council, brings us his annual reflections on the World Economic Forum's gathering of global thought leaders in Davos.

Michael Bourque, president of the Railway Association of Canada, writes that rail is a sustainable solution to transporting Canadian commodities to global markets, a key driver of exports that account for one Canadian job in five.

Like so many other industries, public opinion polling has been overtaken by technology. Erin Kelly, CEO of Advanced Symbolics in Ottawa, describes how social media sampling enabled by artificial intelligence may be the solution. Brexit and Trump are case studies.

In a *Verbatim*, former Prime Minister Brian Mulroney looks at trade and Trump's demand for a renegotiation of NAFTA and says it's time for a generous phasing out of Canada's supply management system in dairy and poultry.

Finally, we offer a column with a millennial perspective from Morgane Richer La Flèche. Enjoy. P