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CENTRE FOR THE STUDY OF LIVING STANDARDS

An Assessment on the Implications of the 2009 Federal Budget for the Living Standards of Canadians

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Executive Summary

The economic downturn is causing the living standards of Canadians to fall. Governments should mitigate the suffering of the economically vulnerable and lay the foundations of recovery with measures to improve productivity. At the same time, equity considerations must be taken into account so that the burden of the recession does not fall unduly on the disadvantaged. The objective of this research note is to assess the implications of the 2009 budget for the living standards of Canadians in both the short term and the long term, based on three criteria:

- Short-term **stimulus** to economic activity;
- **Equity**, *i.e.* the effect on the well-being of disadvantaged groups; and
- Long-term **productivity** growth.

The major measures and policy areas addressed by the budget are considered in detail in the note. Key findings are:

- Measures to improve the **Employment Insurance** program are notable for improving equity, having a strongly stimulative effect, and delivering training for the future.
- The **tax** measures, especially the changes to the National Child Benefit supplement and the Working Income Tax Benefit are highly stimulative and likely to improve equity, since they are targeted at low-income Canadians.
- The **housing sector** measures are highly stimulative, while the investments in social housing improve equity.
- **Infrastructure** measures will help to improve productivity in the long term, but the accelerated capital cost allowance and tariff relief on machinery and equipment will be even more important in this regard.
- The **environmental**, **regional development**, and **small business** measures will provide stimulus and may help to improve productivity to the extent that they foster innovation.

In absolute terms, no one loses from the 2009 budget. The government did not cut programs, reduce spending, or increase taxes in any significant way. Overall, the budget does well on short-term stimulus, but it could have done more for equity and long-term productivity growth.

I. Introduction

The economic downturn is causing the living standards of Canadians to fall. Governments should mitigate the suffering of the economically vulnerable and lay the foundations of recovery with measures to improve productivity. The objective of this note is to assess the implications of the January 27, 2009 budget for the living standards of Canadians.

The most widely used measure of living standards is GDP per capita, which reflects developments in both productivity and employment. Measures that both improve productivity and boost employment thus contribute to improvements in living standards. The issue of equity is also crucial for any discussion of living standards as increases in average living standards without the disadvantaged enjoying gains do not constitute true progress for the living standards of a society.

Based on the two fundamental drivers of living standards, employment and productivity, and equity considerations, the document develops three criteria to assess the budget. The first criterion is the net stimulus impact of the budgetary measures on economic activity in the short term, that is during the next two years. This macroeconomic impact directly affects the employment prospects of Canadians. The second criterion is the effect of the budget on the well-being of disadvantaged groups, that is the equity implications. The third criterion is the implications of the budget for long-term labour productivity growth.

Our overall assessment is that while this budget had done well on short-term stimulus, it could have done more on equity and productivity growth in the long-term.

