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## Retooling Canadian Fiscal Policy for the Coming Recession

### Alternative Federal Budget Economic and Fiscal Update

Marc Lee, CCPA

During the 2008 federal election, all major political parties committed to balanced budgets if they were elected. Fiscal conservatism has so permeated Canada's political culture that it was deemed unacceptable for any "serious" leader to blink and state that they would run a deficit if economic times got bad.

With the federal election now over, and a recession looming, discussion has shifted to the very real prospect of a deficit, if not in 2008/09 then almost certainly in 2009/10. As the tone of the discussion has shifted, even the Finance Minister has come around the view of mainstream economists that it would be inappropriate to cut spending in order to balance the budget during a recession. The real underlying question is not whether the federal government *should* run a deficit but *how large* the planning deficit for 2009/10 should be.

In this Alternative Federal Budget (AFB) *Economic and Fiscal Update*, we revisit the 2008 federal fiscal plan, and test the budget balance under a series of four increasingly pessimistic

scenarios over the next two years. The worse the economic downturn, the larger the status quo deficit will be. Because a recession will lower available revenues and increase pressures on expenditures, balancing the budget would entail substantial spending cuts (or, less likely, tax increases). This would be the worst possible reaction to a recession. Even spending cuts to reduce the size of the deficit would have the effect of worsening economic conditions through reduced transfers to individuals, to other levels of government, or to core federal programs.

This update argues the opposite — not only should the federal government accommodate a deficit that arises from worsening economic conditions, it should stand prepared to increase operating and capital expenditures in order to lean against adverse economic winds. It outlines a stimulus package of six measures to maintain employment and incomes as we head into a recession, and that help Canada take meaningful steps to becoming a more fair and green society.

## Headed for recession

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By the start of the 2008 federal election, just after Labour Day, it had become almost cliché to say that Canada's economic fundamentals were sound. Canadians have grown accustomed to a steady economic expansion — the last recessionary year in Canada was 1991, when Brian Mulroney was still Prime Minister. Even during the short U.S. recession in 2001, Canada's economic growth slowed but did not stop. But by the election's end the mantra about strong economic fundamentals had been buried under an avalanche of gloomy news about financial markets, housing and bailouts.

While current unemployment rates remain at historically low levels, the most recent Labour Force Survey data point to a labour market that has already peaked. October's update showed weak employment growth of 1.3% compared to a year earlier, and relative to an 8.3% rise in the number of unemployed workers.<sup>1</sup> Even amid employment gains in recent years, we have seen an alarming increase in inequality, and the recent expansion was characterized by a persistence of poverty and homelessness. It is not obvious that this represented sound fundamentals to start with, and to the extent they did that party appears to be over.

The major factors that fueled the boom are at an end. In recent years, a bubble in real estate prices spurred record residential construction, and unprecedented commodity price increases boosted the fortunes of resource industries and rural economies. These factors were reinforced by robust U.S. economic growth to the benefit of Canada's export sector. The unfolding financial crisis in the U.S. and globally is another part of a grim economic picture looking forward. While Canada to date has not experienced the same unraveling as in the U.S., the Toronto Stock Exchange S&P/TSX index has lost one-third of its value since the beginning of 2008, and concerns are acute given the myriad and complex connections between the Canadian and U.S. financial systems.

The Canadian dollar has been caught up in the financial turmoil, falling relative to the U.S. dollar largely due to movements of capital into U.S. Treasury Bills. Nonetheless, the decline of the dollar from parity offers some relief for Canada's manufacturing sector, which has lost 300,000 jobs since its peak a few years ago — although any benefits are more than likely offset by substantially weakened U.S. demand.

How much of the recent financial mess spills over into the real economy remains to be seen. In the first half of 2008, the Canadian economy stalled. Real GDP fell by 0.2% in the first

quarter, the first quarterly decline since 2003. A recession — defined as two consecutive quarters of negative growth — was narrowly missed when real GDP for the second quarter of 2008 came in at 0.1%. The most recent productivity data show an even uglier picture. According to Statistics Canada, labour productivity declined 0.2% in the second quarter of 2008, following declines of 0.6% in each of the previous two quarters.

