

THE BUDGET: COUNTDOWN TO AN ELECTION?

Introduction

Focus

On March 19, 2007, Canada's federal Conservative government introduced a \$233-billion budget for the 2007-2008 fiscal year. *News in Review* looks at why the budget is so large, how the money will be spent, and which Canadians are winners or losers under the new policies and programs.

All Canadian federal governments face an enormous dilemma in putting together a budget. Each of them faces a basic question: How do you balance program-spending demands with a popular desire for tax savings?

Every government tries to design a budget that satisfies both of these needs. As a result, every government ends up unable to satisfy all of its constituents—those who want more program funding and those who want to keep their taxes as low as possible.

Minority governments face a special challenge. They need to design a budget that satisfies the party membership that it is living up to its ideals and to the platform on which it was elected. The government also needs to appeal to enough opposition members to ensure the budget's passage in Parliament. And, in case the budget fails to pass and the government falls, it needs to design a budget that can serve as a platform in a possible election.

The ruling Conservatives seem to have managed just such a budget. The budget increases federal spending to

more than \$7 300 for every man, woman, and child in Canada. It also provides significant tax breaks to some of the voters the Conservatives need to woo if they are ever to form a majority government. And, by transferring billions in new money to the provinces—and especially to Quebec—it has won the support of the Bloc Québécois. The budget should pass without problem.

This budget has been almost unanimously described as an election budget. Many believe that the government may well provoke a confidence vote so that an election can be held—even before summer 2007. The Prime Minister is confident that he has put in place a budget that will appeal to enough new voters to give him his majority.

Most commentators also believe that this budget is unlike any that a party describing itself as fiscally conservative has ever proposed. In fact, should the Conservatives win their majority, it may be because of a budget that most observers felt might as well have been proposed by the Liberals.

Pre-Viewing Activity

We all have things we wish the federal government would do for us, for our families, for our communities, and for our country. Before you watch the video, make a short list of four or five priorities you wish the government would address in the budget. Compare your list with those of your classmates. Are they similar? Select the four or five most popular ones.

As you watch the video, you will see that it describes many of the new initiatives. Are your class priorities among them? Were any left out, or emphasized less than you thought they should be? Why do you think this was? Outline your general response to this budget.

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Video Review

Answer the questions in the spaces provided.

Part I

1. Why are the federal Liberals “in a bind” when it comes to supporting or condemning the budget legislation?

2. What group does Jim Flaherty say the government is supporting with personal tax relief in the 2007 budget? _____
3. What is the Working Income Tax Benefit?

4. What are manufacturers now being allowed to do that will save them more than \$1-billion?

5. What action is the government taking to restore “fiscal balance” in Canada?

6. What province will receive the largest share of federal money being moved to the provinces?

7. What will it cost the federal government to restore the fiscal balance?

8. How many years will this take? _____
9. How many car models qualify for a fuel-efficiency rebate under the budget legislation? _____
10. To be taxed as a “gas guzzler,” how many litres of gas must a vehicle burn to travel 100 kilometres? _____
11. The budget provides \$2-billion in spending for one major environmental measure. What is it?

12. What province was loud in complaining about the new federal fiscal strategy for sharing with the provinces? _____
13. What party (in addition to the Conservatives) will support the budget and ensure its passage?

Part II

1. As you watch the video a second time, make a list of all the ways in which the 2007 budget may affect you or your family. Are these effects positive or negative? Explain. Use the organizer to help you structure your work.

Budget Item	Effect on My Family	Positive	Negative

2. The Conservatives have made a special attempt to appeal to Quebec voters by pouring huge amounts of extra money into the province. This is all money to be spent by the provincial government. Can you think of any ways in which this policy might backfire?

3. One of the most talked-about measures in the new budget is the rebate to purchasers of fuel-efficient cars and the penalty to those who buy big gas-guzzlers. How effective a policy do you think this will be? Would it affect your opinion to learn that the government expects to pay for the rebates from the money it charges in penalties?

