

# AFB 2009

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ALTERNATIVE FEDERAL BUDGET 2009

## Too Little Too Late

**Federal Stimulus Budget Eclipsed by Job Loss**

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### Introduction

The Prime Minister recently boasted that “Canada was the last advanced country to fall into this recession... We will come out faster than anyone.” In conjunction with his Minister of Finance and the Governor of the Bank of Canada, a consistently rosy picture of rapid economic recovery is being sold by government officials. From the government’s perspective, its stimulus package has already started to work and will provide for a quick return to normalcy despite international economic turmoil.

However, private sector forecasters, the Parliamentary Budget Office, and a series of economic measures indicate that the government’s stimulus package may be insufficient to stem the tide. In terms of unemployment and economic growth, the Harper stimulus plan has already been overtaken by external events.

The rapid contractions of both the Canadian economy and the job market have eclipsed the federal government’s stimulus

package months before it will dispense its first dollar. Based on monthly statistics, it is possible to calculate the exact day that the stimulus became inadequate. In terms of employment, job creation was eclipsed on January 26, 2009, a day before the budget was even introduced. In terms of GDP, the economy shrank more than the stimulus package two days before New Year’s Day on December 30, 2008.

The inadequacy of the stimulus package in addressing the rapidly deteriorating economic circumstances is not an inevitable result of government intervention. Instead, conscious government decisions mean that the most effective tax measures, which target low-income Canadians, are delivered last and at insufficient levels. As well, infrastructure funding that could have flowed immediately will be delayed by needless new bureaucracy for the sake of forcing other levels of government to agree with federal priorities.

## Unemployment

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Many of the statistical indicators that measure the depth of the storm hitting the Canadian economy take months to update. The extent of what happened starting in October of last year is only now beginning to materialize.

Unemployment is often the best early warning signal that something is fundamentally wrong with the economy. The once pessimistic prediction of massive unemployment has now become mainstream. Officially, Canada has lost 296,000 jobs since October 2008. In terms of raw numbers, Canadians have never seen this level of job loss before.

However, the situation is actually much worse. There are several ways of calculating the unemployment rate, and they all hinge on who is counted as “unemployed.” For instance, Statistics Canada does not count those who have given up looking for a job as being among the “unemployed.” If a broader measure is used, unemployment in Canada was 11.7% in February 2009. Although this figure is not seasonally adjusted, it still reflects a significant increase from 8.9% where it stood in February of last year.<sup>2</sup>

The unprecedented rise in the number of unemployed Canadians pushed many into the financial abyss. With Canadians at historically high debt levels, the loss of a job can quickly degenerate into credit difficulties and bankruptcy. By December 2008, personal bankruptcies exploded, increasing more than 50% since December 2007. Canadian consumers forced to renegotiate credit terms increased in line with bankruptcies — up more than 40% since December 2007. Personal bankruptcies now sit at the highest level in Canadian history. Not surprising, given that total family debt increased by 71% since 1990, growing six times more than incomes<sup>3</sup>. If previous recessions are any guide, bankruptcies may double from their current 91,000 a year to over 180,000 a year.

## Employment Stimulus

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The federal government’s stimulus Budget was supposed to prevent such a freefall. The government itself estimated that the federal stimulus package would create 189,000 jobs, though the assumptions underlying this figure are questionable. As Parliamentary Budget Officer Kevin Page noted, the government’s estimates of stimulus effectiveness are maximum figures and will likely be 20% lower.<sup>4</sup> The PBO also notes that the “net” budget may create as few as 60,000 jobs in

2009, half of the government’s estimated number for this year.<sup>5</sup>

Those estimates are based on provincial and municipal governments matching funding for more than three-quarters of all infrastructure projects. In order to participate, the other levels of governments have to agree to federal government conditions and come to a consensus on which projects should be jointly funded. Each additional step will guarantee that infrastructure funding, the key job creation measure, will take longer to flow and may prevent the full budgeted amounts from being spent.

Without matching funding, the PBO estimates that federal job creation would drop to only 40,000 in 2009, compared to the government’s projected figure of 119,000 jobs this year.<sup>6</sup> The net stimulus spending that the federal government is claiming credit for would be 45% smaller without provincial matching funds.

