

# BUDGET 2012: THE AXE BEGINS TO FALL

## Introduction

### Focus

In an effort to put Canada's fiscal house in order, the federal government introduced a number of initiatives designed to lead the country out of its budget deficit. This *News in Review* story looks at the federal budget of 2012 and its likely impact on Canadians.

### Federal Budget Facts

Incoming revenue: \$255-billion  
Amount budgeted to be spent: \$276-billion  
Deficit: \$21-billion  
Overall debt: \$563-billion

They went after Old Age Security and government jobs. They eliminated layers from the environmental review process. They even threw away the penny. They reduced federal spending by billions of dollars with a string of initiatives that—in case there was any doubt—made Prime Minister Stephen Harper's Conservative majority government official.

Since their first election win in 2006, the Conservatives had to put forward modest budgets that appeased opposition parties in an effort to keep their minority governments in power. All that changed with the election of a majority government on May 2, 2011. Finally, Harper and his colleagues were in a position to pass a budget that had all the earmarks of their conservative political philosophy. On March 29, 2012, Finance Minister Jim Flaherty rose in the House of Commons to deliver the budget speech, detailing its main points.

The Conservatives' approach was three-pronged. First, they cut spending totalling \$5.2-billion. Eligibility for Old Age Security (OAS) was stretched from 65 years of age to 67, saving the government two years of payouts to retirees, starting in 2023. Departmental budgets were reduced, including over a billion dollars slashed from defence, \$339-billion from health care, and a \$115-million (or 10 per cent) reduction in money allocated to the CBC. They also eliminated production of the penny since it cost more than a penny to make a penny.

Next, they dramatically reduced the size of government. The budget called

for 19 200 jobs to be eliminated—12 000 through direct staffing cuts and the rest to be done away with through attrition. Last, they showed the business community they were on its side and serious about helping to create new jobs. They did this by promoting a grant-based system designed to reward innovators and entrepreneurs. They also promised to remove environmental regulations that were seen to be impeding companies—like those working in the energy business—from starting new mega-projects like pipelines and oil sands manufacturing facilities.

The budget brought with it plenty of controversy. Canadians currently under the age of 54 were caught on the wrong side of the OAS move, which essentially meant they wouldn't be able to retire until they were 67. Many critics pointed out that the elimination of over 19 000 jobs in a country with a 7.5 per cent unemployment rate seemed rather unwise. And environmentalists claimed that the government was acting recklessly in its effort to fast-track environmental review in the interests of energy companies that were already making massive profits.

While opponents voiced their criticisms through the hallways of Parliament, the Conservatives let out a sigh of relief. Finally, after almost six years of conceding to their rivals, they were able to pass a budget they could call their own. But how it would be received by Canadians remained an open question.

## To Consider

1. How was the 2012 budget reflective of conservative political philosophy?
2. Describe the three-pronged approach taken in the budget.
3. What criticisms were levied against the budget? Do you agree with them? Why or why not?

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## *Video Review*

**Did you know . . .**  
Since 1963, Canada has carried a surplus for only 11 years.

### Pre-viewing Questions

Since the Harper Conservatives have been in power, the government has moved from a \$13.8-billion surplus to a \$33.3-billion deficit. In fairness, the global recession played a major role in the emergence of the deficit as many G20 nations used stimulus spending as a tactic for keeping their collective economies afloat. Do you think a government should be allowed to carry a deficit? Should there be restrictions on the size of the deficit? Should there be a limit (perhaps four or five years) on the amount of time a government can carry a deficit?

### Viewing Questions

1. What role did economic differences between Western and Central Canadian provinces play in the formation of the budget?  
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2. Why were so many people confused by the government's decision to cut jobs?  
\_\_\_\_\_
3. What was the unemployment rate two months before the Tories tabled their budget?  
\_\_\_\_\_
4. Why did some critics believe the purchase of F-35 fighter jets was evidence that the Conservatives weren't serious about spending cuts?  
\_\_\_\_\_  
\_\_\_\_\_
5. Jim Flaherty said the government's budget was an example of "moderate restraint in government spending." Upon hearing of the Conservatives' cuts to spending, do you believe the budget was moderate?  
\_\_\_\_\_  
\_\_\_\_\_
6. How much money will the government save by 2015? How many government jobs will be cut to realize this goal?  
\_\_\_\_\_
7. Besides the elimination of jobs, list three of the cuts put forward by the Conservatives in their budget.  
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\_\_\_\_\_  
\_\_\_\_\_
8. What did opposition leaders think of the budget?  
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\_\_\_\_\_

