



EconoMag

The show that demystifies economics

Changing Canadian Economic Policy ©

by Pierre Vercueil



Hi there EnglishWaves listeners and welcome back to another edition of Economag. Today we turn to the recent and exciting developments in Canada's political and economic landscape. The Liberal Party came out on top in the country's federal elections late last year, and in November 2015 Justin Trudeau became Canada's 23rd Prime Minister. Prime Minister Trudeau has promised a shakeup to the country's economic priorities, representing a departure from his predecessor's policy stance with a more interventionist federal government. A large serving of increased infrastructure, social and environmental spending is on the way in order to kick-start the ailing Canadian economy.

Why the need for radical policy change? Trudeau's incoming liberal government has started in a difficult economic environment: resource rich Canada has been particularly hard hit by a slump in the global oil market, together with decreasing prices for other commodities. Trouble in these markets implies not only earning less foreign currency through the sale of resources, but also domestic businesses and industries struggling to stay afloat. As a result, Canada's middle-class has been feeling the pinch as growth has slowed and incomes stalled.

The centerpiece of Prime Minister Trudeau's plan to turn around Canada's fortunes consists of the government taking a more active role in propping up the economy: an interventionist approach. Here *intervening* translates to increasing spending, the antithesis of the current austerity (an effort to decrease spending) that has characterized economic policy in Western Europe since the Eurozone Crisis. Over the next three consecutive years, the Canadian government's annual spending will exceed its revenues by a whopping \$10 billion.

Why is the government taking out a \$30 billion loan and should the country be spending money it doesn't have? Well, that depends on what it's being used for. A large proportion of the borrowed money will be spent on infrastructure projects, reaching \$125 billion over the next decade. This will include everything from public transport systems, bridges, and roads to what's being called "social infrastructure": things like

affordable housing for senior citizens. There are plenty of great reasons for Trudeau's government to target infrastructure investment. Funds invested in building a road or a bridge typically have what we call a multiplier effect. Think of it like this: for every dollar the government spends, three dollars are created in the economy. Infrastructure spending can be an important ingredient in growth!

The idea is also to take advantage of record-low interest rates, meaning Canada will borrow the money rather inexpensively, and invest in projects that can boost the country's long-term growth potential. Building a much-needed port today can boost economic activity tomorrow, leading to growth for decades to come. For example, the government has talked of investing to reduce the country's reliance on selling oil internationally. On the other hand, borrowed money can also be wasted on poorly conceived projects - as is often the case. Such projects lead to little future growth, producing only higher national debt with little to show for it. Concerns have already emerged regarding what Liberals loosely define as "social" and "green" infrastructure.

Can the Prime Minister's infrastructure plan bring back growth? As with many things, only time will tell. Even so, the Trudeau government spells the end of business as usual in Canadian economic policymaking – be that for the better or worse. Join us again next week for a brand new episode of Economag here on EnglishWaves.