Almost all private-sector forecasters, as well as the federal government and the Bank of Canada, failed to see the current downturn coming. In October, the Bank of Canada lowered its expectation of 2008 economic growth from 2.3% a year earlier to 0.6%, but still believes that Canada will avoid a recession and resume pre-crisis growth rates by the second half of 2009. This seems exceedingly unlikely given the powerful macroeconomic forces at play, and it is not at all clear what would drive a resurgence so quickly. In recent weeks, the new conventional wisdom is for a recession in 2009, beginning in the fourth quarter of 2008.

Economic weakness is particularly evident in declining investment. Investment in residential construction has dropped in both first and second quarters of 2008, signaling an end to the housing boom of recent years. At the end of the 1990s, investment in residential structures was about 4.6% of GDP. That figure swelled to 7.1% in 2007, and has slipped back to 6.8% as of the second quarter of 2008. A continued decline back to normal levels will have major implications for Canada's overall economic performance, with essentially two percentage points of GDP at stake. A contraction of this scale would have major implications for a labour market that has boomed with construction jobs in recent years.

While the Canadian housing situation is not nearly as grim as what has been unfolding in the U.S., the Canadian market has clearly passed a turning point. The supply of homes for sale has grown in major Canadian cities, while demand has declined, leading to drops in sales and in resale values for the first time in many years. Recent data point to a 6% drop in average resale prices in September compared to a year earlier.<sup>2</sup> Price declines are likely to continue through 2009, if not longer. The spillover of falling home prices will be to reduce employment in new residential construction (which had already declined in the first half of 2008).

Other investment declines outside of the residential sector are also notable, in particular machinery and equipment, the category of investment most linked to productivity. Canada's weak investment performance is contrasted by the profit performance of the corporate sector. In the second quarter of

2008, profits hit 14.0%, after being above 13% for the previous four years. While corporate profit levels will drop during a recession, it is worth noting that they are falling from essentially record highs (going back to 1961, there is only one year, 1974, where profits were in this range). In spite of these record profits, boosted by corporate tax cuts, too little has found its way into new investments needed to underpin future productivity growth.

Another source of concern is the slowdown in consumer spending, given the prominent role that domestic demand has played in supporting Canadian growth over the past few years. While it did not decline in the second quarter, real consumer spending grew by 0.6% compared to 1.8% and 0.8% in the previous two quarters. Similarly, retail sales (adjusted for inflation) have been flat through 2008 (and declined 0.3% in August).

Households are in a more precarious position going into a downturn due to a large overhang of debt. Statistics Canada notes that the average household has \$1.25 in debt for every dollar of personal disposable income.<sup>3</sup> According to a report early this year by the Vanier Institute for the Family, average savings for families are down from \$7,000 a few years ago to \$1,000 last year (and that is the average, pulled up by those at the very top; the median is likely much lower), with the average family \$80,000 in debt.<sup>4</sup> Cracks are beginning to show, with a large increase in consumer bankruptcy filings in September.

Developments in the economy have not been balanced on a regional basis. Economic growth is anticipated to be stronger in energy-rich Western Canada, with the worst impacts in manufacturing heartland of Ontario and Quebec. Commodity price increases are a major part of this story. Energy prices in July 2008 were more than 400% higher than in 2002, and double the same month in 2007.<sup>5</sup> Notably, they have declined substantially in recent months from those all-time highs.

## Implications for the federal fiscal outlook

A recession will inevitably push the federal budget balance towards a deficit, due to upwards pressures on expenditures and lower tax revenues. The federal government had a \$1.2 billion surplus over the first five months of the year, including a \$1.7 billion deficit in August.<sup>6</sup> Given that economic conditions are worsening, the federal budget is now on a knife-edge of returning to deficit in 2008/09, and under status quo conditions, is on course for a deficit in 2009/10. A recent estimate

