

Federal Budget 2010 – An Analysis



Greater Sudbury Chamber of Commerce
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GSCC Analysis

The GSCC welcomes the federal government's strategy to stay the course on the recovery plan, its approach to balancing the books over the medium term, and its emphasis on laying the foundation for a more innovative and competitive economy. The government recognizes that the substantial program spending increases over the last decade are not sustainable. It plans to limit increases in program expenses to 0.8% per year over the 2010-11 to 2014-15 period. This will not be easy. Since fiscal 2000-01, growth in program expenses has been averaging a little more than 6% per year. The chamber will watch closely to ensure Ottawa lives up to its commitment to rein in spending and improve efficiency in the government sector.

Revenues are projected to increase approximately 6.5% per year over the forecast period. With nominal growth in the economy expected to average about 4-5 % per annum, growing our way out of deficits will be challenging.

In the final analysis, we need to get our fiscal house in order so we can provide the economic flexibility needed to prepare for the jobs of tomorrow and meet the challenges posed by an aging population.

Going forward, it is crucial that the government refrain from increasing taxes that hinder job creation, entrepreneurship and investment. We can't afford to erase the hard-earned progress we have made in improving our international tax competitiveness. While Budget 2010 explicitly stipulates that "the government will not raise taxes," the projections in the Budget suggest Employment Insurance (EI) premiums will rise significantly (the maximum of 15 cents) over the 2011-2014 period to recover the deficits incurred by the EI program during the recession. Thereafter, premiums will be set at the break-even level. Increasing payroll taxes will discourage employers from hiring just as the economic recovery matures. Over the long-term, these costs are ultimately passed on to employees in the form of lower wages, taking a bite out of personal income.

Lastly, small and medium-sized businesses are the backbone of our economy, accounting for about 98% of all businesses in Canada and employing more than 5 million people. Advances in communications and information technologies, the accelerating pace of global economic integration and intensifying competitive pressures are creating ongoing adjustment pressures and challenges especially for small- and medium-sized businesses. We applaud the government's focus in Budget 2010 to support innovation in Canada's small business sector, reduce the regulatory burden, improve credit availability, and continue to reduce the tax compliance and administrative burden facing businesses. These initiatives will result in higher performing businesses and higher paying jobs for Canadians.

We also welcome the government's focus on advancing the digital economy which will help raise business productivity, and contribute to a more prosperous and competitive Canada. Canadian businesses lag their international competitors in the development and adoption of innovative ICT. In the knowledge-based economy, Canada must be a world leader, not a laggard.

