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How the budget is moving Canada forward

With the national unemployment rate dipping to 5.7 percent, the lowest it has been in years, and the Canadian economy firing on all cylinders, the Liberal government is basking in a quasi full-employment situation last seen well before the 2008 global financial crisis.

However, Canada is facing strong economic headwinds, with sluggish growth projected over the next half-decade, an uncertain trade landscape regarding NAFTA, and increased competitive pressure as a result of US tax reform. In addition, the business community expects further interest rate hikes by the Bank of Canada over the next several months that may cast a wider chill over a housing market that has contributed disproportionately to Canadian GDP growth over the last decade.
Against this backdrop, the annual federal budget identifies planned government spending, expected revenue, and forecasted growth by the Canadian economy. However, the budget is more than simply a balance sheet for the government. It is a document that lays out the government’s proposed roadmap for the issues that matter to Canada.

Through our multi-year research initiative, Canada at 175, Deloitte has put forward our own bold perspective on how our country can become the best place in the world to live and work by our 175th anniversary. Based on discussions with Canadian business leaders across the country, we identified three initial areas where bold and deliberate action is needed to put our country on the path to success. These are explored in our signature Canada at 175 report, Bold bets for our country: It’s time for deliberate action.

1. **Focus our resources on areas of competitive advantage:** Canada must focus its investments in areas where it has a current and potential competitive advantage and unite as a country behind them to create truly global champions. This means avoiding the current peanut butter approach of thinly spreading resources across many sectors and areas.

2. **Accelerate the flow of people, goods, and ideas:** Canada needs to dramatically accelerate its global engagement, capitalizing on its reputation for openness and diversity to position areas of competitive advantage within a global flow of ideas, goods, and talent. Canada must significantly change the way it competes, supplementing its existing “nice” brand with “aggressive” actions.

3. **Disrupt the status quo in education and skills development:** Canada must disrupt its education system to create a global skills training powerhouse that will equip Canadians for increasing technological disruption and ensure all can share in our country’s prosperity. Business must take the leading role in educating and training competitive workers.

A further report in the Canada at 175 series, Outcomes over optics: Building inclusive organizations, explores how Canada can use its commitment to inclusion to seize a lasting competitive edge on the global stage. This provides a fourth area where bold action can help put Canada on a path to success:

4. **Build a more economically inclusive and prosperous Canada:** Around the world, Canada is well known as a diverse, open, and inclusive society. But, after decades of progress on inclusion, our workplaces fail to reflect the richness of our people. Advancing inclusion is both the right thing and the smart thing to do. Leaders need to be critical of current systems and processes, eliminating those that might unwittingly perpetuate bias, and deliberately seek difference, understanding that people with different backgrounds and experiences enrich and strengthen their organization.

Let’s revisit these critical imperatives and explore how this year’s budget moves Canada forward in these four key areas.
Focus our resources on areas of competitive advantage

Canada has a productivity gap to close. To accelerate growth, we must be more targeted and deliberate.

This means focusing our resources on the industries, sectors, and technologies that are, or have the realistic potential to become, innovative global champions. We need to disproportionately support those areas in which we are recognized to have a distinct competitive advantage and in which companies are willing to invest to exploit those advantages. We heard from business leaders across the country that markets—not governments—should identify our current and future global champions.

The government has taken steps in the 2018 budget to respond to these critical imperatives:

Budget 2018 proposes an investment of $3 billion over five years to help create the economic conditions for new Canadian champions to emerge. This includes $1.7 billion to support the next generation of researchers through federal granting councils and research institutes, and would provide the single largest investment in fundamental research in Canadian history. It also includes an additional $1.3 billion over five years for investments in the laboratories, equipment, and infrastructure that researchers rely on every day.

The private sector has long identified Canada, home to a mineral richness that is the envy of the world, as one of the largest global mining players. Budget 2018 provides material support for the mining sector by ensuring that junior mining exploration companies have greater opportunity to raise capital to finance mineral exploration on new mining sites; the support is provided in the form of a one-year extension until March 2019 for the 15 percent Mineral Exploration Tax Credit. The measure is expected to help smaller exploration companies raise more equity, even though it will result in a short-term net reduction of federal revenues of approximately $45 million over the 2018–19 to 2019–20 period.