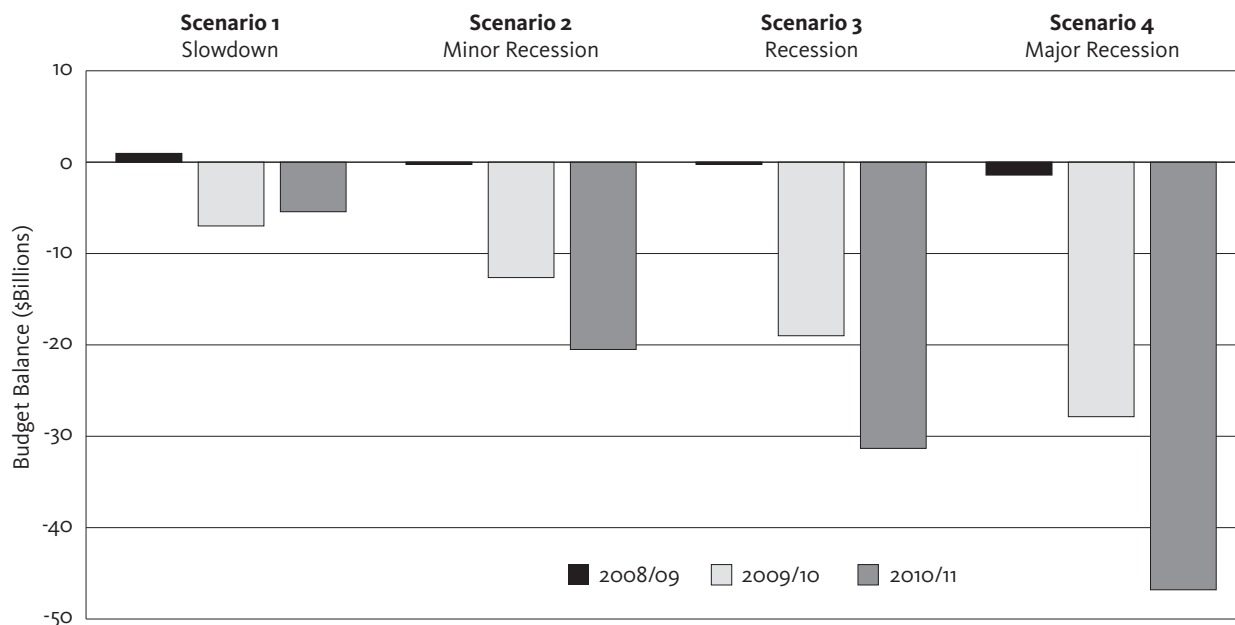
by TD Economics put status quo deficits at \$10 billion for each of 2009/10 and 2010/11.

We re-estimate the federal fiscal picture based on four scenarios of economic downturn, with each additional scenario increasingly more pessimistic (Figure 1 and Appendix Table).<sup>7</sup> These estimates are of the status quo budget scenario (i.e. no changes in tax or expenditure policies, with outcomes determined by changes in economic assumptions). Our revenue estimates are based on the share of revenues relative to GDP from Budget 2008, while adjusting GDP forecasts. We make a couple of important adjustments in light of recent events. First, spectacular corporate profits have led to a large increase in corporate income tax revenues. With a recession at hand, we scale back projections to be more consistent with historical levels. Second, we assess the budgetary impact of rising unemployment (lower EI premium revenue and higher EI benefits expenditure). A one percentage point rise in the unemployment rate would lead to an additional cost of \$1.5 billion per year, equivalent to the current year's planning surplus for EI (premiums received less benefits paid).<sup>8</sup> Thus, a return to unemployment levels seen a decade ago would have huge financial implications for the budget.

Scenario 1 models the fiscal outlook based on the view that Canada will experience only a slowdown but a recession will be averted. This scenario has most recently been advocated by the Bank of Canada. We make slightly more pessimistic assumptions than the Bank of Canada, and assume real GDP growth of 0.5% in 2008 and 0% in 2009 compared to 0.6% for each according to the Bank. We assume growth returns to 3% in 2010, compared to the Bank's projection of 3.4%. We also assume GDP inflation of 2.0% in 2008, and 1.5% in 2009 and 2010.<sup>9</sup> In this scenario, the federal government will run a \$1 billion surplus in 2008/09, followed by deficits of \$7.0 billion in 2009/10 and \$5.4 billion in 2010/11.

