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Backgrounder

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Budgeting for Security and Prosperity: A Shadow Federal Budget for December 2001

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The C.D. Howe Institute presents this shadow budget to outline a vision of a sound federal government plan for Canada for the next five years. Ottawa should take immediate steps to address national security concerns, and present a longer-term plan for prosperity. Judicious reallocation of spending and strategic tax cuts can improve the environment in which individuals and businesses save and invest, providing the foundation for a secure and prosperous future.

Recent events have challenged Canadians. They have created unexpected demands on federal government spending and placed unexpected constraints on planned revenue. Yet the past several years of far-sighted planning and fiscal prudence have positioned Canada to meet these challenges. The government of Canada will respond to the nation's immediate security needs and make key investments in future prosperity, while ensuring the sustainability of federal finances.

Meeting security needs requires immediate steps. Refocused federal spending can secure the nation's roadways, airways, and seaways, keep trade corridors open, meet Canada's international obligations for military and humanitarian support, and deliver the services Canadians expect from their government. Finding the necessary resources will mean deferring some spending and investment plans — personal and economic security must come first.

Building prosperity means looking ahead. This budget responds to Canadians' desire for greater certainty by presenting a five-year planning horizon. Measures in this budget will improve the prospects for investment and jobs, put Canada's health system on a firmer footing, and make new investments in infrastructure and education. Other initiatives will enhance the environment in which Canadians can plan and save for retirement.

In total, this budget provides $3.7 billion for new security measures over the five-year planning horizon, $3.2 billion in new transfers related to health, education, and infrastructure, and a further $2.7 billion in support for innovation and development aid. These expenditures are financed by reallocations from nonpriority areas. The budget provides a total of $13.9 billion in tax relief for individuals and businesses over the five-year period. With the benefit of past and present prudent planning, moreover, it provides for continued reductions in the federal government's debt and interest burden, ensuring that resources will be available to enhance Canada's present security and future prosperity.

Economic Developments and Prospects

Notwithstanding current uncertainties, Canada's recent growth and future prospects bode well.

The Economic Backdrop

Over the course of the year 2000, Canadian spending, output, and job creation proceeded at a healthy pace, and the Canadian economy entered 2001 in robust condition. During 2001, economic weakness in the United States, Europe, and Asia has taken its toll, and recent indicators suggest a slowdown in worldwide growth. But the fundamentals in the domestic economy give ample room for optimism about Canada's ability to come through a mild downturn without widespread hardship. Inflation has been moderate and interest rates are low; despite dipping corporate profits, fixed capital investment remains near historic highs.

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Outlook and Risks

The terrorist attacks of September 11 have clouded the short-term outlook. The attacks dealt a blow to confidence throughout North America, precipitated a marked slowdown in exposed industries such as airlines and tourism, and caused temporary difficulties at the Canada-US border that have led to further lost output and layoffs.

These setbacks have, however, occurred against a background of underlying domestic economic strength. Already supported by past fiscal actions, demand in Canada has received a further boost from aggressive monetary easing, as both the Bank of Canada and the US Federal Reserve have lowered short-term interest rates. These considerations support the view that the economic slowdown will be shallow and short-lived.

Accordingly, the baseline forecast for this budget assumes that, after a weak fourth quarter of 2001 and first quarter of 2002, demand will rebound in the course of 2002 and 2003, gradually coming into line with underlying growth in Canada's productive capacity. With ample energy supplies helping to keep inflation subdued, interest rates will rise only gradually from current levels.

The federal government believes that, in uncertain times, it is especially helpful to adopt a longer-term horizon against which Canadians can judge its intentions. Accordingly, this budget extends the five-year time frame for the fiscal plan that was first introduced in the fall 1999 Economic and Fiscal Update. The outlook for the current fiscal year and the five-year budget planning period is summarized in Table 1.

