

Canadian Association of University Teachers
Association canadienne des professeures et professeurs d'université

CAUT Analysis of Federal Budget 2009



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The 2009 federal Budget comes at a time when the economy is facing its most serious downturn in a generation. The financial meltdown that has spread throughout the world is now being felt in the real economy. Economic growth is retracting rapidly, job losses are mounting, the value of assets and savings are being eroded, and more and more businesses and households are facing bankruptcy.

Most governments around the world have responded aggressively to this deepening crisis. After buttressing financial markets and rescuing flagship financial institutions from failure, countries are now implementing ambitious fiscal stimulus packages to support the real economy.

Canada, by contrast, has been noticeably slow to respond. As recently as November, the Conservative government was unconvinced of the need to actively intervene to stop the slide into recession. However, faced with both the prospect of imminent defeat and the mounting evidence of the severity of the economic crisis, the government has backtracked and unveiled a broad series of spending and tax initiatives in Budget 2009 with a view to stimulate economic activity.

Overall, the budget contains a lengthy and unfocused list of measures to address the short-term challenges facing the economy. Spending initiatives are thinly spread out across a wide range of sectors and programs, and new tax cuts push the deficit up for years to come. The government has adopted a scatter gun approach to the crisis, hoping that something hits the target. But it's an approach

that has no coherent or long-term vision for strengthening the economy.

There is little new money for post-secondary education and research. There is new money for university and college infrastructure projects, but this funding is contingent upon institutions finding co-funders – a daunting task given the economic conditions at the moment. There is little new money for research, and what is provided is tied to priorities identified by the government rather than the research community.

The current economic crisis we face requires bold measures that provide both immediate stimulus and also provide long-term benefits that will strengthen our economy and our society. Key investments in research and education are absolutely vital, not only for their immediate impact in stimulating the economy, but also for building the long-term economic and social security of all Canadians. Unfortunately, this budget missed that opportunity.

Fiscal Outlook

The deterioration in the economy has significantly reduced government revenues. While Finance Minister Jim Flaherty had as recently as November projected a healthy surplus for 2008-09 and a balanced budget for 2009-10, that forecast has now been revised to a small surplus for the current year and a \$15.7 billion deficit next year. After taking into account the cost of new spending measures announced in the budget, the deficit will be \$1.1 billion in 2008-09, \$33.7 billion in 2009-10, and \$29.8 billion in 2010-11. The

government projects that deficits will continue until 2013-14.

However, this forecast is exceedingly optimistic. The government is projecting the recession will end by the fourth quarter of this year and that the total economic contraction will be just 0.8% of GDP. Given more recent indications, the downturn will likely be far more protracted and severe than predicted, thus likely pushing up the deficit in future years.

Budgetary revenues and expenses as a share of GDP

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Tax revenues	14.7	14.4	14.7	15.0	15.0	15.2
Program spending	12.9	14.7	14.5	13.6	13.3	13.1
Public debt charges	1.9	1.9	2.0	2.1	2.1	2.0
Total expenses	14.8	16.6	16.6	15.7	15.4	15.2
Federal debt	28.6	31.6	32.1	30.9	29.5	28.0

Post-Secondary Education and Training

Given the depth of the economic downturn, the budget is particularly disappointing in that there is no new money for post-secondary education in the Canada Social Transfer (CST) other than already built-in increases. The value of the CST will rise by 3%, from \$10.6 billion in 2008-09 to \$10.9 billion in 2009-10. Of the latter amount, roughly \$3.3 billion will be available for post-secondary education, an

increase of less than \$100 million from the current year.

A more significant increase in the cash transfers for post-secondary education would have generated significant economic spin-offs and helped ensure that university and college education is more affordable; that class sizes could be reduced; that course offerings could be increased; that there would be adequate numbers of faculty; and that facilities, labs, and library holdings could better meet student and faculty needs.

The Budget provides 2-year funding of \$1 billion through the Employment Insurance program to provide training to eligible EI recipients. A further \$500 million is being allocated to a Strategic Training and Transition Fund over the next two years to support individuals whether or not they qualify for EI. The government claims that these two measures will allow 150,000 more Canadians to receive training.

For students, there is no increase in direct financial assistance through the Canada Student Loans program or the Canada Education Grants. Instead, the budget boosts the funding of the Canada Summer Jobs program by \$20 million over the next two years. As well, the government will provide a one-time grant of \$15 million to the YMCA and YWCA to create internships for youth in not-for-profit and community services organizations, with a focus on environmental projects.