4. What is your favourite and least favourite budget item? Why?

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Preparing the Budget

Quote

"The prototypical targets—farmers are always a target—are either retirees or middle-income families living in suburban or ex-urban areas. The families are the kind of people who, in the Harper typecasting, 'work hard,' go regularly to Tim Hortons, don't eat dinner out often, take good care of their kids, are hockey moms and dads, watch commercial television, obey the law and feel pinched by the costs of daily living." — Jeffrey Simpson, *The Globe and Mail*, March 21, 2007

In her introduction to the video, Carla Robinson makes an important point: the budget is probably the most significant piece of legislation of any government. Every Canadian is affected by it. The budget outlines the government's financial and program priorities. The budget also sets out the direction in which the government intends to take Canada for the year—and, in some areas, for the next several years.

The 2007 Conservative budget also has a special function because it may well be the last minority budget before the next federal election. The current government is a minority government and cannot govern without the votes of at least one of the opposition parties. Should the government lose a vote of confidence on the budget or another major issue (for example, law and order or environmental policy), an election will take place. The budget will serve as an election platform for the Conservatives—one that they hope will give them a majority.

For a fiscally conservative party, the government has proposed a surprisingly high-spending budget. Spending has increased to the point that the Canadian Taxpayers Federation (www.taxpayer.com), a leading lobbyist for tax reductions, calls the budget Big Government Conservatism. The tax cuts are being made to carefully selected groups. Almost all commentators see the budget as the Conservative blueprint for the next federal election. They also believe that the government has identified the two keys to a Conservative majority government.

Allen Gregg, head of a polling company called Strategic Counsel

(www.thestrategiccounsel.com), sums up the government's approach. "Harper just seems to be focused in laser-like fashion on two priorities. First, consolidate the federalist vote in Quebec and second, get the middle-class vote in the smaller urban centres in Ontario. That's what this budget is about" (*The Globe and Mail*, March 20, 2007).

Target: "Hard-working Families"

In its previous budget (2006), the Conservative government made a large reduction to federal taxes by removing one percentage point from the Goods and Services Tax (GST). But it also used what Brian Laghi of *The Globe and Mail* (March 20, 2007) calls "boutique tax cuts" to appeal to specific groups of voters. Among these groups were apprentices, transit riders, and families with daycare-aged children. Laghi identifies these groups as voters who could help elect a Conservative majority. In this year's budget, he says, "they went after the rest they still need."

The main beneficiaries of tax cuts and new spending are three groups: the lower-middle class, senior Canadians, and the "Canadian Tire crowd"—suburban and rural families. The list of measures appealing to them is a long one (see "Budget 2007" on page 11 of this guide). It includes tax credits for low-income earners, permission for married seniors to split their income for tax purposes, and a \$310 tax break to all families for each child under 18.

Why target these specific groups? Brian Laghi has the answer. "The moves, say experts, are an appeal to win votes in suburban Canada, particularly

Quote

"The Conservatives have discovered the golden elixir of political success: Target modest tax cuts to the working and middle classes, don't give money to the provinces without taking credit for it, and, when in doubt, spend." — John Ibbitson, *The Globe and Mail*, March 20, 2007

mid-sized cities in Southern and Southwestern Ontario where the Conservatives need to take up to another two-dozen seats to form a majority."

Target: Quebec

The other major target for a Conservative majority government is the province of Quebec. Conservatives now hold 10 seats in Quebec and would like to hold many more. The separatist Bloc Québécois holds the majority of seats federally. The Conservatives believe that several of these are ready to fall to federalist Conservative candidates.

In order to appeal to Quebecers, the Conservative budget pours billions of dollars into the province—at least \$2.3-billion dollars per year. The money is part of a package of new transfers of federal funds—\$39-billion worth—to all the provinces. For the first few

years, Quebec will receive 40 per cent of the amounts transferred.