Table 1: *Key Economic Indicators, 2000–07*

	2000	2001	2002	2003	2004–07
			(percent)		
Real GDP growth	4.4	1.2	1.8	3.8	2.5
GDP inflation	3.7	1.7	0.1	1.7	2.0
Nominal GDP growth	8.3	2.9	1.9	5.5	4.6
Three-month treasury bill yield	5.5	3.8	2.2	2.5	4.0
Long government bond yield	5.9	5.4	5.2	6.0	6.5

This outlook has important implications for the evolution of federal finances. On the revenue side, a slow economy in late 2001 and early 2002 will subdue personal tax revenues and employment insurance premiums. Corporate tax revenues will show substantial declines, as recent drops in profitability are reflected in end-of-year reconciliations and loss carry-back provisions. These circumstances and previously scheduled tax cuts mean that federal revenue will decline slightly over the next two years, before an expanding economy begins to boost it again later in the forecast period.

On the spending side, the weaker economy has two key effects. EI benefits will be higher, cushioning the impact of a slowing economy on those whose jobs are affected. At the same time, however, lower interest rates will significantly reduce the federal government's debt-servicing costs.

In arriving at a fiscal outlook for planning purposes, this budget maintains the prudent framework that was crucial in bringing to an end the era of unsustainable deficits and mounting debt. As in the past, in deriving a budget balance for planning purposes, this fiscal plan deducts both an annual contingency reserve of $3 billion and an "economic prudence" cushion that grows over time from the baseline balance. These amounts ensure that, should the economy perform worse than expected or further unforeseen events affect federal finances, Canada will continue to progress toward a future with lower public debt. Key budget figures for the five-year planning horizon, under the assumption of no policy changes, are shown in Table 2. The net debt figures assume that only the "surplus for planning purposes" is applied against the debt when possible. Unneeded contingency reserves and prudence factors will also be applied against the debt. Should the economy perform better than expected, larger surpluses will further accelerate the pace of debt reduction.

Finally, many observers, including the Auditor General of Canada, have urged that transfer programs delivered through the personal income tax system be explicitly noted in budget documents. Accordingly, this budget shows both gross figures (including transfers and other items netted against expenditure) and net figures for revenue and spending — adding useful information without changing the reported budget balance or the accumulated debt.

The benefits of past fiscal prudence are readily evident in the projections for the accumulated debt relative to GDP. The no-policy-change projections show continued budget surpluses, despite a softer economy in the near term. Debt continues to decline in dollar terms, and more sharply so in relation to the size of the economy and Canadians' ability to service it.

Recent threats to Canadians' personal and economic security have made clear the need to reorient some federal priorities.

Enhancing Our Security

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Table 2: ***Summary Statement of Federal Government Transactions, fiscal years 1999/2000 to 2006/07, Current Outlook***

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
				($ billions)				
Revenue								
Net non-interest revenue	160.5	172.4	171.1	169.1	178.0	186.9	195.4	203.7
Adjustments (net)	12.3	13.8	14.5	14.8	15.5	16.1	16.8	17.4
Gross non-interest revenue	172.8	186.2	185.6	183.9	193.4	203.1	212.2	221.1
Return on investments	5.3	6.1	6.6	6.6	6.6	6.6	6.6	6.6
Gross revenue	178.0	192.4	192.2	190.5	200.0	209.7	218.9	227.7
Expenditure								
Net program spending	111.8	119.3	128.1	132.8	136.5	141.7	146.8	152.2
Adjustments (net)	12.3	13.8	14.5	14.8	15.5	16.1	16.8	17.4
Gross program spending	124.1	133.1	143.0	147.6	152.0	157.8	163.5	169.5
Debt charges	41.6	42.1	40.8	37.8	36.6	35.8	34.9	33.9
Gross expenditures	165.7	175.2	183.3	184.9	188.1	193.2	198.0	203.0
Balance								
Primary balance	48.7	53.1	42.7	36.3	41.5	45.3	48.7	51.6
Net debt charges	(36.4)	(36.0)	(33.8)	(30.8)	(29.5)	(28.8)	(27.9)	(26.9)
Total balance	12.3	17.1	8.9	5.6	12.0	16.5	20.8	24.7
Debt								
Net debt (year-end)	564.5	547.4	541.5	539.9	532.9	522.4	508.7	492.0
Debt-to-GDP ratio	57.9	51.8	49.8	48.8	45.6	42.6	39.7	36.8
Surpluses for fiscal planning								
Baseline surplus	12.3	17.1	8.9	5.6	12.0	16.5	20.8	24.7
Contingency reserve			3.0	3.0	3.0	3.0	3.0	3.0
Economic prudence				1.0	2.0	3.0	4.0	5.0
Surplus for planning purposes			5.9	1.6	7.0	10.5	13.8	16.7

