Taking Action on the Economy

Advice From Western Canada

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Executive Summary

In early December, the Canada West Foundation canvassed 25 western Canadian economic analysts about what the Government of Canada should do to address the current economic slowdown. *Taking Action on the Economy* is designed to ensure that western perspectives on how to address Canada's economic challenge are an integral part of the national policy dialogue. It provides a summary of the feedback we received; the full submissions can be found in the appendix and contain a great deal of additional information and insight.

The participants in the *Taking Action* canvass recognized that there are limits to what the Government of Canada can do to pull the country out of the current recession, particularly when one of the drivers of that recession is a decline in both world commodity markets and American demand for Canadian exports. Nonetheless, they accepted the need for quick action on a national stimulus package. Although such action will result in a short-term deficit, the participants stress the need to ensure that such stimulus does not lead to structural deficits in the years to come.

The detailed stimulus prescriptions of the 25 participants varied considerably while also advancing a number of common themes:

- The submissions point out that monetary policy is the first line of attack, and therefore support the interest rate cuts and efforts to improve liquidity that have already been taken. This is in line with the general observation that the current slowdown is driven by factors outside Canada over which domestic policy has no influence.
- An effective stimulus package should act quickly by working through automatic stabilizers (e.g., EI) to strengthen the existing safety net and put money in the hands consumers. In the interests of speed, the package should rely primarily on enhancements to existing programs (EI, tax cuts) rather than on the creation of new programs.
- Infrastructure spending should be directed first to "shovel ready" projects identified by municipal governments, and then to projects designed to improve Canada's long-term economic competitiveness and social wellbeing.
- The stimulus package should be national in design rather than calibrated to particular regions, sectors or firms, although the participants reluctantly agree that the auto sector may require specific attention.
- To the extent possible, the stimulus package should be aligned with long-term policy objectives to enhance Canada's competitiveness, productivity and trade. In this sense, the current crisis is an opportunity to get things right for the long haul.

1. Introduction

To help provide a clear signal amid the noise that has erupted around a potential stimulus package for the national economy, the Canada West Foundation asked 25 western Canadian economic analysts what the Government of Canada should do to address the current economic slowdown. The goal was to inform the debate through constructive economic advice and to ensure that western perspectives are part of this crucial national debate.

2. Methodology

Twenty-five economic analysts from across the four western provinces were invited by email to write a brief description of what initiatives should be taken to address the slowdown of the Canadian economy, and what specific initiatives, if any, should be taken to address the economic slowdown in western Canada. Participants were asked to focus on what the federal government should and should not do with respect to the current economic situation. Given the urgent need for constructive advice before budget plans are finalized, the deadline for input was set for noon on Tuesday, December 9.

The input was collected and analyzed to identify common themes for this report. The detailed and rich advice that we received is appended, unedited and unabridged.

3. Economic Context

Many months before stock market collapses and deaths of financial colossi grabbed the headlines, a number of factors were at play to undermine the US economy and, by extension, the global one.

Among those negative factors, the two main ones were a housing market bubble and an overstretched financial system, dancing in a vicious circle to the combined tunes of unreasonable mortgage loans and their evil cousin, asset backed commercial paper (ABCP). The day the music stopped, two victims stood out among many: consumer debt and commodity prices.

Once US households became aware of the unmanageable level of their debt, consumer spending dropped by 0.9% in the third quarter of 2008, the sharpest decline since 1980. This was the finishing touch to a decade-long spending spree; household spending had reached unmanageable levels as it clearly outpaced real wage growth.

Commodity markets work in mysterious ways. Specialists might one day determine whether the 2008 commodity scenario went as follows: recession signs in the US triggered lowered expectations for US demand, and by ricochet lowered growth in Asian economies which usually fulfill that demand, and in turn lowered demand for commodities used as inputs in Asia, hence a drop in commodity prices. However, all agree on the results: prices for most major commodities nosedived in September. This included western staples such as crude oil, lumber and uranium, although potash prices held steady due to low inventories.

In December, the National Bureau of Economic Research (NBER) assessed that the US was in a recession which had started in November 2007. One of the reasons for that statement was the

11-month string of consecutive job losses starting in January 2008. US economic activity essentially stood still over that period. Real GDP in the third quarter of 2008 was just 0.7% above its level a year earlier.

The rest of the world was hit by the US financial and economic turmoil within a short period of time, and Canada was no exception. Canada lives and dies in an open global economy, and in this occasion our exposure to the US market was costly. Real Canadian exports to the US have declined by approximately 6% so far in 2008 (Canada West Foundation estimate), with significant losses in forestry and auto products. As for 2009, there is a lot of uncertainty around US demand for a number of Canadian exports that are important to the West, including crude oil. On the financial side, the drop in credit availability in the US has spread to other markets worldwide and credit restrictions are spreading to Canada.

Despite this assault by external factors over which we have no control, Canada's economy has not suffered as much as that of the US, one of the reasons being a much softer landing in our housing market at the national level. Undoubtedly, the GDP results for the third quarter of 2008 did not point to rosy tomorrows: most of the growth came from "no-future" areas such as inventory accumulation and a decrease in imports. Just like in the US, Canadian real GDP paused over the last twelve months. GDP in the third quarter of 2008 was just 0.5% above its level of a year earlier.

A number of indicators lead us to think that a large chunk of Canada's growth in 2008 occurred in the West, the most revealing being the level of employment. Job numbers grew 1.6% in the West from December 2007 to November 2008 compared to a more modest gain of 0.4% in the rest of Canada. Saskatchewan (+3.2%), Alberta (+2.1%), Manitoba (+1.8%) and BC (+0.8%) came ahead of all the other provinces in this regard. In comparison to Canada's overall gain of 0.8% in job numbers over that period, payroll employment in the US declined by 1.4%, a cumulative loss of nearly two million jobs.

Where do we go from here, and what type of economic policy should we use to mitigate the slowdown? Broadly speaking, we have two sets of tools, monetary and fiscal. In this regard, we are better equipped than the US, which has only fiscal tools left. American interest rates have nearly dropped to the level of what textbooks call the "liquidity trap" monetary policy conundrum: hyper-low rates which induce people to hoard money rather than invest it, therefore making it impossible for additional monetary policy to affect them. In Canada, the Bank of Canada reduced its overnight rate to1.50% on December 9, the lowest level in fifty years. Now is the turn for fiscal policy to come to the fore.

4. A Cautionary Note on the Role of Government

There is no question that the Canadian economy has taken a beating in recent months as financial markets all but collapsed, equity assets plunged in value, property values declined, jobs began to vanish, and major corporations sought massive public assistance. What began as a sub-prime mortgage crisis has become a global recession. Not surprisingly, all of this has led to public demand that governments act to stimulate the economy. What is less clear is how governments should act, and to what ends.

The primary role of governments in tough economic times is to ensure that the social safety net is in good repair, and to help those who find themselves out of work. However, few Canadians, and for

that matter few Americans or Europeans, see this as a sufficient response to current circumstances. They are looking to governments for effective and positive leadership. They expect governments to pull a range of monetary and fiscal policy levers including interest rate cuts, tax reductions, and infrastructure spending to moderate the length and depth of the recession. More controversially, many also expect governments to provide direct assistance to individual sectors and even firms in order to stave off further job losses and bankruptcies.

"The Canadian government has no control over declining export demand, falling energy prices or the commensurate job losses in these industries. It can, however, do things to slow the erosion of consumer confidence and stimulate investment."

– William Kerr, Van Vliet Professor of Bioresource Policy, Business and Economics, University of Saskatchewan.

Given these expectations, it is important to stress that many of the economic forces responsible for the current situation lie outside the influence, much less the control, of Canadian governments. Effective monetary policy must be orchestrated internationally, global commodity markets are beyond our reach, and little can be done from Canada to renew consumer confidence in the United States and stimulate demand for Canadian exports.

It is also key to remember that there is no magic policy wand, that if we could only get the spell just right, everything would be better. Such unrealistic expectations open the door to bad public policy. There is an important role for governments—as the suggestions outlined in this report demonstrate—but this does not mean that government action should be unfettered or that it can solve all of the problems we face. As University of Calgary economist Ron Kneebone argues in his submission: "we shouldn't oversell what the government budget can do. It will be the private sector, not government budgets that will do the heavy-lifting to get us out of this difficulty."

"Any economic intervention that might be contemplated during a downturn should prepare Canada and western Canada for the inevitable growth phase to come. To this end, I would urge the full implementation of the recommendations in the Competition Policy Review Panel's report, Compete to Win, such that any intervention is a direct investment in Canada's productivity."

– Grant Isaac, Dean, Edwards School of Business, University of Saskatchewan.

Finally, we must not forget that this current slowdown will eventually pass. It is therefore important to pursue long-term policies that will help ensure that western Canada and the country as a whole remain competitive in the global economy, not just for the months ahead but for decades to come. As much as possible, *any short-term economic stimulus package should be aligned with long-term policy objectives.* As University of Calgary economist Ken McKenzie notes: "Government fiscal intervention should always, whether we are in a recession or not, be designed to enhance economic growth and productivity."

In summary, governments and public policies have a critically important role to play in addressing the current economic downturn. However, much of the recovery will be fashioned within firms and sectors, and much will depend on international conditions over which Canadian policy-makers have little influence. With this caveat in mind, let's turn to the general advice and specific recommendations tendered by economists from across western Canada.

GOING FOR GOLD PROJECT

The Canada West Foundation's *Going for Gold Project*, launched in 2007, is firmly aligned with the consensus among the contributors to *Taking Action* that now is the time to be considering how to improve Canada's ability to compete in the global economy over the long-term. More information about the *Going for Gold Project* can be found on our website (www.cwf.ca).

5. General Principles to Frame a Stimulus Package

The contributors to *Taking Action* tended to frame their specific advice for the stimulus package in the context of more general policy principles. These principles emerged as a rough although far from unanimous consensual framework for the more specific advice on the stimulus package.

"Incremental spending on infrastructure should target not only concrete projects such as roads and bridges but critical aspects of Canada's social deficit. In particular, spending should target renovation and construction of housing for the poorest Canadians and provision of facilities, treatment, and supports for people suffering from mental and addiction issues and other disabilities. This period of economic misfortune should be viewed as a golden opportunity for the nation to deal with long-neglected needs for a just society."

– Jonathan Kesselman, Professor and Canada Research Chair in Public Finance in the Graduate Public Policy Program, SFU.

- **Don't panic** – While there is no question that the current liquidity crisis and economic slowdown require action on the part of the Government of Canada, adding to the sense of panic will not improve investor or consumer confidence. In the words of Peter Phillips, Professor with the Johnson-Shoyama School of Public Policy at the University of Saskatchewan, "a key concern for all of us is to ensure that our governments don't panic and waste our money in an effort to appear to be acting. Poor choices now could leave us with a hang-over of structural deficit, accelerating inflation and little room to support our economy and society to face the challenges of the 21st century."

- **Be realistic** – There is only so much that the federal government can do when the slowdown is driven by forces external to Canada. The impact of fiscal policy is necessarily limited because Canada "is an open economy heavily dependent on exports. *If foreigners aren't buying, we aren't going to be selling,* no matter what we do with tax rates and government spending. All that we can do is keep the doors to free trade open and wait for buyers of Canadian exports to return" (Ron Kneebone).

- **Work in concert with other governments** – Monetary policy, not fiscal policy, is the principal tool for addressing the slowdown. The Bank of Canada, in concert with the world's central banks, is already taking action to increase liquidity and lower interest rates. The next step is to ensure that the federal government's stimulus package should align where possible with similar action in the United States (e.g., aid to the auto sector) and with stimulus initiatives contemplated by provincial governments.

- **Act quickly** – In the interest of speed, it makes sense to use existing programs where possible and avoid creating complex new programs. Focus on fast-tracking "shovel-ready" infrastructure projects and maintenance, most of which will be found through municipal governments, and on accelerating the use of existing federal programs that work rather than on entirely new initiatives.

- **Think of infrastructure in broad terms** – Although our physical infrastructure is central to our future success as a trading country in the global economy, it is important not to lose sight of our social and cultural infrastructure.

- **Go big** – "Small measures drawn out over a lengthy period of time, delays, and half measures, will not have the economic stimulus effect desired, and, more importantly, will not have the confidence building effect for either businesses or consumers. Do it fast, do it immediately, do it big" (Western Centre for Economic Research).

- **Temporary and prudent deficits are okay, but a return to structural deficits must be avoided** – There was a broad consensus across the economic analysts that a short-term deficit was not only unavoidable but quite likely essential for an effective stimulus package. Indeed, hand-wringing about the deficit and constant references to "belt tightening" may further erode investor and consumer confidence. At the same time, we must avoid falling into the trap sprung by the recession of the early 1980s that saw deficit spending long outlive the recession.

- **Be nimble** – Canadian policy-makers will need to be alert to changing circumstances and to signs of economic turning points in key external markets. They should also be ready to pull-back on various stimulants once the economy recovers to avoid overstimulation, unnecessary deficits and inflation.