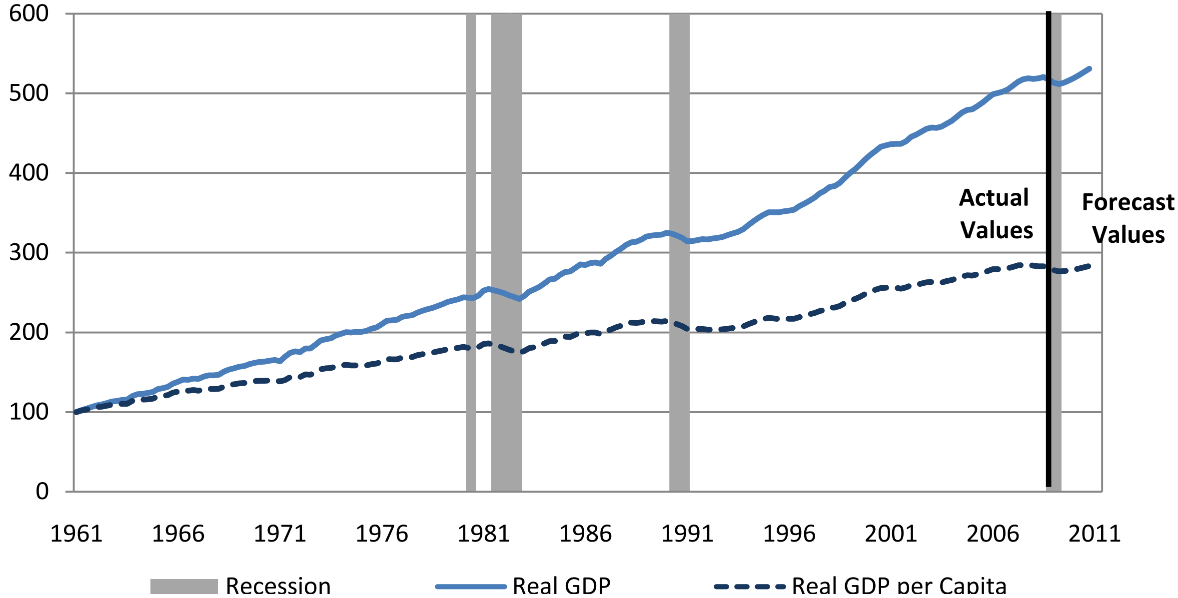
II. Context

In late 2008, Canada entered its first recession since the early 1990s. This economic crisis was not caused by contractionary monetary policy or inappropriate fiscal policy, but by the worst international financial market crisis since the 1930s. The scope and depth of the current downturn is still unknown, and events are unfolding rapidly. Forecasters revise their projections frequently, and uncertainties about the future are widespread.

Yet Canada is relatively well positioned to absorb the economic shock associated with the current crisis. In the first few months of 2008, the unemployment rate stood at 5.8 per cent, its lowest level since Statistics Canada began to track it in a consistent manner. Even after a sharp decline in output in the fourth quarter of 2008, the unemployment rate stood at only 6.6 per cent in December, very low by historical standards. The fiscal position of the federal government is also very favourable, with a debt-to-GDP ratio slightly below 30 per cent in 2008. Finally, monetary policy is not constrained given that wage growth expectations are well anchored and that inflation is minimal. In fact, the Bank of Canada already lowered interest rates to historically low levels (currently one per cent).

Over 2008, forecasters have gradually reduced their projections of output growth for Canada. Nonetheless, projected output growth in Canada remained above that of the US, Japan and the Euro area (Finance Canada, 2009). In fact, based on the average of projections from the five major Canadian banks, the current recession is projected to be milder than both the early 1990s and the 1981-1982 recessions (Chart 1). The effect on living standards is projected to be slightly larger, with GDP per capita expected to fall three per cent between the second quarter of 2008 and the second quarter of 2009 (Table 1).

Chart 1: Quarterly Index of Real GDP and Real GDP per Capita in Canada, 1961Q1 to 2010Q4, 1961=100



Source: CSLS estimates based on Statistics Canada for actual values and BMO, CIBC, RBC, Scotia and TD for forecasts.

Currently, the economic downturn expected in Canada is relatively mild (Appendix Table 1). Western provinces are expected to weather the crisis better than other provinces, with the highest unemployment rate from any of the forecasters for any of the four provinces at 6.6 per cent in Manitoba in 2010 (Appendix Table 2). Ontario and Quebec will be particularly hit, with some forecasters projecting an unemployment rate above 9 per cent in both provinces. But fears of job loss are spreading, with one in four Canadians saying they are more concerned now than a year ago about their job security (Thompson, 2009). Moreover, if recent history is any guide, it would not be surprising if projections became gloomier before long. And if Canada indeed is facing only a mild recession, the present crisis still remains a unique opportunity for the federal government to invest strategically in Canada's future. The next section will seek to answer whether the 2009 budget lived up to both the short-term challenges presented by the current crisis and the long-term challenges associated with productivity and competitiveness.

Table 1: Fall from Pre-Recession Peak to Post-Recession Trough, per cent

Recessionary period	GDP	GDP per capita
1980Q2 – 1980Q3	0.4	1.1
1981Q3 – 1982Q4	4.9	6.5
1990Q2 – 1991Q1	3.4	4.8
2008Q4 - 2009Q2	1.7	3.0

Source: CSLS estimates based on Statistics Canada for actual values and BMO, CIBC, RBC, Scotia and TD for forecasts.

