

FEDERAL BUDGET 2021

FUTURE OF CANADA CENTRE —————> CANADA AT 2030

Insights for a thriving Canada



Deloitte.

The Future of Canada Centre facilitates an exploration of new ideas, viewpoints, and insights about our country's most important national issues, with the aim of helping propel Canada into a new age of growth and competitiveness. It houses a team of Deloitte's most innovative thinkers and experienced leaders, who are valued influencers in their respective fields. —————>



To view this document in single-page view or to enable single-page scrolling in Adobe Acrobat Reader, choose **View > Page Display** and select any of the following page layouts:

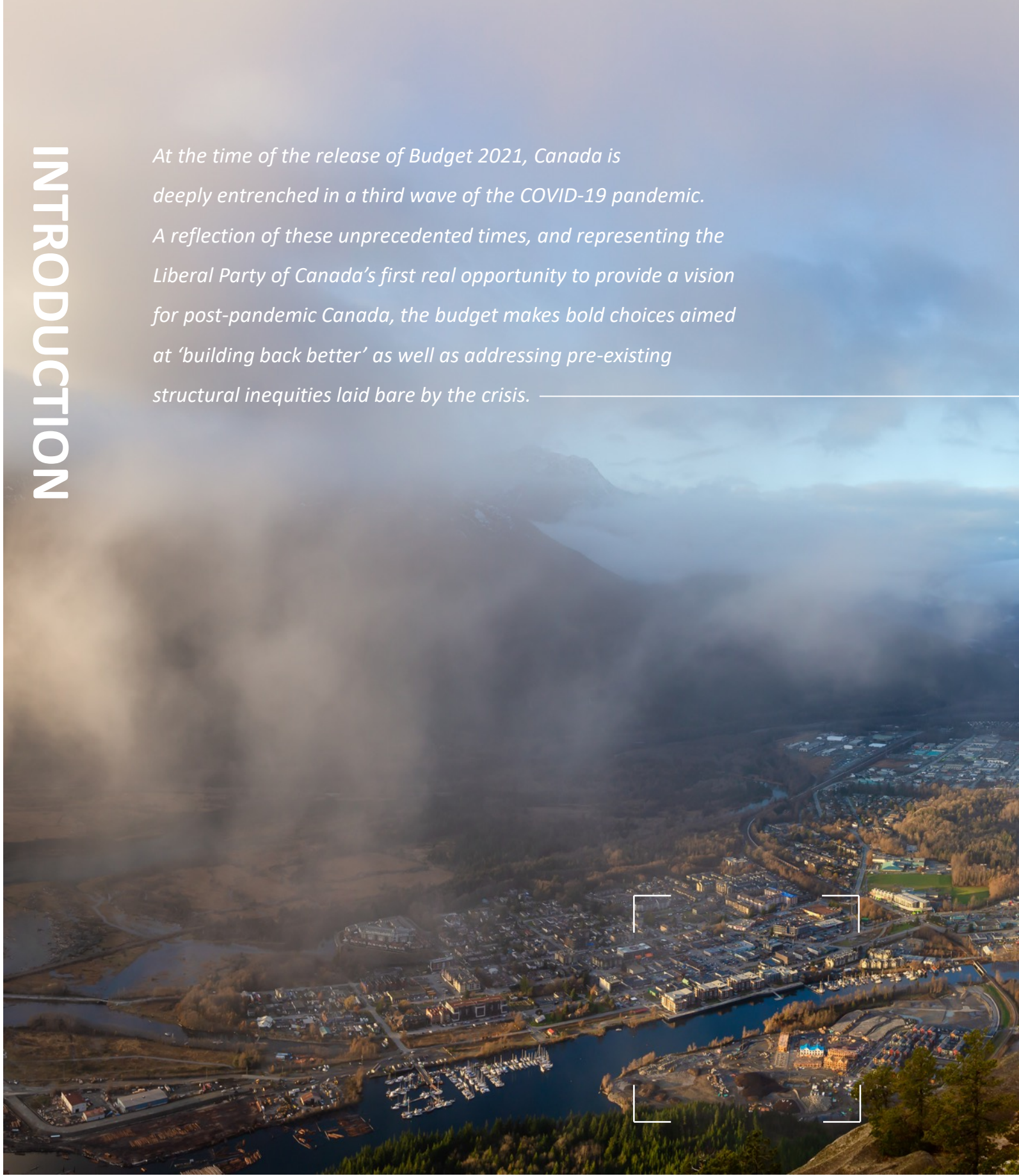
Single page view: Displays one page at a time, with no portion of other pages visible.
Enable scrolling: Displays pages in a continuous vertical column that is one page wide.