The new money—announced just before a Quebec provincial election—was welcomed enthusiastically by all political parties. Quebec Premier Jean Charest immediately promised \$70-million in provincial tax cuts if his party won. Charest was re-elected with a minority government, and the separatist Parti Québécois found itself in third place in the new provincial government.

The Conservatives believe that the billions flowing into Quebec will have the same positive, federalist effect on the electorate in a federal vote. As written in *The Globe and Mail* (March 20, 2007), "The Conservative Party hopes that the budget will also reinforce its presence in Quebec, while undermining the relevance of the Bloc as its opposition."

Analysis

1. How well has the Conservative government worked to build up electoral support with this budget? Explain carefully.
2. In general, should political consideration play a major role in designing what is an economic blueprint for a nation? Discuss.

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Budget 2007

Further Research

The 2007 budget, the speech by the Minister of Finance, and other budget materials are available at www.budget.gc.ca/2007/index_e.html. Detailed highlights are available on the CBC Web site at www.cbc.ca/news/background/budget2007/.

Most political commentators were expecting an election budget. This would be a budget that the Conservative government would use to position itself for a federal election as early as spring 2007.

What many were not prepared for was the amount of spending the budget would contain. After all, Conservative budgets are expected to contain tax cuts and less government spending. When in opposition, the Conservatives regularly accused the ruling Liberals of being addicted to big spending.

The big surprise: Conservative government spending is projected to increase by \$10-billion to \$233-billion in 2007-2008. Program costs will jump by 5.7 per cent, about twice the rate of inflation. "A budget so Liberal, the Grits should sue" was the headline to John Ibbitson's column in *The Globe and Mail* (March 20, 2007).

Compared with the 2006 budget, there is far more emphasis on spending than on tax relief. The 2007 budget breakdown is about 50-50. In 2006, the breakdown was closer to 75 per cent tax relief to 25 per cent spending. Fortunately, there should be plenty of money to pay for the new spending. Total revenue is projected to be \$236.7-billion in 2007-2008. This means that there will be a surplus of \$3.3-billion; \$3-billion of that will go toward reducing the federal debt.

As with every budget, there are winners and losers. Here are some budget highlights from each category.

Seven Winners

1. Some of the provinces, and especially Quebec. Thirty-nine billion

dollars in additional funds are to be transferred to the provinces over the next seven years. This includes higher payouts to poorer provinces and more generous transfers for social spending, health care, postsecondary education, and infrastructure. Quebec is to receive at least \$2.3-billion per year. (In his budget speech Jim Flaherty, Minister of Finance, announced: "The fiscal imbalance is solved." The program, however, has not met with universal acclaim. The premiers of Saskatchewan and Newfoundland and Labrador have been especially vocal in their criticisms.)

2. Families with children. The budget includes an increase in the spousal tax credit for families with one earner and a \$2 000 tax credit per child for parents of school-aged children under 18.

3. Seniors. Married seniors can now split their income to reduce taxes. They can hold their Registered Retirement Savings Plans an additional two years before converting them. Some seniors can now continue to stay in their jobs part time and also receive a partial pension without penalty.

4. Low-income earners. They will receive a \$500 tax benefit to help get off welfare, in the form of a tax credit equal to 20 per cent of each dollar earned in excess of \$3 000.

5. The environment. About \$2-billion will be earmarked for environmental causes, including cash incentives (up to \$2 000) for buyers of ecologically friendly automobiles. Penalties of up to \$4 000 will be levied on gas-guzzlers.

Further Research

To stay informed about policies and actions of the Canadian Department of Finance, visit the official Web site at www.fin.gc.ca.

An ecoTrust will be set up with \$1.5-billion for joint greenhouse-gas-reduction projects with the provinces.

6. Small business owners. Small business owners, especially farmers and fishers, will get a 50 per cent increase in their lifetime capital gains exemption on some assets.