III. A Detailed Assessment of Budget Measures

This section assesses the budget measures based on the three criteria outlined earlier: stimulative impact, equity and long-term labour productivity (Table 2). Twenty-nine budgetary measures are assessed on these three criteria with five possible ratings: strongly positive, positive, neutral, negative, and strongly negative. The benchmark used to evaluate the measures is the actual impact of the measure relative to a scenario where the measure is not being adopted. In other words, any measure that increases spending will be judged stimulative, even though many observers might consider the amount of stimulus inadequate. The assessment is not based on some subjective target level of desired spending set by the observer. By this method of evaluation, any measure could be found lacking if one sets one's expectations or targets high enough. Certainly, it is useful and legitimate for advocacy groups and lobbyists to outline their expectations for the budget, and then express disappointment when this target is not met. But it is not the approach taken in this assessment. Finally, it is important to note that the assessment assumes that the proposed measures can be implemented within the time frame indicated and that the measures are effective. In the next few pages, each measure is examined individually.

The Canada Skills and Transition Strategy

Beyond the crisis, Canada is being buffeted by the forces of globalization and technological change. Some sectors of the economy are suffering from both these long-term trends and from the cyclical downturn; manufacturing and forestry are widely considered to be suffering disproportionately.

An extra five weeks of EI benefits

The 2009 budget extends the eligibility period for Employment Insurance (EI) by five weeks, meaning that the maximum period over which someone can claim EI rises from 45 to 50 weeks. This measure will put cash into the hands of the unemployed, who have a high propensity to spend the money quickly, generating a strong stimulus effect. This measure will also favour equity, as resources will be directed to a disadvantaged group, the unemployed. We anticipate no long-term productivity impact from this measure.

Employment Insurance—long-tenured workers

With this measure, the 2009 budget provides $500 million over two years to extend EI income benefits for individuals participating in long-term training. It will also incent workers to invest their severance packages in training with the promise of earlier access to EI benefits. This measure will provide short-term stimulus by putting money into the hand of those most likely to spend it. It will also channel funds to a group in need of support, improving equity. This measure also is likely to have the added benefit of improving productivity in the future, as workers acquire skills that will help them be more productive in their future jobs.

Table 2: Assessment of the Impact of Key Budget Measures, Budget 2009

Measure	Short-Term Stimulus	Equity	Long-Term Productivity	Total Expense, 2008-09 to 2010-11, Millions of Dollars
Legend: ++ strongly positive, + positive, ... neutral, - negative, -- strongly negative				
The Canada Skills and Transition Strategy				
An extra five weeks of EI benefits	++	++	...	1,150
Employment Insurance—long-tenured workers	+	+	+	500
Employment Insurance—work-sharing	...	+	...	200
Employment Insurance Training Programs	+	+	+	1,000
Strategic Training and Transition Fund	+	++	+	500
Aboriginal programs	+	++	+	180
Keeping Employment Insurance Rates Frozen	+	+	...	2,449
Strengthening Partnerships with Aboriginal Canadians	+	+	...	297
Tax Relief for Canadians				
Personal Income Tax Relief for All Taxpayers	+	-	...	4,305
Increases to the National Child Benefit Supplement and Canada Child Tax Benefit	++	++	...	540
Enhancing the Working Income Tax Benefit	++	++	...	1,305
Targeted Tax Relief for Seniors	+	...	...	745
Support for Home Ownership and the Housing Sector				
Home Renovation Tax Credit	++	-	...	3,000
Enhancing the Energy Efficiency of Our Homes	++	-	...	300
First-time Home Buyers' Tax Credit	+	-	...	385
Investments in Housing for Canadians	+	++	...	2,075
Investments in Provincial, Territorial and Municipal Infrastructure	+	...	+	6,414
Investments in First Nations Infrastructure	+	+	+	515
Investments in Knowledge Infrastructure				
Improving infrastructure at universities and colleges	+	...	+	2,000
Modernizing federal laboratories	++	...	+	250
Canada Health Infoway	+	...	+	500
Extending access to broadband services in rural communities	+	+	+	200
Investments in Federal Infrastructure Projects	+	...	+	716
Capital Cost Allowance	+	...	++	695
Tariff Relief on Machinery and Equipment	+	...	++	169
Sectoral Competitiveness	+	...	+	999
A More Sustainable Environment				
Transformation to a Green Energy Economy	+	...	+	702
Helping All Regions Prosper				
Development agencies for Southern Ontario and the North	+	...	+	432
Community Adjustment Fund	+	+	...	1,000
Supporting Small Businesses				
Industrial Research Assistance Program	+	...	++	200

Note: Expense figures in this table are drawn from the tables in Chapter 3 of the 2009 budget. These figures are presented on an accrual basis, and therefore, in some cases, will not match the figures contained in the budget text when those are presented on a cash basis.