Enhancing Security at Home and Abroad

This budget provides more resources for domestic intelligence — new staff and funding to ensure that foreign threats to personal and economic security cannot take root and spread in Canadian soil — amounting to $3.7 billion over the planning period. Of that amount, $2.6 billion will fund improved equipment and military pay, and permit an expansion of the size of the active service. Further amounts of $400 million and $280 million will add to Canada's intelligence-gathering and processing capacity both at home and abroad, and fund new measures to secure vital infrastructure. These projects will enhance the physical security of Canadians as they carry on with their lives and pursue their livelihoods.

Enhancing Our Trade Security

Building the trade that is so vital to Canadians' living standards requires improving the security of Canada's trading infrastructure. International seaports, airports, and border crossings will require enhanced manpower, training, coordination, and equipment. This budget commits $500 million to these investments over the planning period.

Securing our economic ties means more than new investments in existing forms of infrastructure. It also means thinking creatively about speeding crossborder flows of goods, services, and people. For this reason, the government will shortly announce a new task force on North American economic relations, charged with examining the full range of options available for improving Canada's cooperation with its NAFTA partners.

Refining Our Priorities

Canada must continue to reduce its debt. Demographic changes mean that the working-age population will grow very slowly, or even stagnate, by 2020 — creating a more difficult environment for the funding of public services. Reducing the weight of our debt will accommodate lower taxes and more generous public services in the future. This budget ensures continued fiscal surpluses in the current difficult period and a return to larger surpluses when circumstances improve. Fiscal discipline in 2002 and beyond will ensure that Canada is on the right path for reducing debt and taxes during the coming decade and for securing public finances for the next generation.

In the 2000/01 fiscal year, nondefense program spending on items other than major transfers to persons and provinces rose by 13 percent. Such growth, especially in nonpriority items, is unwise and unsustainable. Meeting new and pressing financial demands while maintaining fiscal discipline means making smart choices.

This budget proposes to limit growth of expenditures on government operations, and institute a new and rigorous cost-benefit review for transfer payments to businesses, Crown corporations, and other organizations. The organization of federal transfers to aboriginal people needs revamping, and the appropriateness of current job training initiatives needs review. In the area of telecommunications infra-structure, the government is determined to see the continued development of broadband Internet communications, but notes the impressive current capacity of the Canadian industry to expand networks where demand exists, and sees no justification for new subsidies.

The combined effect of these measures will hold the growth of nondefense program spending (other than major transfers to persons, provinces, and territories) in fiscal year 2002/03, to 1 percent above population growth and inflation. In 2003/04, spending on these programs will grow in line with population and inflation. Relative to the status quo projection, lower spending growth in these programs will save an average of $1.6 billion annually over the next five years.

Securing Our Economic Future

Canadians' future prosperity depends on saving, investment, and entrepreneurship.

Canadians' future prosperity depends on saving, investment, and entrepreneurship. This government proposes several simple and effective measures to improve the environment for saving, investing, and doing business in Canada.

Fairer Personal Taxes

This government is committed to lowering personal taxes and creating a fairer system. It will honor and exceed those commitments.

All indexed amounts in the personal income tax system will be increased by 3 percent for 2002, and by the greater of 3 percent and inflation thereafter.

Scheduled increases in personal tax and transfer thresholds: As announced in early November, all indexed amounts in the personal income tax system will be increased by 3 percent for 2002, to ensure that inflation neither causes automatic tax increases for Canadians nor erodes the value of benefits they receive. In the wake of a prolonged period of less than full indexing, however, merely keeping pace with inflation is not enough.

This budget therefore proposes, for 2003 and throughout the planning period, to raise all indexed amounts in the personal income tax and transfer system by the greater of 3 percent and the year-over-year increase in the consumer price index. For each year during which the CPI stays under 3 percent, this measure will increase federal tax thresholds in real terms: the cumulative impact over the planning period will be a federal tax cut of $2.1 billion.