Given that many analysts now expect Canada to enter a recession in the fourth quarter of 2008 and early 2009, Scenario 2 models a mild recession with no real GDP growth in 2008 and a decline of 0.5% in 2009, followed by a weaker recovery in 2010 of 2% (we assume the same GDP inflation as Scenario 1). In this case, a very small deficit appears in 2008/09, followed by deficits of \$12.6 billion in 2009/10 and \$20.5 billion in 2010/11. The deficits in the latter two years are exacerbated by rising unemployment and falling corporate income tax revenues. We assume unemployment of 7.1% in 2009 and 7.6% in 2010, which wipes out a surplus on the EI account in 2009/10 and leads to benefits paid in excess of revenues from premiums in

**FIGURE 1** Impact of Economic Slowdown on Federal Budget



**NOTE** See Appendix Table for notes and sources.

2010/11. We make an adjustment to CIT revenues that proxies the decline relative to GDP experienced in the downturn in 2001 and 2002.<sup>10</sup>

Scenario 3 models flat real GDP growth in 2008 (same as Scenario 2), and a deeper recession in 2009, with real GDP shrinking by 1.0%, and a weaker recovery of 1.5% in 2010. Because of the recession we also lower our estimates of GDP inflation in 2009 and 2010 to 1.0%. In this scenario, we more heavily lower expectations for corporate income tax revenues. The balance of the EI account is in deficit in both 2009/10 and 2010/11 based on unemployment rates of 7.4% and 8.0% respectively.<sup>11</sup> The deficit grows in this scenario to \$19.0 billion in 2009/10 and \$31.3 billion in 2010/11.

Finally, Scenario 4 is the most pessimistic, and shows the impact of a major recession and a slower recovery. It features negative GDP growth, -0.5% in 2008 and -1.5% in 2009, followed by 1.0% growth in 2010. We assume no GDP inflation in 2009 and 1% in 2010. The trend in CIT revenues is assumed to follow the pattern of the 1990/91 recession, and unemployment rises more dramatically to 8.1% in 2009 and 9% in 2010.<sup>12</sup> Accordingly, deficits are larger, at \$1.4 billion in 2008/09, rising to \$27.9 billion in 2009/10, and \$46.8 billion in 2010/11.

While Scenario 4 may be viewed as unlikely by some, it is not unrealistic given the macroeconomic forces at play. It fea-

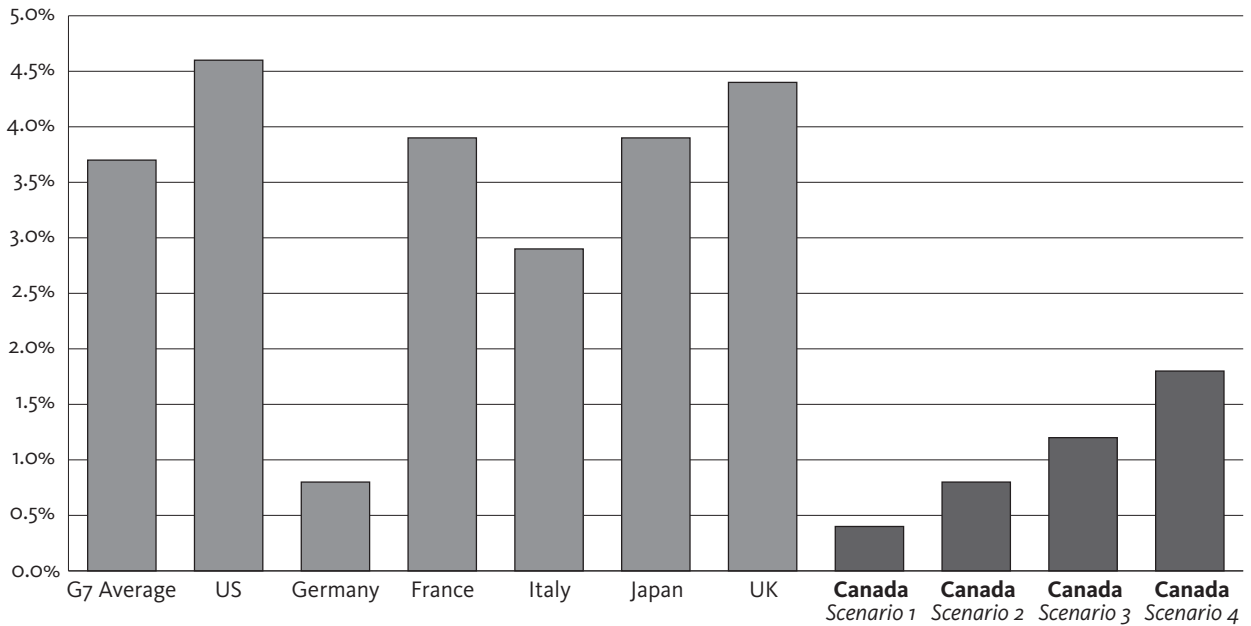
tures a real GDP decline much less than experienced in 1991, Canada’s last recession year (-2.1%). As events unfold, it may come to pass that Scenario 4 is not pessimistic enough.