Employment Insurance—work-sharing

Work-sharing is an existing feature of the EI program whereby workers and employers can avoid layoffs by reducing the work hours of employees. Those employees who have their work hours reduced are entitled to EI benefits. The budget extends the period over which benefits can be received from 14 to 52 weeks and reduces eligibility barriers, at a cost of $200 million over two years. This measure will provide money to those in need. But those who still have jobs, albeit with reduced hours, are less likely to spend than those already unemployed. Work-sharing can improve equity, since the costs of the downturn can in principle be borne more evenly across workers. Work-sharing is unlikely to have an impact on productivity in the long-term.

Employment Insurance Training Programs

This measure provides $1 billion over two years for training delivered by provinces and territories through the EI program. Funding will be targeted to provinces and territories harder hit by the downturn, because it will be allocated based on the share of the population in each province that is unemployed. Like other EI measures, providing additional funding for training programs will stimulate the economy and provide benefits to a group that is bearing the brunt of the recession. Training workers for the jobs of the future will increase their productivity once they return to employment.

Strategic Training and Transition Fund

Budget 2009 provides $500 million over two years for the training of individuals, including those who do not qualify for EI. Like funding provided through the EI Training Programs, these funds will be allocated based on the share of a province's population that is unemployed. This measure will deliver cash into the economy quickly. It will promote equity, as it will provide benefits to a disadvantaged group not covered by the EI program, including the self-employed and or the long-term unemployed. Training will improve worker productivity in the future.

Aboriginal programs

The 2009 budget provides $200 million over three years for Aboriginal skills development and training through the Aboriginal Skills Employment Partnership initiative and the Aboriginal Skills and Training Strategic Investment Fund. Like the EI measures Aboriginal programs will deliver cash into the economy quickly. They will promote equity, because Aboriginals are a particularly disadvantaged group. Training will improve worker productivity in the future.

Keeping Employment Insurance Rates Frozen

Budget 2009 keeps the 2010 EI rate at the 2009 level of $1.73 per $100 of insurable earnings. In the absence of this decision, the EI rate setting mechanism would have increased rates to offset higher benefit payouts resulting from projected higher unemployment. Keeping employment insurance rates frozen is a cut in payroll taxes for firms and workers, which will stimulate consumption and investment. On the other hand, lower payroll taxes provide an incentive for firms to hire more workers by making labour relatively less expensive than capital. While reducing the cost of labour will boost employment, it is likely to have a negative impact on investment, and investment is a key driver of productivity. The net effect of this measure of investment is unclear, so we consider that the balance of probabilities is that there will be little long-run impact on productivity.

Strengthening Partnerships with Aboriginal Canadians

The key component of this set of measures is $305 million over two years to improve health outcomes of First Nations individuals and $135 million for the construction and renovation of health services infrastructure that benefits First Nations. This measure will have a stimulus effect for First Nations, a group that is generally disadvantaged, improving equity. It is unlikely to have any long-term productivity effects.

Tax Relief for Canadians

Personal Income Tax Relief for All Taxpayers

The 2009 budget increases the basic personal exemption and the lowest two income tax brackets. These tax reductions will provide a stimulus to the economy by providing money to workers. However, the stimulus will be weakened, to the extent that workers save rather than spend additional money. Higher-income workers are less likely to spend than lower-income workers. While this measure reduces taxes for all taxpayers, the tax cuts will benefit high-income earners the most, which will reduce equity. Personal income tax reductions are unlikely to have a significant impact on productivity.

Increases to the National Child Benefit Supplement and Canada Child Tax Benefit

The 2009 budget increases from $37,885 to $40,726 the income level at which the National Child Benefit supplement (NCBs) and the Canada Child Tax Benefit (CCTB) are clawed back. These measures are very simulative. The enrichment of the NCBs in particular directs funding to low-income families who are very likely to spend any additional income. Providing resources to low-income Canadians will also contribute a more equitable distribution of income. These measures are unlikely to have a major impact on long-term productivity.

Enhancing the Working Income Tax Benefit

The Working Income Tax Benefit (WITB) is significantly improved by the 2009 budget, at a cost of $580 million per year on an on-going basis. The WITB is stimulative, both because it provides refundable tax credits to low-income workers. This measure reduces the welfare wall, so it will improve equity. The welfare wall describes the disincentives that exist for low-income Canadians to earn income, because the labour compensation they might receive will be largely offset by the income-tested benefits that they lose as their incomes rise. Removing disincentives to work will encourage more Canadians to take paid employment or to start their own businesses. At the same time, this measure is unlikely to have a significant impact on productivity.