Highlights

Recent Economic Developments and Prospects

- The global economy has begun to stabilize after undergoing a deep and synchronized recession, which stemmed from the worst global financial crisis since the 1930s.
- With support from the extraordinary measures in Canada's Economic Action Plan, the Canadian economy has started to recover.
- Canada has weathered the global recession better than all other major industrialized countries, reflecting several important financial, economic and fiscal strengths.
- Canadian labour markets have fared much better than in the U.S., where job losses to date have been proportionately more than three times as large as in Canada.
- Domestic demand in Canada has also rebounded more strongly than in all other G7 countries since the beginning of 2009.
- While unemployment remains a concern, the rise in the unemployment rate has been smaller than was initially forecast by private sector forecasters.
- The Department of Finance conducted a survey of private sector forecasters in December 2009. In early February, private sector forecasters met with the Minister of Finance to discuss the economic forecast from the survey as well as the risks associated with that forecast.
- The average private sector economic forecast from the December 2009 survey forms the basis of the Government's fiscal planning.
- The use of private sector forecasts introduces an element of independence into the Government's economic and fiscal forecast.
- Over the short term, the average private sector economic forecast has improved somewhat since the September 2009 Update of Economic and Fiscal Projections. Private sector forecasters expect the Canadian economic recovery to build momentum through 2010.
- Private sector forecasters have not materially changed their medium-term outlook since the September Update. Over the medium term, the level of uncertainty surrounding the outlook has declined since the Update but remains high.
- The average private sector forecast from the December survey provides a prudent basis for fiscal planning.
- **New Investments in Jobs and Economic Growth**
- **Delivering Year 2 of Canada's Economic Action Plan—\$19 billion in New Stimulus in 2010–11**
- **Budget 2010 will deliver Year 2 of Canada's Economic Action Plan, with \$19 billion in new federal stimulus in 2010–11, by:**
 - Providing \$3.2 billion in personal income tax relief to support growth and job creation.
 - Delivering \$1.6 billion to strengthen benefits for the unemployed.
 - Providing \$1 billion to enhance training opportunities for all Canadian workers.
 - Freezing the Employment Insurance premium rate at \$1.73 per \$100 of insurable earnings to the end of 2010—the lowest rate since 1982—in order to leave more money in the hands of employers and employees.
 - Providing \$7.7 billion in new stimulus to modernize infrastructure, support home ownership, and improve social housing across Canada.
 - Investing almost \$1.9 billion in post-secondary education infrastructure, research, technology innovation and environmental protection.
 - Providing \$2.2 billion in stimulus spending to support adjustment and secure job opportunities in regions, communities and industries that have been most affected by the economic downturn.
 - Introducing new measures to strengthen Canada's financial sector, allowing businesses to continue growing and creating jobs.

Jobs Protection and Youth Employment Measures

Budget 2010 builds on the Economic Action Plan with targeted actions to protect Canadian workers from the effects of the global economic recession by:

- Temporarily extending the maximum length of work-sharing agreements to protect jobs.
- Supporting the next generation of business leaders with \$10 million in new funding for the Canadian Youth Business Foundation.
- Providing \$60 million in 2010–11 to assist more young Canadians while the labour market recovers.
- Investing \$20 million in support of Pathways to Education Canada's work to support disadvantaged youth.
- Committing \$30 million to support better elementary and secondary education outcomes for First Nations students.

Improve Canada's productivity growth through innovation by:

- Providing \$45 million over five years to establish a post-doctoral fellowship program to help attract the research leaders of tomorrow to Canada.
- Delivering \$222 million in funding over five years to strengthen the world-leading research taking place at TRIUMF, Canada's premier national laboratory for nuclear and particle physics research.
- Increasing the combined annual budgets of Canada's research granting councils by an additional \$32 million per year, plus an additional \$8 million per year to the Indirect Costs of Research Program.
- Providing Genome Canada with an additional \$75 million for genomics research.
- Doubling the budget of the College and Community Innovation Program with an additional \$15 million per year.
- Providing \$135 million over two years to the National Research Council Canada's regional innovation clusters program.
- Providing \$48 million over two years for research, development and application of medical isotopes.
- Providing a total of \$497 million over five years to develop the RADARSAT Constellation Mission.
- Launching a new Small and Medium-sized Enterprise Innovation Commercialization Program with \$40 million over two years.
- Renewing and making ongoing \$49 million in annual funding for the regional development agencies to support innovation across Canada.
- Encouraging Investment and Trade to Create Jobs and Growth
- Budget 2010 takes further action to improve conditions for investment, enhance competition, and reduce barriers for businesses by:
 - Making Canada a tariff-free zone for industrial manufacturers by eliminating all remaining tariffs on machinery and equipment and goods imported for further manufacturing. When fully implemented, this will provide \$300 million in annual duty savings for Canadian business to support investment and growth and create jobs.
 - Improving Canada's system of international taxation to facilitate investment, cut red tape, and streamline the compliance process associated with the taxation of cross-border activity.
 - Establishing a new Red Tape Reduction Commission.
 - Providing \$7.2 million over two years to improve Canadian fish and seafood industry access to the international marketplace.
 - Delivering \$75 million over three years to support investments by Canadian cattle processing plants to help improve their operations to ensure cattle producers have access to competitive cattle processing operations in Canada.