Improving Canadian ownership and business equity financing: A slowing economy has lowered corporation profits, pinching the supply of retained earnings that would otherwise finance new investment projects. Under these circumstances, high effective tax rates on dividends may discourage firms from seeking equity finance. Moreover, the reduction in the portion of capital gains included in taxable income to 50 percent has opened up a large gap in the tax treatment of capital gains versus dividend income.

Lowering the effective tax rate on dividends will remedy these problems. Effective immediately, therefore, the federal dividend gross-up rate will rise to 133 percent, and the dividend tax credit rate will rise to 18 percent. In order to preserve neutrality between dividend and salary income from small businesses, this budget also proposes a compensating levy on distributions from active business income of less than $300,000 in Canadian-controlled private corporations. The compensating corporate distributions levy (CCDL) of 12.5 percent will apply to dividends paid from income earned after January 1, 2001, that qualifies for the small business deduction. Dividends paid from income taxed at the full rate or earned before 2001 will be exempt from the CCDL. The provinces will be encouraged to adjust their capital gain and dividend tax measures so as to make the combined tax treatments more consistent across provinces.

Capital gains exemption for donated property: Recently, the government announced an extension of the 50 percent exclusion of taxable capital gains from the transfer of property donated to charities. Currently, the effective tax rate on capital gains from donated properties is approximately 11 percent. Recognizing the need for greater support for charities in Canada, the government proposes to eliminate altogether the capital gains tax on donated property as of December 10, 2001. The revenue cost of this initiative is negligible.

Maintaining the momentum of EI premium reductions: More difficult fiscal circumstances limit the government's ability to cut payroll taxes as quickly and deeply as would otherwise be desirable. Especially in light of the continued phase-in of increased Canada and Quebec Pension Plan premiums, however, it is important to maintain the downward trend of EI premiums. This budget therefore proposes that, following the cut in EI premiums payable by employees and employers by 12 cents, to $5.28 per $100 of covered earnings, as of January 2002, the combined EI premium rate will fall a further 24 cents, to $5.04, as of January 2003. In 2004, when the fiscal outlook is expected to be brighter, the rate will fall to $4.68 per $100 of covered earnings. Over the planning horizon, net of offsets in other revenues affected by the change, this measure will reduce EI premiums otherwise payable by more than $4.3 billion. These reductions will assure Canadians that the downward trend in EI premiums will continue, despite economic setbacks, enhancing the environment for job creation.

Improving Savings and Lifetime Security

This budget proposes two measures aimed at improving the opportunities and returns from saving, thereby helping Canadians manage their own long-term income security.

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Better options for income security: Current registered retirement savings plans (RRSPs) or employer-based registered pension plans (RPPs) are not effective for many Canadians with modest income, who will encounter higher marginal effective tax rates in retirement than they faced while working. All Canadians face less secure futures if public policy discourages them from saving as much as they should, leads them to choose poor retirement saving vehicles, or puts additional pressure on public pension programs at a time when demographic change is already posing problems of sustainability.

It is time, therefore, to introduce a complement to registered retirement plans — tax prepaid savings plans (TPSPs)[1] — that meshes with the current system. Contributions to TPSPs will not be tax deductible, but earnings within them will not accrue tax liability. Withdrawals, which may occur at any time, will be neither taxed nor subject to benefit clawbacks. Contribution limits on TPSPs will be fully integrated with those on RPPs and RRSPs. Taxpayers may choose between saving in TPSPs, RPP/RRSPs, or both, subject to the overall limit and against which one dollar of TPSP saving will count as 1¼ dollars of RPP/RRSP saving.

This new saving option has no significant revenue implication over the budget horizon, but TPSPs will remove the disincentive for many Canadians to save, preparing the country to deal better with the demographic challenge posed by the aging baby-boom generation.

Improving the terms for private pension saving: Past budgets have promised significant increases in the amount of tax-recognized saving Canadians may set aside for their retirement, but difficult fiscal circumstances forced their postponement. Annual RPP and RRSP contribution limits have been frozen at $13,500 since 1995, and inflation has eroded their real value. These limits, therefore, will be raised to $14,500 for 2002, $15,500 for 2003, $16,500 for 2004, $18,000 for 2005, and $20,000 for 2006, and indexed to inflation thereafter. The overall limit will also apply to TPSP saving, subject to the contribution ratio just described.