### Fiscal policy in context

While not politically popular, the best response to a major downturn/recession would be to run a deficit. As is clear from the scenarios above, aiming for balanced budgets would mean cutting spending, and the greater the spending cuts, the more severe the downturn (a pro-cyclical response that makes the economic situation worse). Instead, prudent fiscal policy demands that the government lean against adverse economic winds (counter-cyclical policy).

Having saved for a rainy day, the federal government should be prepared to use the umbrella of deficit-spending. Canada’s debt-to-GDP ratio fell from 68% in 1996/97 to approximately 29% in 2008/09. Thus, the government has substantial room to run a deficit. In addition, in light of developments in the financial markets, the cost of financing a deficit is low. In fact, the government would provide a valuable commodity — secure bonds — to a financial market in the midst of a flight to quality.

**FIGURE 2** Deficits as a Share of GDP for G7 Countries, 2009



**NOTE** Data do not include recent stimulus packages in response to financial crisis, such as the Paulson plan. Canadian estimates for federal government only.

**SOURCE** International Monetary Fund, World Economic Outlook, October 2008, Table A8, and author's calculations (see Appendix Table).

The deficit in Scenario 4 reaches 3.0% of GDP in 2010/11. However, as Figure 2 shows, even this deficit would be at a level that is still below the most recent average for G7 countries, and much lower than a forecast 4.2% of GDP deficit in the U.S. — and data in the figure are prior to the most recent fiscal announcements, notably the U.S.\$700 billion Paulson bailout, which could mean a historic U.S. deficit in the \$1 trillion range. Germany, the best G7 fiscal performer outside of Canada, shows a smaller deficit in the figure, but recently tabled a fiscal stimulus package valued at 2% of GDP.<sup>13</sup> Thus, a Canadian fiscal stimulus of 3% of GDP would not be inconsistent with the practice of other advanced countries (note that Canadian numbers in Figure 2 are for 2009/10, with a projected deficit of 1.8% of GDP in Scenario 4, and are for the federal government only).

A criticism of deficits is that they are “addictive” or hard to stop once one starts. The above analysis demonstrates that deficits, even sizable ones, can emerge from a cyclical shift in macroeconomic conditions. The positive budget dynamics during the growth period of the past decade and a half meant a steadily growing revenue base from which to entertain tax cuts, spending increases or debt reduction. Indeed, it was the Conservatives’ last round of tax cuts, announced in late-October 2007 that whittled away most of the remaining surplus.

Those dynamics are now being thrown into reverse, with commensurate impacts on the budget balance. However, with a reversion to growth, even if a few years off, cyclical deficits would shrink and revert to surpluses.

In one important respect, the federal government is ill-prepared for a recession due to changes made to its key automatic stabilizer, Employment Insurance, in the mid-1990s. These changes have led to lower benefits in real terms, and higher hurdles to qualify in the first place. As a result, only four in 10 unemployed workers receive benefits. The new Canada Employment Insurance Financing Board, set up in the 2008 Budget to administer EI, is not adequately funded to handle a recession. The accumulated EI surplus of about \$50 billion has been taken off the table in favour of a \$2 billion contribution from the federal government. This reserve will be insufficient should unemployment rise above approximately 8.4%.

