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From: David Jones
To: Budget Observers
Re: AFTER THE BUDGET: TIME FOR HARD HATS AND SIGNS OF PROGRESS

Mark Carney's budget strategy could not be clearer.

It's "build baby build." It's a "generational investment." It's "invest more and spend less." Capital investment is the budget's uncompromising long-term plan. Tuesday's budget posts a deficit of \$78 billion, far above last year's projected \$48.3 billion.

But most that deficit is what the government considers capital spending: Infrastructure, homes or ships, for example. These are fixed assets that retain value and that spur further economic activity.

Given Canada's flagging productivity, shifting from 'day to day' spending to greater investment is the right play overall. The plan may be imperfect, with overly broad definitions in the government's new capital budgeting **framework**, for example, but investment across the private and public sectors is the best path to productivity growth. Given Mr. Carney's economic pedigree, it is unsurprising that he's facing in broadly the right direction.

But can the Prime Minister deliver? And how much time will Canadians give him for the strategy to bear fruit?

Mr. Carney's uniform will now need to be his hard hat, a shovel, and a high-viz jacket – to clearly signal that progress is under way. An investment-heavy strategy of course requires economic competence to effectively incentivize private sector investment and optimize capital allocation. But it also requires inspiring confidence during the short term that results will follow.

Results from Mr. Carney's big bet will take years to materialize – years he doesn't have, because Canadians struggling with day-to-day affordability issues will likely run out of patience before too long.

Admittedly, the budget contains some short-term benefits and apparent wins for addressing everyday affordability challenges such as a renewed commitment to the **National School Food Program**. Leading a centre-left government, Mr. Carney has to do all he can to support affordability and equity.

Some of Mr. Carney's agenda may not be so hard to implement.

After the sharp rise in federal spending under the previous Liberal administration, voters are expecting Mr. Carney's government to bring things back to balance. That, combined with a widespread appetite for cutting red tape, means that cutting government day-to-day spending presents an open goal for Mr. Carney to score.

However, there isn't enough fiscal capacity for this budget to be too popular.

Mr. Carney promised not to cut pensions, Old Age Security payments and provincial transfers for items such as health and social programs. Childcare, pharmacare and dental care were also left off the table. This leaves limited financial headroom, so Mr. Carney has run the gantlet through sacrifices and tough choices.

Much of the spending in the budget is to be paid for via borrowing. Fiscal conservatives, particularly the Official Opposition, will criticize the budget as fiscally irresponsible for growing the overall deficit.

On top of that, environmental groups will raise concerns that climate goals are being squeezed in the pursuit of growth.

The efficiencies achieved across departmental budgets – if we want to frame the cuts in a good way – might resonate with some voters now. But if not done correctly, the cuts will also flow through into public service constraints, affecting service users. We all saw what happened with the cuts at the Canada Revenue Agency, which Ottawa had to somewhat walk back.

The United Kingdom, which faces similar challenges, demonstrates the perils that await.

The centre-left Labour government has lost **more than half** its public support since taking office in 2024, having struggled to balance economic growth, fiscal restraint and social welfare objectives.

Mr. Carney's government will need to carefully consider its priorities in the face of finite resources.

Trade diversification, for example, is rightly a top priority to mitigate further economic risks in the face of US tariffs. But what can Ottawa do to show Canadians the results in the short term?

We know that the Prime Minister loves a bit of time on the ice. But he'll be seeing less of his hockey helmet and more of his hard hat in the months to come.

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