In August, Canada will become the second country in the world to legalize recreational cannabis. It is the global leader in this market, home to many of the largest cannabis companies. Furthermore, Canadian cannabis giants have already begun inking export deals to provide other countries with cannabis for medicinal purposes. In December, the federal government reached an agreement with provincial governments to keep duties on cannabis low—the higher of $1 per gram or 10 percent of

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a product’s price—through a federally administered framework. Budget 2018 includes additional measures to help create a strong foundation for the soon-to-be-legal recreational cannabis sector. These measures include over $80 million in investments in public education initiatives, funding to help assess the impact of cannabis use on the mental health of Canadians, and support for research on cannabis use in Canada.

Over the last several years, major foreign technology giants have made large investments in Canada based on our newfound status as a hub of talent and development for emerging technologies such as artificial intelligence. While an increase in jobs and the opening of new employment hubs, along with the related capital investment and tax revenues, have been a boon, the protection of Canadian intellectual property (IP) has become an issue in need of attention. In an era in which Canada’s border with the US could become thicker, the downside risks of having Canada’s brightest tech minds generate IP for foreign companies through branch-plant offices has increased, as the cost to rent back these ideas in the form of commercialized goods and services may rise.

This budget also proposes Canada’s first Intellectual Property Strategy. The strategy includes $30 million to pilot the creation of a patent collective, a way for Canadian firms and entrepreneurs to pool patents and to share, generate, and license or purchase IP. This approach is intended to help Canadian firms ensure the global “freedom to operate”, mitigate the risk of infringing a patent, and aid in the defence of a patent-infringement suit. The strategy includes an additional $21.5 million over five years to support the development of intellectual property expertise and legal advice for the innovation community. Finally, the strategy includes $33.8 million over five years, starting in 2018–19, for the creation of an IP marketplace. This is intended as a one-stop, online listing of public sector-owned intellectual property available for licensing or sale to reduce transaction costs for businesses and researchers, and to improve Canadian entrepreneurs’ access to public sector-owned intellectual property.
Accelerate the flow of people, goods, and ideas

In a world where other nations are pulling back, tightening their borders, and withdrawing support for free trade, Canada needs to capitalize on our openness and diversity to position our economic champions within a global flow of ideas, goods, and talent.

While trilateral talks between Canada and its NAFTA counterparts continue with the aim of preserving the combined US$1 trillion of goods and services that flow between the countries each year, the end of the agreement remains a possibility. With the US, Canada’s largest export market, pulling back from NAFTA and from its traditional stewardship of global economic institutions, emerging countries such as China are moving to fill the leadership vacuum, and working to impose their own standards on international trade norms and rules.

As this new global economic order is taking shape, Canada must broaden its global focus. This means dramatically reducing the barriers to talent and trade that hinder growth in areas of competitive advantage, aggressively pursuing the world’s best talent, targeting infrastructure investments to facilitate trade flows, and strategically diversifying trade to give our entrepreneurs and businesses access to the world’s fastest-growing markets with focus and speed that outpaces global competition.

The government has taken steps in the 2018 budget to respond to these critical imperatives:

The government has included funding for $75 million over five years, starting in 2018–19, to Global Affairs Canada to establish a stronger Canadian diplomatic and trade support presence in China and other parts of Asia. This includes bolstering the number of diplomats and trade commissioners on the ground in China as well as new initiatives to promote Canada’s trade with China and other Asian markets.

To help Canadian firms unlock growth opportunities through exports, the government has proposed enhancements to the Trade Commissioner Service (TCS), which currently provides companies with advice, connections, and funding to help them explore new markets through a network of 1,300 trade commissioners in 161 offices around the world. Enhancements will include the amalgamation of multiple trade promotion programs across the government (including CanExport, Canadian Technology Accelerators, Going Global Innovation, and Canadian International Innovation Program), the creation of a high-impact, agile TCS workforce with strong expertise, and the modernization of digital tools to better serve Canadian businesses, including seamless client navigation across federal partners, targeted support towards growing Canada’s exports in technology, digital services, and intellectual property.

The combination of these twin initiatives demonstrates the government is making strong investments in diversifying Canada’s trading relationships. These investments also bolster the resources Canada has committed to pushing ahead with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). That deal, combined with the recently concluded Canada-European Union Comprehensive Economic and Trade Agreement (CETA) in 2016, would double Canada’s preferential market access, from 31 percent to 63 percent of global GDP.
Disrupt the status quo in education and skills development

Canada’s highly educated labour force has long been one of our sources of growth, competitiveness, and prosperity.