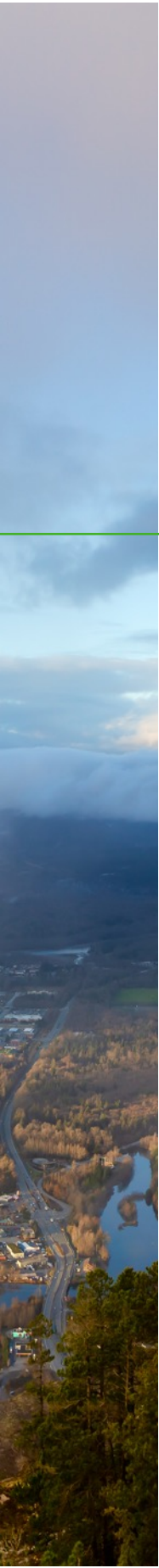
Introduction	04
People: Growing and transitioning the labour force	06
Industry: Increasing investment in capital and productivity	10
Societal systems: Improving quality of life	14
Conclusion	18
Contacts	20

CONTENTS

INTRODUCTION

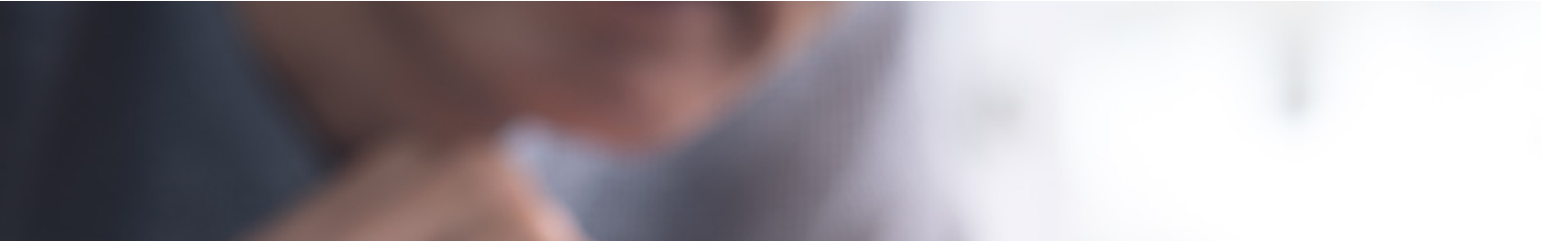
At the time of the release of Budget 2021, Canada is deeply entrenched in a third wave of the COVID-19 pandemic. A reflection of these unprecedented times, and representing the Liberal Party of Canada's first real opportunity to provide a vision for post-pandemic Canada, the budget makes bold choices aimed at 'building back better' as well as addressing pre-existing structural inequities laid bare by the crisis.





→ But the budget also comes at an important time for other reasons: even before the pandemic, the country was not on a path to a promising future. Deloitte's first Catalyst report, [*A vision for a thriving Canada in 2030*](#) (Catalyst 2030), released in 2020, showed that an aging population, poor productivity growth, and low investment were slowing economic growth, stagnating gains in standards of living, and stalling progress on national priorities, while the global economy was growing increasingly competitive. For Canada to thrive in the decade after COVID-19 and beyond, targeted investments are needed to kickstart economic growth and to improve resilience among our people, industries, and societal systems. That includes ensuring the benefits of the recovery and beyond are distributed evenly. Given its scale and scope, we examine Budget 2021 from the perspective of the ability of its initiatives to support a more prosperous Canada in the post-pandemic world.

