



5 Minutes for Business

The Budget Is Coming! (And you thought the new *Star Wars* movie was exciting.)

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March 22 is the big day! Like nerds lined up for the latest *Star Wars* movie, we at the Canadian Chamber just couldn't be any more excited about the new government's first budget.

Will an empire of program spending overwhelm the plucky investments in productivity? Will the evil deficit be defeated in one of the sequels or will it conquer the planet? Will the youthful lord follow in the footsteps of his father? Ha! But I digress.

We're at *Star Wars* levels of excitement because the stakes are huge for the government and expectations are sky-high. Departments and stakeholders that have seen budgets cut or frozen over the past decade of Conservative rule are salivating. They see the PM's announcement of indeterminate deficits as a sure sign that the expenditure taps are about to gush with money. The Finance Department is so overwhelmed with written submissions to its pre-budget consultation that its beautiful new building at 90 Elgin Street is sagging under the weight of letters demanding funds.

At the same time, the deficit for 2016-2017 is now estimated to reach \$18.4 billion, a staggering increase over the November forecast of \$3.9 billion, and this is before a penny of the vast Liberal promises have been accounted for.

Some have surmised that this is the classic defence of "Wow the deficit is bigger than expected, but not our fault, darn that economy." In corporate accounting, they used to call it "the big bath." If you're going to announce a loss because of extraordinary circumstances, you might as well have a huge loss to ascribe more blame to your misfortune so that future results will look better in comparison.

Using the standard Finance Department rules that \$1 billion in federal government revenue is lost for every

\$5 per barrel drop in oil prices and that every 1% decline in real GDP represents a \$4.1-billion hit to the bottom line, we end up with a deficit of \$9 billion. That's why the \$18.4 billion estimate seems overly large. Maybe Finance is using "the force," but to be fair, it is notoriously difficult to model revenues during cyclical downturns.

All this means that the total deficit will end up in the \$30-billion range. The bigger concern is that deficits are not necessarily stimulative. The Europeans and Japan have shown that it's possible to waste a lot of money and not get any economic boost out of it.

So like an angry Darth Vader on a hot day, the Canadian Chamber will be watching on March 22. What are we looking for?

- Will the infrastructure spending be targeted at productivity-enhancing, trade-enabling roads, ports and digital investments that boost productivity? (Seriously, at last week's Finance Committee hearings, one of the mayors said he wanted infrastructure funds to build a pool.)
- Is there a fiscal anchor, a reasonable plan to return to balanced budgets at some point in future?
- Are there measures that will boost business competitiveness?
- What are the additional costs to business? (Carbon taxes, EI premiums, regulatory burdens – we'll total them all up.)

For more information, please contact:

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