Targeted Tax Relief for Seniors

The 2009 budget proposes to increase the "Age Credit" amount by $1,000, to $6,408, at a cost of $340 million on an on-going basis. Low-income seniors are a group that is likely to spend this tax cut, but it is also provided to higher-income senior who may save much of the money. Providing tax relief to middle-income seniors will not improve equity and is unlikely to have any impact on long-term productivity growth.

Support for Home Ownership and the Housing Sector

Home Renovation Tax Credit (HRTC)

The HRTC, which will provide up to $1,350 in tax relief to Canadians spending up to $10,000 in renovations and is estimated to cost $3 billion over three years, is expected to increase activity in the residential construction sector, a sector particularly hit by the economic downturn. It will rapidly translate into increased activity in this sector and provide significant short-term stimulus. The measures will not be good for equity as homeowners, and particularly those that can spend up to $10,000 on renovations, tend to be richer than average Canadians. As it is not refundable, the tax credit will not benefit households who do not pay income taxes. This measure will have no impact on productivity.

Enhancing the Energy Efficiency of Our Homes

This measure provides $300 million in additional funding to the ecoENERGY Retrofit program which should boost spending in residential construction. The money is distributed in the form of grants of up to $5,000, with specific grant amounts associated with different energy-efficient renovations. Upfront expenses to benefit from the program are nonetheless significant, and the benefits will likely flow primarily to higher income households and reduce relative equity. This measure will have no impact on productivity.

First-time Home Buyers Tax Credit

The tax credit, a $5,000 non-refundable income tax credit (up to $750 in tax relief) estimated to cost $385 million over two years, is not expected to significantly affect house purchasing decisions. Moreover, as it does not target low-income households, an important portion of the money will likely be saved rather than spent by consumers, reducing the expected short-term stimulus effect. As the measure will benefit mainly Canadians with relatively high current or future income streams, the measure is viewed as slightly negative from an equity standpoint. This measure will have no impact on productivity.

Investment in Housing for Canadians

These measures include $1 billion for social housing renovations and retrofits, $400 million for housing low-income seniors, $400 million for First Nations housing, $200 million for Northern housing and $75 million for housing for persons with disabilities. Given the complexities involved in disbursing the money (mainly negotiations with provinces and territories), the short-term stimulus effect of these measures will be somewhat weaker than that of other housing measures. By targeting disadvantaged groups, however, these measures will improve equity.

Investments in Provincial, Territorial and Municipal Infrastructure

The government is providing additional funding of $6.4 billion from 2008-09 to 2010-11 for infrastructure projects at other levels of government. While infrastructure projects can be stimulative, there is legitimate concern about the ability of governments to spend these funds quickly due to the complexity of many of the projects, and due to regulatory and cost-sharing requirements. Infrastructure projects are unlikely to have a major impact on equity.

For long-term productivity, on the other hand, infrastructure can be highly beneficial. More and better infrastructure can reduce the costs and risks associated with doing business, providing an incentive for firms to invest, boosting productivity and living standards. However, not all infrastructure is created equal. In order to realize higher productivity and living standards, infrastructure projects must pass a rigorous cost-benefit analysis test. Such analysis should examine the broadest measure of costs and benefits, including environmental costs and benefits. Moreover, cost-benefit analysis should be peer reviewed and rigorously challenged. If meticulous due diligence is sacrificed in favour of getting projects started quickly, the long-term productivity benefits of infrastructure investment could be reduced.

Today’s infrastructure is not the make-work projects of the past. Infrastructure assets are advanced engineering structures that are built by skilled workers using specialized machinery and equipment. Infrastructure requires on-going recapitalization and maintenance, and is better if managed by skilled professionals.

It has been widely argued that infrastructure projects are a way for governments to spend a lot of money in the short term, with little fiscal impact in the distant future. This assertion is likely true at the federal level, where infrastructure funds are primarily disbursed to provinces and territories, and thereby contribute to the deficit in the year in which they are disbursed. However, at the provincial level, infrastructure assets are taken on to the governments’ balance sheets and contribute to expenses slowly, over their service lives, through amortization. Public-private partnerships can also have similar long-term expense implications for governments.