- **Avoid picking winners, or worse, supporting losers** – There was general consensus that subsidies or bailouts for specific regions, industries or firms are a bad idea and that broad-based measures are more appropriate. As University of Alberta economist André Plourde explains: "Efforts by governments to "pick winners" by directing policy initiatives at a narrow set of industries are likely to be less effective than more broadly-based approaches. A more robust economic recovery is likely to result from efforts to provide a more general (rather than targeted) stimulus." At the same time, there was a general if reluctant acceptance that the auto and forestry sectors might be special cases.

Given this principled framework, what specific policy recommendations did contributors identify for inclusion in the economic stimulus package being designed for the Government of Canada?

6. National Stimulus Options

The appended documents contain a wealth of specific recommendations for any stimulus package emerging from the Government of Canada, and for that matter from provincial governments. Overall, contributors were quick to stress the fundamental importance of monetary policies pursued in concert with other governments. As Ron Kneebone notes: "The solution of the current crisis is to be found in a coordinated response of the world's central banks; the pre-eminent response of Canadian public policy to this response must emanate from the Bank of Canada, and how well we recover will depend on the private sector's response to monetary policy."

"Deficits make sense as long as a demand-deficient economy is generating negative growth. [However], as soon as positive growth of GDP is restored, governments must return to surplus budgets, first to offset any increases in debt that preceding deficits have generated, and second, to return to the long-term target of reducing the national debt to 25% of GDP."

– Roslyn Kunin, Senior Fellow and Director of the BC Office, Canada West Foundation.

"The measures to be introduced should be of a nature that does not establish on-going entitlements of transfers that might lead to structural deficits for the federal budget in subsequent years. The hard work done by governments to eliminate structural deficits and to contribute to overall debt reduction should be remembered; governments and citizens should not have to face the same difficulty in trying to move from the economic stimulus now needed, to dealing with ongoing massive structural deficits."

– Western Centre for Economic Research.

"If the stimulus just throws money at the problem, and fails to transform producer and investor behavior, we could end up with sclerotic industries, increased regulation, and a tax system that discourages savings. This would compromise long-term prospects for the North American economy as the recession transforms into a decade of stagnation."

– Greg Mason, Managing Partner with Prairie Research Associates.

"The most sensible options are measures that steer clear of subsidizing individual businesses or industry sectors; are fast-acting, so that the economic benefits are realized quickly; and support the objectives of long-term economic and productivity growth."

– Jock Finlayson, Executive Vice President, Business Council of British Columbia.

"The first priority should be to get money in the hands of those who need it most. In the first instance, these are people who have lost their jobs. Easing qualifying criteria to collect Employment Insurance and enhancing and extending EI benefits would achieve this. Tying the enhanced EI benefits to the unemployment rate—so that they are unwound as the economy emerges from the recession—would help ensure that the measure is counter-cyclical."

– Ken McKenzie

"Getting more funds into the hands of individuals who most need support and will quickly spend the money should take priority over cutting personal or business taxes. Much of conventional tax cuts are simply saved rather than being spent by individuals uncertain about their economic future."

– Jonathan Kesselman.

"Generally speaking, reductions to income taxes are preferable to cuts to consumption taxes. However, in this specific case, what the economy requires is immediate, maximum-impact stimulation. That would be offered by [temporarily] suspending the GST."

– Todd Hirsch, Economist and Sessional Instructor, University of Calgary.

However, as Greg Mason observes: "Monetary policy in the form of reducing interest rates appears to have run its course—recent interest reductions have not reversed downward trends in consumer or business spending. Therefore the focus has turned to direct intervention." If we look beyond monetary policy, a number of clear directional signals emerge from the Canada West Foundation consultations, many linked to the established role of automatic stabilizers.

- **Get money into the hands of consumers and do it quickly** – There was a general consensus that any stimulus package must encourage consumer and business spending through enhanced benefits to those in need—the unemployed, pensioners, students and others more likely to spend than to save.

- **Employment Insurance is a key program** – A lot of emphasis was placed on changes to EI to allow unemployed Canadians to get more generous benefits more quickly. As Kevin Milligan, Associate Professor of Economics at UBC explains: "Temporary increases to the replacement rate or extensions to weeks of eligibility would quickly put more money in the hands of those most hurt by increases in unemployment. Given the immediate consumption needs of these families, they are less likely than other households to save their windfall. Enacted with a 'sunset' clause to ensure its temporary nature, there would be less risk to long-run budget balances." Other EI options mentioned were refunding past overpayments and temporary reductions in EI premiums.

- **Tax cuts are a useful tool** – There was general although not unanimous agreement on the utility of tax cuts to stimulate consumer spending and business investment. However, there was less consensus on what form tax cuts should take. Some favoured temporary or permanent cuts to the GST (perhaps a GST holiday) while others preferred cuts to personal income taxes; by changing tax withholding rates used by employers, this form of stimulus could be in place within weeks. The debate centred on the speed with which tax cuts might take place and the long-term effects. It was also suggested that because lower income Canadians do not pay income taxes, enhancements to the Canada Child Tax Benefit would allow these families to receive a share of the fiscal stimulus.

- **Ramp-up infrastructure spending, but focus on projects with long-term benefits** – The goal here is to move quickly so the stimulus provided by government spending on infrastructure will actually hit during the recession. (As William Kerr notes, planning lead time means that many infrastructure projects would not kick in for 18 months, but it is the next 18 months that are critical to restoring consumer confidence.) At the same time, it is important to make sure that the projects will help Canada's long-term economic competitiveness. A key but not exclusive target is improvements to transportation infrastructure that will help Canada compete in global markets both now and in the future: "the federal government must now act decisively and lead with accelerated investments through a variety of programs which position Canada to be the international trade crossroads thereby bringing future economic opportunities" (Chris Lorenc, President, Manitoba Heavy Construction Association).

- **Think broadly when it comes to infrastructure spending** – Refurbishment and maintenance of existing infrastructure assets may make the most sense as a short-term stimulus, while long-standing infrastructure deficits such as those related to affordable housing could be addressed to help those most in need during a recession and after.

- **Ramp-up spending on training** – As with physical infrastructure, government spending on training needs to happen quickly. At the same time, training programs should be aimed at the future needs of the Canadian economy. Increased investment in advanced education is also appropriate.

- **Temporarily increase federal support for provincial social programs** – this would serve as a short-term fiscal stimulus and help provinces cope during the recession. The transfers would be phased-out as the economy recovers.

In summary, the stimulus package could address both short- and long-term goals including getting the economy growing and people working, making sure the stimulus is counter-cyclical, and enhancing automatic stabilizers. As Ken McKenzie argues in his submission, the key is to "design the stimulus with a broader purpose in mind, to enhance economic growth and productivity; don't just put money into the economy by digging ditches and filling them again."

7. Regional Initiatives

Participants in the *Taking Action* project were asked to suggest particular elements of a stimulus package that might address the unique features and circumstances of the western Canadian economy. Interestingly, most of the suggestions we received were not regionally specific. In part, this reflects the view that interventions designed for the national economy will have truly *national* effects, and that there is little need to design regionally-specific stimulus packages. However, this relative neglect of a regionally

"Invest in infrastructure that reflects the 21st century—mass transit rather than highways—and move to implement infrastructure spending immediately with projects that have already been planned, but were awaiting funding."

– Western Centre for Economic Research.

"Given the crisis of confidence and slackening international demand, it is important for government to engage in spending programs to stabilize demand in Canada. Maintaining relatively low rates of interest will not suffice at this time. Such spending should be targeted towards productive expenditure such as infrastructure. But spending on job retraining programs could also be critical. Overall, investment in technical skill education is vital on the Prairies."

– Morris Altman, Head of the Economics Department at the University of Saskatchewan.

"Canada needs to continue to invest in its people and its ideas as well as its roads, bridges and waterworks. When the economic clouds drift away, labour will still be the top issue facing business. This suggests an emphasis on education and skill development."

– Adam Legge, Vice President and Chief Economist, Calgary Economic Development.

differentiated national economy also reflects the fact that there is little that governments can do to address slumping commodity markets in western Canada.

Nonetheless, contributors did identify a number of regionally specific initiatives that could be built around the core of a national stimulus package:

"The evidence so far suggests most of the pain is being felt in Ontario. If this proves to be true moving forward, the preferred fiscal response is quite different than it would be were the pain more widely felt. In the meantime, automatic stabilizers in the federal budget will introduce a mild fiscal stimulus to just those areas of the country needing it and this will be done without the need for either new legislation or interminable political debate."

– Ron Kneebone.

- **Improve capital investment and exploration incentives for the resource sector** – The energy sector should be recognized as a key pillar of the national economy and should be treated equitably relative to other sectors. The economic stimulus package should therefore include measures to enhance liquidity in debt and equity markets to address financing challenges in the energy sector, particularly for small to mid-cap producers; the reinstatement of accelerated capital cost allowances for oilsands upgrader projects was also suggested. There are opportunities to support carbon capture and storage investments via tax measures, multiple credits or direct funding. Several *Taking Action* participants also note an extremely stressed forestry sector as an immediate target for assistance.

- **Mobility** – A number of submissions stress the value of facilitating the relocation of workers from high unemployment regions to low unemployment regions.

- **Spread infrastructure projects around** – "Capital projects must not only be chosen for quick implementation and relatively short duration; they must also be evenly spread across the country" (Roslyn Kunin).

- **End the regional biases of Employment Insurance** – There was some discussion regarding the regional discrimination inherent in the current Employment Insurance system that makes it easier to get EI in regions where unemployment is relatively high. It was suggested, however, that "the hours-of-work threshold for eligibility and the weeks-of-benefits formula should be adjusted to sharply reduce the role of regional unemployment rates. A person without a job is equally unemployed regardless of how many others are unemployed around them" (Jonathan Kessleman).

"An opportunity exists for the federal government, through the Business Development Bank of Canada, to provide short-term financing to viable small and medium-size businesses that may be financially constrained due to the cyclical downturn. This may include partnering with financial institutions to promote or guarantee necessary working capital financing."

– Edward Mansfield, Associate Partner, Statistics and Economics, PriceWaterhouseCoopers LLP.

The economy in western Canada is particularly exposed to the impact of low commodity prices, and there is little sign that this impact will be short-lived. At the same time, swings in commodity prices are not unusual. As Peter Phillips argues: "the only long-term solution is for firms in these sectors to be as efficient and competitive as possible, building up reserves in good times to tide them over in downturns–the good ones will have mostly done this and will be fine."

8. Forward-Looking Opportunities

A common theme woven throughout the recommendations was that wherever possible, actions taken to provide short-term stimulus should align with long-term economic objectives. As Jack Mintz, Palmer Chair of Public Policy at the University of Calgary, notes: “The economic crisis has one glimmer of hope. It provides an opportunity to reconstruct the economy to make it more dynamic. With the right set of productivity-enhancing policies, a phoenix can grow from the ashes to provide sustained long-term economic growth.” Thus, there is an opportunity to use the current crisis as a spur to taking forward-looking actions with respect to investments in physical and human capital that will benefit the economy over the long-term once the world recovers. Here the project participants identified a number of opportunities that are pitched more to the long-term than to a short-term stimulus:

- **Promote free trade as a top priority** – Canada is a trading nation (much more so than the US) and it will be free trade that pulls us out of the slowdown and keeps us prosperous over the long-term. Much more can be done to nurture the relationship with the US and to build relationships with other trading partners around the world.

"The current economic crisis is a short-term situation that can set the stage for long-term economic prosperity. Any short-term stimulus package should be developed with long-term economic benefits in mind."

– Tim McEwan, President and CEO, Initiatives Prince George.

- **Remove barriers to internal trade** – Although it has long been recognized that removing internal trade barriers would “expand the domestic market, increase productivity and allow for adjustment between regions” (Graham Parsons, President, Organization for Western Economic Cooperation), progress on this front has been painfully slow. However, the current economic crisis may provide an opportunity for the federal government to use its trade and commerce power to further liberalize interprovincial trade (Peter Holle, President, Frontier Centre for Public Policy).

- **Invest in new technologies and green infrastructure** – For example, Marlo Raynolds, Executive Director of the Pembina Institute, argues that “aging and inadequate transit infrastructure has not kept pace with sprawling Canadian cities, and the Canadian Urban Transit Association has identified the need for $30 billion in transit infrastructure spending over the next five years. These investments in transit infrastructure need to happen in the future anyways, so accelerating them simply puts us ahead and makes our cities more livable and more productive earlier.” More generally, tax incentives could be offered for technologies that reduce GHG emissions.

- **Invest in affordable housing** – Such investment would address a pressing and growing social issue while also providing a short-term stimulus to the residential construction industry across the country.

- **Invest in the regional transportation system** – This could include badly needed infrastructure in northern British Columbia (Tim McEwen) and inland ports “where new value-added trade, warehousing, manufacturing and assembly activity can occur” (Chris Lorenc).

In summary, the current economic situation opens the door to a range of investments that could make a long-term contribution to the strength of the western Canadian and national economies over

and above their short-term stimulus effect. As Morris Altman illustrates: "In Saskatchewan, which continues to boom, the government needs to continue to help lay the foundation for future economic growth by investing in infrastructure, facilitating immigration of skilled labour, and increasing the quality educational opportunities of low income children, of which Aboriginals form a large number." There is a lot that could be done if we seize the opportunity.