Budget 2021 does make important investments that will boost the economy when the pandemic has subsided, pay dividends for years to come, and ensure an equitable recovery for as many Canadians as possible. In particular, the flagship investment in early learning and childcare and measures to support racialized and other Canadians made vulnerable by structural inequities will go a long way to underpin that effort. Yet, we also feel that more focus will be needed to effectively boost productivity and competitiveness in the long term, especially if substantial deficits remain as projected and if interest rates increase.



PEOPLE:

GROWING AND

TRANSITIONING

THE LABOUR FORCE



People

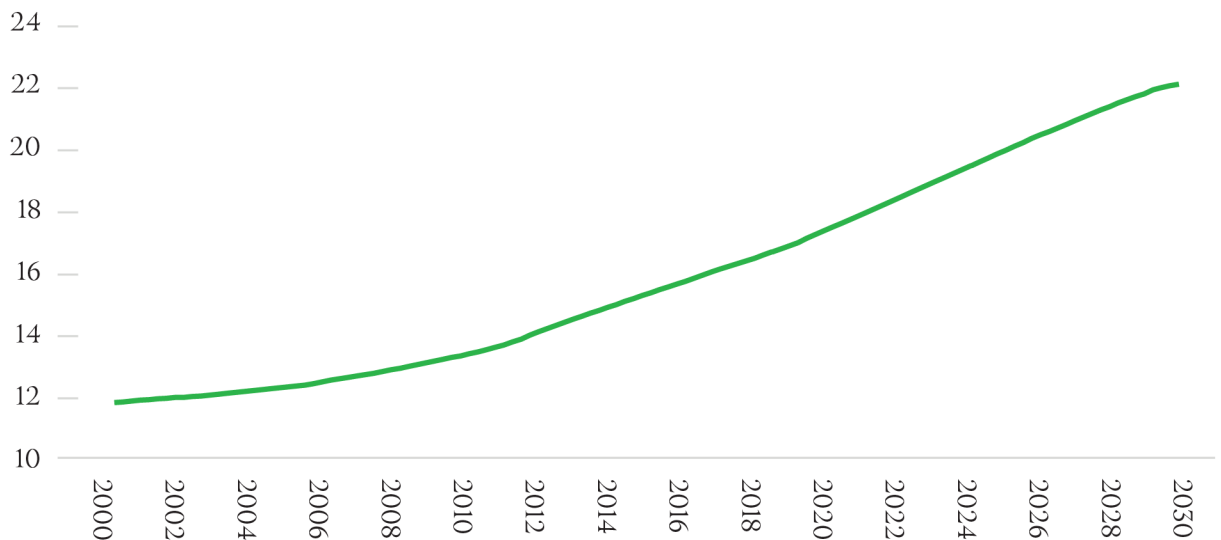
Growing and transitioning the labour force

Given Canada's aging demographics and low fertility rate, our research for the Catalyst 2030 report found that eliminating labour market barriers for under-represented groups would grow the labour force by roughly

1.7 million workers and have the single largest effect on boosting Canada's GDP (by 0.7-0.8% annually).

Canadian population aged over 65

Share of the population, percent



Canada's aging population and shrinking workforce ([Catalyst Canada 2030](#))

By 2030, the share of Canadians over age 65 is expected to nearly double. Combined with a low fertility rate, Canada's labour force growth will stagnate. The number of available workers will be the limiting factor of the country's economic growth potential.

Budget 2021 recognizes that barriers faced by under-represented groups hold the economy back. It includes sweeping measures to facilitate labour market access for women, youth, immigrants, Indigenous peoples, Black Canadians, and those with disabilities. Among the measures are investments to modernize the immigration system's core architecture, increase student grants, philanthropic and investment funding, government service programs, and more.