### A bold stimulus package

Much of the policy response to date has been through monetary policy (lowering interest rates and providing liquidity

to the financial sector). While these measures are necessary, they are not sufficient relative to the needs of the real economy, and there is little additional room to move in the future. Looking to 2009 and beyond, fiscal policy will have to do the heavy lifting, in coordination with other advanced countries. Canada is in an excellent position to do its share and engage a bold fiscal stimulus package, consisting of infrastructure and other public spending.

The federal government has a lead role to play in cushioning the impact of a recession, both through federal programs and in partnership with the provinces. Government policy should be to prevent a large increase in unemployment, while at the same time strengthening automatic stabilizers and other supports to assist families and communities. The key point is to get money into the hands of those who would spend it quickly.

A danger is that Canada will be too timid or will revert to less effective measures like tax cuts. Spending and infrastructure options are typically better targeted and deliver a stronger fiscal stimulus than would further tax cuts, which are more likely to go to families with higher incomes who may save rather than spend the proceeds.<sup>14</sup>

To this end, the federal government should:

#### **1. Maintain federal spending on the current fiscal plan**

Most direct program spending pays for people to deliver services or transfers income to households that need it. After several rounds of program reviews over the past 14 years, federal operations are already lean and mean. If anything, more capacity is required to ensure adequate regulatory oversight and enforcement in key areas like finance, environment and health and safety.

#### **2. Reinforce EI as an automatic stabilizer**

EI benefits are a highly effective stimulus as they quickly replace income for recently unemployed workers, who are very likely to spend the proceeds. The EI program could be strengthened by increasing the number of weeks for which an unemployed worker can collect benefits; increasing the replacement rate from 55% to 70% of earnings, and the ceiling for maximum benefits from \$435 per week to \$600 (equivalent to the inflation-adjusted maximum back in 1996); and reduc-

ing the number of hours of paid work required to qualify for EI benefits.

#### **3. Strengthen other income support measures**

Other income transfer programs could be expanded, including the GST credit, the Canada Child Tax Benefit and the Guaranteed Income Supplement (for seniors). Each of these transfer programs is already designed to provide the maximum benefit to families with low incomes. Because social assistance is provided by the provinces and funded in part by the Canada Social Transfer, the federal government should also increase this transfer to bolster provincial income support programs. In areas such as culture and aboriginal affairs budgets should be increased, as these are also areas that provide income to low-income individuals (and further other important objectives, such as meeting the targets of the Kelowna Accord).

#### **4. Launch a major federal-provincial green infrastructure program**

Canadian cities are already facing an infrastructure deficit. Given that much of potential unemployment looking forward could arise from slowdown in construction activity, a timely intervention would be to fund a major public works campaign, with an emphasis on climate-change-related infrastructure. This could include urban public transit investments, high-speed inter-city rail corridors, home and business energy efficiency retrofits, transition programs for workers, and investments in green technologies and power sources. Action is also required to upgrade Canada's affordable housing stock. The federal government, in partnership with the provinces, should take this opportunity to keep residential construction workers employed. The knock against capital projects is that they take some time to get up and running, but the looming recession threatens to be a long one. If planning can get underway now, as employment drops these projects could be brought on line as needed.

#### **5. Green manufacturing fund**

Canada's manufacturing sector is in crisis. Other countries have recognized this and are developing significant industrial support measures. The federal government should be prepared to step in with major supports on the condition that funds be used to invest in projects that reduce greenhouse

gas emissions and that accelerate product development for new low-emission vehicles and energy-efficient appliances. The infrastructure of Technology Partnerships Canada could be used to get funds moving quickly.

## 6. Prevent defaults and foreclosures

The cause of the current crisis stems from the housing market. Declining home prices this year and next will put many homeowners in a negative equity position (i.e. debts worth more than the market value of the home), with the accompanying risk of default. While the federal government cannot (and should not) prop up housing prices, the Canada Mortgage and Housing Corporation could be used as a vehicle to refinance distressed mortgages if needed, by stretching out repayment periods at an affordable interest rate.

