

BUDGET 2008: 'STAND PAT AND SIT TIGHT'

A LESSON IN ELECTORAL MANOEUVRING

FEBRUARY 2008

2008 Budget Highlights

- 2007-08 surplus estimated at \$10.2 billion will be used to pay-down debt
- Surplus projections and planned debt pay-down scaled back for 2008-09 (\$2.3 billion surplus) and 2009-10 (\$1.3 billion surplus)
- Accelerated capital cost allowance (CCA) for manufacturers extended for additional year to 3 years, with a phase-down in the rate, at \$1 billion cost
- Gas Tax Fund for municipalities made permanent
- Additional funding for: public transit infrastructure (\$500 million); R&D in the auto industry for carbon capture & storage technology (\$250 million); and AECL for nuclear energy and nuclear safety (\$300 million)
- Establishment of PPP Canada Inc. to support public-private partnerships
- Creation of a Tax-Free Savings Account (TFSA) in 2009
- Changes to ease the income tax compliance burden for non-residents who dispose of "taxable Canadian property"

Budget documents are available online at: www.fin.gc.ca

FOR THE CONSERVATIVES

Canada's annual Budget is a lot like the American State of the Union. Although it's delivered by the Minister of Finance, it's as much about defining the Government's political agenda as it is about taxation and spending plans. Unlike earlier Budgets that focused on implementing election promises, the 2008 Budget had its eye on the future, delivering one overarching message -- "Conservatives can provide responsible national leadership".

FOR THE LIBERALS....

The Liberals took a scant fifteen minutes after the Minister of Finance stood up in the House to announce that they would support Budget 08 (read not use the Budget vote as an opportunity to bring down the Harper government). The Liberal Caucus remains divided on the when and where of an election. With uninspiring poll numbers and a public not clamouring for an election, discretion on Mr. Dion's part was clearly the better part of valour.

As on the Afghanistan issue and the Omnibus Crime Bill, the Conservatives were able to define the terms of the debate while the Liberals looked confused and disorganized.

The centrepiece of the 2008 Budget was the **tax-free savings account**, continuing a line of tax and spending measures targeting the middle class. Like the earlier GST cuts, the TFSA is simple to implement and understand and, from a political perspective, it's a Conservative initiative that Canadians will remember. On the corporate side while Liberals call for company specific corporate welfare, Conservatives have cast their lot with making broad based tax cuts rather than picking winners and losers.

What's getting less attention is the Government's gradual move towards establishing a **Canadian pricing system for greenhouse gases**. The federal pre-budget acquiescence to B.C.'s new carbon tax and the allocation of \$66 Million to establish an industrial air emissions regulatory regime including, "an electronic tracking system for units traded in the carbon market" means carbon pricing is in Canada's future.

Another less noticed measure is the **new P3 Crown Corporation** with a mandate to facilitate major infrastructure projects bringing together both public and private investors. Although the Conservatives had already set aside over \$1 Billion for national infrastructure and some major announcements have been made, there has been frustration at the pace of progress. The purpose of the P3 Corporation is to fast track new infrastructure investments.

Finally, few should underestimate the significance of the decision to allocate **\$300 Million to Atomic Energy of Canada Limited (AECL)** to facilitate the development

The struggle to find (define) the issue which would justify defeating the government and be used to define the ensuing election campaign continues. It will not be Afghanistan or crime, but likely centre on fiscal management as the economy slows. This however could be a challenge given the current Liberal's seeming inability to showcase strong policy differentiation to the increasingly centrist Harper menu.

There will be, at least, little temptation with a shrinking economy to offer ambitious Liberal programs in traditional areas like child poverty, drug plans or national child care.

Despite this the Tories will continue to try and paint Dion as a throwback to the free spending Liberals of old. But Finance Minister Flaherty is on weak ground here. He can resole his shoes (as he did on the eve of the Budget), buy new shoes or put on high heels – it doesn't matter – in the dictionary under "fiscal prudence", you will not find Mr. Flaherty's picture. The Federal Finance Minister is the man who, with his Tory colleagues, left Ontario with a \$5.6 Billion deficit while promising in the Ontario provincial election campaign that the Ontario Budget would be balanced. The Tories can puff their collective chests all they want, but it is Liberals in Ottawa and Liberals in Ontario who have demonstrated fiscal probity.

Mr. Harper takes pride over cuts to the GST (at a cost of \$12 Billion) but these cuts created not one new job, not one new kilometer of highway, not one kilometer of track, didn't unclog the border crossings or address climate change and did not stimulate a noticeable improvement in consumer spending. Coupled with corporate tax cuts, the government will have less and less fiscal room as time goes on.

of the next generation of nuclear reactors. AECL's reputation was hurt by the isotope controversy and this injection of money when matched with the oversight agency's recent decision to fast track the licensing decision, means that the government is serious about looking at ways of strengthening AECL as part of the current review of its ownership structure.

Paul Brown

The Liberals would be wise to wait to bring the Tories down over Budget 09. Next year, with a slow economy and a self-inflicted bare cupboard, the Tories will be caught between a rock and a hard place – needing to pick up votes – but gleeful at the prospect of using tough fiscal times as an excuse to cut programs they hate. Don't believe us? Look at Flaherty and Clement when they were Cabinet Ministers in Ontario. Time doesn't change Tory spots.

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The Campbell Strategies and Media Profile Team

Campbell Strategies provides a broad range of government relations services covering all levels of government. Our unique experience enables us to effectively bridge the gap between the public and private sectors and assist our clients to communicate effectively in the political environment.

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Patrick Gossage is one of Canada's most highly respected communications practitioners. He served as Prime Minister Trudeau's press secretary from 1976 to 1982 and Minister of Information at the Canadian Embassy in Washington.

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