Investments in First Nations Infrastructure

We view the $515 million set aside in the 2009 budget for First Nations infrastructure, especially for schools, water, and critical community services, in very much the same light as infrastructure funding for provinces, territories, and municipalities. However, spending on First Nations infrastructure delivers a stronger impact on equity, since First Nations are a relatively disadvantaged group.

Investments in Knowledge Infrastructure

Improving infrastructure at universities and colleges
The 2009 budget provides $2 billion for deferred maintenance and repair projects at post-secondary institutions. Preference is given to projects that strengthen the quality of research and development, but also to projects that are ready to launch quickly. Funds will cover only half of project costs, requiring other parties to provide financing. This approach will likely slow implementation, reducing the stimulus effect, but could lead to better-designed and more valuable projects, since more coordination and planning will be required to access funds. We do not anticipate that this measure will have a major impact on equity. Funding for research and development is likely to favour long-term productivity growth.

Modernizing federal laboratories
The 2009 budget provides $250 million to address deferred maintenance at federal laboratories. This measure will be stimulative, because funding should be able to be spent quickly, as maintenance is less complicated to undertake than major recapitalization. There is unlikely to be a major equity impact from this initiative. To the extent that funding is directed toward labs that do research and development, there will be a positive impact on productivity.

Canada Health Infoway
The Canada Health Infoway initiative has the goal of giving half of Canadians an electronic health record by 2010. To this end, Budget 2009 provides $500 million. As with other infrastructure projects, the stimulative effect will depend on the ability of governments to spend these funds quickly. Given the vast complexity and somewhat uneven record of success of major information technology projects in both government and the private sector, this project must be regarded as risky. If it works, it will certainly improve productivity in the health care sector. There is unlikely to be a direct impact on equity from this measure.

Extending access to broadband services in rural communities
The 2009 budget provides $225 million for broadband infrastructure in rural areas. Like other infrastructure initiatives, the stimulative impact of this measure will depend on a program design that allows cash to flow quickly. This project will probably have a positive effect on equity as it will bring broadband to areas that did not have this service before. The long-term impact on productivity is positive, because information and communications technologies are a key driver of productivity growth.

Investments in Federal Infrastructure Projects

The 2009 budget provides $716 million on an accrual basis, far more on a cash basis, to improve infrastructure owned by the federal government.[1] There will be a stimulative

[1] Unlike cash provided to other levels of government for infrastructure projects, cash spent on federal infrastructure will not have a one-for-one impact the government balance (deficit) in the fiscal year in which the funds are spent. Instead, infrastructure improvements will be capitalized into the federal government's balance sheet and amortized over their estimated service lives. The major reconstruction of the Champlain

impact from this expenditure, but to the extent that projects are delayed, the impact will be reduced. There is unlikely to be a major equity impact from these measures. Some federal infrastructure projects are likely to have a positive impact on productivity.

Capital Cost Allowance for Computers

This measure proposes a temporary two-year 100 per cent capital cost allowance (CCA) rate for computer hardware and software. From a productivity perspective this is an excellent measure. Information and communications technologies (ICT) have been identified as a key driver of productivity growth, and ICT per worker levels in Canada are well below those in the United States. Lowering the cost of ICT equipment will incent business to increase ICT investment, which is very positive for labour productivity growth. This measure is also mildly stimulative in two ways. First, it increases business spending on computer hardware and software, although there are strong leakages associated with this type of spending because of the high import content of ICT goods. Second, the measure reduces the marginal effective tax rate on capital, which raises after-tax profits and potentially frees up funds for spending on other types of investment. There are no equity impacts of this measure.

Tariff Relief on Machinery and Equipment

This measure permanently removes tariffs on a range of machinery and equipment. For long-term productivity growth, this measure is excellent. It reduces the cost of machinery and equipment. This encourages businesses to substitute capital for labour, which boosts labour productivity growth. The measure is not particularly stimulative, since any increase in expenditure is on imported goods. But since tariff relief is comparable to a tax cut for business, after-tax profits may be increased, potentially freeing up funds for spending in other areas. There are no equity impacts of this measure.

Sectoral Competitiveness Measures

The budget includes a number of measures to help certain sectors respond to changing economic circumstances, including forestry, agriculture, shipbuilding, the automotive sector, the space industry, and tourism. The overall impact of these measures is mildly stimulative. Those measures that foster innovation and investment will have positive effects on long-term productivity growth. The equity effects, while potentially positive if the measures prevent layoffs, are likely minor.