For the broader workforce, improving the overall understanding of the skills required and career prospects in today’s—and tomorrow’s—economy will be critical to creating better employment outcomes for Canadians.

We boast one of the world’s highest educational success rates, rank highly on international measures of student success, and possess post-secondary institutions that are among the best in the world. However, this knowledge advantage is eroding at precisely the time it is needed most to support innovation and economic growth. The rise of automation, artificial intelligence, and the Internet of Things heralds a world in which even the most educated workers will have difficulty competing.

To equip Canadians with the skills needed for a future-oriented, knowledge- and technology-driven economy, government and business need to work together to change how we educate, train, and retrain the Canadian workforce. We need to develop and embrace a flexible, collaborative, lifelong learning model in which government, business, and academia work together to provide Canadians with the skills and knowledge they need to succeed throughout their careers. We need to create a global skills training powerhouse, and business must take the lead role in educating and training competitive workers.

The government has taken steps in the 2018 budget to respond to these critical imperatives:

The Canada Summer Jobs program is a commitment to the early-career skills development of Canada’s youth, which will be critical to equipping them for the future of work. During their years of formal education, exposing them to the workforce will begin the development of an understanding of the skills that are in demand by employers. To support this idea, through the existing Canada Summer Jobs program under the government’s Youth Employment Strategy, the budget pledges an additional $448.5 million over the next five years to continue to increase the number of positions it funds. At the same time, the government committed to announcing a renewed youth employment strategy over the next year.
For the broader workforce, improving the overall understanding of the skills required and career prospects in today’s—and tomorrow’s—economy will be critical to creating better employment outcomes for Canadians. Better labour market information allows job seekers to be more aware of the skills required by employers, and therefore better equips them to make educational and career decisions throughout their working life. To improve the quality of career information available to job seekers, the government will invest $27.5 million over five years for the development of an Education and Labour Market Longitudinal Linkage Platform, managed by Statistics Canada.

Furthermore, developing partnerships between educational organizations and employers will help to inform the development of relevant curricula, thereby better situating job seekers to obtain relevant skills. Accordingly, the government committed $46 million over five years to a Pre-Apprenticeship Program in an effort to promote uptake of the trades, an important and foundational part of the Canadian economy. The federal government has pledged to work with all levels of government along with educational institutions, training companies, unions, and employers to help job seekers explore relevant and in-demand careers in the trades. This approach is aligned with evolving Canada’s approach to education in order to meet the demands of the market, albeit confined to the trades.

Lastly, predicting the high-demand skills of the future will prepare Canadians for a job market that’s subject to substantial disruption by technology and a shrinking shelf-life of skills. The government will therefore launch a Future Skills initiative in the spring of 2018 to provide thoughtful consideration about the skills of the future. It has also committed $750,000 to conduct a horizontal review of skill-building programming to align efforts with emerging needs. Ultimately, developing a deeper understanding of the skills of the future and striving to embed their development through educational institutions and training programs will serve to build the resilience of our workforce.

Budget 2018 places a strong emphasis on developing skills within the workforce for Canada’s future economy. Evolving the overall public and private approach to education accordingly will also be imperative.
Build a more economically inclusive and prosperous Canada

Deloitte believes that Canada, over the next 25 years, can become the best place in the world to live, work, and belong—if we have the courage to unite to include.

Canada’s diversity is a competitive advantage, both for businesses and for the country more broadly. Our brand as a diverse and open nation is a source of pride and optimism. However, after decades of progress, Canada has been stuck in neutral in recent years, and our enviable position is at risk of eroding.

Today, the Canadian workplace still fails to reflect the richness of the population. The advancement of traditionally under-represented groups in Canadian society, from people with disabilities to Indigenous peoples, has been far too slow, especially in terms of progressing to the most senior levels of organizations. Now, more than ever, we are facing increasing headwinds: fierce global competition, rapidly evolving technology, and a wave of demographic change that will see fewer working-age Canadians in the labour market as the country’s population ages. We can drive inclusive economic growth that creates opportunity for all Canadians.

