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Federal Budget 2009: What Will the Stimulus Package Mean for Atlantic Canada?

The Conservative government's much anticipated fourth budget, tabled today by Finance Minister Jim Flaherty, is designed to respond to calls from across the country for an economic stimulus package. The signs of the deteriorating economy are clearly visible in the projected federal budget balance which goes from a small surplus in 2008-09 to a deficit of \$16 billion in 2009-10, before adding in the new stimulus measures.

Today's budget measures push the overall deficit to \$34 billion in the coming fiscal year and the budget is not positioned to return to balance until 2013-14. While most of the stimulus measures are concentrated in the next two fiscal years, today's budget also includes permanent tax reductions and spending measures worth \$5 billion annually.

Overall, for fiscal 2009/10, the budget provides about:

- a \$5.7 billion boost in infrastructure spending (with the provinces expected to kick in a further \$4.5 billion) and \$1 billion to enhance training;
- a \$3.9 billion temporary tax credit to spur housing renovations (which will benefit the middle class and high-income groups);
- \$3 billion in permanent tax cuts to stimulate spending by Canadians (particularly for low-income earners), plus a further \$1 billion to enhance EI benefits; and
- \$2.4 billion for businesses, communities and specific industries with \$1 billion to keep EI premiums at their current level.

The housing renovation tax credit could stimulate quick spending by middle and higher income earners, particularly as this incentive is only available until February 2010. Less clear is the immediate impact of some of the other budget measures on consumer and business spending. The personal tax cuts will eventually put more money into the hands of lower income Canadians (and a higher percentage of Atlantic Canadians fall into this category), but the full effect of increased working income tax benefit will not be felt until next year. And despite a substantial increase in funding and commitments to accelerate the roll-out of infrastructure projects, it is still not clear that infrastructure spending will kick in soon enough. Current projections have the Canadian economy starting to grow again, albeit weakly, in the second half of 2009. Most of the infrastructure spending is unlikely to get underway until this point.

The government also committed up to \$200 billion to improve access to credit, for example, by further purchases of asset-backed securities. This does not have any

immediate budget implications, although it does increase overall government borrowing. However, it could improve the flow of credit to businesses and consumers.

Overall there were few big initiatives in this budget marked specifically for Atlantic Canada. Perhaps this is not surprising given the rapid deterioration in some parts of the country (i.e. Ontario), nevertheless it raises further questions about the federal government's commitment to address continuing regional disparities in Atlantic Canada. Regional development agencies now extend across the country, with the establishment of a Southern Ontario development agency in this budget. Most of the industry-specific support has been targeted at the auto sector, with \$2.7 billion in loans announced before Christmas. This budget adds \$524 million to assist sectors such as forestry, shipbuilding, the space industry, and agriculture and processing, but a significant portion of that support will be directed at industry support services rather than as direct aid to firms in these sectors.

Key stimulus measures and their relevance for Atlantic Canada are as follows:

Home renovation tax credit

- Homeowners will benefit from a 15% tax credit until February 2010 on eligible home renovation expenditures between \$1,000 and \$10,000, worth a maximum of \$1,350. Residential renovations totaled \$2.6 billion in Atlantic Canada in 2007.

Personal income tax reductions

- The basic personal amount and the first and second federal tax brackets will be permanently increased 7.5%. This will amount to a tax savings of \$21 per month for someone earning \$40,000 per year and \$51 per month for someone earning \$80,000 per year.
- A permanent increase in the Working Tax Benefit will amount to between \$45 and \$53 a month for families or single parents making \$20,000 or less. Atlantic Canada has a relatively high proportion of low income earners, with 47% having total income within this range, as opposed to 41% nationally.

Federal-funded infrastructure

- A \$4-billion Infrastructure Stimulus Fund will provide funding to the provinces and municipalities over the next two years and cover up to 50% of project costs. The funding would be distributed on a per capita basis which amounts to about \$280 million in potential funding for Atlantic Canada.
- A \$1 billion Green Infrastructure fund will target the creation of sustainable energy such as modern energy transmission lines while the \$500 million Recreation Infrastructure Fund will support the construction and renovation of community recreation facilities (to be administered by ACOA with up to 50% of project funding provided federally).
- The remaining \$1.5 billion in provincial and municipal funding will come from the acceleration of money from previously announced initiatives. The government is

working to streamline the federal approval processes so that more projects under the Building Canada plan can start in the upcoming construction season. Atlantic Canada projects listed as priorities under the plan include Trans-Canada Highway improvements in Newfoundland and Labrador; Summerside Wind Energy in Prince Edward Island; major bridge rehabilitation on the National Highway System in Nova Scotia; and the Fundy Trail Parkway in New Brunswick.

- Funding totaling \$716 million has been set aside over the next two years for federal infrastructure. Projects include money for rail, highways, bridges and small craft harbours, border facilities and aviation security. Atlantic projects highlighted include: completion of the Nova Scotia Highway 104 Antigonish Bypass Phase 2 project and harbour improvements in Shippagan, NB (\$4.9 million), Lower East Pubnico, NS (\$3.9 million), Belleoram, NL (\$1.9 million) and Wood Islands and Miminegash Harbour, PEI (\$3.1 million).