9. What does the government plan to do about Old Age Security (OAS) payments?
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10. What percentage of single older women live below the poverty line? What effect does raising OAS eligibility have on this group?
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11. How much does it cost the government per year to keep the penny in circulation?
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12. Why do some people fear that the death of the penny will lead to inflated prices?
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13. How many people living in the capital region work for the government? List a few of the government departments that experienced job losses.
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14. What good news did the government receive in late April 2012?
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### Post-viewing Question

1. After watching the video revisit your responses to the Pre-viewing Questions. Did watching the video help you respond to these questions in greater depth? In what way?
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2. With an unemployment rate of over seven per cent—and many Canadians struggling to find work—does it make sense to eliminate 19 200 government jobs? Why would the Harper Conservatives make such a move? What benefits do job cuts provide for the government? How does cutting government jobs help Canada?
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3. Do you think Canadians will approve of the federal budget? Why or why not?
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# BUDGET 2012: THE AXE BEGINS TO FALL

## *What's in the budget?*

### Focus for Reading

A social contract is an unwritten agreement between the government and the people. Essentially, the government agrees to provide certain benefits and perform certain functions while the people agree to follow the rule of law and let their elected leaders lead. In some cases, when citizens feel their leadership is not meeting the terms of the social contract, they will engage in protests or, in the case of a democracy, elect a new government. Work with a partner to find some examples of Canada's social contract and how the budget may affect them.

### Rewriting the Social Contract

Some commentators say the federal budget of 2012 was Harper's first step in the rewriting of Canada's social contract. The budget made government smaller, promoted business innovation, and warned Canadians that they needed to start saving for retirement. It was the budget the government had been waiting since 2006 to pass but couldn't because of successive minority governments. But the election of a Tory majority in the spring of 2011 paved the way for a budget that moved away from a social welfare philosophy toward a self-sustaining, business-driven, survival-of-the-fittest-style model, where the onus would be on the individual, not the government, to provide for his/her economic security.

### Huge Cuts

In their first budget as a majority government, the Harper Conservatives cut federal spending by \$5.2-billion over the next three years. Most departments faced dramatic cuts, including over a billion dollars taken away from the military and over \$300-million from health-care programs. Meanwhile cultural institutions like the CBC (cut by \$115-million over the next three years) and the Canadian Heritage Ministry (budget reduced by \$191-million) were left scrambling to determine where to adjust their spending. Government

ministries were told they would just have to learn to do more with less.

A great deal of savings would be realized in the elimination of 19 200 government jobs—a shocking number that included 600 executive positions and 12 000 jobs simply scrapped. Handing employees their pink slips let the rest of Canada know that the Conservatives were no longer interested in being one of the largest employers in the land.

Finance Minister Jim Flaherty also announced two other measures that surprised many Canadians: changes to Old Age Security (OAS) eligibility and the removal of the penny from circulation. With an aging population, Flaherty shifted OAS eligibility from 65 to 67, giving future governments a couple of extra years before paying out the tax-revenue-based social assistance benefit. Meanwhile the penny was portrayed as an economic liability. Instead of being real currency, it was regarded as an obsolete coin that cost more to make (1.6 cents) than it was worth. According to some estimates, it costs the government \$11-million a year just to keep the penny in circulation. Fiddling with the OAS let Canadians know that they need to be responsible for their own retirement, and killing the penny made it clear that the Tories would deal with wasteful spending even if it meant quashing a national icon.

**Did you know . . .**

The penny has been in circulation in Canada since 1870 when the new nation issued its first coins. At today's value, an 1870 penny would be worth approximately 31 cents.

**Definition**

A debt-to-GDP ratio is an indicator of the economic health of a nation based on the amount of debt owed in relation to a nation's gross domestic product. A low percentage reflects a nation's ability to generate enough income to pay down its debts. Compared with other Western countries, Canada ranks high on this score.

Canadians would be given until the fall of 2012 to cash in their pennies at banks and financial institutions.

**Fiscally Sound and Pro-business**

The Conservatives justified their budget cuts based on the fact that Canada had been running a deficit since the global economic crisis hit in the fall of 2008. Stimulus spending to boost the economy and create jobs had been the order of the day in the immediate aftermath of the crisis but, by 2012, the thirst for spending was quenched and a commitment to returning to a surplus made its way back into budget discussions. With the Tory victory in the spring of 2011, Harper and his colleagues had free reign to make as many cuts as they needed to get the budget back on track. Despite the \$5.2-billion in cuts put forward by Finance Minister Jim Flaherty, the government was still slated to run a \$21-billion deficit in 2012-13, with Canada's overall debt rising to \$563-billion. However, the government claims it can turn the deficit into a surplus prior to the next election in 2015 and attack the debt once its coffers are healthier. Despite the deficit and the debt, Canada is faring the best of all the G7 nations, with a debt-to-GDP ratio of

almost 37 per cent (compared with the United States at 80 per cent and Japan at 135 per cent).

