

CANADA'S ECONOMIC ACTION PLAN
YEAR 2

BUDGET 2010

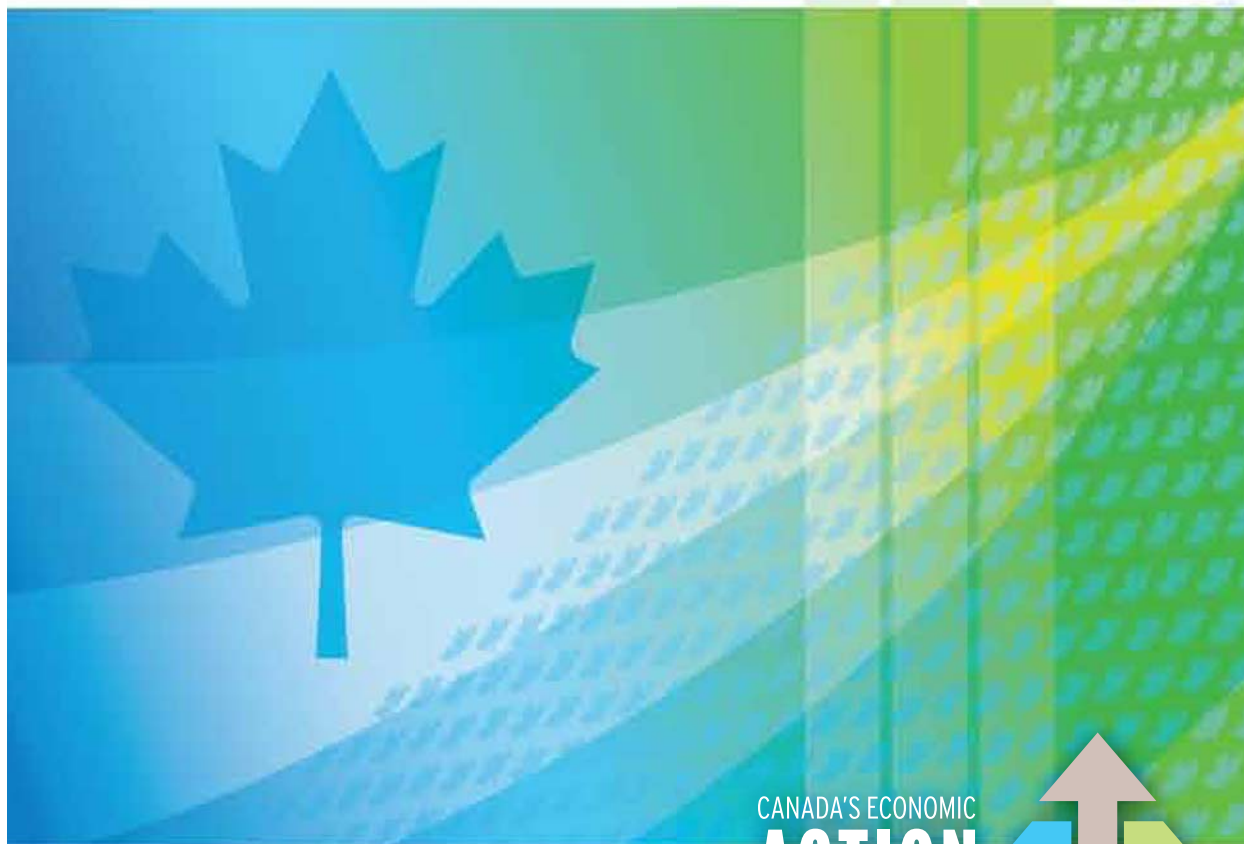
Leading the Way on Jobs and Growth

Tabled in the House of Commons
by the Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

March 4, 2010



CANADA



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Internet: <http://publications.gc.ca>

Cat. No.: F1-23/3-2010E
ISBN: 978-0-660-19957-3

This document is also available on the Internet at www.fin.gc.ca

Cette publication est aussi disponible en français.