Despite these serious shortcomings in the government’s job creation estimates, let us assume, for the sake of argument, that they will materialize.

By October 2008, it was becoming clear that Canada’s economic situation was rapidly deteriorating. The S&P TSX had declined by more than 30% in a matter of weeks, the Canadian dollar had dropped from near parity with the U.S. to under 80 cents, oil and other commodity prices were falling rapidly, and budget watchers were predicting government deficits. The international discussions concerning stimulus packages had already begun. The federal government at that point had waved off economic concerns, with Stephen Harper going so far as to claim, during the federal election in October, that if Canadians re-elected a Conservative government, there would be no recession in Canada and no stimulus package would be needed.

It is clear now that October 2008 marked a high point for employment from which Canada has since plummeted.

Since the crisis started over five months ago, 296,000 Canadians have lost their jobs. However, the government’s stimulus package, by its own estimation, will only create a maximum of 189,000 jobs. By tracking when job losses occurred, it is possible to estimate the exact day when 189,000 jobs were lost, beginning from October 2008.

Ironically, the day that Canada’s job losses eclipsed the government’s stimulus plan was January 26, 2009, or the day before the stimulus Budget was introduced.

The number of jobs the stimulus plan promised to create was already too little too late even before it was introduced. The stimulus package was eclipsed two months before it passed

**TABLE 1 Employed (Seasonally adjusted)**

Month	Canadians Employed (ooo)	Cumulative Job losses (ooo)
October 2008	17,195	-
November 2008	17,131	64
December 2008	17,111	84
January 2009	16,982	213
February 2009	16,899	296

SOURCE Statistics Canada Labour Force Survey

Parliament and a full half-year before the majority of those jobs could be created through infrastructure projects in the summer of 2009.

Prime Minister Harper's decision to delay a stimulus plan cost Canada dearly. The jobs created by the government plan — still just a hypothesis awaiting implementation some time this year — amount to only 56% of all the jobs lost to date.

### Stimulus Timing

The government's recently released "Canada's Economic Action Plan: A First Report to Canadians" detailed the expected start dates of its various stimulus measures. As the government's 2009–10 fiscal year begins April 1, 2009, it stands to reason that the government expects almost all of its measures to begin within a month or two of that date. But that may be wishful thinking.

The Home Renovation Tax Credit, for instance, worth \$3 billion for Canadians who have the means to build a cedar deck on their cottage, flowed almost immediately following the introduction of Budget 2009. Such expedited funding shows how quickly funding can flow when government commitment exists.

In contrast, the hardest hit Canadians will have to wait longer than usual to see their benefit. The Working Income Tax Benefit (WITB), the only tax measure for those making less than \$25,000, does not get the same retroactive treatment as the home renovation tax credit for Canada's cottage owners. Instead, the working poor will not be able to claim any additional support until early 2010, when they file their 2009 tax returns. As stimulus, it will be too little too late.

Changes in the Canada Child Tax Benefit and National Child Benefit supplement also do not receive expedited treatment. They will not be implemented in April when almost all other tax measures begin to be funded. Instead, those who live close

to the poverty line and have children will have to wait until summer to receive their additional benefits.

The hardest hit in Canada are the first to face unemployment and sometimes bankruptcy, but they are the last to receive benefits from the government's changes to the tax system.

Income transfers to low-income Canadians are also the most effective way to stimulate the economy through the tax system, based on Budget 2009's own estimates.<sup>7</sup> Low-income transfers are more than twice as effective as corporate or broad-based personal tax cuts. Yet the federal government is quickly implementing broad-based tax cuts that are least effective and procrastinating on those measures, like WITB, that have the largest stimulative effect on the economy.

It is generally agreed that hard and soft infrastructure spending is the engine of job creation. While taking longer to implement, spending on infrastructure dwarfs income transfers in its ability to expand GDP and create jobs.

Unfortunately, a similar backwards trend can be observed in infrastructure spending. Instead of being a top priority, more than half of the infrastructure spending will not flow until the summer or, in several cases, until the fall.