The federal government is right to focus on these challenges. Marginalized groups in Canada face long-standing economic disparities, including wage gaps, lower labour participation rates, and higher unemployment and underemployment. Deloitte research found that reducing labour force barriers and reducing wage gaps could add, for instance, 500,000 Canadians with disabilities and 38,000 Indigenous individuals to the workforce by 2030. A larger workforce means higher economic growth and greater government revenues—a key assumption under the government's plan to grow our way out of the projected deficit. We can expect lower wage gaps—and therefore higher incomes—to have generational impacts, thus improving socio-economic outcomes not only for current workers, but also for their children and their communities more broadly.

The question is whether the measures outlined in Budget 2021 will be sufficient to achieve the economic growth needed to increase the standard of living for all Canadians. Our assessment is that the budget delivers foundational steps in the right direction, including increased funding for the Enabling Accessibility Fund, generous financial assistance for post-secondary students, and support for entrepreneurship programs for women, Black, and Indigenous peoples in Canada. However, more transformational investments will be needed. For example, while the budget increases investments in newcomer services like employment counselling and paid work placements, and includes \$428.9 million for a modernization of the Global Case Management System, the updated immigration system will have to enable smoother and easier credential recognition. Immigrant underemployment currently costs Canada \$50 billion annually in GDP; easier and smoother recognition of foreign credentials would significantly reduce employment barriers for new immigrants, allowing them to find work that fully uses their skills.

Nearly a third of spending announced in Budget 2021—\$30 billion over the next five years—will go toward establishing a Canada-wide early learning and childcare (ELCC) system.

This announcement is a welcome departure from Canada’s historic underinvestment in ELCC relative to peer countries. Deloitte research has shown that for every dollar invested in early learning and childcare, the return on investment in terms of economic activity is between \$1.6 and almost \$6. Much of this is from the increased labour-force participation of parents, particularly women, with the resulting income tax creating additional government revenues that, over time, exceed the cost of the investment.

Deloitte has estimated that improved ELCC could add 90,000 women to the workforce by 2030. The additional tax revenue this would generate would be critical in the wake of massive pandemic-era government deficits. Since childcare costs are most prohibitive for lower-income families, an ELCC system can also help reduce poverty and inequality. In time, this could lessen demand for other social safety net programs, and in turn, lead to government savings.

In terms of both dollar amounts and intended outcomes, Budget 2021 investments align with recent recommendations made by Deloitte, including our [report](#), on the topic for a universal ELCC system supported by adequate funding, a qualified workforce, and effective oversight. Strategies for securing the workforce and physical infrastructure necessary to accomplish this is expected to be among the discussion points in Ottawa’s negotiations with the provinces and territories. If implemented, this ELCC system would contribute significantly to putting Canada on a more prosperous and inclusive path to 2030 and beyond.



INDUSTRY:

INCREASING

INVESTMENT

IN CAPITAL AND

PRODUCTIVITY



Industry

Increasing investment in capital and productivity

Canadian businesses have been falling behind their global peers due to low business investment and slow productivity growth. By encouraging investments in innovation, intellectual property, and infrastructure, Deloitte's research for Catalyst 2030 found that Canada could raise its capital stock by more than \$230 billion—ensuring our nation could become more globally competitive.

To reach that level of capital investment, Canada will need strong digital infrastructure. This is an essential component of an innovative 21st century economy to enable individuals and businesses to compete regardless of where they are located. The budget's significant \$1 billion investment builds on the \$6.2 billion the federal government and federal agencies have made available for universal broadband since 2015. It's a move in the right direction to increase access but affordable connectivity is also critical, and this crucial issue was not addressed in Budget 2021.

Many of the business leaders we spoke with for Catalyst 2030 said the pandemic prompted them to accelerate their digital investment, but they acknowledged they also needed to level up investment in their digital infrastructure, including data and artificial intelligence (AI). Budget 2021 provides

\$4 billion over four years to help small and medium-sized enterprises (SMEs) adopt new digital technologies, which will facilitate their growth. But it leaves out larger enterprises, which also need assistance obtaining digital technology or machinery and equipment; and these organizations drive a significant share of the economic prosperity that will be needed in years to come. Our past research also found that Canadian businesses are more likely than their global counterparts to report slowing down their investment in AI due to privacy risks. The announcement of the position of a data commissioner and investment in industry-wide data governance standards may help address business concerns by bringing more regulatory clarity and consistency.