Repealing the foreign property rule: Most Canadian pension plans are restricted by the foreign property rule to holding no more than 30 percent of their assets in foreign securities. The rule affects all Canadians who save for retirement through RRSPs and RPPs. The foreign property rule has increased the risks and lowered the returns from retirement saving for many Canadians, and has had no significant positive impact on

1 See Kesselman and Poschmann (2001).

Canadian capital markets.[2] Meanwhile, sophisticated financial instruments have already allowed pension managers effectively to own foreign securities through vehicles that qualify as Canadian assets for the purpose of the foreign property rule, and similar tools have recently become available to the general public. In view of these developments, this budget proposes to raise the foreign property threshold to 50 percent for 2002 and eliminate it for later tax years. The impact on federal revenue is nil.

Improving the future security of public pensions: Past and proposed enhancements to Canada's retirement income system have occurred against a backdrop of steady and significant increases in healthy life expectancy, as Canadians' living standards and the quality of Canada's public health infrastructure have improved. With the leading edge of the baby-boom generation now in their fifties and the prospect of fewer workers supporting them in retirement, the time is right for Canadians to contemplate revamping a retirement income system that took shape when seniors were less well off, healthy life expectancy was shorter, and growth in the working-age population was more rapid than it is today.

To launch the process, this government will immediately commence discussions with the provinces concerning gradual, incremental increases in the normal eligibility age for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) payments and Canada and Quebec Pension Plan retirement benefits, as well as in age thresholds specified in federal and provincial regulations governing private pensions and other supports for seniors.

These changes would have little or no impact on federal finances over the budget projection period, and are not part of the government's fiscal plan. Over the longer term, however, they will help secure the retirement income system by maintaining a reasonable balance between the need of older Canadians for income support and the ability of younger Canadians to finance it.

More Competitive Businesses Taxes

Past budgets have improved the fairness of Canada's tax system and helped make Canadian business more competitive. We can do better yet.

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Eliminating corporation capital taxes: Capital taxes have little economic justification. And because they are profit insensitive, they weigh especially heavily during economic slowdowns. For a business not earning income and in financial difficulty, a capital tax is a major burden. This budget proposes to phase out both the federal large corporations tax and the financial institutions capital tax over the next five years.

This government is also concerned that allowing deductions of provincial capital taxes from income for federal tax purposes encourages provinces to rely on these destructive taxes. For this reason, the federal capital tax phase-out will be accompanied by a phasing out of the deductibility of provincial capital taxes, offsetting a significant portion of the loss in federal revenue from the capital tax phase-out.

2 See Fried and Wirick (1999).

A better tax environment for the resource sector: Past budgets have deferred reductions in the corporate income tax rate for the resource sector, pending reform of special deductions that apply to that industry in calculating taxable income.[3] The government now proposes to reduce the tax rate on resource profits by 3 points, from 28 percent to 25 percent, effective January 1, 2002, with a further reduction of 2 points in each of the following two years. In addition, the existing resource allowance will be phased out over four years; in its place, provisions to make resource royalties deductible from income, up to a maximum of 10 percent of resource revenues, will be phased in. Some capital cost allowance rates will be adjusted over time to better reflect the economic costs associated with the underlying assets.

Further, in recognition of the high development costs and delayed and speculative cash flows characteristic of the resource sector, the government will introduce legislation defining a resource exploration and development investment tax credit. The REDIT credit will enhance support for exploration and development and replace less effective measures such as flow-through share financing. The combined package will provide a fairer and simpler environment for managing investment in the resources sector and put it on a tax footing commensurate with other sectors.

Lower taxes on crossborder investment: Canada levies a 15 percent withholding tax on dividends paid to US residents and residents of other tax treaty nations (or 5 percent if the US recipient owns 10 percent or more of the voting shares), and a 10 percent withholding tax on interest payments. These taxes inhibit crossborder investment and reduce the amount of capital available for investment in Canadian jobs and growth opportunities.[4] The government of Canada will soon negotiate tax treaty changes with the United States to eliminate the Canada-US withholding tax on interest payments. The government will also negotiate with major tax treaty partners, including the United States, the eventual elimination of dividend and interest withholding taxes.