7. Manufacturers. Manufacturers will be able to write off their investments in new manufacturing and processing equipment over two years—much quicker than with current tax rules.

Six Losers

1. Aboriginals. No money is provided to address First Nations peoples' major demands, including poverty and land claims. The budget ignores the Kelowna Accord, an agreement reached between the previous Liberal government and the First Nations on how to address these problems.

2. Child daycare advocates. The previous Liberal government had promised

\$1.2-billion for a national daycare program. The budget provides \$250-million.

3. Unmarried taxpayers without children. There are no tax cuts or new benefits for this group.

4. Canada's cities. Canada's mayors had hoped a new urban strategy would be included in the budget. The Finance Minister has ruled out any new assistance to cities.

5. The Alberta oil-sands corporations. These companies will lose their special tax subsidies (put in place to encourage development when the price of oil was considerably lower), but not until 2015.

6. Science and research. Little money was made available for new research in the sciences. Typical is the fate of the Canadian Institute of Health Research, which asked for \$300-million and received \$37-million.

Analysis

1. Review the list of winners and losers above and note those with which you agree the most and those with which you disagree the most. Explain your choices.
2. What other items do you think were most needed in the recent budget? Explain.

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The Reaction: Interested Parties

As always, the federal budget provoked reaction from a variety of people and groups with a vested interest in what it contained. Here are some of those comments showing a range of reactions. Indicate whether you generally agree or disagree with the statements. Be prepared to explain your position.

General Comments

“This is hard to distinguish from a Liberal government budget. It’s the second highest spending increase in dollar terms since the books were balanced in 1977-1978. . . . Taxpayers would be better off if taxes were cut across the board and individuals and families were allowed to use their own common sense on how to spend their after-tax dollars.” — John Williamson, spokesman, Canadian Taxpayers Federation (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“It’s a good family-friendly budget.” — Dave Quist, executive director, Institute of Marriage and Family Canada (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“There were no surprises here. The surprises are more in what’s not here. Some of the tax measures are more modest than expected.” — Doug Porter, senior economist, BMO Nesbitt Burns (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“It’s a big budget for small business. They met and exceeded our expectations.” — Garry Whyte, executive vice-president, Canadian Federation of Independent Businesses (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

From Quebec’s Political Leaders

“Quebecers do need this money. Students are waiting for this money. People on waiting lists in the health-care system are waiting for this money. So we need this money as soon as possible . . . but the debate is far from over.” — André Boisclair, leader, Parti Québécois (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“Stephen Harper kept his word. Mr. Charest can’t get elected on his own record so he’s trying to do it using Mr. Harper’s record.” — Mario Dumont, leader, Action démocratique du Québec (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“Our government has been fighting for four years to give Quebec the room to manoeuvre. The federal budget hands us \$700-million. This \$700-million comes from the fiscal imbalance. We will give it back to Quebecers in tax cuts.” — Jean Charest, Premier of Quebec (*The Globe and Mail*, March 21, 2007)

Agree ___ **Disagree** ___

On the Green Car Policy

“For every step forward, they take two steps backward. They put a subsidy toward people getting into greener cars but then they also subsidize the oil sands. The government seems confused.” — Nathan Cullen, New Democratic MP (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“It will be new vehicles being sold. And only five per cent of new vehicles being sold will be affected by this levy, so it’s an interesting measure, but it’s very marginal.” — Quebec’s director of Greenpeace, Steven Guilbeault (www.cbc.ca/news/background/budget2007/environment.html)

Agree ___ **Disagree** ___

“A Toronto-based auto industry analyst said the federal government would do better with a gasoline tax hike. ‘At the hint of a gas tax, buyers will scramble for fuel-efficient vehicles,’ said Dennis DesRosiers of DesRosiers Automotive Consultants.” (www.cbc.ca/news/background/budget2007/environment.html)

