

## RHETORIC TO RHEALITY ... IN 100 DAYS

This afternoon Finance Minister Jim Flaherty tabled Budget 2009 – *Canada's Economic Action Plan* – arguably the most important budget since Paul Martin's landmark budget in 1995 that dramatically restructured federal transfers and put Canada on the road to balanced budgets and surpluses for over a decade.

Despite a slew of pre-budget leaks designed to condition public acceptance of a return to the era of budget deficits, the stark reality of the red ink in Budget 2009 – \$84.9 billion over five years – and the turnaround in policy it represents is striking. As several analysts have noted, we are all born-again, prime-the-pump, deficit spending Keynesians today.

During the federal election campaign 100 days ago, each party offered divergent assessments of the global economic crisis but each leader (Conservative, Liberal and NDP) vowed not to run a deficit. Well, that was then and this is now. Much has transpired in the interim. The government's partisan and reality-challenged fall Economic Statement resulted in political cries that gave rise to an opposition coalition poised to take power. So parliament was prorogued in December. A new Liberal leader was selected. The holiday season came and went. And a new year began. The only constants during this tumultuous period were more job losses, plummeting confidence and a deepening recession.

## BUDGET 2009: \$84.9 BILLION IN NEW DEBT

During the G20 meeting this past November in Washington, the IMF suggested that countries who could afford to do so should inject fiscal stimulus equivalent to 2% of GDP to offset recessionary impacts. For fiscal 2009-2010, today's budget provides for a stimulus of 1.9% of GDP dropping to 1.4% in fiscal 2010-2011. A summary of the government's five year outlook is provided below.

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
			(\$ billions)		
Revenues	236.4	224.9	239.9	259.4	276.4
Program expenses	206.8	229.1	236.5	235.1	244.5
Debt Charges	30.7	29.5	33.3	37.2	39.2
Total expenses	237.4	258.6	269.7	272.3	283.7
Surplus/Deficit	-1.1	-33.7	-29.8	-13	-7.3
Federal Debt	458.7	492.4	522.2	535.2	542.4
Debt as % of GDP	28.6	31.6	32.1	30.9	29.5

The major measures outlined in Budget 2009 focus on the following six key areas:

### **Infrastructure**

- \$4 billion over two years to restore aging infrastructure.
- \$2 billion for repair, maintenance and construction of post-secondary institutions.
- \$1 billion over five years for a green infrastructure fund.
- \$1 billion over two-years to expedite new “ready-to-go” provincial, territorial and municipal projects.
- \$750 million to the Canada Foundation for Innovation for leading-edge research infrastructure.
- \$500 million over two years to accelerate projects in small communities.
- \$500 million over two years to Recreational Infrastructure Canada (RIInC) to build and renew community recreational facilities.

### **Housing Construction**

- \$2 billion in low-cost loans over two years through CMHC for municipalities to improve housing-related infrastructure.
- \$1 billion over two years for renovation and energy retrofits to social housing.
- \$400 million over two years to build housing for low-income seniors.
- \$200 million over two years to support social housing in the North.
- A temporary home renovation tax credit of up to \$1,350 for renovations and alterations.
- Increasing RRSP withdrawal limits from \$20,000 to \$25,000 under the first time Home Buyer’s Plan.

### **Tax Measures**

- Increasing the basic personal exemption (BPE) to \$10,320 in 2009 and raising the upper tax bracket thresholds to allow more Canadians to remain in the two lower tax brackets of 15% and 22% -- these measures will result in \$470 million in relief in 2008-2009, \$1.9 billion in 2009-2010 and \$1.95 billion in 2010-2011.
- Investing \$580 million to double the relief provided by the Working Income Tax Benefit.
- Increasing small business eligible income to \$500,000 for the 11% tax rate.

### **Training and Employment Insurance Changes**

- \$4.5 billion through freezing Employment Insurance premiums for two years.
- \$1 billion over two years to extend EI benefits for workers in longer-term training.
- \$500 million over two years in a Strategic Training and Transition Fund to support those who do not qualify for EI training such as the self-employed.

### **Supporting Industry and Businesses**

- \$500 million over five years for new agricultural initiatives.
- \$440 million in savings over five years for industry through elimination of tariffs on a range of machinery and equipment.
- \$335 million over two years for a range of arts and cultural programs.

- \$175 million to buy new coast guard vessels and refurbish aging vessels.
- \$170 million over two years to support innovation and marketing in the forestry sector.
- A two-year extension of the 50% straight-line accelerated CCA rate to investment in manufacturing and processing machinery through to 2011.
- A two-year, 100% CCA rate for investment in computers.
- A one-year extension of the temporary 15% mineral exploration tax credit.

### Regions and Communities

- \$1 billion over two years for a Community Adjustment Program.
- \$1 billion over five years for a Southern Ontario development agency.
- \$200 million over two years to support industrial research for the SME sector.
- \$50 million for a new economic development agency in the North.

### Aboriginal Canadians

- \$545 million over two years to accelerate “ready-to-go” priority projects including schools, water and critical community services.
- \$400 million over two years for social housing on First Nations reserves.
- \$305 million over two years to improve health outcomes.
- \$100 million over three years in the Aboriginal Skills and Employment Partnership.

## IGGY'S DILEMMA: TO BE OR NOT TO BE ... PM

Liberal leader Michael Ignatieff holds the fate of the Conservative government in his hands with his decision to support or defeat Budget 2009. While he has clearly signaled that Canadians are in no mood for an election, he has not ruled out the option of a coalition government with the NDP supported in the House by the Bloc Québécois.

Mr. Ignatieff will announce his decision tomorrow on whether to support the Budget after a meeting with his caucus this evening. However, in a speech to the Canadian Club late last week in Toronto, Mr Ignatieff laid out his benchmarks to assess Budget 2009. Specifically he is looking for support for the needy, measures that will save jobs, initiatives to create the jobs of tomorrow, regional equity, and a plan to get Canada out of deficit in a reasonable timeframe.

Our early analysis of Budget 2009 points to enough measures that will encourage, perhaps reluctantly, the Liberals to not vote against the budget. Mr. Ignatieff will continue to use the coming months to rebuild caucus morale, engage the membership base, develop a cogent policy platform, recruit candidates and most importantly, and replenish his party's fundraising coffers, all directed at preparing for the next election campaign.

We believe the budget will pass. The more fundamental question is will it work? The answer to this will determine the timing of the next election and the fate of the Harper government.

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