Investment in physical infrastructure must align with national growth priorities. The National Infrastructure Assessment initiative in Budget 2021 will help create a clearer picture of the infrastructure deficit, establish a long-term vision, uncover innovative ways to improve coordination, and determine the most appropriate way to finance Canada's needs. Going forward, public and private actors should create new models to help close the infrastructure deficit and infrastructure strategies must be built on longer-term horizons.

Budget 2021 makes relatively minimal new investments in physical infrastructure, instead reiterating previous federal commitments. However, new funding for green infrastructure initiatives—such as the \$1.4 billion to the Disaster Mitigation and Adaptation Fund and investments in cleaner fuels and energy—is important for national infrastructure resilience and sustainability. Greening its infrastructure stock will help Canada achieve its climate change goals and also help boost capital investment.

Innovation today increasingly depends on the ownership of valuable intellectual property (IP) and data, yet Canada's weakness in filing and strategically using patents, especially in non-digital industries, puts it at a global disadvantage.

Deloitte found this is especially true for SMEs, which are three times more likely to have expanded domestically and 4.3 times more likely to have expanded internationally if they hold formal IP. Funding set aside for IP in Budget 2021 by way of the creation of ElevateIP, improved access to expert IP services, and a Strategic Intellectual Property Program Review are positive steps forward and will be welcome by the businesses for which they were intended.

Deloitte research has also found that Canada's gross public and private expenditure on research and development (R&D), which is largely driven by larger enterprises, must increase for SMEs if Canada is to be competitive with other countries.

To accelerate its economic growth, Canada must generate world-leading companies in fast-growing sectors. Budget 2021 contains many important initiatives that invest in the country's unique competitive advantages and foster innovation, including \$2.2 billion for the life sciences sector, \$360 million to launch the National Quantum Strategy, and \$443.8 million to support the AI sector.

It's clear the federal government has prioritized growing Canada's clean technology sector. Deloitte believes this will be critical in order to achieve our net-zero greenhouse gas emission ambitions and to enable Canadian industries to lead globally on sustainable innovation. Canadian-made innovations in this space can also power the economy—we [found](#) that clean technologies, clean energy, and environmental goods and services pumped \$60 billion into Canada's GDP in 2017 and provided 282,000 high-paying jobs.

Budget 2021 clean technology investments include \$5 billion for the Net Zero Accelerator, a pre-existing initiative that aims to spur Canada's shift to innovative net-zero emissions technologies and attract the large-scale investments needed to meet our goal of net-zero by 2050. The budget also proposes to boost Canada's technological capacity to capture and store more carbon every year by introducing an investment tax credit for capital invested in carbon capture, utilization, and storage projects.

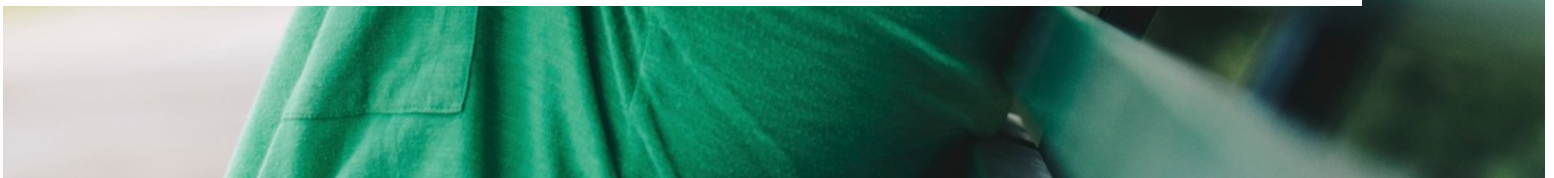
The budget also contains other initiatives to help clean tech firms tap into export opportunities and draw in private sector investment in Canada's clean tech space. It also reduces the general corporate and small business income tax rates by 50% for businesses that manufacture zero-emission technologies, on the qualifying portion of their income attributable to the manufacturing of zero-emission technologies. All of which will also make a significant impact. Notably missing, however, was any real plan to transition Canada's resource sector.

