

The Harper Budget: Narrow-casting and Demographic Campaigning

1. Budget – General Character

Much as the April Throne Speech was the Harper government's blueprint of limited tangible and identifiable achievement in advance of the next federal election, the May 2nd budget is similarly a purely political document. Specifically, it is a campaigning document strategically targeting certain demographic groups of Canadian voters, rather than being a general economic blueprint as one would expect to see under a majority government.

While largely giving effect to the so-called "Five Priorities" of the government and fulfilling many election promises, the Harper-Flaherty budget is primarily designed to appeal directly to pre-identified demographic voter groups the government hopes will propel its 125-seat minority government to majority status in the next federal election.

2. Strategic Focus

The Conservative Party entered the last election campaign after having identified three general voter groups: (a) the Conservative voter; (b) the "swing voter"; and, (c) the non-Conservative voter. Each of these groups was subdivided into very distinct demographic profiles, thus identifying target campaign micro-audiences. The majority of measures contained in this budget directly targets the demographic profiles that fall into the "swing voter" category, while being designed also to appeal to the core Conservative voters.

Contrary to some conventional thinking, the party's internal focus group testing and polling revealed that, generally, the higher a Canadian's socio-economic status, the less likely the person is to vote Conservative. On the other hand, lower-to-middle-income families with children or self-made middle-class/small business operators were more natural voter bases for the party.

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Groups within the Conservative voter base or swing-voter base include:

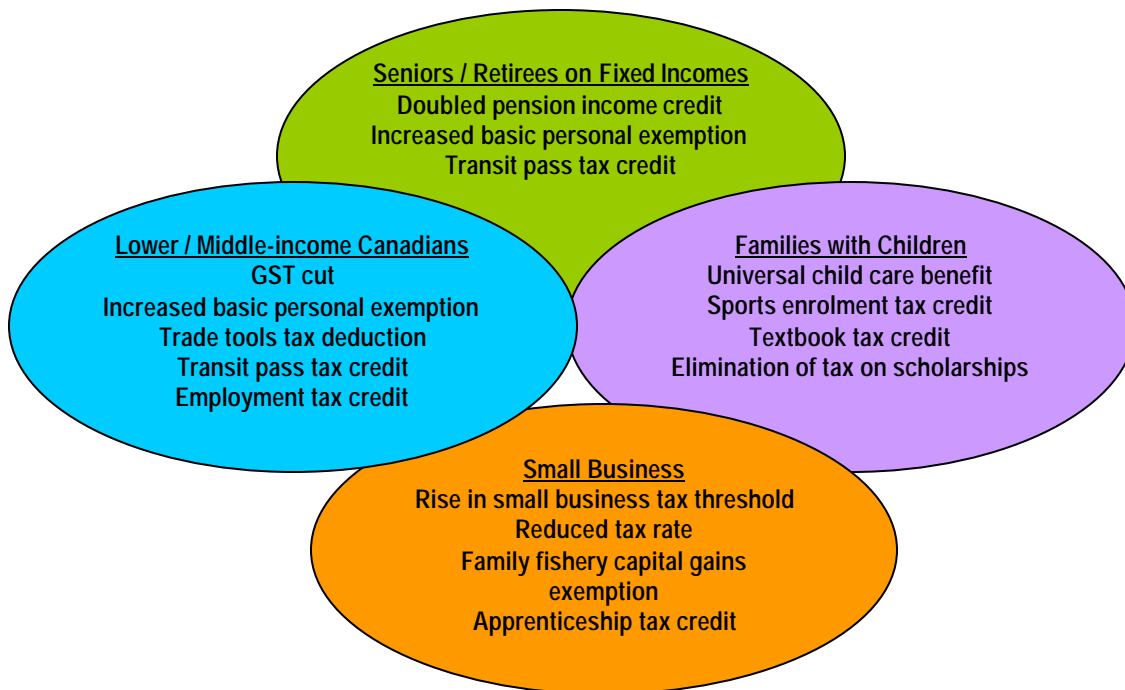
- Families with children
- Comfortable (but not wealthy) seniors
- Mortgaged middle-class suburban and working-class families/couples
- Self-made families, especially small-business operators

The election platform was, accordingly, punctuated with miscellaneous tax credits, deductions, and other benefits designed to appeal directly to these groups.