Agree ___ **Disagree** ___

“I don’t think it’s going to move anybody in the marketplace. If they can afford a \$70 000 vehicle, they’re going to pay \$72 000.” — “A senior industry executive” (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“There is no policy other than to fool the general public. It clearly doesn’t reflect the urgent need for action on climate change.” — John Bennett, executive director, the Climate Action Network coalition (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

On Aboriginal Policy

“I don’t know how long we’re expected to wait, but I don’t see think this country can afford to see such poverty in such an incredibly wealthy country. It’s just too disappointing.” — Assembly of First Nations Chief Phil Fontaine (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“The verdict can’t be escaped. The Conservatives lack the political courage to confront, head on, the overriding social policy challenge of our time: eliminating aboriginal poverty on and off reserve.” — John Ibbitson, political columnist (*The Globe and Mail*, March 21, 2007)

Agree ___ **Disagree** ___

“They have no intention of dealing with the increasing gap in terms of health-care outcomes and education between aboriginal Canadians and other Canadians, and that’s just not acceptable. Not only is it wrong, but it’s tragic.” — Former prime minister Paul Martin (*The Globe and Mail*, March 22, 2007)

Agree ___ **Disagree** ___

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The Reaction: Political Parties

Further Research

To stay informed about the longer term political aspects of the budget visit the official Web sites of Canada's major political parties at www.conservative.ca, www.liberal.ca, www.ndp.ca, www.greenparty.ca, www.blocquebecois.org.

Here are some comments on the budget by federal politicians. Indicate whether you agree or disagree with each quote and be prepared to state your reasons for your choices. To begin, here is a comment from the Prime Minister:

“Every single province gets more money under this budget and a lot more money as the years go by, \$39-billion more. This budget rewards families, it rewards seniors, it rewards truckers, it rewards farmers. I could go on and on. The one thing that unites members of the Liberal Party is they are voting against all of them.”

— Prime Minister Stephen Harper (*Toronto Star*, March 22, 2007)

Agree ___ **Disagree** ___

The Liberals

“I’ve never seen a government . . . do so little with so much.” — Stéphane Dion, leader, Liberal Party of Canada (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“[For] the middle class, health care, students, child care almost nothing.”

— Stéphane Dion (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

“There is nothing to make sure that polluters pay. This is very, very troubling for me. . . .” — Stéphane Dion (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

“This budget is further proof that the Harper government is more concerned about electioneering for the short term than helping the average Canadian succeed both now and in the future. Either that or the Conservatives don’t understand the pressures facing low- and middle-income families.” — Stéphane Dion (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

The Bloc Québécois

“We can’t let \$3-billion [get] away . . . we’ll take the money.” — Gilles Duceppe, leader, Bloc Québécois (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

“A sovereignist government will know how to use that money to realize its program and ensure that Quebec is better positioned to become an independent country.” — Gilles Duceppe, (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

Note

There is a cap on how much money receiving provinces can get, so that resource-rich provinces (e.g., Newfoundland and Labrador) can't get transfer payments making them richer than "have" provinces (e.g., Ontario).

The New Democratic Party

"As it stands we cannot support this budget. It does not close the prosperity gap that has been growing and the pressure that is being felt by so many working families across Canada." — Jack Layton, leader, New Democratic Party (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

"The subsidies for the big oil and gas companies continue for several years, and that's wrong. And then there are a whole series of crumbs that has been offered to the average Canadian that don't amount to fundamentally addressing the growing inequality and gap that is facing so many people in Canada today." — Jack Layton (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

The Green Party

"We'd go to an election over this budget." — Elizabeth May, leader, Green Party of Canada (*Toronto Star*, March 20, 2007) (May said that her party—if it actually had any seats—could not support the budget because of inadequate policies on climate change.)

Agree ___ **Disagree** ___

On the "Fiscal Imbalance"

The Finance Minister's new transfer payments to the provinces provoked some of the most outspoken commentary from political leaders in Ottawa and across the country. Here are some of those comments.