The ideas in this *Economic and Fiscal Update* are aimed at the short- to medium-term, and include operating and capital expenditures. The key point is to introduce a meaningful stimulus package that is large enough to meet the economic challenge and that advances long-term objectives. Specific ideas will be developed in greater detail in a series of technical papers for the AFB, and a full package of taxation and expenditure measures will be revealed in the 2009 Alternative Federal Budget.

## Acknowledgements

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## About the Author

*Marc Lee is chair of the macroeconomic policy group of the Alternative Federal Budget. He is senior economist with the B.C. Office of the Canadian Centre for Policy Alternatives. He is a frequent media commentator on public policy issues and has authored many CCPA publications looking at fiscal policy and the financing of public services, including: Is BC's Carbon Tax Fair? An Impact Analysis at Different Income Levels (with Toby Sanger), and Eroding Tax Fairness: Tax Incidence in Canada 1990 to 2005. Marc is chair of the Progressive Economics Forum, a national network of economists (progressive-economics.ca).*

## Notes

1 Statistics Canada, Labour Force Survey, at: <http://www.statcan.ca/english/Subjects/Labour/LFS/lfs-en.htm>

2 Canadian Real Estate Association, available online at: <http://creastats.crea.ca/natl/>

3 Statistics Canada, *The Daily*, August 29, 2008, at <http://www.statcan.ca/Daily/English/080829/tdo80829.htm>

4 R. Sauve, *The Current State of Canadian Family Finances, 2007 Report*. The Vanier Institute of the Family. February 11, 2008,

5 Bank of Canada, Commodity Price Index (monthly), available online at: [http://www.bankofcanada.ca/bcpi/web\\_monthly.pdf](http://www.bankofcanada.ca/bcpi/web_monthly.pdf)

6 Finance Canada, Fiscal Monitor, October release.

7 Note that nominal GDP figures are used in the appendix table, not real GDP, as the budget estimates are presented in nominal terms.

8 Calculations based on data from Human Resources and Social Development Canada, *2009 Report Of The Chief Actuary to the Employment Insurance Commission on the Employment Insurance Premium Rate and Maximum Insurable Earnings*.

9 Technically, a recession is a drop in real (or inflation-adjusted) GDP (for two or more consecutive quarters), whereas we model changes in nominal GDP because the federal budget is also presented in nominal terms. Note that GDP inflation accelerated in the first half of 2008 to 4.6% due to a rapid rise in commodity prices. However, in the second half of 2008 commodity prices have come sharply back down, so we estimate GDP inflation at 2% for 2008.

10 Specifically, we assume CIT revenues-to-GDP of 2.2% in 2009/10 and 1.9% in 2010/11. We observe from past trends that CIT revenues are pro-cyclical with a 1-2 year lag (see federal Fiscal Reference Tables).

11 CIT revenues-to-GDP fall to 2.0% in 2009/10 and 1.5% in 2010/11.

12 CIT revenues-to-GDP fall to 1.8% in 2009/10 and 1.0% in 2010/11.

13 Reported in the New York Times, November 5, 2008, <http://www.nytimes.com/2008/11/06/business/worldbusiness/06stimulus.html>

14 A slightly dated study by Infometrica, *Economic Effects of Selected Fiscal and Other Initiatives*, 1997, compares the stimulative effect of different options and reinforces this point. An October 2008 Infometrica study for the Federation of Canadian Municipalities, *Municipal Infrastructure Macroeconomic Impacts of Spending and Level-of-Government Financing*, is also of interest with regard to its assessment of the economic impacts of infrastructure spending.

**APPENDIX TABLE Impact of Economic Slowdown**
**Scenario 1: Slowdown**

<b>Budgetary Transactions (\$millions)</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Revenue	244,510	240,775	243,709	255,075
Program Spending	201,165	208,095	218,290	226,800
Debt Service	33,100	31,500	32,400	33,700
<b>BUDGET BALANCE</b>	<b>10,245</b>	<b>1,180</b>	<b>(6,981)</b>	<b>(5,425)</b>
Closing Debt (accumulated deficit)	455,738	454,558	461,539	466,964
<b>Budgetary indicators as percentage of GDP</b>				
Revenue/GDP	16.0%	15.3%	15.3%	15.3%
Budget balance/GDP	0.7%	0.1%	-0.4%	-0.3%
Debt/GDP ratio	29.7%	28.9%	28.9%	28.0%
<b>Macroeconomic Indicators</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Nominal GDP	1,535,646	1,574,037	1,597,648	1,669,542
Annual growth	5.9%	2.5%	1.5%	4.5%

