

2008

Budget Analysis

Work Research Foundation:
Gov't Backs Canadians' Taking Responsibility

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Following is the Work Research Foundation’s analysis of the Government of Canada’s Budget for fiscal year 2008-2009, released by the Hon. Jim Flaherty, Minister of Finance, on Tuesday, February 26th 2008. As with last year’s analysis, we do not address all matters raised in the federal budget. The Work Research Foundation expressed support, today, for the federal budget announcements that assist Canadians in caring for their families, to educate and train young people, and to initiate and invest in public infrastructure projects in partnership with government.

“Limited” v. “minimalist” government

The Work Research Foundation operates in a social architecture which holds that the task of government is neither minimalist (that is, only a narrow focus on essential duties such as security, safety, and core government services) nor expansionist (where government is prepared to jump in and solve every problem for which there is political advantage in addressing). However, the state should always be limited

in its scope. The state is not responsible for everything. The state is a guardian of the public good but should defer to the other institutions of civil society which are often better placed to deal with particular issues.¹

In his economic update delivered on October 30th 2007, the Hon. Jim Flaherty announced “broad-based tax reduction” on both individual and corporate taxpayers. Mr. Flaherty announced that a further one-percentage-point reduction of the GST to 5% would be made effective January 1st 2008. In the past, the Government has been criticized for its large surpluses. By reducing taxes, the Government effectively reduces its surpluses bringing the revenues it collects from Canadian taxpayers into line with the existing spending requirements of the Government of Canada. By so doing, the Government

¹ This is more fully developed by WRF’s Senior Fellow, Jonathan Chaplin, Director of the Kirby Laing Institute for Christian Ethics (Cambridge, U.K.), in his inaugural address “Sphere Sovereignty and Canadian Public Life” (Found at: <http://www.wrf.ca/pdfs/fellows.chaplin.inaugural.pdf> or by contacting the Work Research Foundation).



is not reducing the size of government, but neither is it expanding it.

Last October, Minister also announced the Government would further reduce federal, public debt by \$10 billion, bringing the Government of Canada's debt-to-GDP ratio to less than 25% by fiscal year 2011-2012. In last summer's G8 summit in Heiligendamm, Germany, Canada disclosed its commitment and objective of "eliminating government debt in a generation" (*Summit Declaration*, June 1st 2007). Even when Canadian provincial and municipal public debt is rolled into the equation, this will likely bring Canada's debt-to-GDP ratio to the lowest among the G-8, the G-10, or the G-15.

ABCs of the Government and Parliament's budget, review, and accountability on the federal, public treasury

The Government of Canada and Parliament have already instituted significant controls and accountability structures in respect of the public treasury:

- A. Each autumn, the Minister of Finance initiates pre-budget consultations, particularly by way of terms of reference to the House of Commons Standing Committee on Finance, which holds hearings with witnesses from various stakeholder groups. In addition, the Department of Finance also receives input from various quarters;
- B. Based on consultations up till about Christmas, each year, the Minister and Department of Finance in consultation with central agencies – Treasury Board, Privy Council, and the Prime Minister's Office – designs the federal budget for the following fiscal year (April 1st through

March 31st), including the main spending priorities, tax announcements, and the spending requirements of the Government organized in "estimates" for each of the "line" departments;

- C. The Minister of Finance releases the budget, various "ways and means motions" (spending and tax motions) are put before the House for their consideration and vote, and the budget estimates of each "line" department are referred to the corresponding Commons Standing Committee;
- D. Standing Committees hold hearings on the budget estimates referred to them for review. At the conclusion of this review, each Standing Committee reports back to the whole House as to their findings which may include reductions in estimates, but no increases;
- E. The whole House considers the budget estimates and, again, may reduce but not increase. No later than the "Last Day" the House will hold its final votes on the budget;
- F. The Comptroller General of Canada is responsible for the financial processes and accountability and control in each of the Government departments responsible for spending;
- G. The Chief Actuary of Canada is responsible for instituting and evaluating the actuarial assumptions and soundness of such as the Canada Pension Plan, Employment Insurance, and federal superannuation, among others;
- H. The Treasury Board issues the Public Accounts of Canada which report the Government of Canada's spending from the previous budget



year. The Public Accounts are automatically referred to the House of Commons Standing Committee on the Public Accounts;

- I. The Standing Committee on the Public Accounts, always chaired by an opposition M.P., holds hearings and reviews the Public Accounts of the Government. At the end of its review, the Committee reports back to the whole House;
- J. The Auditor General of Canada, an independent officer of Parliament, conducts four reviews of selected spending areas of the Government, and reports findings quarterly to the House of Commons.