The budget proposes to help small businesses access loans, make it easier for entrepreneurs to obtain capital and advice, help innovative SMEs gain access to expertise and capital so they can scale up, and accelerate the reduction of trade barriers within Canada.

Our past research found that startups and SMEs need greater access to late-stage capital so they can scale up, invest in innovation, improve their productivity, and expand to new markets. For the economy to thrive, barriers to startup success and growth in priority sectors really needed to be addressed, and we're pleased with the budget's commitments to resolve these issues. It could have gone further, however, by promoting productive areas of private investment and providing tax incentives to further support scaleups.



SOCIETAL SYSTEMS: IMPROVING QUALITY OF LIFE



Societal systems

Improving quality of life

Strong, sustainable GDP growth allows for increased economic opportunities and improved standards of living for all Canadians. Deloitte has found that if government revenues are 9% higher, \$100 billion in additional funds would be available every year for priorities like building a more flexible social safety net, creating a national strategy for seniors and aging, and developing a roadmap to reach the country's climate change targets.

When the global health crisis hit and the first wave of lockdowns came down across the country, more than three million Canadians lost their jobs. It was immediately apparent that many of the workers in non-essential jobs would not qualify for Employment Insurance (EI), exposing a significant weakness in Canada's current social safety net. The government responded by launching the Canada Emergency Response Benefit (CERB), but this was a temporary program.

In Catalyst 2030, Deloitte called on the government to reform Canada's existing income security programs to cover more Canadians. Budget 2021's proposal to expand the Canada Workers Benefits to boost workforce participation and ensure that secondary earners—usually women—are not deterred from going back to work is a good first step. The \$3 billion enhancement to sickness benefits, from 15 to 26 weeks, will also provide more flexibility and fairness to workers across the country. Yet, the

government does not address the gaps in its existing Canada Sickness Recovery Benefit paid sick leave program, which several provincial premiers said would help reduce COVID-19 cases that are spread through workplaces.

We also welcome the government's proposal to dedicate \$3.9 billion over three years to make EI more accessible and to consult with Canadians and employers on EI reforms. More work—based on evidence and coordinated with provincial income security systems—needs to be done to fundamentally transform the social safety net, while avoiding overlaps and shortcomings. Governments across all levels must work together to create more portable structures for pensions and health benefits that are less tied to employers. Deloitte believes a more flexible social safety net must also be built alongside the government's enhanced retraining and reskilling supports to help the workforce upskill and pivot to their next jobs.

The COVID-19 pandemic also exposed tragic shortcomings in Canada's approach to the care of its senior citizens, with Canada experiencing one of the highest long-term-care fatality rates in the world. Its aged care system was under severe strain even before the crisis. Deloitte called on the government to use this moment as a catalyst for systemic change to transform Canada into a global leader in aged care.

In the report [Making Canada the best place in the world to age by 2030](#), Deloitte set an ambition that by 2030, Canadians over 65 will have access to a senior-centric ecosystem that gives them dignity and respect, choice, seamless care journeys, financial autonomy, and empowerment. Budget 2021 takes important steps toward helping realize this ambition, but misses a historic opportunity to systemically overhaul the aged-care system with the same intention and focus it's signalling for the early learning and childcare system.

Deloitte was also looking for a substantial investment to help seniors age at home. The \$90 million to launch the Age Well at Home initiative will help low-income and otherwise vulnerable seniors age, but it misses an opportunity to tangibly enable people to live in their home for as long as possible. The proposal to increase Old Age Security for those aged 75 and above totals \$12 billion—funding that could have potentially been better allocated to senior care or helping seniors age in place.

