

2009 FEDERAL BUDGET:
Reality Bites ...
Canada's Two Major Political Parties
Get Back to Work

January 29, 2009

HIGHLIGHTS

- **Projected deficits totalling \$85 billion over the next five years** (\$33.7 billion in 2009-10 and \$29.8 billion in 2010-11).
 - **Reductions to personal income tax over next five fiscal years totalling \$20 billion.**
 - **\$12 billion in new infrastructure spending** over the next two years.*
 - **Up to \$200 billion in additional support to the financial sector and new powers** to the Minister of Finance.*
 - **Up to \$7.8 billion in tax relief and funding to help stimulate the housing sector** and improve housing across Canada including: tax credits (up to \$1345 per family) for renovations and help for first-time home purchasers.
 - **Increases to the Employment Insurance benefit duration** (to 50 weeks from 45 weeks) for two years and enhancements to worker retraining programs.
 - **Up to \$2 billion investment over two years to retrofit, renovate and build new social housing units** with some targeted funds for First Nations and persons with disabilities.
- * See below for further details and commentary
- Targetted **regional funding**, including:
 - \$1 billion over two years for a Community Adjustment Fund to mitigate the short-term impacts of restructuring communities, and
 - \$1 billion over five years for a *Southern Ontario Development Agency*.
 - **Short-term support to a broad range of sectors**, including:
 - \$170 million for the forestry sector
 - \$500 million for the agricultural sector
 - \$175 million to shipyards to procure new Coast Guard vessels and retrofit others
 - Short-term repayable loans to the automotive sector
 - \$110 million over three years to the Canadian Space Agency to support the development of advanced robotics and other space technologies
 - \$60 million over two years for cultural-related infrastructure
 - Approximately \$400 million over two years for cultural, arts, heritage, parks and tourism related endeavours.
 - **Initiatives targetted to benefit small business**, including:
 - Raising the level of small business income eligible for reduced Federal tax rate (from \$400,000 to \$500,000)
 - Measures to increase access to credit and research grants for small businesses.

To see the full 2009 Budget go to: <http://www.budget.gc.ca/2009/home-accueil-eng.asp>

ANALYSIS

Infrastructure Spending Budget Proposals

- Budget 2009 proposes to invest \$12 billion in new infrastructure spending, including:
 - \$4 billion for an Infrastructure Stimulus Fund for provincial/territorial municipal infrastructure (over two years)
 - \$2 billion for university and college infrastructure (over two years)
 - \$1 billion for a Green Infrastructure Fund (over five years)
 - \$500 million for infrastructure projects in small communities (over two years)
 - Accelerating the Federal Environmental Assessment process
 - Creating Canada PPP Inc – a new crown corporation that will administer P3 funding for qualifying projects starting in 2009-10.

Commentary - As impressive as the proposed infrastructure investments may be, the details of *how* the funding will flow, and the *decision-making process* for each component of the plan, are critically important if provinces, municipalities and the private sector hope to have any access to this funding.

The Federal Conservatives' spending plan on infrastructure includes a series of funding envelopes, some with their own, unique decision-making process. And where there are decisions to be made, politics will have an impact. Here are two key examples:

Provincial, territorial and municipal infrastructure: The new \$4 billion Infrastructure Stimulus Fund will fund provincial and municipal projects over two years, with Ottawa providing up to 50 percent of eligible project costs for municipal and provincial projects. However, Ottawa will assess projects based on their readiness and merit. That means Ottawa could be reviewing individual projects on a case-by-case basis, rather than providing a transfer to the provinces and leaving the choice to them.

Although the Budget indicates that funding will be allocated to provinces based on population, it also states that if agreements are not reached expeditiously with a province or territory, funding will be used for Federal infrastructure. That's a ticking clock that most provincial Ministers of Finance are going to hear loud and clear. Project developers are clearly going to need to ensure that **both** Ottawa and their provincial capital is supportive of their project if they hope to receive any funding.

Investing in Knowledge Infrastructure: A key theme in this year's budget is investing in the knowledge-based economy. Colleges and Universities are getting \$2 billion in new spending, but only 30% has been set aside for Canada's colleges (or \$600 million). Much of this new spending will be geared towards deferred maintenance and repairs, but also some new construction. Industry Canada will administer funding under this program based on merit and readiness. Federal funding will cover up to half of the project costs, leveraging an equivalent amount from other partners.

Financial Services Sector Budget Proposals

- **Up to \$200 billion in additional support to the financial sector**, including:
 - \$50 billion to the Insured Mortgage Purchase Program
 - up to \$12 billion to support financing of vehicles and equipment for consumers and businesses through a new *Business Credit Availability Program*
- **New powers to Minister of Finance to support financial stability in the financial services sector** including providing standby authority for the Government to inject capital into federally regulated financial institutions.
- **New powers to Minister of Finance to increase consumer protection including powers to require better disclosure** of terms of credit cards issued by federally regulated financial institutions.

Commentary - The Budget addresses the economic crisis in two ways: (1) measures to stimulate spending and, (2) arming the Government with extraordinary and unprecedented powers to intervene in the financial services sector. Grouped under the heading *Strengthening Canada's Financial System*, these measures extend existing mortgage buy back schemes, backstop commercial credit to encourage vehicle and equipment leasing, put a structure in place to regulate credit card rates and practices and give the Government the power to give directives to Federal financial regulatory agencies and to make direct equity investments in financial institutions.