Bridge, for which the budget allocates $212 million in cash, will result in expenses over the life of the improvements. For instance, if the improvements are expected to last 20 years and are amortized on a straight-line basis, the expense will occur as $10.6 million per year for 20 years rather than $212 million in the year the work is undertaken.

A More Sustainable Environment

Transformation to a Green Energy Economy

The budget allocates an additional $1 billion over five years to support the development of clean energy technologies. This measure is stimulative and will likely have a positive effect on measured productivity growth. Conventional productivity measures do not capture improvements in environmental quality, but if they did, these measures, if successful, would have an even greater productivity impact. The measures will have little impact on the disadvantaged, and therefore will not affect equity.

Helping All Regions Prosper

Development Agencies for Southern Ontario and the North

Southern Ontario and the North have been the only parts of Canada without dedicated regional development agencies. This budget establishes agencies in each region. The new spending from these agencies is stimulative. To the degree it focuses on investment and innovation it will have positive effects on productivity growth. The effects on equity are minimal.

Community Adjustment Fund

The budget allocates $1 billion over two years for a Community Adjustment Fund to mitigate the short-term impacts of restructuring in communities. The spending from such a fund will certainly be stimulative and have positive implications for equity. Its effect on productivity is less likely to be significant.

Supporting Small Business

Industrial Research Assistance Program (IRAP)

The 2009 budget allocates $200 million over two years to the IRAP in order to expand its activities. The IRAP provides a range of both technical and business oriented advisory services along with potential financial support to growth-oriented Canadian small- and medium-sized enterprises. Additional spending by IRAP should stimulate the economy, but given the longer term nature of its activities, the stimulus is not expected to be particularly effective in the short term. IRAP's activities facilitate technological diffusion throughout the Canadian economy, and additional funding is expected to have positive effects on long-term productivity. In fact, additional funding for IRAP was touted as one of three policies to improve productivity growth in Canada in Sharpe (2007).

IV. Conclusion

In an absolute sense, no one loses from this budget. The government did not cut programs, reduce spending, or increase taxes in any significant way. No contractionary or restrictive measures were put forward. Overall, the key measures in the 2009 budget provide short-term stimulus, moderately increase equity, and provide modest support for productivity growth in the long term. Measures to improve the Employment Insurance program are notable for improving equity and having a strongly stimulative effect. The tax measures, especially the changes to the National Child Benefit supplement and the Working Income Tax Benefit are both highly stimulative and likely to improve equity since they are targeted at low-income Canadians. The housing sector measures are highly stimulative, while the investments in social housing improve equity. Infrastructure measures will help to improve productivity in the long term, but the accelerated capital cost allowance and tariff relief on machinery and equipment will be even more important in this regard. The environmental, regional development, and small business measures will provide stimulus and may help to improve productivity to the extent that they foster innovation. Our overall assessment is that while this budget had done well on short-term stimulus, it could have done more for equity and productivity growth in the long term.

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Appendix 1: Forecasts Tables

Appendix Table 1: National Forecasts from the Five Largest Canadian Chartered Banks

Gross Domestic Product

	2008	2009				2010				Annual Average		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
TD	-1.6	-4.1	-3.0	1.0	2.3	3.2	3.2	3.4	3.6	0.7	-1.4	2.4
RBC	-2.5	-1.6	0.7	2.7	2.9	2.5	2.8	3.1	3.3	0.6	0.0	2.7
BMO	-2.4	-3.1	-2.1	-0.1	1.6	2.5	2.8	2.8	2.9	0.7	-1.3	1.8
CIBC**	-3.5	-1.8	-1.2	-	-	-	-	-	-	0.6	-0.5	1.8
Scotia	-2.0	-4.0	-1.5	2.0	1.0	2.0	2.5	3.0	3.0	0.7	-1.2	1.9
Average	-2.4	-2.9	-1.4	1.4	2.0	2.6	2.8	3.1	3.2	0.7	-0.9	2.1