With the exception of the Federal Aviation Security funding, all of the other infrastructure projects in Table 2 are required to have matching funding from another partner, whether they be provincial, municipal, private sector, or community organizations. All of the estimated timelines are contingent on those co-funding partners agreeing with the federal government on the projects and producing half or sometimes two-thirds of the funds.

These additional requirements for funding can only delay the much needed job creation potential of infrastructure projects.

**TABLE 2 Stimulus Timing**

Program	Value (\$mil)	Funding begins to flow
CCTB/NCB Changes	230	Summer 2009
Infrastructure Stimulus Fund	2,000	Summer 2009
Recreation Infrastructure Canada	250	Summer 2009
Post Secondary Education Infrastructure	1,000	Summer 2009
Federal Aviation Security	383	Summer 2009
Green Infrastructure Fund	200	Fall 2009
Community Projects Fund	250	Fall 2009
WITB	580	March 2010 (2009 Tax filing)

SOURCE Canada's Economic Action Plan: A First Report To Canadians

**TABLE 3 Canadian Gross Domestic Product (Seasonally adjusted chained 2002 dollars)**

Month	GDP (\$bil chained 2002)	Cumulative GDP loss (\$bil)
October 2008	1228	-
November 2008	1220	-8
December 2008	1208	-20

SOURCE Statscan 15-001-X

## Stimulating the Economy

Canada's GDP has also been shrinking since October 2008.

The government has pointed out that the fourth quarter GDP contraction was smaller than the comparable American figure. However, the Parliamentary Budget Office has noted that, when all of 2008 is examined, the U.S. GDP growth rate of 1.2% was somewhat higher than Canada's 1.0%.<sup>8</sup>

In addition, the PBO notes that Gross Domestic Income, not Gross Domestic Product, might be a better indicator. The drop in exports, primarily commodities, has hit GDI hard, with an annualized drop of more than 15.4% in the fourth quarter of 2008 — much higher than the U.S. decline of only 1.4%.<sup>9</sup>

The most recent available GDP data from December 2008 reveals a loss of \$20 billion from the size of Canada's economy since the crisis started (see Table 3). The government calculated that its stimulus package would add 1.6% to Canada's real GDP. Despite the difficulties noted previously — this estimate representing a maximum, in that it incorporates significant portions of presumed matching funding and that the PBO discounts it by at least 20% — for the sake of argument, it will be taken at face value.

With the government stimulus providing a 1.6% boost to real GDP, or \$19.7 billion<sup>10</sup>, the economic impact of the stimulus package was exhausted on December 30, 2008.

The economic stimulus is now known to be too little almost a month before it was even introduced in Parliament, and a full seven months before the majority of the job-creating infrastructure funding will begin to flow in the summer of 2009.

## Conclusion

Many of these stimulus hurdles could have been avoided. They are the result of conscious design, not of inevitable circumstances. For instance, expediting high income earners' tax breaks first, so home renovation takes precedence over helping the hardest hit, was a conscious policy choice.

Infrastructure spending is another example of where conscious government decisions have delayed much-needed job creation dollars. Instead of using pre-existing transfer mechanisms with other levels of government, like the gas tax transfer, the federal government decided to create an entirely new level of bureaucracy. If a province or municipality is too cash-strapped to come up with matching funding, then the federal government will move its infrastructure dollars to a wealthier community that can match funding. This perverse incentive system and needless bureaucracy will only retard the already delayed funding schedule proposed for summer 2009.

**TABLE 4 Stimulus Spending Breakdown**

	Budget 2009 (2009–10)	AFB 2009 (2009–10)
Broad Tax cuts	5,200	-520
Targeted Tax Cuts <25K	580	8,445
Corporate Taxes	586	0
Infrastructure Spending	3,782	13,890
Housing	975	2,000
Aboriginal	672	1,449
Post-Secondary Education	1,186	430
Sectoral Funding	1,878	2,348
Healthcare	500	1,020
EI eligibility	575	3,381
Training EI/non-EI	1,245	630
Arts & Communications	0	872
Child Care	0	2,200
Total	17,179 <sup>11</sup>	36,741
Job Impact	140,000 <sup>12</sup>	470,000

Finally, the size of the federal government’s stimulus package is out of proportion to the threat that Canadians are currently facing and have already endured. The stimulus effect on employment was eclipsed a day before the Budget was even introduced, and the effect on the economy was overtaken just before the New Year, several weeks after the Conservatives’ failure to introduce a prompt post-election stimulus plan sparked a political crisis and the prorogation of Parliament.