Similarly, as the graphic below demonstrates, this budget strategically narrow-casts to the governing party's target voter groups by immediately implementing the election platform promises designed to appeal to these groups, while deferring some of the larger structural reforms contained in the election platform (such as the proposed capital gains tax deferral) to a later budget.

Without the guarantee of an opportunity to table a second budget, the government chose pragmatism and populism over ideology.

Target Demographics



3. Meeting Election Commitments – Taxes

Finance Minister Flaherty’s budget delivers on most of the fiscal commitments made by the Conservative Party in its election platform (see tables below). Generally, that platform was targeted to appeal to middle class and small business oriented voters. Some elements of the platform that were not aimed at those voter groups – such as the capital gains tax deferral – were left out of the budget in favour of new initiatives that were not even in the platform but which do speak directly to those voters.

One example of a non-platform measure appealing to small businesses is the pledge to provide some excise duty relief to Canadian vintners and small brewers. Another new budget measure aimed at working Canadians is the introduction of the new Canada Employment Tax Credit on employment income – largely designed to mitigate the reversal of the previous government’s income tax cut.

The two tables below compare the personal and business tax proposals included in the Conservative election platform with measures included in the budget.

Personal Income Tax Measures

PROMISED IN THE PLATFORM	BUDGET
• Reduce GST from 7% to 6%	✓
• Child care benefit of \$100 per month for each child under age of 6	✓
• \$500 tax deduction for tools	✓
• Exempt first \$10,000 of income from scholarships, bursaries, fellowships	✓ *
• \$500 tax credit for enrolment in children’s sport	✓
• Tax credit for cost of mass transit passes	✓
• Eliminate capital gains tax on the donation of publicly listed securities to charities	✓
• Eliminate capital gains tax on re-investments made within 6 months	

* The budget goes further, and fully exempts scholarship, bursary and fellowship income

Business Tax Measures

PROMISED IN THE PLATFORM	BUDGET
<ul style="list-style-type: none"> Reduce general corporate tax rate to 20.5% in 2008, 19% by 2010 	✓
<ul style="list-style-type: none"> Eliminate corporate surtax in 2008 	✓
<ul style="list-style-type: none"> Eliminate the federal capital tax as of January 1, 2006 	✓
<ul style="list-style-type: none"> Increase small business tax threshold from \$300,000 to \$400,000 	✓
<ul style="list-style-type: none"> Reduce small business tax rate from 12% to 11% over five years 	✓
<ul style="list-style-type: none"> Exempt from capital gains tax the first \$500,000 of fishery equipment when transferred within a family 	✓
<ul style="list-style-type: none"> Apprenticeship tax credit of \$2,000 per apprentice 	✓

4. Meeting Election Commitments – Non-tax Measures

The budget includes a variety of non-tax items, also included specifically to appeal to groups within target voter demographics (examples are found in the two tables below). Most of these measures are directly out of the Conservative's election platform.

Agricultural Community Measures

PROMISED IN THE PLATFORM	BUDGET
<ul style="list-style-type: none"> Accelerate disbursement of \$755 million under the Grains and Oil Seeds Payment Program 	✓
<ul style="list-style-type: none"> Additional \$500 million per year for farm support 	✓ *
<ul style="list-style-type: none"> Replace the Canadian Agriculture Income Stabilization program 	✓

* The budget includes an extra \$1billion investment for income stabilization and disaster relief

Military Spending Measures

PROMISED IN THE PLATFORM	BUDGET
<ul style="list-style-type: none"> • \$5.3 billion additional spending over five years 	✓
<ul style="list-style-type: none"> • Recruit 23,000 new regular and reserve troops 	✓
<ul style="list-style-type: none"> • Improve base infrastructure and housing 	✓
<ul style="list-style-type: none"> • Investment in equipment needed to support a multi-role, combat capable maritime, land and air force 	✓

5. This is *not* John Crosbie’s Budget

Students of history and politics will recall the fate that befell Prime Minister Joe Clark’s minority government in 1979 shortly after then-Finance Minister John Crosbie tabled his first and only budget. It fell.¹ That will not happen to Prime Minister Harper’s government with the tabling of Finance Minister Flaherty’s first budget.