Strengthening Canada's Social Foundations

This government will step up its contributions for health, university based research, and municipal construction programs.

Healthy people and community institutions are key foundations for Canada's prosperity. This government will step up its contributions for health, university based research, and municipal construction programs.

Improving Support for Health Care

For several years, provincial governments have emphasized the difficulty of keeping pace with Canadians' demands for readily accessible, state-of-the-art health services. This government has responded with supplements to the funds it provides under the Canada Health and Social Transfer (CHST) in 1999 and again in 2000, and has concluded agreements on health renewal and early childhood development that will see a substantial increase in CHST cash transfers to the provinces: from $14.5 billion in fiscal year 2000/01 to $21.0 billion in 2005/06.

3 See Mintz (2001b).

4 See Mintz (2001a).

This government recognizes that one-time supplements and periodic negotiations, while justified by the difficult fiscal environment of the recent past, do not provide a framework within which provincial governments can confidently set health budgets and contemplate necessary reforms to the delivery and financing of health programs. Accordingly, this budget proposes two changes to the federal government's support for provincial health programs under the CHST.

First, following fiscal year 2005/06, this budget proposes to index the bulk of CHST payments to growth of provincial populations and prices. This change will preserve the real value of federal health funding beyond the budget-planning period, providing provinces with a more stable environment for health delivery and reform. In the meantime, the federal government will also open negotiations with the provinces on the possibility of a coordinated change in tax rates that, in similar fashion to past transfers of tax points, would increase the fiscal capacity of provincial governments and reduce the federal cash transfer.

An important source of the pressure on provincial health budgets is the aging of Canada's population. This pressure will increase steadily in the years ahead. Not only do older Canadians tend to access publicly funded health care more intensively than do younger Canadians, but the working-age population — which supports much of the tax base — will grow increasingly slowly in the years ahead.

Canadians have come to expect that their provincial governments will provide medically necessary services on reasonable terms. The uneven incidence of aging across Canada, however, means that some provinces will experience the pressure of higher health spending and more subdued growth in the tax base earlier and more intensely than others.

In order to accommodate this pressure, while preserving provinces' ability to shape health programs in accordance with their residents' goals, this budget proposes to establish a new category of CHST funding: a seniors health grant. Commencing in 2005, the seniors health grant will deliver to the provinces $3,000 for each resident of age 65 or over. There will be no change in total projected CHST spending in fiscal year 2005/06, but, over time, this new element in the CHST will increase in line with inflation and growth in the population 65 and over, providing more extensive support to the provinces than would be available if the entire CHST were geared to overall population and inflation. Over time, the seniors health grant will provide significant additional CHST support to provinces where demographic change leads to particularly severe pressure on health care budgets.[5]

The government will contribute an additional $480 million in support of the indirect costs associated with funded university research activities.

Support for University-Based Research

While the federal and provincial governments provide generous funding to Canada's universities in support of their teaching and research programs, grant money often comes attached to specific projects without recognition of the general overhead costs that apply to all research activities.

Over the planning period of this budget, the government will contribute an additional $480 million in support of the indirect costs associated with funded research activities.

5 See Robson (2001).

Municipal Infrastructure Rebate of GST

The government recognizes the need for municipal governments to fund large infrastructure projects, including mass transit systems and renewal of bridges and waterworks: substantial investments in engineering construction are needed in the coming years.

Currently, purchases of capital equipment and construction inputs are subject to the goods and services tax, of which approximately two-thirds is refunded. The original intent of the refund was to put municipalities in a fiscal position similar to that prevailing under the federal sales tax prior to 1991, a consideration that is irrelevant today. Accordingly, this budget provides for a full rebate of the GST on transportation equipment and other inputs to municipal engineering construction projects, including water and sewage works. This measure is expected to provide more than $1 billion in support to infrastructure investment over the five-year planning period.

