



2012 FEDERAL BUDGET EXPECTATIONS

A note from Scott Clark, senior associate, Hill+Knowlton Strategies, and former deputy minister of finance, Government of Canada.

The budget-planning process is highly complex in both its policy and political considerations. Not surprising, given that the budget is the most important economic and social-policy statement that the Government creates. There is a lot at stake for everyone in a budget.

To prepare a budget, a great deal of effort goes into “conditioning” the public’s expectations. In the upcoming federal budget, the Government appears to be focusing its conditioning on four main areas:

+ The Government is conditioning the public to expect major cuts to program spending.

In the 2011 budget, the government committed to eliminating the deficit by 2014-15. This would require annual program-spending cuts of \$4 billion. However, in the Government’s November economic and fiscal update, the minister of finance announced that, due to a worsening medium-term economic outlook, the deficit would not be eliminated within that timeframe.

The Government has recently been warning Canadians that the cuts in programs and services may be increased to \$8 billion annually. The possibility of cutting public service pensions has been frequently repeated, and there is a good chance that changes to those pensions will be in the budget.

+ The Government is conditioning the public to expect changes to the seniors retirement-income system.

The prime minister announced recently in Davos that the government would need to control the growth of federal spending on transfers to the low- and middle-income elderly for Old Age Security (OAS and GIS), because these transfers were “not sustainable”, as they are projected to grow much faster than GDP over the foreseeable future. Changes to the CPP would not be needed since the CPP is “fully funded.”

The public reaction to the possible changes to OAS/GIS has been for the most part very negative. The ensuing speculation about change has caught Canadians off-guard. The resulting media analysis has been misleading and confusing. It is likely that in the coming weeks, media discussion on potential reforms to the OAS/GIS system will become even more confusing.

The government appears to want to focus the budget primarily on the effects of an aging population on government spending. In his Davos speech, the prime minister committed the government to taking measures “not just to return to a balanced budget in the medium term, but also to ensure the sustainability of our social programs and fiscal position over the next generation.”



The government began conditioning the public about changes in the management of funds for social/health transfers with the announcement by the finance minister last December that, beginning in 2017, growth in the Canada Health Transfer would not continue at six percent, but would be held to the growth of GDP.

The budget will provide the government with an opportunity set out its analysis of the demographics of aging and the government’s proposed policy changes.

+ The Government is conditioning the public to accept that it has a sound record of economic and fiscal management.

This has been a theme of the government for quite some time. In Davos, the prime minister stated: “Canada has economically outperformed most industrialized countries during these recent difficult years for the global economy.” Unfortunately, the economic outlook for the budget is not that promising. The reality is that all G-7 countries are not expected to perform well over the next two years – and possibly longer.

The International Monetary Fund (IMF) recently reduced its global forecast for economic growth in 2012 and 2013. For Canada, the short-term outlook is for below potential economic growth and continued high unemployment. Some bank economists are now arguing that based on recent economic data now is not the time for major cuts in spending.

+ The Government is conditioning the public to expect new initiatives in the budget to support science and technology.

“Under our Government, Canada will make the transformations necessary to sustain economic growth, job creation and prosperity now and for the next generation,” said the prime minister in Davos. He went on to state that the Government “will make the key investments in science and technology.”

This will likely involve some changes to the SR&ED tax credit and we will probably see some recommendations from the “Jenkins Report” on productivity and innovation implemented. These initiatives are not receiving much attention, despite the fact they could be extremely important in strengthening economic growth.

When will the budget be tabled?

Of the last 16 budgets, 11 were tabled before March 1. For the 2012 budget to make that deadline, it would require that all major policy decisions be made by early February. The Government can table a budget at any time – there is no legislative requirement.

However, the Treasury Board president cannot delay tabling the “Main Estimates.” The Main Estimates detail the Government’s plans for the coming year’s departmental spending. They must be tabled on or before March 1 for the government to be given interim spending authority for non-statutory programs (about 40 per cent of total spending) for the April to June period. This also allows Parliament adequate time to review departmental-spending estimates and pass the applicable



legislation before the summer recess, thereby giving spending authority to the Government for the remainder of the year.

Conclusion

The 2012 budget will be the most important budget of this Government since first elected. The minister of finance has said that the budget will focus on long-term structural issues resulting from an aging population. In his Davos speech, the prime minister also stressed that the demographics of aging “constitute a threat to the social programs and services that Canadians cherish.”

This budget will perhaps be the first of several budgets to look at the long-term impacts of an aging population.

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