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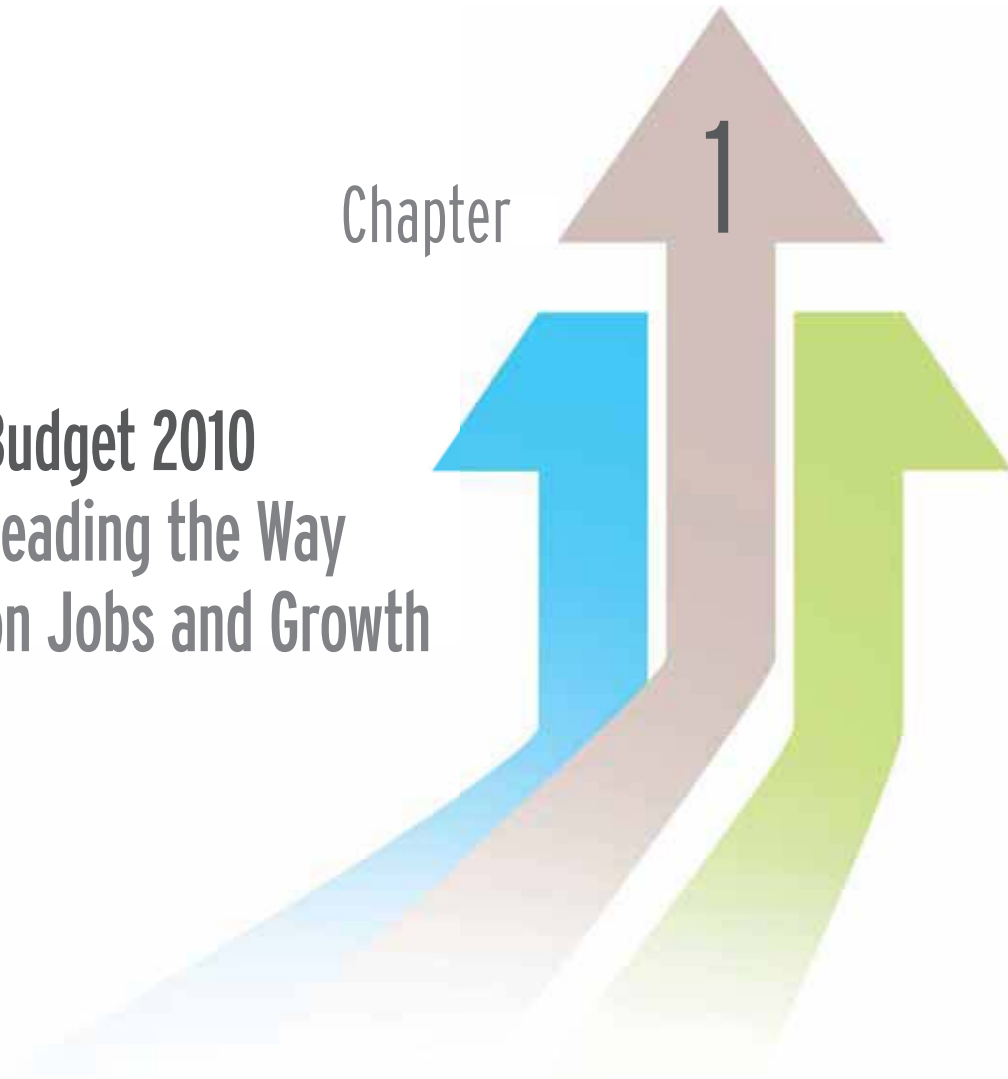
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Budget 2010
Leading the Way
on Jobs and Growth

Chapter

1





Introduction

Canada has returned to economic growth following the deepest global economic recession since the 1930s. The global recovery, however, remains fragile.

Budget 2010 aims to contribute to this recovery and sustain Canada's economic advantage now and for the future. The budget plan has three broad aims.

First, it confirms \$19 billion in new federal stimulus under Year 2 of Canada's Economic Action Plan, to create and maintain jobs complemented by \$6 billion from provinces, territories, municipalities and other partners.

Second, it invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen Canadian innovation, and make Canada a destination of choice for new business investment.

Third, Budget 2010 charts a course to bring Canada's finances back to balance over the medium term and well before any other Group of Seven (G7) country.

By making timely investments that fit firmly within the Government's long-term economic vision for Canada, and thanks to the resilience and ingenuity of Canadians, our country will emerge from the recession with a stronger economic advantage than before.

The Canadian brand will be based on competitive taxes, renewed infrastructure and skills, a strong head start in clean energy, a tariff advantage, less red tape, and a more prominent voice as a global financial sector leader.