While the public sector experienced huge budget cuts, the private sector received a surge in cash. Over a billion dollars were put into business-led research and development projects. The money would be granted to businesses that produced innovative ideas, products, and brands. The budget also created a \$500-million venture capital fund to bolster innovative businesses. Meanwhile, the Tories renewed a hiring credit for small businesses designed to defray employment insurance premiums for new hires. One of the budget's more controversial points was the plan to shorten the environmental review process to allow projects like the Northern Gateway pipeline to gain approval without years of legal battles and red-tape. It also increased the duty-free cross-border shopping limit for both short-term and long-term trips to the U.S. Clearly the Conservatives were telling Canadians that the private sector drives the economy, and if businesses want to stay competitive they had to be innovative and mind their prices—or people might just start shopping more south of the border.

**Follow-up**

1. With your partner, review your responses to the questions in the Focus for Reading dealing with Canada's social contract and the impact of the federal budget on it. With your partner, discuss how you think the budget will affect the social contract and whether this is a positive or negative development for Canadians.
2. Make a list of the main ideas put forward in the 2012 budget.
3. What messages did the government send to the people of Canada in the budget?
4. Which elements of the budget do you think will help Canada as a global power? Which elements of the budget do you think will hurt Canada?
5. What kind of social contract does the budget promote? Do you share this vision? Why or why not?

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## *Reaction to the Budget*

### FYI

For more information on Thomas Mulcair and the NDP, see the *CBC News in Review* story “The NDP Chooses a New Leader” in this issue.

### Reading Prompt

What kind of Canadian government would you prefer: a fiscally prudent, economically focused one or a socially just, welfare-oriented one? Or do you think it is possible for the government to combine elements of both approaches? Keep these questions in mind as you read this section.

There was no shortage of criticism after Finance Minister Jim Flaherty delivered the Conservative government’s first budget since being elected with a majority. As soon as opposition critics could find a microphone and a camera, they were more than willing to criticize Flaherty’s proposals.

### The Politicians Respond

The first to launch an attack was newly elected NDP and Official Opposition leader Thomas Mulcair. He claimed that Harper’s government was taking “tens of billions of dollars” out of the pockets of Canadians heading for retirement with his changes to the Old Age Security benefit. By raising the eligibility and, in turn, the retirement age to 67, the Tories were essentially making people work longer to receive what is rightfully theirs. Mulcair told reporters, “They’ve broken their promises to Canadians and they’ve not carried through on their undertaking to create jobs.”

Liberal leader Bob Rae claimed the budget was mostly smoke and mirrors, saying, “They are systematically continuing this march of reducing the ability of the federal government to do its job . . . to offload more and more of its costs to the provinces and individuals.” In other words, while the government claims to be cutting spending, it is really just deflecting costs to other jurisdictions and to the taxpayers of Canada. He also called the budget “small-minded” and “mean-spirited.”

Meanwhile, Green Party Leader Elizabeth May criticized the Conservative government’s lack of concern for the environment. She said, “The words *climate change* do not appear in the budget, there is nothing in here to address the climate crisis . . . (They) are going to shorten environmental reviews and make sure the environmental assessment agency at the federal level is neutered.” May was speaking directly to the government’s plans to make it easier for energy sector groups—like the ones working in the Alberta oil sands and those building the Northern Gateway pipeline—to gain approval to proceed with their projects in environmentally sensitive areas. From her perspective, these initiatives are contrary to the global trend to combat climate change and protect the environment.

### Other Criticisms

While the politicians openly presented their criticisms, other stakeholders were also eager to voice their opinions. Drawing on concerns regarding Canada’s aging population, Dr. John Haggie of the Canadian Medical Association (CMA) said, “The main concern is the absence of any kind of vision about transforming health care in Canada.” By 2021, the number of senior citizens in the Canadian population will surpass the number of youth and, by 2056, Canada will have 50 senior citizens for every 100 workers (up from 15 for every 100 workers in 1971).



**Did you know . . .**

In introducing his budget in 1994, then-finance minister Paul Martin pledged that the Liberal government would eliminate Canada's fiscal deficit "come hell or high water." Similar to the Conservatives today, Prime Minister Jean Chretien's Liberals introduced major reductions in health-care and social spending while cutting thousands of government jobs. Despite a massive public outcry, the government did succeed in eliminating the deficit a few years later.

An aging population will bring with it a health crisis that calls for the kind of transformation Haggie spoke of in his post-budget remarks. It is just a matter of time before a Canadian government confronts the problem—and the CMA wonders why the Conservatives chose to do nothing about health-care concerns in their budget. Instead they opted to deny seniors access to their Old Age Security for an extra two years.