Knowledge infrastructure

- Up to \$2 billion will go to improving infrastructure at universities and colleges. Preference will be given to projects that can improve the quality of research and development. Industry Canada will allocate funding based on project merit and readiness and cover up to half of project costs. An upgrade to the New Brunswick Community College was highlighted as a potential project.
- Other measures include new funding for the Canadian Foundation for Innovation (\$750 million), the Canada Health Infoway (\$500 million) which will encourage the greater use of electronic health records, \$250 million to address deferred maintenance at federal laboratories (with the Canadian Food Inspection Agency's laboratory in Dartmouth highlighted as a potential project), and \$225 million to extend broadband coverage to unserved communities.

Social housing

- The government is allotting \$1 billion over two years for renovations and energy retrofits to social housing units on a 50-50 cost shared basis with the provinces, although some Atlantic provinces may find it difficult to find additional funding for social housing. Nova Scotia and Newfoundland and Labrador have among the highest levels of Canadian households with below-standard housing according to the Canada Mortgage and Housing Corporation.
- Two-year funding is also earmarked for construction of social housing units for seniors (\$400 million) and the disabled (\$75 million) through the Affordable Housing Initiative (AHI) although some non-profits have had difficulty in the past in providing the required amounts of cash up front.

Employment insurance (EI)

- The current budget made limited changes to Canada's EI program. It increased the maximum number of weeks payable by five weeks. As entitlements are based on regional unemployment rates, most areas in Atlantic Canada will see the maximum

benefit period increase to 50 weeks; the maximum in Halifax and Fredericton-Saint John-Moncton will now be 41 weeks.

- The government has held the EI rate at the current level (\$1.73 per \$100 for employees and \$2.42 for employers) for the next two years, which will prevent payroll taxes increasing in a period of rising unemployment. The new Canada Employment Insurance Financing Board has been advised not to recover the projected deficits these measures will create in the EI fund.

Training

- The government is providing an additional \$1 billion over the next two years for training delivered through EI, bringing annual funding to \$2.45 billion. The new funding will be distributed according to a province's share of unemployment. With about 10.2% of unemployed workers in Atlantic Canada in 2008, the region will receive just over \$100 million. An additional \$500 million in EI funds will be designated to re-training displaced long-tenure workers.
- The government has also set up a 'Strategic Training and Transition Fund' which will allocate \$500 million over two years to provide broad-based training to individuals regardless of whether they qualify for EI. These funds should provide about \$50 million for training in Atlantic Canada.
- The provincial governments will have the primary role for delivering these new training programs but this may pose logistical challenges for governments in the Atlantic region who are only now starting to set up new training programs.
- Aside from these broad training initiatives, further funding has been announced to assist targeted groups including youth, older workers, apprentices, graduate students and aboriginals, with funds totaling \$440 million. Also, \$50 million has been targeted for furthering efforts to improve foreign credential recognition.

Community Adjustment Fund

- \$1 billion dollars will be spent over two years for a Community Adjustment Fund. Base funding will amount to \$10 million per province, with the remainder allocated on a per capita basis. This will amount to a little over \$100 million for the Atlantic region. In this region, the program will be administered through the Atlantic Canada Opportunities Agency.

Business taxes

- There were few measures to directly help businesses, although some relief will be provided in the form of a 100% temporary capital cost allowance rate for computers acquired between now and February 2011, as well as \$440 million in savings over the next five years from a permanent elimination of tariffs on a range of imported machinery and equipment.

Based upon issues and subsequent analysis arising from the January 27 budget, APEC has included the following addendum in its Federal Budget Commentary.

Addendum – Equalization

The government is adjusting the Equalization program to restrict the overall growth in Equalization payments, which could affect Newfoundland and Labrador in particular. Although Newfoundland and Labrador no longer qualifies for equalization payments in 2009-10, it is still entitled to receive Part 1 payments under the 1985 Atlantic Accord to partially offset the decline in its equalization payments. The value of these payments depends upon whether the province chooses to remain under the old fixed framework for the Equalization program or elects to switch to the O'Brien formula (which was introduced in Budget 2007). The province of Newfoundland and Labrador has indicated that the proposed budget changes could significantly reduce the value of these payments.

Until the specific legislation that normally accompanies the budget is tabled in the House of Commons, it is difficult to calculate precisely the size of the impact of the proposed changes on Newfoundland and Labrador. However, it is possible to assess the direction and relative magnitude of these changes. Estimates prepared for APEC by Dr. Wade Locke, based on currently available data, indicate that Newfoundland and Labrador would receive almost \$1.2 billion in Part 1 payments under the 1985 Atlantic Accord from 2009-10 to 2011-12, if it remained with the fixed framework option. If, as would be expected, Newfoundland and Labrador switched to the O'Brien formula for 2009-10, the province would have expected to receive about \$2.5 billion in Part 1 payments between 2009-10 and 2011-12. The proposed budget changes reduce the amount that would be received under the O'Brien formula to \$0.8 billion, so that the province would be better off staying under the fixed framework. This implies the province would receive \$1.3 billion (\$2.5 billion minus \$1.2 billion) less than it would have previously expected.