Employment

	2008	2009				2010				Annual Average		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
TD	0.9	-2.6	-2.2	-1.0	0.0	0.4	0.9	1.3	1.4	1.6	-1.0	0.3
RBC (implicit)	-	-	-	-	-	-	-	-	-	1.4	-0.7	1.4
BMO	**0.6**	-2.8	-2.4	-1.2	0.3	0.9	1.2	1.5	1.5	1.6	-1.2	0.5
CIBC**	-	-	-	-	-	-	-	-	-	-	-	-
Scotia	-	-	-	-	-	-	-	-	-	1.6	-1.0	0.8
Average	0.8	-2.7	-2.3	-1.1	0.2	0.7	1.1	1.4	1.5	1.6	-1.0	0.8

Unemployment Rate

	2008	2009				2010				Annual Average		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
TD	6.2	7.1	7.6	7.9	8.2	8.3	8.4	8.3	8.3	6.1	7.7	8.3
RBC	6.4	7.0	7.2	7.4	7.4	7.4	7.4	7.4	7.3	6.1	7.3	7.4
BMO	**6.4**	6.9	7.4	7.8	8.0	8.0	7.9	7.9	7.8	**6.1**	7.5	7.9
CIBC**	6.4	6.8	7.6	-	-	-	-	-	-	6.1	7.6	7.9
Scotia	-	-	-	-	-	-	-	-	-	6.1	7.6	7.7
Average	6.4	7.0	7.5	7.7	7.9	7.9	7.9	7.9	7.8	6.1	7.5	7.8

GDP per Worker

	2008	2009				2010				Annual Average		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
TD (Y/Y)	-0.7	-0.7	-0.9	-1.0	0.2	1.5	2.5	2.5	2.5	-0.8	-0.6	2.2
RBC	-1.2	-0.5	-0.1	-0.1	1.0	1.4	1.5	1.2	1.0	-0.8	0.7	1.3
BMO (implicit)	-	-	-	-	-	-	-	-	-	-0.9	-0.1	1.3
CIBC**	-	-	-	-	-	-	-	-	-	-	-	-
Scotia (implicit)	-	-	-	-	-	-	-	-	-	-0.9	0.2	1.1
Average	-1.0	-0.6	-0.5	-0.6	0.6	1.5	2.0	1.9	1.8	-0.9	0.1	1.5

Source: Forecasts from Toronto Dominium (December 10, 2008), Royal Bank of Canada (December 19, 2008), Bank of Montreal (January 23, 2009), Canadian Imperial Bank of Commerce (January 23, 2008) and Scotiabank (December 17, 2008).

* Bolded estimates are actual values **A more detailed forecast is available but is dated September 23, 2009.

Appendix Table 2: Consensus Provincial Forecasts based on Forecasts from the Five Largest Canadian Chartered Banks

		Gross Domestic Product	Unemployment Rate	Employment Growth
Canada	2008	0.7	6.1	1.6
	2009	-0.6	7.4	-0.8
	2010	2.2	7.8	0.8
Newfoundland and Labrador	2008	0.7	13.1	1.7
	2009	0.1	13.4	0.3
	2010	2.2	13.3	1.2
Prince Edward Island	2008	0.9	10.6	1.4
	2009	0.0	11.1	-0.3
	2010	1.4	11.5	0.5
Nova Scotia	2008	1.1	7.7	1.3
	2009	0.2	8.4	-0.1
	2010	1.9	8.9	0.6
New Brunswick	2008	1.2	8.6	0.9
	2009	0.3	9.4	0.0
	2010	2.1	9.9	0.8
Québec	2008	0.5	7.3	0.8
	2009	-0.5	8.4	-0.9
	2010	2.1	8.7	0.6
Ontario	2008	-0.1	6.5	1.5
	2009	-1.5	8.2	-1.6
	2010	2.2	8.7	0.6
Manitoba	2008	2.0	4.1	1.7
	2009	0.4	4.9	0.3
	2010	2.0	5.6	0.7
Saskatchewan	2008	3.2	4.2	2.0
	2009	1.5	4.7	0.9
	2010	1.8	5.3	0.9
Alberta	2008	1.4	3.5	2.8
	2009	0.2	4.6	0.0
	2010	2.1	5.2	0.9
British Columbia	2008	1.3	4.5	2.2
	2009	0.5	5.6	-0.1
	2010	2.9	5.8	1.4

Source: Forecasts from Toronto Dominium (December 23, 2008), Royal Bank of Canada (December 19, 2008), Bank of Montreal (January 23, 2009), Canadian Imperial Bank of Commerce (November 28, 2008) and Scotiabank (December 17, 2008).
Note: CIBC had no forecast for employment growth and no forecast beyond 2009.