

December 22, 2008

Principles for Action on the Economy: Budget 2009 must combine short-term stimulus with an agenda for long-term competitiveness.

On December 18th, the University of Toronto's School of Public Policy and Governance convened a roundtable of economic experts and other leaders from both the public and private sectors who were invited in their individual capacities to discuss options to help Canada move out of the current economic slowdown as effectively and efficiently as possible and to present recommendations to the Government of Canada as part of its Budget 2009 consultation process. The Hon. Perrin Beatty and the Hon. Donald Macdonald chaired the roundtable. There was a consensus among the participants that policy actions in Budget 2009 must serve a dual purpose; first provide support to Canadian families in the short term; and second; strengthen the underlying efficiency and longer-term competitiveness of the Canadian economy, without incurring structural deficits.

1. Budget 2009 must boost the confidence of Canadian households and businesses

There was widespread agreement that Canada is in the midst of a synchronized and severe global downturn. Frozen financial markets, high debt levels, low consumer confidence, and the risk of deflation are quickly compounding it. Canada's relative fiscal prudence and regulatory efficacy have left the country better positioned than most to weather this storm. But all indications point to a sustained period of negative and low potential economic output growth, and a subsequent deterioration in the fiscal balance. Additional liquidity injections to financial markets are needed to get the economy moving in the short term, while a high level of public investment and other structural reforms will undoubtedly be needed to drive medium term demand growth.

But while the short-term outlook is dire, there was a strong consensus that the crisis also presents a long-term opportunity. Many spoke of the need to recalibrate the global economic architecture and the opportunity for Canada to help lead that transition. Participants recognized the window the crisis presents to address fundamental Canadian



questions about future competitiveness and productivity, the economic union, the distribution of wealth, the link between the economy and the environment, and Canada's place in the world.

2. Budget 2009 needs to provide credible fiscal forecasting

There was a strong consensus that the federal government must present a realistic picture of Canada's economic and fiscal health, not only to restore confidence, but also to provide the necessary basis for constructive public debate and discussion. There was widespread agreement among participants that the recent fiscal forecasts presented by the Department of Finance in the November 2008 Economic and Fiscal Update and updated on December 17th were unrealistically optimistic. Participants stressed that the government should rely upon its own economic forecasts, rather than continue with its current practice of relying on an average of disparate private sector forecasters. This would allow for more timely updates, based on the most recent economic data. This forecast could then be compared to the private sector forecasts. Given the rapidity of the economic deterioration and warnings from many economists that the global and domestic economic downturn could in fact be deeper and longer than previously expected, it would be both appropriate and prudent for the government to plan the budget on that possible outcome.

3. Budget 2009 fiscal stimulus amounting to 2% of GDP over two years, with the possibility of a higher stimulus if circumstances warrant. This would be in addition to the costs incurred by automatic stabilizers and previous policy actions and actions undertaken by provinces.

The stimulus must be sizeable enough to support aggregate demand. Canadian debt-to-GDP ratios are sound, and the country is in a strong fiscal position to move boldly to address the loss of confidence and change the psychology of fear. There must be sensitivity to the scope of the economic crisis and the risk of deflation. As a small open economy, Canada's economic fate will be influenced by economic policies implemented globally, but there is a great deal that the Government of Canada can do. The Government of Canada must work with the provinces to present a coordinated package of measures, which addresses the unique issues in particular parts of the country. Measured actions by the provinces would increase the overall actions to more than 2% of GDP over the two years.

4. Budget 2009 should represent a long-term policy agenda that:

- a. *Provides immediate support families and incomes.*

Policies should be targeted at increasing demand among low, modest and middle-income families through permanent tax reduction. This could be achieved by lowering marginal effective tax rates. This would provide immediate support for consumption while also increasing incentives to work and save in the medium term. Consideration should be given to increasing the Working Income Tax Benefit, enriching Child Tax Benefits and/or the Low-income GST Credit. Temporary tax cuts, such as a reduction in the GST rate, should be avoided.
- b. *Provides immediate income and training support for the unemployed.*

The government needs to look at changes to the EI program that will ensure that those workers who lose their jobs receive some income protection as quickly as possible while avoiding creating disincentives to return to work when conditions improve. A fundamental review needs to be undertaken to see how the EI program could be improved to assist those in low-paying jobs to improve their skills and training. This will allow them to participate more fully in the labour market once the economy begins to recover. EI premium rates should not be increased while the economy is performing under capacity.
- c. *Provides support to strengthening competitive position:*

Infrastructure investment – whether in ports, borders, transit, or culture – should promote efficiency, productivity, and sustainability. Decisions about infrastructure and competitive positioning must account for the enablers of competition: increased human capital; new technology; goods and services moving through the economy at low cost. The process needs to be streamlined so that earmarked funds included in previous budgets can be accessed and utilized much more quickly. Agreements on environment assessments would greatly assist this process. Increased support should be provided in the areas of applied research, development and commercialization of a broad range of green technologies. The current Scientific Research and Experimental Development (SR&ED) program should be changed to increase the availability of refundable tax credits and remove impediments to the program.
- d. *Accepts the need for significant fiscal deficits in the short-term with a medium-term commitment and plan to return to fiscal balance.* Canada's fiscal position is the envy of industrial countries. The hard won gains by Canadians in resolving the

fiscal problems must be preserved. Fiscal actions, including a review of government spending, to ensure that structural deficits do not emerge will need to be considered in the medium term.

- 5. Support for troubled industrial sectors should be provided based upon the principle of enhancing Canada's long-term competitiveness*

It is critical that so-called bailouts be assessed against the criterion of future competitiveness. If failing industries are indiscriminately supported, it will represent both bad industrial policy and ineffective stimulus. Existing productive capacity - skills, plants, facilities – can be reconfigured to shift failing industries into new areas of production, particularly to make use of new green technologies.

- 6. The Bank of Canada and Finance Department should provide immediate measures to increase access to capital, lower capital costs and increase liquidity.*

The Bank of Canada was lauded for the role it has played during the crisis, but there was consensus that it needs to do more as monetary easing has less and less effect. The BoC and the federal government should undertake those measures needed – injecting liquidity and purchasing assets, etc. – to ensure that financial markets function properly so as to encourage continued lending. The BoC and Finance also need to support non-bank lenders, which are critical in shoring up the liquidity gap.

A partial list of participants in the roundtable included:

Geoff Beattie	The Woodbridge Company
Hon. Perrin Beatty	Canadian Chamber of Commerce
Barry Campbell	Campbell Strategies Inc
Scott Clark	Former Deputy Minister, Finance
Peter De Vries	Former Director of Fiscal Policy, Finance
Maureen Farrow	Economap
Andrew Jackson	Canadian Labour Congress
Hon. Donald S. Macdonald	Lang Michener, LLP
Ratna Omidvar	Maytree Foundation
Greg Sorbara	Member of Provincial Parliament, Ontario
Mark Stabile	School of Public Policy and Governance, University of Toronto
Janice Stein	Munk Centre for International Studies, University of Toronto