"To have much effect, any fiscal measures need to be coordinated across all governments. We would get little value as a nation from the federal government spending more and the provinces simply cutting back."

– Peter Phillips.

9. Conclusion

The 25 western Canadian economic analysts canvassed in the *Taking Action* project agree that the Government of Canada should launch a major stimulus package early in 2009, even though such a package will inevitably entail a short-term deficit. They also agree that a short-term stimulus is essential, one that puts money in the hands of consumers and businesses. At the same time, they urge that, to the extent possible, short-term stimulus should be aligned with long-term economic policies designed to increase the competitiveness and productivity of the Canadian economy on the world stage. The ultimate goal is to emerge stronger not weaker when the recession inevitably ebbs. ■

Appendix: Advice from Western Canadian Economic Analysts

Submission by Morris Altman

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This particular economic slowdown is a direct consequence of the troubles in the American financial and mortgage (housing) sectors that have been extenuated by problems in European financial markets. Some of these problems are directly related to poorly structured regulations in the financial and mortgage markets. The Canadian institutional set-up is such that Canada's economy does not suffer the same structural problems. Nevertheless, this very real international economic crisis has hit Canada, creating a crisis of confidence and some serious liquidity problems. In addition, the crisis of American auto manufacturers is causing great harm to the Ontario economy with ripple effects to other Canadian jurisdictions. The latter is a deeply embedded structural problem, only brought to the fore by the financial crisis. The overall liquidity problems and crisis of confidence potentially threaten the wellbeing of the Canadian economy.

Alberta, Manitoba and Saskatchewan are well-placed to escape the crisis given the nature of their economies. But much depends on how the international economic communities address the crisis at hand. All levels of government in Canada need to increase the level of confidence amongst consumers and investors. The federal government should maintain a low interest rate policy so as to foster consumer and investment spending. This might negatively impact on the value of the Canadian dollar. However, this would positively affect the competitiveness of Canadian exports.

Given the crisis of confidence and slackening international demand, it is important for government to engage in spending programs to stabilize demand in Canada. Maintaining relatively low rates of interest will not suffice at this time. Such spending should be targeted towards productive expenditure such as infrastructure. But spending on job retraining programs could also be critical. Overall, investment in technical skill education is vital on the Prairies.

At a time of economic crisis, government should not be overly concerned with budget deficits, as long as these are not structural. Productive government spending can actually increase the competitiveness of economies. Tax reductions per se are not likely to have much impact at this time given issues of consumer confidence. Tax reform, however, which makes good economic sense from a structural perspective, is another matter. Maintaining and configuring a more effective social safety net is of importance as well, both in the short and long run. The latter serves as an automatic stabilizer and serves to facilitate effective job search and structural change. Also, federal and provincial governments need to assure that our regulatory parameters are such that we minimize the probability of structural financial and mortgage related crises surfacing in Canada in the future.

In Saskatchewan, which continues to boom, the government needs to continue to help lay the foundation for future economic growth by investing in infrastructure, facilitating immigration of skilled labour, and increasing the quality educational opportunities of low income children, of which Aboriginals form a large number.

Submission by Geoffrey Pradella

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Personal Tax Cuts and Prudent Fiscal Management Needed to Address the Economic Slowdown

The Calgary Chamber of Commerce represents over 2,300 Calgary based businesses. On critical and emerging issues in public policy, the Chamber acts as the leading forum for debate, and advocates public policy solutions that improve the business climate on behalf of its members. The Chamber is calling for federal elected officials to place the public interest above all else, including partisan politics, and focus on measures to restore investor and consumer confidence through these challenging economic times.

Personal Tax Cuts as Economic Stimulus

The current economic situation requires that all federal parties work together and institute bold measures to stimulate the economy. The Chamber believes personal tax relief should be a major component of any economic stimulus package, thus placing more dollars in citizens' wallets to save, spend and invest, providing a much needed boost to the economy.

Canada's personal income tax burden is the highest of the G-7 nations and is above the average of the OECD countries. Most have top marginal personal income tax rates below 40%, whereas in Canada, the federal/provincial combined average is 45.3% (The Canadian Chamber of Commerce. September 2008. "An Action Plan for a Competitive Canada." Available online: http://www.chamber.ca/cmslib/general/Election200892312915.pdf).

Canada's top marginal rate also commences at a much lower level of income ($123,185) than in the US ($178,851 for married individuals filing separate returns) (KPMG. November 17, 2008. "Individual Income Tax Rate Survey 2008. Available online: http://www.kpmg.ca/en/news/documents/Incometaxratesurveyweb.pdf). It is important for Canada to nurture a competitive tax environment and encourage high income earners to continue to invest and generate wealth in the Canadian economy through competitive tax rates. It is also key to our ability to attract an increasingly skilled workforce.

The Calgary Chamber of Commerce, therefore, recommends that the federal government, as a key component of its economic stimulus package:

Bring personal tax revenues as a percentage of GDP below the OECD average by 2013, by:

- raising the basic personal amount to $12,500;
- reducing the middle two tax brackets (22% and 26%) by two percentage points each;
- reducing the highest tax bracket (29%) by one percentage point; and
- raising the threshold of the highest marginal rate to $200,000.

Prudent Fiscal Management and Deficit Policy

The Chamber also recognizes that in the current economic environment a substantial reduction in personal tax rates would jeopardize the government's ability to balance its budget. The Chamber, therefore, encourages the federal government to adopt a more sustainable and prudent approach to program expenditures, by maintaining spending increases in line with population and inflation while enabling government to respond to economic growth or decline.

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Specifically, the Chamber recommends that the federal government:

- Adopt a bandwidth approach to government spending by targeting expenditure increases within a range delimited by population and inflation growth and real GDP and inflation growth (between 2.0 and 2.7% for 2009); and
- Adopt a deficit limitation policy that:
  - allows deficits only when negative real GDP is forecast; and
  - limits the size of the deficit, as a proportion of total government expenditures, to the percentage decrease in GDP (e.g. if GDP is forecast to contract by 1%, the size of the deficit should be a maximum of 1 per cent of total government expenditures).

This approach enables government to effectively respond to population growth pressures and economic realities, without compromising the prudent fiscal management policy of maintaining balanced budgets in times of economic prosperity.

Submission by Stu Duncan

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At the G-20 Summit in Washington in November, leaders promised rapid fiscal stimulus for their economies. China and the United States have announced unprecedented stimulus plans, and many others such as France, Australia and Sweden announced plans. The US, Japan and much of Europe are already in a recession. In the US, the economic vital signs show the patient is not well.

The financial and credit crisis originated outside Canada, particularly acute in the US, and the solutions must dominantly come from outside Canada. However, Canada is part of a globally interdependent economy and is responsible to take national action. The reality is that US action is essential to Canada's economic health.

Two major types of stimulus—monetary policy and fiscal policy—are both required. Monetary policy must always be fundamental in addressing any economic cycle. The Bank of Canada and other G-7 central banks have taken concerted, considerable and responsible action. This is paramount and forms the backbone of stabilizing global and national financial conditions. The Bank of Canada just lowered the overnight rate to 1.5%, cut in half since October 8. This will add some fiscal stimulus.

Canada is in a stronger position than most with solid macroeconomic and financial fundamentals, federal budgetary surpluses (up to this year) and a robust, stable banking system. Short-term deficits are warranted now, but only for the short-term.

Notwithstanding monetary policy stimulus, the world economic slowdown requires what President-elect Obama calls a jolt, through fiscal stimulus. Most countries are looking for that jolt to include public infrastructure and investments in training. These should also be Canada's priorities in a constructive response, because both can generate short-term stimulus that is consistent with long-term national interests and both can be accelerated through existing federal programs that work. New federal programs, short-term tricks or one-off fixes should be avoided; they can be structurally hard to change and costly when the economy rebounds.

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In Canada, and western Canada, nearly one in every three jobs is dependent on trade. The investments made today in efficient trade and transportation infrastructure to move goods to and from Asia, across Canada and north-south with our major trading partner, will benefit many sectors for many decades. Provincial and city governments will face increasing fiscal pressures and federal infrastructure monies should flow quickly to their top priorities that are ready to go. Other capital investments that can be accelerated are major defence purchases.

Through the tax system, further federal initiative can spur business investments in machinery, equipment and technology to help the competitiveness and productivity of manufacturers and resource industries. In a recent positive move, the Government of Canada has injected substantial equity into federal institutions EDC and BDC that provide access to capital for small business.

There needs to be more investment in people directly, through federal investments in universities and colleges, workforce training and skills. Before the economic slowdown, workforce shortages were the number one issue, certainly across all of western Canada.

There is a tendency in downturns to reduce investor and tourism marketing at a time when Canada needs to promote its strengths and stability—put more investment in promoting Canada to the world. We also have a moral obligation to greatly expand our international aid commitments.

Response to an economic slowdown requires an effective combination of monetary policy easing (well in progress) and fiscal policy stimulus that flows investments in months, not years, in a manner consistent with long-term goals and fundamentals.

Submission by Jock Finlayson

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As 2008 comes to a close, the global economy is in an alarming downward spiral characterized by slumping commodity markets, widespread declines in real estate prices, dwindling consumer and business confidence, and constricted credit markets. No country is exempt from the onslaught of bad news, certainly not Canada, which remains one of the most "open" economies in the industrialized world.

With the US, Japan and much of the EU now officially in recession, a similar fate awaits Canada in 2009. This raises the question of how government should respond. In part the answer depends on the length and severity of the economic downturn. Some forecasters anticipate 18-24 months of pronounced economic weakness, at least in the US, while others look for growth to resume by the third or fourth quarter of 2009. Canadian policy-makers will need to be alert to changing circumstances and to signs of economic turning points in key external markets.

What should be done to boost economic activity in the coming months? Here one can distinguish between four types of "economic stimulus."

The first and most important is provided by easier monetary policy, as the Bank of Canada progressively lowers its target rate. The bank rate has come down sharply in 2008, most recently by way of a 75 basis point drop on December 9. Monetary policy works with a lag, so the rate cuts implemented in 2008 will yield benefits in 2009 and beyond. However, the continued dysfunction in credit markets has reduced the effectiveness of monetary policy, and this problem may persist into 2009.

A second source of stimulus comes from the tax cuts and spending increases engineered by the federal and many provincial governments over the past 6-12 months, and/or already planned for 2009. This includes the one-point decline in the Goods and Services Tax in January 2008 and the stepped-up pace of capital spending now being undertaken by governments across the country.

Another type of stimulus is based on the "automatic stabilizers," as a slumping economy inevitably leads to lower tax collections and puts upward pressure on certain spending programs, such as Employment Insurance. Even if governments do nothing new, Ottawa and at least some of the provinces will fall back into deficit in 2009-10 because of the operation of the automatic stabilizers built into Canada's fiscal structure.

Finally, because Canada is facing a potentially serious downturn, there is case for additional economic stimulus, particularly on the part of the federal government. The most sensible options are measures that:

- steer clear of subsidizing individual businesses or industry sectors;
- are fast-acting, so that the economic benefits are realized quickly; and
- support the objectives of long-term economic and productivity growth.

Based on the above criteria, the federal government should consider a package consisting of: 1) cuts in income tax rates for lower-and middle-income Canadians; 2) increased spending on "shovel-ready" infrastructure projects, such as road rehabilitation and the expansion of existing, high-priority transportation corridors; and, 3) a temporary reduction in Employment Insurance premiums to moderate the pace of lay-offs and encourage businesses to retain employees.

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Submission by Todd Hirsch

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Suggestions for Canada's Federal Government to Offer Immediate Stimulus and Aid to the National Economy, 2009

1. Support for the Auto Sector

The Federal government should target financial relief directly to auto workers rather than the auto companies:

- Enact legislation to temporarily enable the Big Three auto companies to override collective bargaining agreements with the CAW. This would allow them to adjust wages to comparable levels with the offshore auto companies.

- Average wages paid by the Big Three: **$78**/hr; average wages at Honda and Toyota: $**40**/hr.

- The federal government could offer a cash subsidy directly to auto workers, equal to the difference between the *current* hourly wage and the *adjusted* wage. This would be gradually eliminated over a period of three years.

- After the three-year period, lower wages at the Big Three in Canada would give the car companies the chance to reorganize and survive (we hope) in some form. Auto workers would have an appropriate amount of time to segue out of the industry.

- If necessary, the government could provide assistance to auto company pension recipients, either guaranteeing pension payments or even assuming a limited number of pension liabilities.

2. Temporarily Suspend the GST

Direct fiscal stimulus in the form of cheques mailed to citizens (like the US did last summer) would provide some immediate stimulus, but much of the cash would be saved, thereby reducing the efficacy of the stimulus. To provide direct and immediate fiscal stimulus to the Canadian economy:

- Offer Canadians a six-month "tax holiday" from the GST.

- The GST suspension must be ***temporary.***

- The temporary nature of the tax break would shift consumption patterns ("buy it now before the GST comes back!") which could cause some problems for retailers after the tax comes back. However uncomfortable, that effect would be short-lived.