Bloc Québécois leader Gilles Duceppe has given his blessing to the budget, ensuring the Harper government can survive a confidence vote in the House of Commons. Combining the 125 Conservative seats with the Bloc’s 51 seats gives the government a comfortable margin above the 154 votes required for majority approval in the House.

Bloc support is based on the budget’s commitment to “restore the fiscal balance in Canada.” Two immediate rebalancing measures are included in this budget:

- A one-time adjustment of \$255 million to the 2006-07 Equalization and Territorial Formula Financing payments
- Up to \$3.3 billion in funding support to provinces and territories to address short-term pressures in post-secondary education, affordable housing and public transit

These amounts can be characterized as a good will “down payment” on the government’s commitment to address provincial concerns with fiscal imbalance.

¹ It was Bob Rae who, while serving as an NDP MP, introduced the motion of non-confidence.

Moreover, the government commits to establish a new principle-based framework for fiscal relations. A 140-plus page companion document to the budget outlines, among other things, the following five principles that will drive the Conservatives' approach to the fiscal imbalance question in the months ahead:

- Accountability through clarity of roles and responsibilities among the federal, provincial, and territorial governments
- Fiscal responsibility and budget transparency
- Predictable long-term fiscal arrangements
- A competitive and efficient economic union
- Effective collaborative management of the federation

The first principle will be the Harper government's opportunity to reshape the role of the federal government in its relationships with the provinces and territories. Ideally for Mr. Harper, this new framework would be given adequate time to bear fruit in time to position his government for the next federal election campaign – particularly in Québec.

Mr. Duceppe's view of the budget is not shared by interim Liberal leader Bill Graham nor NDP leader Jack Layton. Mr. Graham criticizes the budget for failing to address climate change, not dedicating resources to meet the Kelowna Accord commitments for Aboriginal peoples made last fall by the Martin government, and for raising the lowest personal income tax rate from 15% to 15.5%. Mr. Layton assails the budget for cutting corporate taxes and for not doing enough to aid post-secondary students.

6. Conclusion

The budget contains few surprises. As promised, the government cut the GST and started to deliver on many election platform promises.

The government chose to use this budget to immediately implement measures that appeal directly to voter groups it feels can propel it to a majority in the next election. None of these measures was arbitrarily chosen; each was determined through exhaustive polling and testing to identify popular populist "winner" ideas with identified target demographics. With an uncertain timing of the next election, the government chose a campaign-type budget now, over a more philosophically-inspired document.

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The majority-winning conditions may be falling into place early for this government, meaning it could be inching closer to a decision to go to the polls in the fall of 2006, rather than next year as generally assumed. The Conservative Party's finances have replenished sufficiently to be able to return to the polls at any time. Furthermore, the party appears to be building on its election-day strength in Québec, with recent polls showing the Conservatives ahead of the Bloc Québécois in the province. These favourable conditions are developing while the Liberals will not have a permanent leader until early December. The possibility of an earlier election strengthened Prime Minister Harper's resolve to again choose populism over ideology in his government's first budget.

The Conservative government has again demonstrated that its governing style will be defined by shrewdness and political pragmatism. It has set itself a defined agenda, and has followed this course-setting with a budget that chooses its target electoral audiences – lower-to-middle-income Canadians, families with children, middle-class seniors, and small-business owners – over all other groups.

This budget is very much a mid-middle class budget, and not by accident. It is the latest cog in a highly-defined pre-election strategy, leading – so the government hopes – to a Conservative majority government.