Funding for the Targeted Initiative for Older Workers will be raised by \$60 million over 3 years. As well, the government will create an

Apprenticeship Completion Grant that will provide a taxable grant of \$2,000 to apprentices who complete their certification. The budget also provides \$50 million over two years to support the development of a common pan-Canadian approach to foreign credential assessment.

Additional support for working people is provided through changes to Employment Insurance, although the measures announced are far more modest than had been anticipated. The government will increase the benefit entitlement period by five weeks to a maximum of 50 weeks for the next two years. This provides no assistance to more than 50% of the unemployed who fail to qualify for benefits. There were also no increases to EI payments, no reduction in the number of hours of work needed to qualify, and no equalization of the number of weeks of eligibility.

Infrastructure

Budget 2009 provides up to \$2 billion over two years to support deferred maintenance and repair projects at colleges and universities. Project proposals will be managed by Industry Canada with preference given to projects that improve the quality of university research and development, and colleges' ability to deliver skills training. About 70% of the funding will be provided to universities, with colleges receiving 30%.

While the infrastructure funding is badly needed, it is not clear that all the money will be spent. That's because the federal government will only pay up to half of project costs, with other funders – provincial

governments, private sector partners, or the universities and colleges themselves – required to provide the remainder. Given that many provincial governments are facing serious fiscal constraints and that private sector spending is contracting in light of the weakening economy, it will be very difficult for many institutions to find co-funders. Given that the federal government has far more room to manoeuvre, it should be fully funding the program.

Other infrastructure initiatives in the budget include new money for social housing. The budget provides one-time federal investment of \$1 billion over two years for renovations and energy retrofits for social housing units, but is contingent on provincial co-funding. Other social housing initiatives, also to be cost-shared with the provinces, include \$400 million over two years for social housing for seniors, \$75 million over two years for social housing for persons with disabilities, and \$200 million over two years for social housing units in the North. There is no money for expansion of the general stock of social housing despite more than two hundred and fifty thousand households on the waiting list.

Additionally, the federal government is creating a \$4 billion Infrastructure Stimulus Fund for provincial, territorial and municipal infrastructure projects, but the fund will cover up to just half the costs. Projects will be subject to an accelerated approval process, raising concerns amongst some that environmental protections may be compromised.

The budget also creates a Green Infrastructure fund of \$1 billion over five

years that will be used to support infrastructure projects that focus on sustainable energy. The fund will be provided on a cost-shared basis. In addition, new cost-sharing arrangements are planned for recreational infrastructure.

The federal government will invest modestly in federal infrastructure projects, including \$407 million for VIA Rail; \$130 million (to be cost-shared with the provinces) for improvements to sections of the TransCanada Highway in Northern Ontario, Quebec, Nova Scotia, and Manitoba; \$270 million for repairs to federal bridges; and \$323 million over two years for repairs to federally owned infrastructure, a number of which will be conducted through public private partnerships (PPPs).

It is worth noting the government's focus on PPPs in the budget as there is clear evidence that PPPs cost more than publicly financed infrastructure projects.

Research

The research funding initiatives in the budget are surprisingly modest. Most economists recognize that investments in research provide both immediate economic stimulus and long-term improvements in productivity and social well-being. In the United States, the Obama administration is proposing to boost research funding by more than \$12 billion as part of its economic stimulus package.

The budget provides \$2 million to Indian and Northern Affairs to undertake a feasibility study of building a High Arctic research station. A further \$85 million over two years

will be spent on upgrading existing Arctic research facilities. Federal laboratories will receive \$250 million over two years to address deferred maintenance. Additionally, \$150 million will be provided over 5 years for research into clean energy technologies.

Budget 2009 offers very little for the academic research community. There are no increases to the base budgets of the granting councils. In fact, the government has identified "strategic review savings" of \$17.1 million in 2009-10, \$43 million in 2010-11, and \$87.2 million in 2011-12 for a total of \$147.9 million over three years. These savings are to be used to support the infrastructure funding, and to upgrade Arctic research facilities. As well, \$87.5 million of the savings will be returned to the granting agencies not for research but to temporarily expand the Graduate Scholarship Program. It's also worth noting that government will require that these scholarships awarded by SSHRC be focused on business-related degrees. An additional \$3.5 million over three years will be provide to the Industrial Research and Development Internship program that supports graduate students in science and business.