- After six months, the GST must be re-instated, and Canadians must be aware of that. If the economy is still very fragile, it could be re-instated in steps.

Generally speaking, reductions to income taxes are preferable to cuts to consumption taxes. However, in this specific case, what the economy requires is immediate, maximum-impact stimulation. That would be offered by suspending the GST.

3. Fast-track Spending on Infrastructure

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Spending on national infrastructure projects should be fast-tracked:

- Infrastructure investments are required anyway.

- Construction costs could be lower during an economic recession, and the spending would help offset job losses elsewhere in the construction sector (e.g., housing).

Ideal projects would facilitate trade and movement of goods (e.g., new Windsor-Detroit bridge, fast-tracked West Coast port facilities, expansion and improvements to Trans Canada Highway, etc.).

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The federal government should avoid the temptation to assist specific sectors of the economy, such as auto and forestry, that must downsize in the face of permanent reductions in the demand for their products. To stimulate demand immediately and to encourage the economy to adjust to difficult market realities, the federal government should lower the taxes that suppress growth and encourage the Bank of Canada to lower interest rates. The public sector, which comprises about 40% of our economy, must participate in this process during this time of difficult private sector adjustment. Now is a good time to modernize federal transfer payment policy and to improve the productivity of public spending. Finally, the federal government can stimulate economic growth by implementing long overdue free trade between the provinces.

1. Tax And Transfer Payment Reform

Lower Taxes on Capital

The federal government should lower corporate taxes across the board and eliminate the capital gains tax by a combination of: 1) eliminating grants and subsidy programs to corporations and businesses; and 2) improving the productivity of federal spending (see third section below). Corporate welfare is a $19 billion line item for the three levels of government in Canada, and it should be replaced with a neutral approach to employment creation. The reality is that we do not know who will be the next Microsoft or which company can create 20,000 jobs. But we do know who it will not be: existing companies on the verge of bankruptcy.

Replace Equalization with a Harmonized GST and PST

The federal government should replace the divisive and increasingly unworkable equalization program with a transfer of the GST to the provinces. The transfer would require harmonization with provincial sales taxes. This would 1) immediately boost the struggling Ontario economy, which can no longer bear carrying these transfers; 2) eliminate duplicate administrative processes that burden the business sector; and 3) further boost capital spending and productivity by removing sale taxes on capital inputs.

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Tie Healthcare Transfers to Structural Reform

Ottawa must use the massive levels of funding it allocates to the provinces for healthcare to greater effect. Structural reform is the key to dramatic productivity gains that will free resources for other uses while helping to eliminate waiting lists. To start down this path, Ottawa should tie federal dollars to the requirement that provinces switch from global-based funding to performance-based funding and invest in the effective use of IT.

2. De-Constipate The Canadian Federation

Implement Interprovincial Free Trade

The government should use its trade and commerce power to further liberalize interprovincial trade. The Agreement on Internal Trade is mired in bickering, and it has failed to achieve its potential. The new Trade, Investment and Labour Mobility Agreement (TILMA) between Alberta and British Columbia provides a much better model—it automatically covers all government measures in all economic sectors unless a measure is specifically excluded, and it is enforceable, with fines up to $5 million. The federal government could extend TILMA across the country by linking it to the Canada Health and Social Transfer and to new infrastructure spending.

Unlock Human Capital: Encourage Immigration

When it comes to recognizing the foreign credentials of immigrants, provincial and territorial regulators must compare Canada's education systems and work experience to parts of the world with which they are unfamiliar. Rather than have each jurisdiction try to solve this issue by itself, it makes sense that the federal government should develop a centralized knowledge base that provincial and territorial regulators could use to find detailed information on the standing of a given school in a given country as well as the practices of that country in regulating a specific profession. When we can find that information once rather than have 13 different governments look for it, we will begin to unplug the process that forces immigrant professionals to drive cabs rather than add value to our healthcare sector, for example.

3. Improve Federal Spending Productivity

Public Sector Reform

The federal civil service remains organized along traditional bureaucratic lines, which are highly regulated, focused on processes instead of results, with a compensation model biased toward maximizing internal spending and staffing. The federal government should adopt a less-regulated best practices model from elsewhere (e.g., Australia and New Zealand) that re-orients agency incentives toward the efficient production of outputs by, among other things, giving line departments more control over their activities and asset management.

Submission by William A. Kerr

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The current slowdown in the Canadian economy has been precipitated by declining asset values, tightening of credit, job losses and declining consumer confidence in the US—all of which are contributing to a general decline in US demand. This directly affects the Canadian economy through slowing of exports to the US and indirectly through the lowering of demand for energy and other resources in other countries that export to the US. The latter means falling energy, mineral, and agricultural product prices upon which western Canada is particularly dependent. As a result, investment is slowing and consumer confidence is declining rapidly. Declining consumer confidence means that they stop buying—big-ticket items such as houses and automobiles first. Declining consumer demand can lead to a downward spiral of job losses and further loss of consumer confidence.

The Canadian government has no control over declining export demand, falling energy and resource prices or the commensurate job losses in these industries. It can, however, do things to slow the erosion of consumer confidence and stimulate investment.

To stimulate investment, the federal government can initiate infrastructure projects—but those usually have long start-up times because they must be planned and approved—realistically 18 months or so. For me, the crucial time is the next 18 months where shoring-up consumer confidence is essential to limit the spiraling down of spending. I will concentrate my remarks on what is needed over the next 18 months.

Governments really have three major economic levers at their disposal to shore-up consumer confidence: 1) easing credit—lowering interest rates; 2) reducing taxes and; 3) direct government spending. Unfortunately, the first two are of only limited usefulness in a recession when consumer confidence is low. The Bank of Canada is already near the minimum for interest rates—keeping them low is essential but there is virtually no more ability to stimulate consumer demand. In times of low consumer confidence, tax cuts don't lead to increased consumption—instead consumers tend to save the extra cash or lower their debt obligations. Hence, the economic stimulus from tax cuts is very muted.

This leaves direct government spending as the most effective weapon against falling consumer confidence. If necessary, this is the time for government deficits. The first thing governments should do is stop talking about deficits and change the message to being willing to do "whatever it takes" to save jobs. Deficits are not a relevant economic policy issue in the current situation, but talking about them has a negative effect on consumer confidence.

The objective of direct government spending is to get people to spend so that demand is supported. Hence, the programs should be targeted at those who are likely to spend. The most likely to spend are those that don't normally save. I suggest the following:

- Increase public pension benefits—pensioners tend to spend extra income. It will also send a signal that the government is "there for" pensioners (and soon to be pensioners) who have seen the value of their private pensions decline in the financial crisis.

- Make sure that Employment Insurance is easily accessed and promote it—so that those fearful of losing their jobs will be less fearful and continue to spend while they are working—don't raise benefits or extend benefit duration.

- One group that should feel relatively secure is the civil service—keep them consuming by ceasing discussion of government belt tightening, salary freezes, etc. A modest renewal of the civil service might be timely given competition from the private sector for young talent is lessening. Of course, young people getting a secure job don't save—they spend.

- Put in place short-term grants for "green" house renovations and stipulate they need to be spent quickly. Grants should be for 100% of the renovation—not as the current ones which require private spending.

- Grants to students—again they tend to spend any extra money, not save it.

- Grants for research—particularly short-term projects that require people rather than infrastructure such as science labs. These must be easy to apply for and/or distributed directly to research institutions with tight spending timelines.

- Allow government departments to commission lots of small research projects—less than $30,000 without cumbersome bidding procedures and having short timelines.

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These are only a few ideas—I am sure that one can think of many others. Note that, other than the increase in pensions, all of these initiatives can be cancelled or extended after 18 months depending upon whether the economy is recovering.

Over the 18-month period infrastructure initiatives should be put in place. If the economy is not recovering, then they can come on stream to stimulate investment and employment and can replace the short-run projects suggested above. I am sure there is a long list of worthy infrastructure projects.

The major thrust of government policy over the short-term should be to encourage consumers with secure jobs to keep spending and to put money in the hands of others who are most likely to spend. All political parties must show a positive attitude to spending initiatives and drop all unhelpful references to "belt tightening"—unlike the last election and post-election period.

Submission by Jonathan R. Kesselman

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Economic Stimulus: Fiscal Deficits and Social Deficits

Fiscal stimulus to arrest a declining Canadian economy should follow certain principles and target particular areas.

Accelerating public spending on infrastructure is a proper goal, so long as the spending can be quickly activated and worthy projects targeted. However, both the recent BC Financial Report and the federal Economic and Fiscal Statement aimed to increase infrastructure spending but sought to avoid deficits by containing spending on current programs. That approach is not merely false economy (constructing more public facilities while skimping on equipping and staffing existing ones), but it allows public accounting conventions to distort spending priorities (infrastructure spending does not count as current expenditures). Additionally, that expenditure-offsetting approach reduces the fiscal stimulus for macroeconomic recovery.

Getting more funds into the hands of individuals who most need support and will quickly spend the money should take priority over cutting personal or business taxes. Much of conventional tax cuts are simply saved rather than spent by individuals uncertain about their economic future. These initiatives should be structured to be self-financing or to phase out after the economy recovers. Two areas are well-suited for this strategy.

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First, Employment Insurance should be enhanced for workers losing jobs in lower-unemployment regions, who are now disadvantaged relative to the jobless in high-unemployment regions. The hours-of-work threshold for eligibility and the weeks-of-benefits formula should be adjusted to sharply reduce the role of regional unemployment rates. A person without a job is equally unemployed regardless of how many others are unemployed around them. EI benefits should also be increased, say from the current 55% to 70% of insured earnings, after 12 weeks without work. These changes would be self-financing; after economic recovery EI premium rates would increase to cover the costs. These enhancements would also be time-limited based on benchmarks of economic recovery, though greater national equality of EI provisions should be a longer-term goal.

Second, the federal government should re-enter cost-sharing of provincial expenditures on welfare (income/social assistance), an approach last used with the Canada Assistance Plan in 1996. Federal funds should cover a substantial proportion, at least two-thirds, of the costs associated with recession-induced increases in caseloads of employable beneficiaries. Federal funds should also be provided to cover at least half of hikes to benefit levels (up to a specified limit) for employable beneficiaries; these benefit levels are the worst of Canada's social safety net. Benchmarks should be established for the provision of these funds plus for their phase-out with economic recovery.

Finally, incremental spending on infrastructure should target not only concrete projects such as roads and bridges but critical aspects of Canada's social deficit. In particular, spending should target renovation and construction of housing for the poorest Canadians (those in SRO units or on the streets) and provision of facilities, treatment, and supports for people suffering from mental and addiction issues and other disabilities. This period of economic misfortune should be viewed as a golden opportunity for the nation to deal with long-neglected needs for a just society.

Submission by Ron Kneebone

"What should the federal government do in response to the current economic situation?"

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Before responding, four key points need to be made. First, we shouldn't oversell what the government budget can do. It will be the private sector, not government budgets, that will do the heavy-lifting to get us out of this difficulty. The most important role to be played by the public sector is in facilitating the millions of adjustments made daily in the private sector. Second, the shock that has lately struck the Canadian economy is world-wide in scope and originated in the financial sector of world economies. The solution to the current crisis is therefore to be found in a coordinated response of the world's central banks. We see this response in efforts to increase liquidity, lower interest rates and remove bad debts from balance sheets of financial institutions. This response has been quickly implemented and broad in scope and we should expect more action in this direction. Third, the full effect of these monetary actions has yet to be felt and are unlikely to be fully felt for another six to twelve months. Finally, no economist would deny that the pre-eminent response of Canadian public policy to this crisis must emanate from the Bank of Canada and how well we recover will depend on the private sector's response to monetary policy.

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But what about fiscal policy? The ability of fiscal policy to cushion the economy is limited because ours is an open economy heavily dependent on exports. If foreigners aren't buying we aren't going to be selling no matter what we do with tax rates and government spending. All that we can do is keep the doors to free trade open and wait for buyers of Canadian exports to return. The usefulness of fiscal policy is also limited by what economists euphemistically call the "unpleasant arithmetic" of the government budget constraint. Particularly during periods of recession budget deficits grow ever larger and debt accumulates ever more quickly. This means that any fiscal action that produces a structural deficit can at best offer short-term relief but must at some point in the future require, either in the form of tax increases or spending cuts, an adjustment back to a structurally balanced budget. This was the painful lesson we learned from incurring large deficits in response to the 1982 recession. We need all be aware that there is a price to be paid in the future for the fiscal actions we take today.

What, then, would I recommend be done on the fiscal side? I would wait another three or four months before doing anything and use the time to observe the effects of tax cuts recently introduced, the impact of the monetary measures already taken, and take the measure of the strength of recovery of our biggest trading partner. We can also learn better the nature of the slowdown affecting the economy. The evidence so far suggests most of the pain is being felt in Ontario. If this proves to be true moving forward, the preferred fiscal response is quite different than it would be were the pain more widely felt. In the meantime, automatic stabilizers in the federal budget will introduce a mild fiscal stimulus to just those areas of the country needing it and this will be done without the need for either new legislation or interminable political debate.