While many of these steps mimic powers now available to other governments around the world, these steps will fundamentally alter the relationship of the Federal government to its specialized regulatory bodies and raise the prospect of direct government involvement in the operations and governance -- indeed the ownership structure of financial institutions. Necessary for the times, but the implications will depend on how these powers are used.

The Budget also moves ahead with a national securities regulator which, while necessary, will result in a protracted struggle with Québec and Alberta.

For Campbell Strategies' political commentary on Budget '09 turn to the next page.

POLITICAL COMMENTARY

FOR THE CONSERVATIVES

The Days of Future Passed

Over the past two months the Conservative Government has stared into the political and economic abyss and decided jumping was not a good idea. The political abyss was avoided by proroguing Parliament, the economic abyss was dealt with by a Budget whose theme music had the disco beat of the 1970s Liberal era. *Stayin' Alive* seems to be an appropriate song for this Budget. And, like disco music, elements of the Budget will have a similarly short lifespan.

While the political chatter has focused on infrastructure, there are a number of underlying themes and policies that seem to characterize the Conservative Government's approach to economic issues.

The personal tax reductions are part of an ongoing effort by the Conservatives to 'flatten' the income tax system. It reflects a belief that the fairest and best boost to economic performance is lower taxation. Conservatives, like most economists, view a permanent reduction (unlike a temporary one) as the best way to encourage spending during recessions. The notion that people tend to spend what they view as income and save what they view as one time gifts also underlies President Obama's tax reduction proposal.

The Conservatives continue in their courting of small town and suburban Ontario and British Columbia. The funding of recreation centers and skating rinks goes straight to the heart of many communities and the Government should enjoy

FOR THE LIBERALS

We're All Liberals Now

The Liberals can console themselves knowing that they put the fear of the Lord into Mr. Harper before Christmas and should claim credit for forcing him to come to grips with the economy and address the anxieties of Canadians.

But perhaps to the dismay of Liberals, Budget 09 is a very Liberal budget – a scatter shot of measures for everyone and every region. A rural, music or jazz festival in a 'have not' province, by a river (or better still, on a cruise ship on a river¹) will fare very well indeed. But be quick to grab the money – most funding is available for a scant two years.

This is a 'use it or lose it' Budget for 'shovel ready projects'. Much of the funding will never be taken up, conditioned as it is by time constraints or the need for matching funds from other levels of government. But, there is much good here – some of it long overdue and worthy of any Liberal government. But, it is a sad fact that all the spending outlined in the Budget will only help around the edges and makes us feel better. It will take a robust recovery in the United States to really turn things around north of the 49th Parallel.

If all the measures announced are realized, including a national securities regulator, Canada will be better off now and when the recovery happens, but once again deeper in debt than we want to be. Deficits are tough to

¹ This is no joke. The Budget (at page 177) commits \$24 million over two years to support the development of infrastructure that will promote cruise ship tourism along the Saint Lawrence and Saguenay River for attractions such as the Centre d'expérience glaciaire in Baie-Comeau.

complying with Mr. Ignatieff's quarterly audits if only to remind Canadians about their new or refurbished hockey arenas. Conservative roots are growing in Ontario and even Ontario's Liberal Premier is embracing the results.

Also of interest to both BC and Ontario is the Conservative receptivity to allocating spending based on population. This was seen last year in the new equalization formula and is reflected in proposed changes to the number of MPs in the House itself.

Every decade certain ideas become trendy. They are embraced by the media, exploited by wily investors, and the costs are foisted on unsuspecting taxpayers. The hot air in the early 21st Century is hot air, better known as wind power. The Conservatives have recognized the limits of wind and focused their green investment on AECL's nuclear technology, and developing carbon capture technology. Both leverage Canada's natural resources and a large CANDU industrial infrastructure in Ontario to lower green house gas production.

In terms of fighting the current recession the biggest news was covered in the business pages --- the \$125B Extraordinary Financing Framework. While the size and scope of the framework is unprecedented, it fits a policy trend found in earlier Conservative budgets and statements: the need for a strong national approach when it comes to issues related to 'trade and commerce'. The new national securities regulator and expanded powers for the Minister of Finance when it comes to consumer protection issues are but two examples of a new, more robust national approach when it comes to finance.

Paul Brown

beat. Predictions about how quickly the economy will improve or surpluses arise have always been incorrect and the Harper government (especially Mr. Flaherty) have flubbed the math before. It took Liberals to beat the deficit last time and they will have to do that again when they form the next government after the crisis.

Attracting little media comment, but significant, are new and unprecedented powers for the government to intervene in the financial services sector (see above). These changes, however justified in the current environment, would make a socialist proud. Jack Layton should have supported the Budget for this alone!

Harper has bought himself some time with this Budget but would be wise not to be tempted to use this reprieve to re-emerge as the Harper of old. But has the tiger grown new spots? We think not.

Mr. Ignatieff has been saved from his Coalition of the unwilling. Canada is better off when there are two great national parties worrying about us and playing nice in Parliament. Give us a break for a while, please, so Canadians can get back to work.

Barry Campbell

The Campbell Strategies 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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