

Commentary

## A reasonable prescription for pain relief

-  Article
-  Comments (24)
- 

**JEFFREY SIMPSON**  
FROM WEDNESDAY'S GLOBE AND MAIL  
JANUARY 28, 2009 AT 12:00 AM EST

Who would have imagined six months ago, or even two, that Prime Minister Stephen Harper's government would accept deficits of \$60-billion over the next two years? But, then, who predicted what has happened to the world economy?

Desperate times require desperate measures, as they say. So from a low-tax, no-deficit government, Tuesday's budget was a shocker, the impact of which had been blunted by calculated leaks of the deficit numbers a few days ago.

Public polls and those taken by the Conservatives showed the population is ready for deficits, economic lethargy demands them, major countries throughout the world are running them. The questions, therefore, were how large the deficits should be and how to craft them.

Roughly half the deficits' size was automatic, caused by the recession lowering tax revenues and raising spending. The other half reflected the government injecting money into the economy by new spending, transfers to provinces and tax cuts.

### Related Articles

#### Recent

- **Politics:** Ignatieff to call for changes to budget
- **Analysis:** Harper spends big, but can he go back?
- **Highlights:** Tax relief to major spending projects
- **Economic Assumptions:** Betting on a rosy recovery
- **Gender:** Stimulus falls short for many women
- **Editorial:** A missed chance to build toward Canada's future

### Internet Links

- **Budget 2009:** Complete coverage of the federal government's fiscal plan
- **Canadian Politics:** Globe stories, photos, graphics, interactives, columns, opinion and more.
- **Graphic:** Track the history of budget deficits and surpluses over 40 years



The budget predicted that after two years the economy is supposed to be well into recovery, so that deficits will decline and then peter out five years hence. Don't count on it. All during the two decades of deficits that started in 1975, governments promised to reduce and then eliminate deficits, but never did until 1995.

Yes, a lot of stimulus spending is bunched into the next two years, but billions are now locked into the ongoing spending commitments of the federal government, as are the tax reductions. If interest rates go up, as they might down the road, the added debt will be more onerous to be financed.

If we have learned one thing in recent decades, it is that once a spending program is launched, or a tax expenditure sewn into the revenue system, they are extremely difficult to remove. To take just one example, if anyone thinks the \$500-million injected into the farm economy will be rescinded after the recession, they haven't been watching agricultural politics.

So there is more stimulus here than the economic situation demands. Similarly, what Canadian governments do is less consequential than what happens to the U.S. and world economies. But in fairness to the government, the new money (stimulus) could have been spent in much worse ways than outlined Tuesday.

The tax cuts, thank heaven, did not include another reduction in the Goods and Services Tax, but centred instead on personal income taxes, especially for low-and moderate-income people, where they ought to have been centred from the government's first budget. Elongation of unemployment insurance payments, more money for training and additional graduate school scholarships make sense, as do other measures to develop human capital.

The physical capital infrastructure projects are sprinkled all across the country to keep each region happy. They can be justified in the sense that most projects need to be done sooner or later. (Some will go way over budget, given the hurry-up nature of planning and execution.) Particularly welcome was \$2-billion for upgrading and repairing buildings on university and college campuses, and the additional money poured into the excellent Canadian Fund for Innovation. There are no votes in this kind of spending, so hats off to the government for doing it.

Hats off and hurray for setting in motion a process that will lead to a National Securities Commission, as recommended recently by yet another task force. This long-overdue initiative is opposed by Alberta and Quebec. (Manitoba will soon see the light) So what? The new commission will be voluntary. They are welcome to stay away from it – at their own economic loss.

The government also based its projection of economic growth at the very low end offered by private sector economists, a sensible precaution, and a welcome one from a government that has whittled away the precautionary margins built into budgets of the previous Liberal governments.

The stimulus can't work miracles. Unemployment is forecast to rise to 7.7 per cent in 2010 from 6.6 per cent today. It will be cold comfort to the unemployed to know that the 7.7 level will be lower than in previous recessions.

The economy, stimulus notwithstanding, is going to contract slightly in 2009. The budget was designed, although it would never be sold this way, to ease the pain rather than eliminate it.

-  Article
-  Comments (24)
- 

Recommend this article? 18 votes