Submission by Rosyln Kunin

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Addressing the Current Slowdown in Canada and the West

The sky is not falling. Yes, Canada is entering what will most likely be a period of recession, but we have survived those before and most observers are saying that the downturn of 2008 will likely be less severe than those of the 1980s and the 1990s, but probably more severe than that at the turn of the century.

Nevertheless, policies are necessary to mitigate the effects of the downturn.

First, it must be deemed acceptable to allow for a cyclical deficit: annual government expenditures should be allowed to exceed annual revenues as long as a demand-deficient economy is generating negative growth. This would be a short-term policy. As soon as positive growth of GDP is restored, governments must return to surplus budgets, first to offset any increases in debt that preceding deficits have generated, and second, to return to the long-term target of reducing the national debt to 25% of GDP.

The quickest, easiest and least distorting way for governments to put extra spending power into the Canadian economy is through across the board tax cuts. Reduced rates for personal and corporate income tax can increase disposable income for individuals and corporations as soon as the next pay period, month or quarter. Reduced value-added taxes start increasing spending power with the first purchase. Once the economy turns, tax cuts are simpler to reverse than more complicated programs.

After tax cuts, the government can start to consider spending that will increase the capital stock of the country and improve its long-run productivity. These can be infrastructure projects that increase Canada's physical capital or training projects that increase our human capital and provide needed skills and employability.

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Such projects, whether infrastructure or training, must be such that they can be put into effect in a very short time with plans to complete in the medium-term. Some forecasters see the economy beginning to turn around in as little as nine to twelve months. The more pessimistic are now talking about three years. A major project that takes a year or so to get rolling and up to five years to complete could end up providing little stimulus during the slowdown and a lot of counter-cyclical stimulus once the economy has turned around.

The capital projects described above must not only be chosen for quick implementation and relatively short duration. They must also be evenly spread across the country. Not only is the manufacturing centre being hit in the current downturn; the resource-based provinces are (or very soon will be) devastated by the drastic fall in energy and commodity prices.

Finally, governments are not known to be too successful in picking winners and attempts to do so have often resulted in a less than optimal allocation of scarce taxpayer dollars. Even less optimal is the allocation when governments try to support losers. Bail outs to specific industries or sectors rarely have the desired effect of making the unviable viable and are always seen as unfair by every other organization and sector that is also feeling economic pain. For this reason, no specific programs are put forward for western Canada on the understanding that specific programs not be put forward in the rest of Canada.

Submission by Adam Legge

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Ninety days ago, we were enjoying our slower yet still healthy Alberta economy, blissful in the knowledge that we hold tremendous current and future opportunity. Now, we worry, as the global economic conditions continue to unravel. It is likely that the current economic climate, ushered in earnest as of September 15, 2008, is the worst economic situation since the Great Depression. Markets have fallen, currencies have lost value, individuals have lost jobs and savings, companies have been bought and sold, billions of dollars of investments have been cut back or shelved, people have lost much sleep, and moods have darkened. All this in just 90 days.

Governments and central banks around the world have stepped in to attempt to increase liquidity, bolster confidence and positively impact the economic environment to the greatest degree possible all in an attempt to stem the economic fallout.

We at Calgary Economic Development believe that the best possible plan for our country, our province and our city is for industry to focus on preservation of jobs and economic activity to the greatest extent possible, and for government to make strategic fiscal and investment decisions that will enable individuals, companies and organizations to weather the storm as well as possible and to be ready for economic turnaround.

Measures taken by governments including reducing overnight rates, purchases of mortgage loans, insuring inter-bank loans and implementing tax adjustments are laudable short-term actions that will work to help in the immediate, boosting confidence and liquidity.

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However, what will be equally, if not more, important are the strategic long-term investments that are made to bolster economic activity during this period of downturn. The Canadian government has indicated its intention to undertake infrastructure projects as a means of continued economic activity. This is a positive step, however, a solely infrastructure focused investment plan is a remnant of an early to mid 1900s economy and misses a variety of key investments that could be made that would not only enable continued job creation, but would position Canada to be at the forefront for future wealth and income creation.

The imperative is to determine which investments make sense and will have the biggest impact under the current conditions. Canada needs to continue to invest in its people and its ideas as well as its roads, bridges and waterworks. When the economic clouds drift away, labour will still be the top issue facing business. This suggests an emphasis on education and skill development. Investment in cities, the ultimate places where people decide to live, will help ensure that Canada is truly a competitor when it comes to attracting global talent.

When, not if, energy prices rebound, sustainability and greenhouse gases will again to a top public opinion issue. Now is the time, when labour is freer and time more plentiful, to make investments in Canada's strength in sustainable and renewable energies and technologies. Finally, the finest investments are those that pay high yields and dividends in perpetuity. By investing in Canada's innovation and commercialization, not only can Canadians be employed now, but the ideas and solutions they develop will payoff for generations to come.

By addressing immediate needs, we can help manage the current difficult economic climate. By taking a long-term approach and implementing planned strategies and investments, we will continue to strategically develop the Canadian and Western Canadian economies. The Calgary Economic Development Strategy 2008-2018 is one such long-term plan and vision, focused on building foundations for long-term growth. Implementation of these strategies will enable economic security and sustainability while positioning us globally when we all emerge prepared for the opportunities of days ahead.

Submission by Chris Lorenc

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Accelerating Trade & Transportation Investments One Key to Canada's Economic Success

As the federal government considers its 2009 budget, it should be mindful that trade and transportation play important roles in western Canada and Canada's economies. Accordingly, accelerated and enhanced investments in trade supporting assets should be a key strategy to minimize further economic regression.

Canada West Foundation's ***State of the West 2008*** report notes that economic strength within Canada has shifted westward. The West's share of Canada's total economic output (35.3%) exceeds its share of the population (30.4%). International trade is an integral aspect of the western economy with the US being the largest trading partner while China and Asia-Pacific countries continue to increase their market share. The increase in foreign trade has boosted economic growth and living standards by allowing the western provinces to expand markets for their goods well beyond what is possible within Canada alone.

A significant part of Canada's "national business" is trade, with our economy five times more dependent upon trade than that of the United States. As companies position themselves to compete with others, so too must nations. Canada's "ace" is our location, our transportation assets, our logistics expertise—let's use them to our collective economic advantage.

The federal government has recognized the synergies between trade, transportation, and economic growth through myriad federal policies. Having acknowledged the linkages, the federal government must now act decisively and lead with accelerated investments through a variety of programs which position Canada to be the international trade crossroads thereby bringing future economic opportunities.

A strategic "trade supporting" Western Canada Transportation System has been developed by the four western governments. This should result in a prioritized federal/provincial/private sector partnership initiative to ensure that those transportation assets which support national trade, security and efficiency improvements are undertaken.

We must remove obstacles to trade. Canada's trucking weights and measurements must be harmonized. We must ensure that backhaul opportunities for rail containers and trucks are not restricted by antiquated "market protective" regulations which limit economic growth.

We must ensure safe, seamless, secure and efficient movement of goods. We can accomplish this by accelerating the speed with which investment in rail, air, marine and road is approved under the Building Canada Fund program. This will provide the network platform through which goods, services and products can move to and from markets.

We must create Free Trade Zones which defer—not forgive—taxation to provide investment incentives as successfully accomplished in the United States, Australia and China.

We must aggressively pursue a national approach to strategically locate inland ports where new value added trade, warehousing, manufacturing and assembly activity can occur.

Canadians and their governments recognize that our times are critical. There is a collective "public will and wish" to succeed. What we must not allow at this critical point is delay in favour of further studying and consulting. The latter have been done. The needs are clear. The investment strategies and benefits are understood.

We need a federal commitment to strategically reposition Canada for more trade. By working collaboratively at home, by constructive dialogue, by reaching out to the world and expanding trade engagement, we can not only build upon our past success, but shape Canada's future destiny.

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In contrast to the situation in the United States, the Canadian economy has not yet fallen into steep recession. However, events have moved quickly during the current financial crisis, and the federal government should take steps towards softening the impending economic downturn.

We recommend three areas in which the federal government focus its efforts: restoring confidence in financial markets, helping Canadian industries, and providing fiscal stimulus.

Restoring Confidence in Financial Markets

The Bank of Canada and the Department of Finance should continue to monitor credit conditions closely and, if necessary, inject additional liquidity into financial markets. To date, a series of useful measures have been implemented, including widening the collateral the Bank will accept, purchasing mortgage-backed securities from financial institutions, and monetary easing. Should instability and tension in credit markets persist, Ottawa should stand ready to build on these actions and to provide financial markets with additional liquidity.

Given the global nature of the financial crises, a coordinated global response is necessary. Through its participation in G7 and G20 meetings, Canada should push for an international agreement that improves the soundness and stability of the global financial system. Greater transparency and better risk management practices should be at the forefront of that agenda.

Helping Canadian Industries

The federal government should avoid subsidies that keep poorly-managed companies in business. Instead, efforts should be directed to retraining displaced workers, assisting well-run small and medium-sized businesses and encouraging innovation. An opportunity exists for the federal government, through the Business Development Bank of Canada, to provide short-term financing to viable small and medium-size businesses that may be financially constrained due to the cyclical downturn. This may include partnering with financial institutions to promote or guarantee necessary working capital financing.

The federal government should also encourage accelerated innovation in troubled sectors such as forestry. For example, the federal government could increase funding for research and development of bio-energy projects across Canada.

Fiscal Stimulus

Any fiscal stimulus package should be immediate in its impact. While public works projects are an effective way to create jobs and boost incomes, they are subject to delays and may not be ready to proceed until the economy has already recovered. As such, funding should be focused on infrastructure projects that are already planned and that have received regulatory approval.

The federal government could attempt to provide direct fiscal stimulus to individual Canadians through temporary tax cuts or mail out rebates to households. While this would have the attraction of immediacy, it would not, however, be an effective option, as economic theory and empirical evidence show that temporary stimuli have little impact on consumption. A preferable approach would be to provide a permanent reduction in the tax burden on individual Canadians and businesses. These tax cuts would provide immediate stimulus while also improving long-run living standards. The federal

government's reduction in the corporate income tax rate, from 22% in 2007 to 15% by 2012, is a step in the right direction. On the personal income tax side, an increase in the personal exemption level or Working Income Tax Benefit would provide relief to low-to-middle income Canadians, who are more likely to spend their tax savings.

An effective fiscal stimulus package may require the federal government to run a fiscal deficit in the near term. However, the federal government must be fiscally disciplined and develop a plan to eliminate any deficit it incurs once the economy recovers. Failure to do so would impose significant tax and debt burden on future generations.

Submission by Greg Mason

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A broad consensus appears to have formed on the need for a stimulus package of some sort. Until recently, the Canadian economy seemed well isolated from the malaise experienced in the United States. However, few believe that the US can continue to shed jobs and manufacturing output without adversely affecting Canada. Two developments underscore the vulnerability of the Canadian economy.

First, the decline in commodity prices, led by oil, has dragged the dollar down precipitously. Exporters, especially manufacturers, welcomed this decline in the exchange rate as a return to making Canadian exports more competitive; however, the need for a low dollar to sell our exports and manufactures merely emphasizes how unproductive and uncompetitive our economy has become, especially in manufacturing. One negative consequence of the declining dollar is that while this may stimulate some commodity sales and manufactures, it may have robbed primary agriculture of important revenue just at the point where 2008-09 appeared to be a turnaround from more than a decade of rock-bottom revenues. Further, the high commodity prices reflected high demand—the dollar decline has removed significant income and value from the Canadian economy.

Second, many interpret the jump in joblessness in November as the harbinger of the US weakness arriving in Canada. The economy shed some 71,000 jobs in November, with 38,000 of the loss in manufacturing, concentrated primarily in Southern Ontario. Public sector employment dropped by 27,000, which Statistics Canada attributes to the reduction of part-time workers hired for the federal election.

Several important labour market "facts" are important:

- To this point, the declines have been concentrated in manufacturing and southern Ontario, with some losses in Nova Scotia. Quebec has remained steady and the West has continued to expand through 2008, until flattening in November.

- The unemployment rate in Canada started to climb in January of 2008, well before the "meltdown" became apparent and when the dollar had reached its peak.

- The increase in unemployment during November amounted to .1%, which is a negligible increase that is little more than statistical noise and random variation.

- Some sectors continued to add jobs through November, notably health care and social assistance (dominated by long-term expansion of the public sector) and professional, technical and science based services.

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What these trends show is that, to this point, the downturn has been selective, regionally and sectorally, suggesting that if this pattern persists, a broad stimulus across the economy may not be appropriate. However, if unemployment widens to other sectors and regions, as may be evident in early January and certainly by early February, the federal government will be compelled to respond with a general economic stimulus.

Under a scenario of selective slow down, narrow stimulus is all about the auto industry and southern Ontario. Canada has little choice but to follow the American lead since any Canadian policy that is out of "sync" risks either offering an overly lavish package to the Canadian sector that may just result in repatriation of revenues to support the US industry or under a policy less generous than offered in the US, a migration of plant capacity south. The recent threat by Chrysler to shut down two plants in Ontario appears serious and, if executed, could trigger a real crisis. The Barack Obama campaign stressed support for labour and a desire to reopen free trade agreements, suggesting that its rescue package for the auto industry will focus on American needs without upsetting powerful domestic constituencies. No one should believe that a president would do anything other than act in the best interests of the United States.