Increased Overseas Development Assistance

During the past decade, Canada's commitment to overseas development assistance has slipped below our capacity to help. Nonetheless, the country's campaign against global poverty will not be fulfilled simply by spending more money. Long-term development is possible only when recipients have the capacity to mobilize resources effectively on behalf of their own populations.[6] As aid programs meet value-for-money criteria and as new initiatives aimed at good local governance are identified, aid spending will increase in 2004 and thereafter, with an interim target of 0.3 percent of GNP.

Summary of Spending and Tax Actions

Together, these initiatives provide for immediate enhancements to Canadian security and an improved environment for economic growth and prosperity in the longer term. They build on the government's progress toward a sustainable fiscal position, providing Canadians with confidence that the security and prosperity they offer will be achieved (the fiscal impact of the initiatives announced in this budget are summarized in Table 3).

Refocused spending will enable us to make the investments we need to build Canada's security. Redesigned and reduced taxes, and an improved environment for investment and saving, will help Canadians consolidate their economic futures.

Conclusion

This budget addresses the imperatives of enhanced security today and prosperity now and in the future. Refocused spending will enable us to make the investments we need to build Canada's security. Redesigned and reduced taxes, and an improved environment for investment and saving, will help Canadians consolidate their economic futures.

Prudent planning in the past has made it possible today to devote additional financial resources to secure Canadian transportation and communications, to ensure that our essential trade routes remain open for business, and to do our part in securing peace on the world stage. Prudent planning today will ensure that resources remain available to deal with future threats that may arise. Investment in people, systems, and technology will keep our borders both safe and open.

6 See Goldfarb (2001).

Table 3: ***Impact of Budget Initiatives on the Fiscal Outlook, fiscal years 2001/02 to 2006/07***

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
			($ millions)			
Spending Initiatives						
Security						
Defense	200	350	500	500	500	500
Intelligence	30	50	80	80	80	80
Domestic security	30	50	50	50	50	50
Trade and border infrastructure	50	100	150	100	50	50
Transfers						
3% indexation of CTB and GSTC	0	40	210	390	570	760
Indexation of CHST	0	0	0	0	0	60
Seniors health grant	0	0	0	0	0	100
Urban infrastructure GST rebate	0	190	200	210	220	230
Increased development aid	0	0	30	130	250	370
Innovation support	30	90	90	90	90	90
Other						
Slower growth in nonpriority programs	0	(800)	(1,700)	(1,800)	(1,900)	(2,000)
Spending subtotal	*340*	*70*	*(390)*	*(250)*	*(90)*	*290*
Revenue Inititatives						
Personal taxes						
Minimum 3% indexation of all PIT parameters	0	(100)	(330)	(200)	(610)	(890)
Increased dividend tax credit	(180)	(720)	(770)	(800)	(840)	(880)
Higher pension contribution limits	(20)	(100)	(200)	(300)	(450)	(600)
EI premium reduction	0	(170)	(960)	(1,830)	(1,910)	(1,980)
Business taxes						
Compensating corporate distributions levy	60	300	600	610	620	630
Phase-out of capital taxes	(50)	(280)	(530)	(800)	(1,090)	(1,330)
Resources industry tax changes	(10)	(50)	(40)	(50)	(50)	(50)
Elimination of Canada-US interest withholding tax	0	0	(30)	(50)	(30)	0
Revenue subtotal	*(200)*	*(1,120)*	*(2,260)*	*(3,420)*	*(4,360)*	*(5,100)*
Impact of initiatives	*(540)*	*(1,190)*	*(1,870)*	*(3,170)*	*(4,270)*	*(5,390)*
Impact on net debt changes	0	(60)	(150)	(290)	(510)	(790)
Balance for planning purposes	5,920	1,530	6,930	10,480	13,750	16,640
Net impact of initiatives	(540)	(1,250)	(2,020)	(3,460)	(4,780)	(6,180)
Balance after initiatives	*5,380*	*280*	*4,910*	*7,020*	*8,970*	*10,460*

Note: Some federal revenue and expenditure figures presented here were derived using Statistics Canada's Social Policy Simulation Database and Model, Release 9.0. Responsibility for the results and their interpretation lies with the authors.

Careful management of the public purse has made it possible to meet past promises to improve Canadians' ability to save and invest, to lower their taxes, and to deliver the services on which they depend. The ability to secure ourselves, our livelihoods, and a prosperous future for our children is within our grasp.

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