By making equality and growth the overarching theme of the budget, the government is attempting to reverse the traditional view that there is necessarily a trade-off between greater equality and economic growth. The budget introduces a range of social policy and pay equity measures aimed at increasing the labour force participation of women and targeted low-income groups, and should also contribute to more diverse and productive work environments in federally regulated businesses.

With the national unemployment rate dipping just below six percent, the labour market is already close to full employment. This suggests that future economic growth is limited by the expansion of the labour force. Any additional growth will necessarily have to come from a combination of productivity gains, innovation, and more efficient use of available resources. In addition, the aging of the population is likely to limit labour force growth and may have implications for productivity growth.

In this context, the budget’s gender-themed equality and growth measures are expected to grow the labour force and improve labour productivity.
The government has taken steps in the 2018 budget to respond to these critical imperatives:

The government announced $1 billion in new funding to take effect in 2019 for the Canada Workers Benefit (CWB), a strengthened version of the Working Income Tax Benefit Program launched in 2005, by making it more generous and more accessible. This program subsidizes earnings for low-income workers through a tax credit. It’s designed to increase the labour force participation of low-income workers, bring more of them into the work force, and increase the hours of those in part-time employment. In so doing, the social program can increase the labour force attachment of low-income workers who are currently on the margins. The long-term impacts of these changes suggest opportunities for greater skill acquisition and, therefore, higher wage growth.

To support equal parenting and the flexibility for earlier returns to work, the government also announced $1.2 billion of funding over five years, starting in 2018-19 to introduce a new EI Parental Sharing Benefit. This benefit would provide up to eight additional weeks of “use it or lose it” EI parental benefits, when both parents agree to share parental leave. This initiative can increase the labour force participation of mothers, who can now choose to take less time off for child-care responsibilities, as well as promote the equitable distribution of family and home responsibilities.

At the heart of this budget is the government’s proposed pay equity legislation, intended to help close the gender wage gap in federally regulated sectors, which accounts for 1.2 million workers. The legislation will draw on the models in Ontario and Quebec to ensure that on average, women and men in these sectors receive the same pay for work of equal value. To the extent that this legislative approach succeeds in raising wages and improves working conditions for women in low-paid occupations, it could help increase women’s labour force participation and their labour force attachment. These effects would contribute to more diverse work environments, in which women play a greater role in firm management and decision-making. Recent research shows that gender parity and more diverse work environments tend to improve profitability and firm performance more generally.

These positive impacts of greater gender pay equity may also have ramifications outside federally regulated sectors, to the extent that proposed pay legislation sends a signal to businesses in other sectors to monitor and correct for gender disparities. After all, there are other jurisdictions where governments have taken more wide-ranging measures, as in the UK, where businesses with 250 or more employees are now required to publicly report average and median gender wage differentials.
Government sets a steady course

While the budget can be seen as the nation’s income statement, it can, and should, also be seen as a political statement. The finance minister’s budget speech emphasized certain elements of the government’s philosophy and policy program, as it prepares to face the electorate in the next general election scheduled for October 2019.

Next year’s budget will be a campaign-style document that will mark the unofficial start of the 2019 election season, and so will likely include more big-ticket spending items. This year’s budget can be considered much more of a hold-steady document, meant to merely signal the initiatives that may become key pillars of the government’s re-election platform. These signals can be most readily seen in the announcement of an advisory council on pharmacare implementation, measures grouped under the broad theme of addressing gender equity, and additional funding for fundamental scientific research.

With the tailwind of a strong economy, the 2018 budget also had the luxury of being able to concentrate on measures intended to carry forward Canada’s momentum by bolstering labour force participation while taking a wait-and-see approach with regard to any measures needed to offset potential changes to NAFTA. However, this luxury will not last long. Given the recent large reductions in US corporate tax rates, Canada must remain cautious of losing its competitive edge and reducing its attractiveness as a destination for foreign and domestic capital investment.

In a world beset by disruptive forces and an increasing pace of change, Canada needs innovative and forward-thinking action on the part of all stakeholders—government, business, non-governmental organizations, academia, and citizens alike—to ensure a future of shared prosperity and growth. Budget 2018 takes steps in the direction of the bold actions that are needed to prosper in this era of disruption. But to ensure that Canada becomes the best place in the world to live and work by our 175th anniversary, all stakeholders must work together to press forward on building a society and economy that empowers all Canadians.
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