The status of the US bailout is uncertain, however some signs point to a response that may do harm in the end. For example, much of the journalistic and political discussion centres on the perception that US car manufacturers failed to anticipate the shift in consumer demand for fuel efficiency. Many interpret this as poor management and suggest that top management needs to move on, with a consequent elimination of their lavish salaries. While it may be satisfying to see highly paid executives do the "perp-walk", this completely misses the real need.

The US car manufacturers can claim with some justification that they responded to consumer demand for large cars and trucks. However, the core failure had little to with not implementing a fuel efficiency agenda. When gas prices spiked, an already primed public were very quick to jump ship, but the erosion in market share started a decade ago. The US manufacturers failed to understand that foreign car makers, especially the Japanese brands have established a very substantial lead in quality and consumer appeal –Toyota Canada continues to maintain sales (and prices) in the face of the downturn.

Fundamentally, the issue confronting the "big three" in the US and Canada is cost structure. Executive salaries pale in comparison to the differentials that exist in labour costs between the US and Japanese manufacturers, the inefficiencies of the current dealer system, and duplicate product lines. A general bailout will not address these structural issues. Indeed, a generalized bailout will almost certainly encourage other industries to pressure for support—the homebuilders, lumber companies, and airlines (in the US) have already indicated their "need" for rescue. The danger is that general industry bailouts will not transform American industry to become competitive. This is even truer for Canadian manufacturers that have come to rely on a depreciated dollar to mask low productivity.

The new administration in the US is unlikely to press domestic car companies to renegotiate labour agreements—unions will not offer concessions if it appears that the taxpayers will simply present cash to the industry. The only way to effect the needed structural change is to allow the US car manufacturers and their Canadian counterparts to slip into bankruptcy. This is a potentially dangerous approach—the courts may determine that no resolution exist order the industry sold for "scrap" value,

under the less well-known "Chapter 7" framework. At this point, millions would be thrown out of work, which could easily transform the recession into a depression.

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Chapter 7 may be avoidable if sufficient financing is available to persuade the courts that key creditors can be satisfied (and those creditors must agree to the terms of payment) and that the business can be reorganized to become sustainable. Government could offer this financing directly by, but the danger is that once the cheques are in hand this would not trigger the necessary restructuring, since, the industry could claim that Chapter 11 was no longer needed. The "trick" is to make the financing indirect and conditional on the car companies entering Chapter 11. Indirect financing for the industry can run through the financial system in the form of loan guarantees. This reinforces the traditional decision-making process as well as aligning the rescue of the car industry with the rescue of the financial industry. A similar and parallel plan in Canada could be used with even greater effect since the financial sector here has not needed bailing out—yet.

Now, under a worse case scenario, if joblessness in January and February spreads to other sectors and regions and broad stimulus becomes necessary, government has several options. First, it seems that since some traditional tools appear to have weakened, fiscal policy is the only course. Monetary policy in the form of reducing interest rates appears to have run its course—recent interest reductions have not reversed downward trends in consumer or business spending. Therefore, the focus has turned to direct intervention.

Most of the talk centres on infrastructure in the form of road construction and other public capital works, but this has important limits. First, it will take a long time for public sector construction plans to ramp up. Second, much of the construction industry in Canada remains at close to full capacity. To accelerate spending in this sector risks triggering inflation in construction costs, which will crowd out business investment and reduce the effectiveness of the stimulus. Certainly an infrastructure deficit exists in Canada, however unless the surplus capacity in the auto sector can be quickly directed to infrastructure construction, it will be hard to avoid inflation in that sector. It is unlikely that auto workers will quickly sell homes and move to work in construction; employment insurance compensation will delay any such move until it becomes apparent that prospects for re-employment on the auto assembly lines have irrevocably dimmed. Further, Canadians would not be comfortable in asking one group of workers to withstand the brunt of adjustment costs.

It is important to remember that as lay-offs occur, automatic stabilizers in the form of Employment Insurance (EI) payments do more that just help unemployed survive; they are a form of fiscal stimulus that respond immediately to any downturn This response is much faster than infrastructure spending and regionally specific as well. The laid off workers in the auto industry will start to receive cheques in a couple of weeks.

Of course, a stimulus package may need to be much larger and broader than relying on the EI program, which only benefits the insured. Tax expenditure is the best stimulus option for government since it places purchasing power in the hands of the consumer and business quickly. One approach is to declare a GST tax holiday. This would be quick and very efficient, but forget about reversing this. Despite the fact that economists prefer consumption taxes such as the GST, this is a very unpopular tax and many would welcome its removal. At some point, government will need to replace the lost revenue, and to avoid re-imposing an unpopular tax, it could be inclined to raise income taxes. This penalizes and discourages saving, which is one of the origins of the current problems in the financial sector.

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Another approach is to examine the EI Fund surplus alleged to exceed $50 billion. Despite regular criticism by the Auditor General, successive federal governments have maintained that this fund covers potential shortfalls to support payments under Part 1 of the EI Act. In fact, only a fraction of this fund is needed to support EI payments. By altering the legislation (through order-in-council), workers and businesses that overpaid in the last several years would receive a lump sum. This approach avoids increasing the deficit and servicing costs, does not create a permanent reduction in revenues, and rights a wrong identified in recent reports by the Auditor General.

By early January, it will become clear whether Canada needs narrow (auto industry) or broad stimulus. Support for the car industry should transform the three North American companies, but more likely is that micro-management will accompany a bailout, followed by the disappearance of at least one of the players (most likely Chrysler), along with any chance that the taxpayer will recoup the loans.

If broad stimulus is warranted (as witnessed by layoffs in the oil patch and other provinces that have resisted joblessness thus far), then tax expenditures, or more desirably using the EI surplus, is the most efficient and effective way to stimulate the economy.

Two nagging thoughts to conclude on. If placing cash in the hands of consumers and business flows into savings and not into spending, then the problem has become profound. The economic stimulus that cured the Great Depression came after several years of prolonged high unemployment. Many policy advisors are self-congratulatory, maintaining that governments are responding much quicker to this crisis. However, perhaps, just as monetary policy appears to have lost effectiveness, fiscal stimulus may not work as expected and we will simply have to endure the downturn until asset prices have found the bottom and investors and spenders come out of their holes.

Finally, if the stimulus just throws money at the problem, and fails to transform producer and investor behaviour, we could end up with sclerotic industries, increased regulation, and a tax system that discourages savings. This would compromise long-term prospects for the North American economy and the recession transforms into a decade of stagnation.

Submission by Tim McEwan

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The current global and national economic downturn is a perfect opportunity for federal and provincial governments to develop a targeted investment strategy that will help the country to weather the current economic storm and to position regions to take advantage of future economic development once the economy recovers.

The economic slowdown faced by Canada and other countries around the world has created the need for economic stimulus. This must be undertaken in a strategic way that delivers short-term job creation benefits and long-term enabling conditions for regional economic development.

Any economic stimulus package should include significant investments in infrastructure, education, and research and development. Investments in these areas can improve the competitive position of our regional economies, and enable them to contribute to future economic growth.

Northern British Columbia is an ideal target for major investments in infrastructure given the numerous opportunities for wealth creation in the region. Key among Northern British Columbia projects for consideration by the federal government for funding are:

- Provide federal assistance to provincial efforts to four lane Highway 97 from Cache Creek to Prince George;

- Assist with funding for safety and technical improvements to Highway 97 north of Prince George to Dawson Creek to open the resource-rich Northeast to service and supply industries in Central British Columbia, including Prince George;

- Help fund medium-term commitments by British Columbia and Alberta to four lane Highway 16 from Hinton to Prince Rupert as articulated in a joint MOU between the two provinces concluded this past fall;

- Contribute to provincial commitments to develop the Northwest Transmission Line along Highway 37 which is critically important to opening up the Northwest to major mine development;

- Assist efforts to market the Northern Corridor as a highly competitive transportation and logistics route for international trade activities by marine, rail, road and air;

- Provide additional funding to ensure that “last mile” broadband connectivity occurs throughout the North, along with initiatives that will reduce cell phone “dead zones” along Highways 16 and 97; and

- Support the University of Northern British Columbia by providing further funding for top-notch teaching and research in areas which build on Northern economic development opportunities particularly, though not exclusively, in natural resource development.

Funding these initiatives would build upon efforts to date to expand the northern corridor as a transportation alternative, would create family supporting jobs in the short-term, and could expand on a decade of successful efforts to diversify the Prince George and Northern economy. Since the lion’s share of British Columbia’s export base is derived from land-based activities in the northern two-thirds of the province, strategic investments in critical physical, teaching, and research infrastructure advance stand to advance the long-term provincial and national economic interest.

The current economic crisis is a short-term situation that can set the stage for long-term economic prosperity. Any short-term stimulus package should be developed with long-term economic benefits in mind.

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Several principles should be kept in mind when thinking about a fiscal stimulus package. The first is that it is important to be cognizant of both the short and long run incentive effects underlying the package. The stimulus should be designed so as not to create perverse incentives for individuals and businesses that work against the underlying objectives—to get the economy growing and people working. Ignoring these considerations in a rush to get government money into the economy can make things worse. The second principle relates to timing. It is important that the stimulus be designed to be counter-cyclical. This is more difficult than it may appear. We tend to know we are in a recession only several months after we have entered one, and recognize that we have emerged from it months after growth has increased. Discretionary fiscal policy that is reactive to data that lags reality can exacerbate economic cycles. As such, the emphasis should be on enhancing the "automatic" stabilizing aspects of fiscal policy. Third, fiscal stimulus should be designed with a broader purpose in mind. The "old school" Keynesian view of just getting money into the economy—paying people to dig ditches and fill them up again—has been discredited. Government fiscal intervention should always, whether we are in a recession or not, be designed to enhance economic growth and productivity.

With these principles in mind, the first priority should be to get money in the hands of those who need it most. In the first instance, these are people who have lost their jobs. Easing qualifying criteria to collect Employment Insurance and enhancing and extending EI benefits would achieve this. Tying the enhanced EI benefits to the unemployment rate—so that they are unwound as the economy emerges from the recession—would help ensure that the measure is counter-cyclical.

Second, increased federal money for infrastructure could have both short-run stimulus effects and increase long-run productivity. Timing is of the essence. The emphasis should be on projects that can be rolled out quickly. The best approach would be to put the infrastructure money directly in the hands of cities and municipalities to address their most pressing priorities.

On the tax front, one difficulty is that evidence suggests that people tend to save, rather than spend, temporary tax cuts. This can be partly addressed by focusing the cuts on those who need them most, and are more likely to spend them—lower income individuals. The federal government has already cut the GST by two percentage points. No more GST cuts should be implemented. Rather, a reduction in payroll tax rates, EI premiums in particular, would be preferable. These premiums are paid by both employers and employees. The reduced EI contribution rates should be tied to the unemployment rate so that they are unwound as the economy emerges from the recession. Cuts to EI payroll taxes would disproportionally benefit lower income earners and small and medium sized businesses by easing their payrolls.

On the corporate tax front, the reduction in corporate income tax rates should be accelerated. While the stimulus impact of these cuts will be muted as corporate profits decline (and indeed turn into losses) during the recession, from a longer run perspective it is the right thing to do to promote investment and growth. An additional measure would be to introduce tax credits for investment in technologies that reduce greenhouse gas emissions. Making these credits refundable would add to their stimulus impact during the recession.

Finally, as a general rule, sector specific "bailouts" should be avoided. However, in some cases there may be little choice. The obvious example is the auto sector. With the US government poised

to introduce a package for the "Big Three," Canada may have no choice but to do the same. The emphasis should be on structuring the package to include conditions that require it to be repaid, perhaps in the form of loans and/or loan guarantees. Unconditionally bailing companies out of flawed business practices that have left them excessively vulnerable to a recession should be avoided (see the above reference to incentive effects).

Submission by Kevin Milligan

Countering the impact of a potential recession: What can the federal fiscal policy do?

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Recent data from the United States confirm long-held suspicions: the economy is in recession. While the most recent data for Canada show our economy still growing, it seems likely that Canada will join the United States in recession in 2009. What fiscal policy moves should the Canadian government take to soften the blow of a recession?

There are two goals for fiscal policy in this situation. First, it should aim to induce more spending by consumers to activate Keynesian responses in the macroeconomy. Second, fiscal interventions should help alleviate the financial cost on families as unemployment rises.

Several dangers could derail an intervention. First, it can be extremely difficult to line up the timing of the economic impact of an intervention with the state of the economy. Second, while short-run deficits are not worrisome, it is important to avoid launching the federal budget toward a trajectory of unsustainable deficits. Third, Canada is a major importer and exporter, which makes the analysis of fiscal stimulus fundamentally different than for a large country like the United States. We will receive some of the benefit of stimulus spending by foreign governments through export demand, but some proportion of Canadian stimulus would flow out of Canada through imports. Fourth, consumers might react to fiscal stimulus by changing their consumption and savings decisions to offset government stimulus.