Together, we will create a stronger Canada and a stronger economy, now and for the future.



Delivering Year 2 of Canada's Economic Action Plan

Actions taken under Canada's Economic Action Plan have helped ensure the worst of the global recession lies behind us.

However, while a recovery has begun, it remains fragile and too many Canadians remain out of work. This is why the Government will follow through on its commitment to Canadians and its G7 and G20 partners to deliver Year 2 of the stimulus plan.

Over the next fiscal year, Year 2 of the Economic Action Plan will continue to maintain and create jobs, and help Canadian workers and families manage through still difficult economic conditions, including:

- **\$3.2 billion in personal income tax relief.** This includes allowing Canadians to earn more income before paying federal income tax and before being subject to higher tax rates. It includes the enhanced Working Income Tax Benefit to strengthen work incentives for low-income Canadians. Tax measures for 2010–11 also include higher child benefits for parents and lower taxes for low and middle-income seniors.
- **Over \$4 billion in actions to create and protect jobs.** This includes additional Employment Insurance (EI) benefits and more training opportunities to help unemployed Canadians through this difficult period, and help ensure they are equipped to re-enter the workforce and prosper in the future.
- **\$7.7 billion in infrastructure stimulus to create jobs.** This will modernize infrastructure and support home ownership and improve social housing across Canada. This builds on the \$8.3 billion investment in infrastructure and housing delivered in 2009–10.
- **\$1.9 billion to create the economy of tomorrow.** This investment will help develop and attract talented people, strengthen our capacity for world-leading research, improve commercialization, accelerate private sector investment, enhance the ability of Canadian firms to participate in global markets, and create a more competitive business environment.
- **\$2.2 billion to support industries and communities.** This will support adjustment and provide job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture. In addition, the proposed elimination of tariffs on manufacturing inputs and machinery and equipment will encourage investment in the manufacturing sector.



Canadians in all regions have already benefited from the implementation of Canada's Economic Action Plan in year 1:

- Commitments are in place for almost 16,000 projects across the country. Over 12,000 of these projects have begun or have been completed.
- One objective of the Economic Action Plan was to maintain or create 220,000 jobs. The Action Plan is on track. It has contributed to the creation of over 135,000 jobs recorded in Canada since July 2009.

At the same time, the Action Plan will advance the objectives set out in our long-term economic plan, *Advantage Canada*.

New Investments in Jobs and Economic Growth

In addition to delivering Year 2 of Canada's Economic Action Plan, Budget 2010 introduces a limited number of new and targeted actions to protect Canadians from the global recession and create the jobs and economy of tomorrow.

Jobs Protection and Youth Employment Measures

Budget 2010 invests in measures that will directly protect jobs. This includes extensions to work-sharing and investments in training and skills development for youth.

Creating Economic Growth and Jobs Through Innovation

Budget 2010 builds on earlier investments with over \$600 million over three years to help develop and attract talented people, to strengthen our capacity for world-leading research and development, and to improve the commercialization of research.

Encouraging Investment and Trade to Create Jobs and Growth

Budget 2010 takes action to improve the environment for investment, enhance competition and reduce barriers for businesses. This includes making Canada a tariff-free zone for manufacturers, by eliminating all remaining tariffs on productivity-improving machinery and equipment and goods imported for further manufacturing in Canada. This initiative, when fully implemented, will provide \$300 million in annual duty savings to Canadian business.



Proposed improvements to the international tax system to attract new investment, cuts to red tape for businesses and increased competition for telecommunications will also foster investment and create jobs for Canadians.

Canada will emerge from the recession with a highly competitive tax system

- This year, Canada will have the lowest overall tax rate on new business investment in the G7.
- By 2012, Canada will have the lowest statutory corporate income tax rate in the G7.
- The Government introduced the Tax-Free Savings Account, the most important new vehicle for savings since the introduction of the Registered Retirement Savings Plan.
- The Government introduced the Working Income Tax Benefit, lowering the “welfare wall,” making work more attractive for low-income Canadians.
- Canada’s federal tax-to-GDP (gross domestic product) ratio is at its lowest level since 1961.

A highly competitive tax system will support the creation of jobs in Canada.

