



Campbell Strategies

## Budget 2010: Post-Olympic Challenge

Providing guidance and useful insights

March 2010

[Join Our Mailing List!](#)

As Canada emerges from the Great Recession, the Conservative Government is focused on jobs and growth and now turns its attention to returning to budget balance over time.

Budget 2010 commits the government to a Jobs and Growth agenda by completing the infrastructure spending associated with the "Economic Action Plan" and announcing a few new measures to stimulate investment. There is little new spending given the paramount importance of deficit reduction. The budget signals a return to the conservative agenda for a smaller federal government overall.

Below are some budget highlights:

- Federal transfer payments to the provinces are unaffected (past federal governments, both Liberal and Conservative, have found such transfers to be easy targets for spending cuts). Instead, the government freezes departmental budgets and MPs salaries (always a popular measure) and signals a slowdown in defense spending and foreign aid to begin to address the deficit as Canada emerges from the recession. While pledging to maintain low taxes, the government looks to enhanced tax revenues from economic growth to eliminate the deficit over time.
- The Conservatives renew their determination to get Ottawa out of areas of provincial jurisdiction while asserting federal jurisdiction on matters where past governments have feared to tread:

O The Budget announced that legislation is being introduced shortly to create a national securities regulator and confirmed the Government's intention to bring the issue before the Supreme Court.

O The federalization of provincial sales taxes continues with substantial federal support.

O The Federal Government's reduction of business taxes and tariffs puts pressure on provincial governments to follow suit. Whether the provinces like it or not, Canada is now a low business tax jurisdiction.

- There is a major change in the financial services sector with the Budget's announcement that credit unions will now be allowed expand nationally. Consumers should like this move as much as the Banks may dislike new and likely effective competition.

- The Banks may also not be too happy with a number of measures designed to help consumers: the prohibition on negative option billing, standardizing the calculation and disclosure of mortgage pre-payment penalties, reducing the time banks can hold cheques to four days from seven, and the creation of a third party dispute resolution mechanism.

- Protecting the interests of consumers and small business is also the rationale behind a new Code of Conduct to govern the credit and debit card industry. Along with the new Code will come new powers for the Minister and a Task Force to look at issues of competition, consumer protection and innovation in the sector.

- The door has been opened to higher foreign ownership in the broadcasting and communications sectors. Ownership caps in other sectors may well also come down.

- The Budget signaled that the income retirement system is going to be under review at the next federal-provincial meeting. This is a brave undertaking and a serious challenge.

- Income trust conversions utilizing companies with tax losses will not be allowed.

- The Federal Government will continue to provide substantial funding to AECL. These funds will ensure that there will be something of value to be sold. At the same time the federal regulatory review process for energy projects will be streamlined with the National Energy Board and the Canadian Nuclear Safety Commission taking on new responsibilities. Also, on the energy front are tax measures designed to benefit district energy companies.

- The budget also includes several initiatives that will strengthen the leading edge work that is currently being done at Canadian colleges including additional funds for the College and Community Innovation Program, increased support for applied research, the creation of a digital economy strategy and the continued investment in post-secondary infrastructure.

A copy of the actual budget may be found at the following link: <http://www.budget.gc.ca/2010/home-accueil-eng.html>

#### **From a Liberal**

For the Liberals, the Budget, and indeed the return of Parliament, presents a dilemma and not an opportunity. Hoping that Canadian's have forgotten his promise to vote the Government out, the Liberal Leader has to figure out how to make enough noise to get attention and not trigger an election at an inopportune time. With support for the Liberals dipping again, Liberals are not looking for the Spring

election many had planned for. How to vote on the Budget presents an immediate challenge. Do the Liberals vote against it because they want more cuts or more spending? Either approach will anger half the voters they will need. The Liberals want to "own the podium" one day, but the Tories have borrowed it for the immediate future.

This is a "do nothing" budget after a "say nothing" Throne Speech. It should make Canadians wonder what proroguing Parliament to re-calibrate was all about. The Tories are reintroducing measures that died on the Order Paper when they dismissed Parliament as just a big nuisance. We should have some sympathy for the Tories-it's tough to deal with deficits when you won't consider tax cuts for ideological reasons and won't consider cuts in transfers to the provinces for political reasons. All you can do with those constraints is preen and dream on.

Constrained in its spending, this budget is high on self praise for what has already been accomplished and heavy on announcements about monuments, commemorations and commissions of study. There's also a pledge to reintroduce the criminal justice measures, which died with the last Parliament. The Budget even proposes to wade into the contentious wording of the national anthem! Many of these initiatives are perceived by the government as important to core constituencies. Don't look for any discussion on the environment, you won't find it.

Having served as Finance Minister Paul Martin's Parliamentary Secretary when Canada faced its previous deficit crisis, I can say that the Tories are dreaming if they think they can wrestle down the deficit in five years with no significant spending cuts (transfers to the provinces) and/or tax increases. They will simply not achieve any meaningful dent in the deficit with the usual list of salary freezes for

MPs, freezing departmental budgets etc. Their plan to address the deficit is to cross their collective fingers and hope for economic growth and significantly increased tax revenues, just a tad inconsistent for a government that hates taxes. Minister Flaherty has made the cardinal sin of projecting five years down the road-good luck with that. No surprise though-Jim Flaherty never could count and has no credibility on budgets and deficits. He was part of the last Conservative government of Ontario which predicted a balanced budget and left Ontario with a 5.6 billion dollar deficit.

The Tories didn't see the recession coming, didn't know what to do when it first got here, and haven't got a clue how to slay a deficit. For that, perversely, you need Liberals. Stay tuned.

-Barry Campbell

#### **From a Conservative**

On Budget Day in Ottawa, the most frequently heard refrain was, "Can you believe this is Flaherty's fifth Budget?" It was said by Conservatives with glee, by Liberals in despair, and journalists in disbelief. The Conservative interregnum has proven to be more permanent than anticipated by many.

While most Budget coverage has focused the themes of spending restraint, the Budget confirms something fundamental to the Prime Minister's agenda: the economic rebalancing of federal and provincial economic responsibilities. Program delivery goes provincial while the taxation and financial regulatory system goes national. Federal transfers to the provinces are protected, provincial sales taxes are standardized, a national securities regulator moves one step closer, provincial credit unions become federal, more free trade discussions with countries near and far, and foreign ownership restrictions are

being eased.

What's remarkable in all of this is the tepid Liberal response. In the past the Liberal nationalists would decry any reduction in federal powers, change in foreign ownership rules, or treaties to lower trade barriers. Perhaps they finally realize a page has been turned and the old Liberal economic shibboleths are no more. With the economy rebounding and a foreign policy that is unambiguous and principled, Ottawa is dominated by a new Conservative vision with a Prime Minister firmly placed at the top of Ottawa's political podium.

-Paul Brown

### **Contact us**

If you have questions regarding the topics in this newsletter or related government matters, please contact our consultants.

Barry Campbell      416-368-7353 x260

[barry@campbellstrategies.com](mailto:barry@campbellstrategies.com)

Paul Brown      416-368-7353 x236

[paulb@campbellstrategies.com](mailto:paulb@campbellstrategies.com)

Christopher Holz      416-368-7353 x261

[chrish@campbellstrategies.com](mailto:chrish@campbellstrategies.com)

Martha Black      416-368-7353 x230

[marthab@campbellstrategies.com](mailto:marthab@campbellstrategies.com)