In such an environment, three fiscal tools are most likely to achieve the required outcomes while avoiding the challenges posed above. These tools could be used simultaneously; there is no need to choose among them.

The first tool is to cut personal income taxes. With lower income taxes, consumers can spend more. The advantage is the speed with which this action could take effect—simply change tax withholding rates used by employers and the stimulus can be in place within weeks. The challenge is to decide whether the income tax cuts should be permanent or temporary. If permanent, long-run budget balances may be imperiled. However, if temporary, consumers might not make adjustments to their consumption and instead use the temporary windfall to save or pay off debt, rendering impotent the desired Keynesian boost.

The second tool involves enhancing the Canada Child Tax Benefit. Because lower income Canadians do not pay income taxes, enhancements to the Canada Child Tax Benefit would allow these families to receive a share of the fiscal stimulus. This is important not only for fairness but also because these households are more likely to consume the income they receive.

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Third, changes to Employment Insurance could be considered. Temporary increases to the replacement rate or extensions to weeks of eligibility would quickly put more money in the hands of those most hurt by increases in unemployment. Given the immediate consumption needs of these families, they are less likely than other households to save their windfall. Enacted with a "sunset" clause to ensure its temporary nature, there would be less risk to long-run budget balances.

Conspicuous by their absence from my list are substantial changes to social or physical infrastructure. While investments in these areas are a fundamental and proper role of government, the complexities of producing well-designed and well-timed programs makes them poor candidates for emergency counter-cyclical interventions.

As Canada enters an uncertain period for our economy, clear-headed, focused, and well-designed interventions can provide a needed boost to our wellbeing without sacrificing the hard-earned prudent fiscal trajectory set over the past decade.

Submission by Jack Mintz

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Economic Crisis: Letting Phoenix Rise from Ashes

Economic crisis has one glimmer of hope. It provides an opportunity to reconstruct the economy to make it more dynamic. With the right set of productivity-enhancing policies, a phoenix can grow from the ashes to provide sustained long-term economic growth.

With this in mind, the focus of any fiscal stimulus should be to expand investments in physical and human capital that would be in demand once the world recovers. Thus, fiscal stimulus will need to focus on both short- and long-term considerations. With this in mind, the following is suggested:

- Confidence in financial markets must be reestablished. Such confidence is supported by financial regulation and fiscal policies that support the development of strong businesses and the restructuring of some sick ones (although some will have to be liquidated).

- Infrastructure spending is useful to build up physical capital although as a short-term fiscal stimulus it is only effective if plans are immediately ready to proceed. The construction of transportation and communication networks should be encouraged to proceed as fast as possible but with proper planning. Investment to replace depreciation of capital is easier to do in the short-term.

- Public support to assist unemployed Canadians to retrain or move to parts of Canada where jobs are more abundant would be effective in spurring long-term growth. Post-secondary and technical education should be supported to take students who would otherwise be looking for a job. However, programs would need to be expanded to take up students in the short-term (in other words, expand, don't cut back, advanced education and training in face of declining revenues).

- Support for investments in new technologies, including energy efficiency and alternative sources, would provide a basis for moving ahead with a stronger Canadian economy. Governments should not be choosing the technologies but should support macroeconomic policies to let businesses sort out the best opportunities. This includes planned corporate tax reductions but also the adoption of new approaches for businesses and investors to make more effective use of tax losses built up from economic growth. A refundable dividend tax credit to rebate corporate taxes paid prior to the distribution of profits should be paid to pension and retirement savings accounts and other investors who cannot use the credit.

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The federal government should also bump up stabilization revenues for the provinces as short-term fiscal stimulus. This would help provinces cope with health, education, infrastructure and social service budgets during the economic recession. The provinces would know that such transfers will be phased-out as the economy recovers.

Finally, the federal and provincial governments will need measures to maintain fiscal discipline. It is likely the federal and provincial governments will need to plan for a significant stimulus that could result in a $40 billion all-government deficit in 2009 and 2010. The problem with such a large deficit is that it is difficult to restore budgetary balance once the economy returns to growth. With pent up demand for public services after a recession and higher interest expenses to service new debt, governments are reluctant to constrain spending. Operating large deficits could therefore lead to a long term increase in debt-to-GDP ratios, a policy that is problematical in a society with an aging population that must be supported by taxes paid by a working population.

I suggest that a mandatory reserve be established as part of the planning process that would require increased debt and interest expense incurred in a year should be paid back on an amortized basis over five years. Even with several years of deficits, this policy would eventually result in paying back a loan from future revenue growth rather than being spent on the expansion of public programs or tax cuts.

Submission by Graham Parsons

Get Ready to Grow Again

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Most economic forecasts suggest the current recession will end by 2010 as the world resumes growth. This is not the first recession in Canada or western Canada and it won't be the last. The boom and bust of western commodity and energy markets has made many western companies, provinces and people resilient to the ups and down of international business cycles. There are lessons learnt to guide a national budget and the economic stimulation to help, rather than hinder, an economic recovery in the not too distant future.

Consumer consumption and confidence is central to economic recovery, accounting for over a half of GDP. Pensions have been battered from stock market losses, and concerns over job security exist across Canada. Political power games have weakened consumer confidence and delayed action. Fiscal measures to assist restoring confidence include:

- Pass and immediately put the budget in place.

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- Cut consumption taxes such as the federal GST and federal fuel taxes at the pump. These make cash immediately available for consumption.

- Further increase the federal deposit guarantees on bank and insurance company savings to increase the security of deposits.

Market signals matter. Encourage actions to enable companies and employees to adjust. Encourage people to move to jobs:

- Increase movement allowances.

- Increase education and training allowances

- Cut the regulatory cost of labour to business, including EI premiums—a lower real cost of labour will increase employment in Canada.

Massively increase public infrastructure investment to strengthen the competitive framework for future growth. Offset consumer and employment losses with *labour intensive public investments*. Infrastructure deficits exist across Canada. They require streamlined federal and provincial administration and regulation to move money for the 2009 construction season.

- Invest in national freight transport infrastructure improvements (road, rail, and ports—air, coastal, inland and border) to generate immediate employment to offset much of the decline in construction from lower oil prices, weakened debt equity ratios and housing markets, and the auto industry slowdown. Western provinces have over $50 billion of transport projects identified and the federal Asia-Pacific Gateway and Corridor program has yet to be completed.

- Invest in climate change. Carbon capture and storage is woefully under funded. Green transport can be a future for the auto industry and national transit. Create incentives for renewable and low carbon fuels. Start on the western energy grid. Expanded irrigation and water storage is good adaptation to prairie global warming.

- Expand home renovation allowances to upgrade the national housing stock and reduce domestic energy consumption.

Make the Canadian Common Market Work! Last week's national agreement on labour mobility is a tiny start on a national economic cooperation agenda that has failed since the 1995 Agreement on Internal Trade. Removing internal trade barriers expands the domestic market, increases productivity and allows for adjustment between regions. It might even build national unity!

Address all regions of Canada, including the West. This is a national recession, in spite of the political and media focus on central Canada. All regions of Canada are affected and are part of the solution. The recent western Canadian oil and commodity boom has led national economic growth allowing for eastern Canadian supply of many goods and services. Today, falling and depressed forestry, oil, mineral and farm prices once again provide the West with the need to adjust to market realities. The West won't lead national economic growth on US$50 oil. *Improving capital investment and exploration allowances to help restore western Canada's investment boom helps all of Canada.*

Submission by Peter Phillips

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Economic Stimulation in Uncertain Times
Advice for a Beleaguered Country

The next six weeks may begin to feel for many Canadians a bit like the "phony war" that emerged in 1939 after the formal declaration of war and before the fighting began in earnest in 1940. Just like then, we are faced with a threat that seems to be building but it remains unclear exactly how much and in what ways we should prepare for the onslaught.

This is the time we should be putting the economists and statisticians in our government policy shops and in business, labour and various think tanks to work to crunch the numbers to provide clear and actionable advice. So far, much of what might be kindly called advice is simply rewarmed ideological rhetoric (e.g., "the market has failed, long live the state") or special pleading by industry and others to make good all the ills of their past poor decisions.

The current economic circumstances are more serious than that. If all we can muster is a potpourri of largely discounted "statist" solutions and bailouts for poor corporate decisions, we will inevitably disappoint the citizens of Canada.

It is important to keep in mind that the Canadian economy enters this recessionary period in relatively good shape: GDP and employment were at all time highs; our federal and provincial fiscal accounts were on average in surplus (the only OECD country); and our debt-to-GDP ratio was lower than it has been for more than a generation.

While people are going to be hurt, we must be careful to not misestimate the level or location of the pain. While the Canadian economy is for all intents and purposes flat, neither rising nor falling, all of the goods producing industries (agriculture, mining, oil and manufacturing) have declined more than 2.5% over the past year while the service sector has grown more than 1.5% over the same period. This translates into differential pain. Employment growth remains relatively good in most of the Atlantic provinces and the West (where unemployment remains below 5%) while the most pain is currenlty being felt in manufacturing and forestry related communities in Ontario and Quebec.

While I can understand the imperative MPs feel to act (or at least to show that they empathize and will act), I strongly encourage caution and good planning. Keep in mind that economic management is not a science. Macroeconomic policy has variable leads and lags, so that fine-tuning the economy is tricky at best. It is just as easy to make things worse as to get it right. The risk of doing too much is that we create a combination of inflation and structural deficits, both of which are hard on specific groups in society and both of which are hard to reverse.

Any economic stimulus package should be designed to address the real and pressing concerns, and not simply respond to the individuals and groups who yell the loudest. I can see at least four driving forces in this economic downturn. While we have seen all of these before, it is unusual to face them all at the same time. First and foremost the international banking crisis was dangerously close to causing a global monetary collapse. While the infusion of more than US$5 trillion of loans and equity and the nationalization of quite a few banks around the world has forestalled the global collapse, the high degree of uncertainty and significant market volatility continues to make lending risky. Second, partly but not totally due to the banking crisis, the prices of many of the commodities we produce and export have dropped sharply. After peaking at about US$146/barrel, oil is now down below US$50. Meanwhile food prices are down more than 28% over the past year and industrials and

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metals are down more than 40%. Third, a number of key sectors in Canada, especially automotive manufacturing and forestry, have been facing hard times for a number of years and the current downturn makes their situation dire. Last, but not least, the US economy, our largest trading partner, is in a broadly-based recession and the prognosis is that the situation could get worse (at least partly because corporate profits have been down for five consecutive quarters and household wealth is down sharply due to the decline in property prices and equity markets).

Given the four overlapping and interlocking problems, we will need a number of strategies.

First, the international banking crisis was the trigger and must be addressed first. The government and the Bank of Canada would appear to be already on top of this. Even though our banks are relatively better off than others elsewhere, we have already provided significant liquidity to assist them to manage through their losses in their real estate portfolios. If more is needed, it should be forthcoming immediately—banks cannot and should not wait for a budget.

Second, commodity prices are down and no one can confidently say when they will recover. Everyone should keep in mind that this is not unusual. Prices vary widely over cycles and most producers anticipate these changes and will have strategies. Short-term loans and other support for investments in improving productivity might help a bit but it would be unwise to rewrite the rules of these sectors by offering massive targeted subsidies, as that would jeopardise our trade in world markets. The only long-term solution is for firms in these sectors to be as efficient and competitive as possible, building up reserves in good times to tide them over in downturns—the good ones will have mostly done this and will be fine.

Third, the auto and forestry sectors, which are huge generators of employment, incomes and exports in Canada, are special cases. While their troubles are compounded by the banking crisis, lower commodity prices and weak US economy, they have more profound problems that will not be solved by short-term fixes. Nevertheless, to recover, they need to get past the current troubles. In that context, bridging finance (e.g. loans, loan guarantees, lines of credit, preferred equity) would be appropriate, but should be conditional on the companies developing and disclosing (at least to government) their plans on how they will return to long-term viability. We must avoid sending good money after bad!

Finally, for the rest of us, the weakness in the banking, commodity, forestry and auto sectors, combined with the slowing US economy, inevitably means leaner economic times. The question is what to do about us. It is important to keep in mind that the most important fiscal stabilizers are automatic and are already beginning to kick in. Our progressive tax system means that when incomes fall, taxes fall even more. Similarly, when people lose their jobs, Employment Insurance and welfare backstop incomes. Moreover, the slowing economy also offers some stimulus: real purchasing power improves as gasoline and food prices drop; lower interest rates help; and the 30% fall in the exchange makes our exports cheaper and encourages us to spend at home. All of these help to stabilize the economy.

The question is what more, if any, is required? While most of us might appreciate lower interest rates, tax cuts, subsidies from governments, repaved roads or new hospitals, we should keep a few things in mind. First, to have much effect, any fiscal measures need to be coordinated across all governments. We would get little value as a nation from the federal government spending more and the provinces simply cutting back. Any fiscal stimulus needs to be coordinated. Second, the best stimulus is fast and direct. Tax cuts and subsidies might only be saved by recipients, so they are problematic, while capital projects like repaving roads and building hospitals take a long time to plan and begin, so they may simply start too late to have much effect. Projects already past the planning stage could and

perhaps should be accelerated to help, but there is little prospect our governments can immunize us from the downturn through any real, effective stimulus.