Green Jobs and Growth

Budget 2010 builds on Canada’s position as an energy superpower with measures to encourage investments in energy projects and clean energy generation. The budget also includes measures to preserve Canada’s natural heritage through environmental protection in the North and further protection of the Great Lakes.

Modernizing Canada’s Infrastructure

Budget 2010 strengthens the Government’s commitment to rebuild Canada’s aging infrastructure by making priority investments in projects designed to ensure that Canadians have access to safe and effective transportation. This includes support for the operations of Atlantic ferry services, investments in federal bridges and new funding for aviation security.



Strengthening the Financial Sector

Canada's financial sector has been widely acknowledged as being one of the strongest in the world. Budget 2010 will further strengthen the sector by moving forward with the majority of provinces and territories toward a Canadian securities regulator, extending access to financing for Canadian businesses, and enhancing disclosure and financial institutions' business practices to better protect consumers.

Supporting Families and Communities and Standing Up for Those Who Helped Build Canada

Budget 2010 also introduces measures to support single parents and persons with disabilities, makes investments to assist Aboriginal Canadians and their communities, and provides support for participation in sport. Budget 2010 also recognizes those who helped build our country, with measures for military families, investments to recognize the efforts of veterans, and additional support for seniors.

Honouring Canada's International Commitments

Canada is a global leader and continuously demonstrates this by honouring its international commitments. The importance of accountability for promises will be a defining feature of Canada's G8 and G20 Summit year. Budget 2010 fulfills Canada's commitment to double international assistance by increasing the International Assistance Envelope by \$364 million, bringing it to \$5 billion in ongoing annual support.

The Three-Point Plan to Return to Budget Balance

The actions taken by the Government over the last two years are working. Stimulus measures are maintaining and creating jobs and securing the economic recovery. As the economy improves, the Government will refocus its attention on its long-term economic plan. The cornerstone of this plan is a return to balanced budgets.

Budget 2010 outlines a three-point plan for returning to budget balance once the economy has recovered.

- First, the Government will follow through with the exit strategy built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.



- Second, the Government will restrain spending through targeted measures. Towards achieving this objective, Budget 2010 proposes \$17.6 billion in savings over five years.
- Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

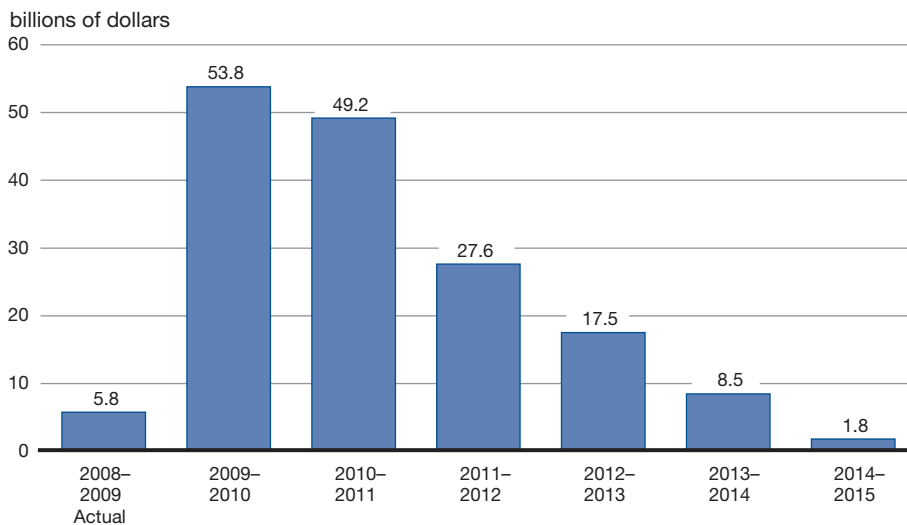
The Government will not raise taxes and will not cut major transfers to persons and other levels of government.

As a result of the expiration of the Economic Action Plan and the measures in this budget, the deficit is projected to decline by almost half over the next two years to \$27.6 billion in 2011–12, and by two-thirds to \$17.5 billion in 2012–13. In 2014–15, the deficit is projected to be \$1.8 billion.

Canada’s fiscal health is the envy of the world. The Government is fully committed to sustaining our fiscal advantage.

Rapid decline in deficits

Chart 1.1
Federal Budgetary Deficit



Source: Department of Finance.