The Institute for Quantum Computing at the University of Waterloo will receive \$50 million. The Canadian Space Agency will see its budget boosted by \$110 million over 3 years. There is also a commitment to provide \$150 million in the current fiscal year to the Canadian Foundation for Innovation, but no increases for 2009-10. Beyond 2010, the government will provide \$600 million for the "future activities" of the Foundation, but this translates into a very modest yearly increase of \$50 million in 2010 and 2011. Strikingly, the

budget also announces the government's intention to require the CFI to develop a new strategic plan in collaboration with the Ministry of Industry. Future projects funded by the CFI will be based upon priorities identified by the Minister of Industry in consultation with the Foundation.

It is disappointing that the granting agencies will experience a reduction in funding over the next three years, and it is disturbing that the government is again targeting funding toward specific research projects and priorities it has chosen. CAUT believes that funding decisions should be assessed on their merit by the research community.

Tax Measures

The value of tax cuts in the current economic crisis is questionable. Given high levels of consumer debt, households are more likely to pay down debt rather than spend or invest the tax savings. If the cuts do encourage some new spending, much of that is likely to be spent on imported goods that provide little stimulus to the Canadian economy.

Despite these concerns, Budget 2009 increases the basic personal amount and the top limit of the first two personal income tax brackets retroactive to January 1, 2009. The basic personal amount will rise from \$9,600 to \$10,320. In addition, the limit of the first personal income tax bracket of 15% will be increased to \$40,726 from \$37,885, while the second tax bracket at which income is taxed at 22% will rise from \$75,769 to \$81,452. In contrast to the bulk of new spending initiatives outlined in the budget, these tax cuts are permanent and will reduce revenues

by \$470 million in 2009, \$1.9 billion in 2009-10, and nearly \$2 billion in 2010-11. This will put pressure on the government's finances well into the future, constraining future program spending.

The increase in the upper limit for the first tax bracket will also apply to the National Child Benefit supplement and the Canada Child Tax Benefit. As a result, families with two children earning under \$20,000 will actually see no increase in benefits because their taxable income after deductions remains within the first tax bracket. Those earning between roughly \$25,000 and \$50,000 will see modest increases in benefits of up to \$436.

The budget also provides \$580 million to enhance the Working Income Tax Benefit (WITB), a refundable tax credit that supplements the earnings of low-income workers. The Age Credit will be increased by \$1,000.

A temporary Home Renovation Tax Credit is being introduced that will provide up to \$1,350 to Canadians who undertake home renovation projects. The credit will apply to projects that are performed before February 1, 2010. It is estimated the measure will cost \$500 million in 2008-09 and \$2.5 billion in 2009-10.

The value of the tax credit is questionable. As job losses continue to mount and savings are depleted, it is difficult to see how the credit will encourage many households to spend. It will provide benefits for those who were already planning renovations, but will likely have a limited impact on stimulating new spending. It will also be difficult to monitor

and enforce. More importantly, at a time when productive investments in the real economy that will produce long-term benefits are needed, the value of providing a credit to consumers to pay for a new kitchen or carpeting is dubious.

The budget also provides \$300 million over two years for the ecoENERGY Retrofit program. The maximum amount that first-time homebuyers can withdraw from an RRSP under the Home Buyers' Plan is set to increase from \$20,000 to \$25,000. As well, first-time home buyers will receive a non-refundable tax credit that will provide up to \$750.

Business taxes are also being reduced. The budget provides a temporary 100% capital cost allowance rate for computers purchased after January 27, 2009 and before February 1, 2011. Tariffs are being eliminated on a range of machinery and equipment at a cost of \$440 million over five years. The amount of small business income eligible for the reduced federal tax rate of 11% will be raised to \$500,000 from \$400,000.

The budget documents indicate that by 2012, Canada's statutory general corporate tax rates will fall to the lowest in the G7 – 27.2% compared to 39.3% in the United States.

Financial Market Initiatives

The budget introduces a series of measures designed to address problems in the credit markets. The government will be purchasing an additional \$50 billion in insured mortgage pools under the Insured Mortgage Purchase

Program in an effort to stabilize funding and encourage lenders to lend to consumers and businesses. This is in addition to the \$75 billion already authorized.

In a further effort to ensure businesses have access to financing, the government will increase loans available through Export Development Canada and the Business Development Bank of Canada. As well, the maximum loan amount a small business can receive through the Canada Small Business Financing Program will be raised from \$250,000 to \$350,000.