**Scenario 2: Minor Recession**

<b>Budgetary Transactions (\$millions)</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Revenue	244,510	239,367	238,060	239,998
Program Spending	201,165	208,095	218,290	226,800
Debt Service	33,100	31,500	32,400	33,700
<b>BUDGET BALANCE</b>	<b>10,245</b>	<b>(228)</b>	<b>(12,630)</b>	<b>(20,502)</b>
Closing Debt (accumulated deficit)	455,738	455,966	468,596	489,098
<b>Budgetary indicators as percentage of GDP</b>				
Revenue/GDP	16.0%	15.3%	15.0%	14.7%
Budget balance/GDP	0.7%	-0.0%	-0.8%	-1.3%
Debt/GDP ratio	29.7%	29.1%	29.6%	29.9%
<b>Macroeconomic Indicators</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Nominal GDP	1,535,646	1,566,359	1,582,023	1,637,393
Annual growth	5.9%	2.0%	1.0%	3.5%



**APPENDIX TABLE Impact of Economic Slowdown (Continued)**

**Scenario 3: Recession**

<b>Budgetary Transactions (\$millions)</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Revenue	244,510	239,367	231,693	229,175
Program Spending	201,165	208,095	218,290	226,800
Debt Service	33,100	31,500	32,400	33,700
<b>BUDGET BALANCE</b>	<b>10,245</b>	<b>(228)</b>	<b>(18,997)</b>	<b>(31,325)</b>
Closing Debt (accumulated deficit)	455,738	455,966	474,963	506,288

**Budgetary indicators as percentage of GDP**

Revenue/GDP	16.0%	15.3%	14.8%	14.3%
Budget balance/GDP	0.7%	-0.0%	-1.2%	-2.0%
Debt/GDP ratio	29.7%	29.1%	30.3%	31.5%

**Macroeconomic Indicators**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Nominal GDP	1,535,646	1,566,359	1,566,359	1,605,518
Annual growth	5.9%	2.0%	0.0%	2.5%

**Scenario 4: Major recession**

<b>Budgetary Transactions (\$millions)</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Revenue	244,510	238,194	222,834	213,697
Program Spending	201,165	208,095	218,290	226,800
Debt Service	33,100	31,500	32,400	33,700
<b>BUDGET BALANCE</b>	<b>10,245</b>	<b>(1,401)</b>	<b>(27,856)</b>	<b>(46,803)</b>
Closing Debt (accumulated deficit)	455,738	457,139	484,996	531,799

**Budgetary indicators as percentage of GDP**

Revenue/GDP	16.0%	15.3%	14.5%	13.6%
Budget balance/GDP	0.7%	-0.1%	-1.8%	-3.0%
Debt/GDP ratio	29.7%	29.3%	31.6%	34.0%

**Macroeconomic Indicators**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Nominal GDP	1,535,646	1,558,681	1,535,300	1,566,006
Annual growth	5.9%	1.5%	-1.5%	2.0%

**SOURCES** Author's estimates based on Federal Budget 2008 and National Economic Accounts, Statistics Canada, Catalogue no. 13-019-XWE, Vol. 1, No. 2. Estimates are of the status quo budget scenario (no changes in tax or expenditure policies, with outcomes determined by changes in economic assumptions), and are based on accepting budgeted revenues and the share of revenues relative to nominal GDP as specified in Budget 2008, plus two adjustments to reflect the impact of a recession on corporate income tax revenues and EI premium revenues.



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for POLICY ALTERNATIVES  
CENTRE CANADIEN  
de POLITIQUES ALTERNATIVES

410-75 Albert Street, Ottawa, ON K1P 5E7  
TEL 613-563-1341 FAX 613-233-1458  
EMAIL ccpa@policyalternatives.ca

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