An independent board of budget forecasters

The Canadian Parliament and Government have some of the strongest accountability processes, systems, controls, and reviews. However, all of these are embedded either in the Government or in Parliament. While we hold the independence, particularly, of the Auditor General with the highest regard, we think there may be a role for an arms-length analysis of federal, budgetary assumptions and forecasts.

The Government has already announced its intention to create a “Parliamentary Budget Office.” However, this too would be embedded in Parliament if it were modelled after the U.S. Congressional Budget Office.

Instead, we suggest that the Minister of Finance and Parliament should seriously consider a Parliamentary Budget Office (PBO) that is an independent board composed of representatives of Canada’s major accounting firms with no more than half a dozen members.

Such a PBO board would be given access to the assumptions and models employed by the Department of Finance in its budget-making, but would sit at arms-length from the Government and Parliament to review budgetary assumptions and forecasts in respect of such matters as the Government’s projections of spending and borrowing requirements, revenues, any budget deficit or surplus, and federal public debt as well as its ongoing repayment schedule.

The board would report to both the Minister of Finance and to Parliament. Each year, two members – one third of the board of six – would rotate off the board to be replaced by two new members. Each member of the Parliamentary Budget Office board would serve for remuneration of one dollar per year, “on good behaviour” – that is, not “at the pleasure” of the Government.

THE FEDERAL BUDGET 2008

For its forecast in this budget, at present the Department of Finance relied for its fiscal projections on the average of the private sector economic forecasts. Surpluses are expected to rise from \$3.1 billion in 2010-11 to \$5.3 billion in 2012-13 allowing debt reduction of at least \$3 billion per year. There is planned debt reduction of \$10.2 billion in 2007-08, \$2.3 billion in 2008-09, and \$1.3 billion in 2009-10. Federal tax burden – total revenues as a percentage of the economy – is projected to decline from 16.3% in 2006-07 to 15.3% in 2009-10. Following are some of the high points of the budget based on our analysis:

Families

- Tax Free Savings Accounts (TFSA). Canadians will have the ability to contribute up to \$5000



per year into registered savings accounts (TFSAs) on which any interest earned will be free of income tax. Money may be withdrawn and replaced later without penalty.

- Child Tax Credit will provide tax relief of up \$306 per child in 2008; and
- Safer communities with \$400 million to fund 2500 new, front-line police officers.

Students

- Canada Student Grants – The Government of Canada is contributing \$350 million toward monthly grants of up to \$250 per month for students from low-income households and up to \$100 per month for students from middle-income households. The grant will be available to students and throughout their undergraduate programs; and
- Increased funding for Canada Student Loans.

Seniors

- 50% of the benefit from Tax Free Savings Accounts will accrue to senior citizens.

Business and work force

- The capital cost allowance is extended three more years through to the end of 2011;
- Beginning in 2009 (for entrepreneurs and professionals), the Canada Revenue Agency will no longer require a complete log in order to claim an exemption. Instead, a representative sample will satisfy new, CRA guidelines mandated by this budget;
- \$3 billion over six years for Labour Market Agreements to create training opportunities

targeted to those who do not qualify for training under Employment Insurance;

- \$300 million per year to expand the number of apprenticeships including \$2000 per apprentice per year in the form of a tax credit; and an Apprenticeship Incentive Grant to would-be apprentices totalling (\$100 million);
- \$22 million to assist immigrants in resettlement, foreign credential recognition, *et al.*; and
- A P3 office – “PPP Canada Inc.” – is now up and running, looking for entrepreneurs and investors to step up and apply with public infrastructure projects.

Trade and secure borders

- Increase of \$75 million over two years to the Canada Border Services Agency to increase capacity;
- \$400 million will go to border infrastructure development with priority one being the Windsor-Detroit tunnel; and
- Creation of an electronic passport by 2011 that can be used for up to ten years;
- The federal government will offer the provinces \$6 million for enhanced drivers' licenses useable at border crossings.

Environment

- Expanded rebates of \$1000 to \$2000 to Canadians who purchase or enter into leases on fuel-efficient vehicles by December 31st 2008; and
- Various opportunities for accelerated capital cost allowance, GST relief, and direct grants to the development of alternative energy sources.



Charities

- Broadening the rules for donations of securities including the ability to exchange private equity into publicly trade securities to be donated to a charity within thirty (30) days of the exchange.

Conclusion

The 'business' of the Work Research Foundation is building and enhancing Canada's 'social architecture.' The federal Budget 2008 moves the Canadian conversation about what kind of country – including the built, social, and natural environment – that we want to build and pass on in the right direction.