The IMF, OECD, and other international bodies called for all developed nations capable of doing so to initiate stimulus packages amounting to of 2% of their GDP. In Canada, Budget 2009 jumps through a variety of creative hoops in order to appear to reach that figure, but the reality is that the proposed federal stimulus amounts to just 0.7% of GDP in 2009–10. With the shocking increase in unemployment, clearly such a small commitment is inadequate.

However, it is not only the size of the stimulus package that has allowed it to be superseded so quickly. Where the stimulus dollars are spent also matters. The pre-budget debate created a false dichotomy, suggesting there were only two potential alternatives: broad-based tax cuts or hard infrastructure. In fact, there are many more alternatives: tax measures targeted to low-income Canadians, spending on health care, improving social services, etc. Each alternative offers a different impact on the reduction of unemployment, growth of GDP, and implementation timeline.

The government stimulus package focused almost 35% of its stimulus on broad-based tax cuts<sup>13</sup> and tax cuts for corporations. Budget 2009 acknowledges that broad-based personal and corporate tax cuts have the two worst multipliers in terms of job creation and economic growth.<sup>14</sup> Spending on infrastructure has twice the impact of broad-based tax cuts. Even the IMF, not known for its progressive views, agrees that tax cuts were not the policy thrust that was needed at this point.

Budget 2009 also significantly underutilizes EI as a means of income transfer to lower-income Canadians. Although large sums are spent on retraining, very little is actually spent on making it easier to qualify for EI — despite strong cross-party support for such a proposal.

The CCPA’s 2009 Alternative Federal Budget proposes a 2.3% of GDP stimulus budget that would create 470,000 jobs. At that level, the AFB proposals would have remained ahead of Canada’s rapidly rising unemployment rate. The size of the AFB’s proposed stimulus package is clearly larger than the 0.7% that Budget 2009 offers. However, the AFB also focuses stimulus dollars where they will be most effective, particularly on measures like real EI reform that help those who have lost their jobs and those whose incomes have dropped. As well, the needless delays that Budget 2009 created on infrastructure funding would have been overcome by the AFB plan, which calls for using pre-existing transfer mechanisms.

Although the Harper government's stimulus plan is clearly too small and misdirected, one should not conclude that government stimulus actions are by definition ineffective. On the contrary, a well-designed stimulus plan that is both large enough and designed so as to take immediate action could have a very stimulative and beneficial effect for all Canadians.

## Notes

1 March 11, 2009, Vancouver Sun (<http://www.vancouversun.com/business/fp/Harper+boasts+Canada+recession+plan/1373857/story.html>)

2 Andrew Jackson, *Progressive Economics Forum Blog*, <http://www.progressive-economics.ca/2009/03/23/real-canadian-unemployment-rate-almost-12/>, retrieved 4/26/09

3 Vanier Institute. The Current State of Family Finances — 2008 Report. <http://www.vifamily.ca/newsroom/famfino12209.pdf>

4 Remarks by the Parliamentary Budget Officer To the House of Commons Standing Committee on Finance, February 5, 2009

5 Parliamentary Budget Office, Presentation to the IMF Article IV: February 25, 2009

6 Ibid

7 Budget 2009, Annex 1, Pg 240.

8 PBO Briefing Note: Canada's Recent Economic Performance, March 11, 2009

9 Ibid.

10 Assuming 1.6% of October 2008 real GDP 2002 Chained dollars of \$1,228 billion

11 This figure does not incorporate the \$8 billion in austerity measures that are included in the 2008 Economic and Fiscal Statement that is the baseline for Budget 2009 and reduces the net stimulus to 0.7% of GDP

12 140,000 jobs is the estimated effect of federal government spending. The larger 189,000 jobs includes significant spending from provinces and municipalities.

13 for those making over \$25,000/year

14 Budget 2009, Annex 1, Pg 240.



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