The \$3 billion over five years, starting in 2022-23, to create long-term care standards aligns with a key recommendation Deloitte made to negotiate pan-Canadian standards for quality care, but the amount of the investment is outsized relative to the desired outcome of transforming the aged-care system. A joint Deloitte-Canadian Medical Association [analysis](#) found that if the structural issues affecting aged care are not addressed, the costs of providing long-term care and home care will nearly double between 2019 and 2031, from approximately \$29.7 billion to \$58.5 billion.

With respect to staffing for aged-care facilities, Budget 2021's \$960 million earmarked to train Canadians to help them access jobs where there are significant labour gaps—such as personal support workers—is a key step to fostering a specialized workforce, which Deloitte called for to help address the need for more accredited workers in aged care. We maintain there is still an opportunity to simplify licensing across jurisdictions to enable virtual service and help address staffing shortages, particularly in small provinces. Skills training programs must also be better linked to the aged-care system's labour market requirements.


While COVID-19 is the biggest threat to health and prosperity right now, Canada can't lose ground on the growing threat that climate change presents. We need to create a concrete roadmap to decarbonization. Budget 2021 rightly makes climate change a cornerstone of the government's economic recovery plan, outlining a \$17.6 billion decarbonization roadmap comprising 42 programs. These programs aim to help Canada achieve its target to conserve 25% of its lands and oceans by 2025, meet its new goal to reduce emissions by 36% below 2005 levels by 2030 (higher than it committed to in the Paris Agreement) and reach its prior commitment to net-zero emissions by 2050.

Specific measures include \$4.4 billion in interest-free loans to help homeowners retrofit their homes, \$1.4 billion to strengthen Canada's climate resiliency, \$2.3 billion over five years to conserve up to one million square kilometres of additional land and inland waters, and \$976.8 million to conserve the oceans Canada borders. However, the budget does not provide clarity on a plan for the resource sector to accelerate its low-carbon transition. This is crucial for Canada to achieve its climate targets.

CONCLUSION

In A vision for a thriving Canada by 2030, we argued that for Canada to make measurable progress on the challenges before us and build a thriving future for all Canadians, we will collectively have to do things differently .





→ The global pandemic has made it clear that strong economic growth alone is not the answer as it has been in past; gains must also be distributed fairly across society to create opportunities for all Canadians.

On balance, Budget 2021 largely makes the right types of investments to accelerate the economic recovery, and in a more equitable way. In particular, the historic childcare investment and the focus on greening Canada's economy will support more resilient people and infrastructure in the years ahead. In this way, the budget takes steps to lay a foundation for Canada to recover in a post-pandemic world.

Yet, there are also new commitments that add to the deficit without also contributing to the growth that will be needed to address a structural deficit and national debts, suggesting electoral calculations factor here in addition to economic ones. To ensure Canada does not return to its pre-pandemic path, and that the economy is positioned to withstand potential future shocks, we need to do more to boost investment and improve competitiveness in general, with a specific focus on better conditions for all businesses regardless of their size.

We believe that Budget 2021 is a good start in the right direction of a more equitable and thriving Canada for all.

CONTACTS

Georgina Black

Managing Partner, Government,
Public Services and Health Care
geoblack@deloitte.ca

Craig Alexander

Chief Economist and Executive Advisor
craigalexander@deloitte.ca

Mike Nethercott

Managing Partner, Market Positioning
and Future of Canada Centre
mnethercott@deloitte.ca

Mike Smith

National Tax Office Leader
michaesmith@deloitte.ca

Alexandra Wilkinson

Senior Manager, Public Policy,
Future of Canada Centre
alwilkinson@deloitte.ca



About Deloitte

Deloitte provides audit and assurance, consulting, financial advisory, risk advisory, tax, and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and service to address clients' most complex business challenges. Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Our global Purpose is making an impact that matters. At Deloitte Canada, that translates into building a better future by accelerating and expanding access to knowledge. We believe we can achieve this Purpose by living our shared values to lead the way, serve with integrity, take care of each other, foster inclusion, and collaborate for measurable impact.

To learn more about Deloitte's approximately 330,000 professionals, over 11,000 of whom are part of the Canadian firm, please connect with us on [LinkedIn](#), [Twitter](#), [Instagram](#), or [Facebook](#).