A key concern for all of us should be to ensure that our governments don't panic and waste our money in an effort to appear to be acting. Poor choices now could leave us with a hang-over of structural deficit, accelerating inflation and little room to support our economy and society to face the challenges of the 21st century.

Submission by André Plourde

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An Economic Stimulus Package for Canada: A Few Thoughts

As governments in Canada move to address the consequences of the worldwide slowdown in economic activity, policy-makers should be guided by a simple, oft-repeated rule: first, do no harm. Basically, whatever short-term stimulus measures are to be put forward should be sensible economic policy initiatives from a longer-term perspective. Past experience teaches us that the cost of reversing policy measures once introduced is quite high: short-term initiatives are frequently maintained for long periods of time. As a result, the desirability of policies aimed at countering the emerging slowdown should be assessed with an eye on their sustained effects.

To the extent that economic stimulus is to be provided within a relatively short time frame, then it is unlikely that new (or even enhanced existing) spending programs would prove particularly effective. The time necessary to set up the programs, design governance systems, and then proceed with implementation will likely result in significant delays in delivering the policy-induced economic stimulus.

One final general remark: efforts by governments to "pick winners" by directing policy initiatives at a narrow set of industries or productive sectors are likely to be less effective than more broadly-based approaches. A more robust economic recovery is likely to result from efforts to provide a more general (rather than targeted) stimulus if for no other reason than proceeding in this manner reduces the potential effects of individual (or group of) sectors proving, for one reason or another, unresponsive to the policy initiatives directed at them.

With these principles in mind, governments should consider measures that would reduce income taxes on individuals earning low and medium incomes. Since savings rates tend to be lower at the bottom end of the income distribution, focusing income tax reductions on these individuals would provide more in the way of increased consumption (and thus increased economic activity) for any given dollar amount of tax reduction. On a similar note, efforts could be directed at addressing the existing high marginal tax rates faced by individuals seeking to make a transition away from income support of one form or another. For example, unemployed parents can face high effective tax rates when they accept employment if doing so brings to an end public support for child-related expenses (such as daycare), for example. Disincentives to work such as these could be addressed by modifying existing provisions for refundable tax credits, among other things.

The Government of Canada could act to stimulate investment expenditures by the business sector by bringing forward the date on which the announced reductions in the federal corporate income tax rate would come into effect. For example, the upcoming budget could provide a timetable that would see the federal rate reach 15% by 2010. The Government of Canada should also continue to encourage

the provinces to reduce their own corporate income tax rates. Measures could also be directed at encouraging increases in productivity-enhancing investment by boosting the depreciation rates applied to expenditures on machinery and equipment in the calculation of corporate income taxes. For example, tax rules could be changed such that all expenditures on machinery and equipment could be fully depreciated over a period of, say, three years from the investment date.

The two sets of measures outlined above are consistent with the general principles outlined earlier. All measures proposed arguably would enhance the overall efficiency of Canada's tax system, and are thus desirable from a longer-term perspective. There is no reliance on initiatives that would take a long time to be designed and implemented: the proposed measures simply require modifications of the existing personal and corporate income tax systems. Finally, the proposals are of broad application and thus set the stage for a program of economic stimulus that would directly involve large segments of the Canadian economy.

Submission by Marlo Raynolds

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Opportunities for a Green Economic Stimulus

There is little doubt that the parties vying for power in Ottawa will put forth economic stimulus packages in January aimed at creating jobs through public spending. By ensuring this spending specifically targets green initiatives, the spending can reap additional benefits as renewable energy and energy efficiency projects continue to generate economic activity beyond their construction phase. Such spending will not only begin to tackle Canada's environmental debt, but will also be necessary to keep pace with the huge investments in "green jobs" promised by the forthcoming Obama administration.

> *"We'll put people back to work rebuilding our crumbling roads and bridges, modernizing schools that are failing our children, and building wind farms and solar panels, fuel-efficient cars and the alternative energy technologies that can keep our economy competitive in the years ahead." –Barack Obama, November 22, 2008*

There are numerous opportunities to spark the economy and save the environment with a double-dividend green economic stimulus; three rise to the top as immediate priorities:

1. Stimulate energy efficiency retrofits for buildings.

- Capital costs are the largest barrier to such initiatives.
  - ☐ **Solution:** provide $2.5 billion in low interest loans to make capital available for efficiency and on-site renewable energy initiatives
  - ☐ Inject another $2.5 billion over the next 5 years into trades training programs, energy auditors and direct support to close the gap on technologies that have longer (10+ years) payback periods.
- Target existing homes, small businesses, public institutions and commercial real estate.
- **Benefit:** Uses existing technologies and installed by today's trades people, using many products that are manufactured in Canada such as insulation, high efficiency windows, high efficiency furnaces and solar hot water heaters. Puts thousands of people back to work in an industry that is lagging, while lowering energy bills, thereby freeing up income just like a tax cut.

2. Large scale renewable energy investments.

- Canada's only renewable energy production incentive is maxed-out.
    - ☐ **Solution:** Invest at least $2.8 billion in a renewed ecoENERGY renewable power program.
- This program is a proven success at stimulating renewable energy projects such as wind power, small hydro and biomass electricity.
- Targets an existing industry that is growing, and ensures momentum and investments made to date are not lost.
- A long-term price policy signals stability to the industry encouraging them to invest in domestic manufacturing.
- Specific set-asides for remote communities will help reduce price volatility and further develop the medium-scale wind-turbine manufacturing base where Canada has quietly developed a global niche.
- In 2007, the United States surpassed all European countries in becoming the world's largest market for wind energy, and having just renewed their incentive program, Canada will find it increasingly hard to compete for investment without stable domestic policy. This will help us remain competitive.

3. Modernizing Canadian transit systems.

- Aging and inadequate transit infrastructure has not kept pace with sprawling Canadian cities.
    - ☐ **Solution:** Canadian Urban Transit Association has identified the need for $30 billion in transit infrastructure spending required over the next five years.
- These investments in transit infrastructure need to happen in the future anyways, so accelerating them simply puts us ahead and makes our cities more livable and more productive earlier.
- Many buses and train systems are manufactured in Canada, again helping revive a sector currently at risk.

Automotive Sector: The government should only support the automotive sector with public funds if the sector is willing to accept a fleet-wide fuel efficiency standard of at least 45 miles per gallon by 2020. To help the sector meet this regulation, government should support marketing and public awareness of fuel efficient vehicles, and increase the innovation fund for the development and manufacturing of components necessary for increased fuel efficiency (lighter materials, hybrid vehicle parts, etc).

Any government that puts a strong, visionary green economic plan on the table will reap double dividends (stronger economy, healthier environment) and produce a vision that all parties would be compelled to support.

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I am recommending infrastructure investment in affordable housing be included in any Canadian short-term economic stimulus package.

An estimated 150,000-300,000 Canadians are homeless and the annual public cost of homelessness is estimated at a minimum $4.5 billion. Affordable housing with supports is five times less expensive than institutional responses to homelessness (prison, detention, and psychiatric hospitals), and about half the cost of emergency shelters.

In addition, more than 1.4 million Canadian households spend more than the recommended 30% of income on shelter costs. Job losses in a recession will have significant negative impacts on these slightly more than 10% of Canadian households. Particularly vulnerable are lower income and fixed income Canadians as well as renters, female lone-parent families, seniors, immigrants and aboriginal households. We do not want to see a swelling of the already too large homeless population.

An infrastructure investment by the Government of Canada of $2.5 billion over the next two years will create 35,000 to 50,000 units of affordable housing and will provide the following benefits:

- Using a per capita funding formula of $75 per Canadian for a total $2.5 billion investment, this infrastructure stimulus package would positively impact every region of the country.

- The $2.5 billion investment could lever a minimum of two additional dollars from other sources such as the private sector, provincial and territorial governments, and charitable contributions and would result in a $7.5 billion impact to the economy.

- This economic stimulus is unique in its ability to ultimately reduce costs to the Canadian taxpayer.

- This investment will directly support Canada's most vulnerable citizens; those likely to be impacted significantly by a recession.

- The investment will pay for itself. In Calgary, for example, affordable housing units targeting the homeless population would translate into a net savings of approximately $21 million per year, so the entire federal investment in Calgary of $78 million would be paid for within four years from the savings created by one third of the total units.

- Federal investment in affordable housing will help maintain economic growth in the recession prone construction industry, offset losses in other sectors, and generate significant economic activity.

- Making affordable housing available will contribute significantly to local economies to ensure local communities can attract and retain lower paid workers.

We further recommend that the federal government move quickly to amend the Income Tax Act to eliminate the capital gains tax on donations of land and buildings to registered public charities for the purpose of providing perpetually affordable housing. This would incent businesses, organizations, philanthropists and individuals to assist with the creation of affordable housing while preventing tax leakage.

These initiatives are quite achievable. All political parties in the House can agree to infrastructure investment in affordable housing, as they all addressed the need for affordable housing during the 2008 election campaign.

No new administrative program would be required as the federal government could easily flow this investment through the existing Homelessness Partnership Strategy.

Submission by Western Centre for Economic Research

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The federal budget, to be tabled January 27, 2009, will have to address the current economic turmoil and downturn, reverse a recession, bring required economic stimulus, deal with business and investor uncertainty and caution, reverse sagging consumer confidence to encourage consumption, as well as reinforce the stability of Canada's financial system and overall economic reputation as a desirable location for international investment.

In addition, the measures the federal government may introduce should contribute to long-term structural adjustment of the Canadian economy to reinforce ongoing Canadian competitiveness for an evolving industrial, agricultural, technological, and financial international environment subject to continued pressures of changing relative competitiveness.

Furthermore, the measures to be introduced should be of a nature that does not establish on-going entitlements of transfers that might lead to structural deficits for the federal budget in subsequent years. The hard work done by governments to eliminate structural deficits and to contribute to overall debt reduction should be remembered; governments and citizens should not have to face the same difficulty in trying to move from the economic stimulus now needed, to dealing with ongoing massive structural deficits.

What has been learned from the economic downturn of the 1930s is that to have an effect in turning around a declining economy, governments should jump in early and jump in big. Small measures, drawn out over a lengthy period of time, delays, and half measures, will not have the economic stimulus effect desired, and, more importantly, will not have the confidence building effect for either businesses or consumers. Do it fast, do it immediately, do it big.

Suggestions:

1) Don't fear "prudent deficits"—they are possible and should not be avoided in current conditions.

2) Invest in infrastructure that reflects the 21st century—e.g. mass transit rather than highways—move to implement infrastructure spending immediately, to bring immediate stimulus, get projects that have already been planned, but were awaiting funding opportunities directly on to the construction agenda.

3) Focus on deferred maintenance (e.g., school, road and bridge repair)—ensuring that existing infrastructure is in good condition. Work on deferred maintenance can be implemented much more quickly than greenfield infrastructure projects, getting them from the planning to groundbreaking stage. Dealing with deferred maintenance can be started immediately and will start to put stimulus dollars into the economy right away.

4) Focus on infrastructure that is energy efficient—e.g. green schools and public buildings serve multiple purposes—energy efficiency, healthy environment, reduced GHGs, etc., use the opportunity of pursuing deferred maintenance to upgrade facilities for long-term benefit.

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5) Focus on using and installing the newest level of technology, upgrading schools, hospitals, universities, community facilities with the newest level of technology, thus contributing to efficiency and long-term competitiveness.

6) Avoid tax increases, or the threat of tax increases, until the economy recovers, consider further business tax reductions.

7) Rely more heavily on the GST with offsetting decreases in personal income taxes and corporate income taxes (as conditions permit). Future rises in the GST, if anticipated, can bring spending forward.

8) Strengthen support for the unemployed through re-training, productivity-enhancing initiatives that absorb laid-off workers, and possibly improved unemployment benefits.

9) Avoid "moral hazard"—conditions should be very carefully crafted if there is bailing out of auto companies or others.

10) Continue to invest in people—education and research. Canada needs to develop and retain its brightest; increased spending on all forms of research will contribute to the long-term competitiveness of Canada.

11) Recognize the value of Canada's natural environment—continue to support, in partnership, the work of land trusts and infrastructure in our national parks.

12) Reinstate accelerated capital cost allowances for oilsands projects, and, importantly, for upgrader projects. The upgrader projects provide greater value-added and processing of oilsands production in Alberta and Canada. Providing a favourable tax treatment for this sector would enhance the prospects of upgrading in Canada without the pitfalls of a misguided approach associated with trying to restrict exports of bitumen.

An overall stimulus package of $30-40 billion per year, over one to two years, with targeted expenditures, focused on elements that contribute to long-term Canadian competitiveness, not built in, on-going entitlement programs, would seem appropriate in the circumstances and should make a significant Canadian contribution to the global efforts to revitalize the world economy.

About the Canada West Foundation

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

Canada West Foundation is a registered Canadian charitable organization incorporated under federal charter (#11882 8698 RR 0001).

In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

More information can be found at www.cwf.ca.

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