"It's certainly the end of the bickering. It's the end of the discussion. *C'est fini.*" — Jim Flaherty, Minister of Finance, (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

"We don't think the fiscal balance has been settled because there is no mechanism such as transferring part of the GST or income tax points. There is nothing on that. It is always the will of the federal government to give or not give money. We think there is still work to do." — Gilles Duceppe, leader, Bloc Québécois (*Toronto Star*, March 20, 2007)

Agree ___ **Disagree** ___

"[Mr. Harper's] pretending he's honouring his commitment but at the same time clawing it back through the back door. I'm deeply disappointed." — Danny Williams, Premier of Newfoundland and Labrador (*The Globe and Mail*, March 20, 2007)

Agree ___ **Disagree** ___

"In Saskatchewan the Conservative promise about equalization was torn to shreds. It is the biggest sucker punch since Todd Bertuzzi." — Ralph Goodale, federal Liberal House leader (*Toronto Star*, March 21, 2001)

Agree ___ **Disagree** ___

“We had feared all along that that was exactly what the Prime Minister was going to do—use Western oil money to buy votes in Quebec. But none of us expected it to be so blatant.” — Andrew Thomson, Saskatchewan Finance Minister (*Toronto Star*, March 22, 2002)

Agree ___ **Disagree** ___

“While we’re getting more money for health care, we’re not getting as much as we should. So more is better than none, but what’s best is that we’re treated the same as all Canadians.” — Dalton McGuinty, Premier of Ontario (*Toronto Star*, March 21, 2001)

Agree ___ **Disagree** ___

“A prime minister is supposed to unite and not divide, and a federal government is supposed to act on behalf of all Canadians. The people of Saskatchewan, New Brunswick, Nova Scotia, Newfoundland and Labrador are wondering today, ‘Why don’t we count?’ Why did the government introduce a budget that so obviously divides the country?” — Michael Ignatieff, deputy Liberal leader (*Toronto Star*)

Agree ___ **Disagree** ___

For Discussion

The so-called fiscal imbalance has been a thorn in the side of the federal government for several years. Jim Flaherty believes he has solved it. Do you think we may at least be closer to a solution, or could the new policy make matters even worse? Explain.

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Activity: Dear Minister of Finance

Further Research

Should you require more details, the budget, the speech by the Minister of Finance and other budget materials are available at www.budget.gc.ca/2007/index_e.html. Detailed high-lights—excellent background for this activity—are available on the CBC Web site at www.cbc.ca/news/background/budget2007/.

Every Canadian is affected by a government's budget, and every Canadian has a right to comment on its content. In fact, the government encourages input from interested citizens—positive and negative.

Like most Canadians, you likely have some things you are happy to see in the budget, and others that you wish had been included or omitted, or that had received increased or decreased funding.

Your task is to write to Jim Flaherty, Canada's Minister of Finance, and express your views on Budget 2007. The letter should be addressed to:

The Hon. James Michael Flaherty, PC, MP
Minister of Finance
House of Commons
Ottawa, Ontario
K1A 0A6

Or you may prefer to use e-mail over the regular post: jflaherty@fin.gc.ca.

Begin with the salutation "Dear Minister:" and conclude with "Yours sincerely," followed by your signature.

Did you know . . .

You do not need to use a stamp for a letter written to a Member of Parliament. Why do you think that this so?

A good letter will include four sections:

1. An introductory section explaining why you are writing to the Minister (for example, your interest as a Canadian in the new directions the budget might take the country).
2. Your positives: A list of some of the good changes you see coming from the new budget.
3. Your concerns: Any item or items you wish had received more—or different—attention in the budget, and a recommendation that they be addressed in the future. For maximum impact, it is best if you can limit any negatives to no more than one or two areas.
4. A thank-you to the Minister for his efforts on Canada's behalf, and an expression of hope that he will take your concerns under consideration.

Flaherty has said his government takes a special interest in "hard-working Canadians." As a hard-working student, here is your chance to be heard.