To deal with the disruption in credit available for vehicles and equipment, the government will create a Canadian Secured Credit Facility, with an allocation of up to \$12 billion, to purchase securities backed up by loans and leases on vehicles and equipment. As well, the government will improve regulations of financial institutions that issue credit cards to ensure timely disclosure of information to consumers.

The budget also announces a series of spending cuts that will total \$386 million when fully implemented. Almost half of this reduction falls on programs administered by the Canadian International Development Agency (CIDA). The government claims money saved here will be re-allocated to other development assistance programs.

Sectoral Initiatives

The budget outlines a series of measures to address sectors that have been hit particularly hard by the economic downturn. Canada's forestry sector will receive \$80 million over 2

years through Natural Resources Canada to develop new technologies related to forest utilization, nanotechnology, and next generation products. An additional \$40 million will be provided in 2010-11 to develop demonstration projects of new products.

For the agriculture sector, the budget provides \$500 million over five years to help facilitate new initiatives that reduce production costs, improve environmental sustainability, and promote innovation.

Canada's shipbuilding industry receives a boost from the government's plans to purchase \$175 million in new vessels for the Coast Guard. The beleaguered automotive sector receives no new direct funding outside of the previously announced \$2.7 billion in federal loans offered in December.

The Conservative government, after being criticized for cutting funding for cultural programs, is now unveiling new investments in the sector. These include: \$60 million to support infrastructure-related costs for community cultural and heritage institutions; \$25 million for an endowment to establish international awards to recognize excellence in dance, music, and dramatic arts; \$20 million over 2 years for the National Arts Training Contribution Program; \$30 million over two years to support local magazines and publishers; \$28.6 million over two years to the Canada New Media Fund; \$200 million over two years for the Canadian Television Fund; and \$75 million to Parks Canada for upgrades to national historic sites.

Aboriginal Canadians

The budget provides new funding for a number of programs for Aboriginal Canadians. \$200 million over three years is being provided to the Aboriginal Skills and Employment Partnership initiative. In addition, \$75 million over two years will be provided to a new Aboriginal Skills and Training Strategic Investment Fund that will support short-term projects that respond to local labour market needs.

Other measures announced in the budget include \$305 million over two years for First Nations health services; \$135 million for health services infrastructure that benefit Aboriginal Canadians; \$20 million over two years to fund First Nations child and family services; and \$400 million over two years for social housing on First Nations reserves.

Other Measures

In the November Fiscal Update, the government had proposed to suspend the right to strike of federal public sector workers. In Budget 2009, the Conservatives have announced plans to limit annual wage increases retroactively to 2.3% in 2007-08 and 1.5% for the following three years.

In addition, the government will change the Equalization program to limit increases to growth in the economy.

Finally, as indicated in the Fiscal Update, the government will eliminate the current pay equity complaint process in the federal public sector, and require it to be negotiated in collective bargaining.

Conclusion

Budget 2009 could have done more to address the economic crisis. Bold initiatives to stimulate growth, create jobs, and build for the long-term economic and social security of Canadians are needed. Unfortunately, this budget provides a mish mash of half-measures to deal with the current crisis, and lacks any long-term vision or plan.

By international standards, the size of the stimulus package unveiled in the budget is very modest. There is a growing consensus within the industrialized world that governments need to spend at least 2% of GDP to help offset the current economic downturn. The initiatives in this budget, if fully enacted, amount to \$18 billion, or less than 1.5% of GDP.

The economic impact of the stimulus measures outlined in the budget is also likely to be modest. The cost-sharing requirements of the new infrastructure funding, for instance, could hamper the development of projects where it proves difficult to leverage public or private sector financing. The tax

cuts unveiled are unlikely to provide the needed economic boost. Given the high levels of consumer debt and declining consumer confidence, there are good reasons to be concerned that tax cuts will simply be used to reduce debt rather than be spent on goods and services or invested strategically in the real economy. Facing the rapidly deteriorating state of the economy, the best course of action is direct government spending on measures that provide jobs for Canadians who need them and that invest in the future economic and social development of the country. Investments in infrastructure, public services, and in people are vital.

For this reason, post-secondary education and research should have played a more central role in this budget. Investments in universities and colleges provide proven economic and social benefits. Instead, new funding for post-secondary education was limited primarily to a flawed infrastructure program. The absence of new money for the granting agencies, in comparison with the substantial increase in the United States, will make it more difficult for Canada to attract and retain top researchers.