The Canadian Labour Congress (CLC) also had problems with the budget. With over 19 000 job cuts forming one of the central planks of the budget, CLC President Ken Georgetti wondered if the government missed its chance to let everyday Canadians know they cared. He said, "The government could have used this budget to help struggling middle-class and working Canadians, but it chose to not to do so."

And when it came to cuts to humanitarian aid for needy nations around the globe, Oxfam's Mark Fried said, "On the generosity index, this budget moves Canada closer to the bottom of the world's 22 donor countries. Why is the government saving money on the backs of the world's most vulnerable people?"

**Positive Comments**

Not everyone disliked the budget. Speaking on behalf of the Canadian Federation of Independent Business, Catherine Swift told reporters, "I think there's a lot of good things in it. We had a priority list of 12 items and eight of them were addressed so that's not a terribly bad batting average." Gregory Thomas of the Canadian Taxpayers

Federation liked the fact that the government was reducing spending but felt it could have cut deeper. Shawn Atleo, National Chief of the Assembly of First Nations, applauded the government for pumping \$275-million into building and renovating First Nations schools. However, he added, "The investments in [First Nation] education in today's budget indicate that the voices of our youth are perhaps beginning to be heard but we must do more. We will be relentless in our efforts to ensure sustainable and secure funding for education."

Like it or not, the Conservative budget represented something new on the Canadian political landscape. The Harper Tories are using their majority government to pass the kind of budget that reflects their political philosophy. While some Canadians are concerned by the overwhelming focus on the economy at the expense of social and heritage programs, others will applaud the Conservatives for their sensible approach to spending taxpayers' money. And the fact that the budget was attracting criticism both from the left (too many cuts) and the right (not enough cuts) led the Harper government to conclude that its budget had found the middle-of-the-road sweet spot where most Canadians might place themselves politically.

Sources: "NDP, Liberals find lots to dislike in budget," CTV News, [www.ctv.ca/CTVNews/TopStories/20120329/opposition-reaction-budget-120329/](http://www.ctv.ca/CTVNews/TopStories/20120329/opposition-reaction-budget-120329/); "13 voices in reaction to the 2012 budget," CBC News, [www.cbc.ca/news/politics/story/2012/03/29/pol-budget-reaction-list.html](http://www.cbc.ca/news/politics/story/2012/03/29/pol-budget-reaction-list.html)

## Follow-up

1. With a partner, discuss your responses to the questions posted in the Reading Prompt above. What kind of government do you prefer: fiscally prudent or economically just? Or is it possible to combine both? What kind of government does the federal budget seem to be leaning toward? Give evidence to support your conclusions.
2. Green Party leader Elizabeth May said that the Conservatives' lack of concern for the environment proves that they are "so out of touch with reality they are not fit to govern." Do you think this is a fair comment? Does this kind of emotionally charged rhetoric help or hinder debate regarding the environment?
3. Which of the criticisms of the Tory budget do you think is the strongest? Why do you think this particular criticism is so powerful?
4. Do you think criticizing a government's efforts to control its spending is fair? Shouldn't eliminating the deficit be a priority for all political parties?



# BUDGET 2012: THE AXE BEGINS TO FALL

## *The Old vs. the Young*

### Focus for Reading

If the population of Canada were composed mostly of senior citizens, would you be willing to pay higher taxes to help defray health-care costs for the elderly? Would a tax system that paid a disproportionate amount of money for seniors seem unfair to you? What options would younger Canadians have in the face of a population where the number of old people exceeds that of young people? Keep these questions in mind as you read the following section.

### The Baby Boom

The period after the Second World War through to the mid-1960s saw an unprecedented surge in the Canadian birthrate. Demographers, the social scientists who study population trends, note that couples began to marry and have children at a younger age. They were also having more children. The annual birthrate rose by almost 20 per cent in the quarter century after the war in an era that came to be known as the “baby boom.” The prosperous Canadian economy of the 1950s and 60s encouraged people to marry, have children, and purchase homes.

In 2011, the first of the baby boomers reached the traditional retirement age of 65. This marks the beginning of a 25-year exodus of a huge number of Canadians out of the workforce and into retirement. The strain on Canada’s social system could be intense. As people age, they inevitably have more problems with their health, and as a result health-care costs are expected to climb. There also could be a labour shortage because so many people will be leaving their careers and, in many cases, beginning a life of leisure. The bottom line will be: how will younger Canadians feel about potentially higher taxes to pay for a health-care system aimed at allowing the baby boomers to live longer? Further, what will happen to the Canadian economy as so many skilled workers leave the labour force?

### Old Age Insecurity

Demographic studies have indicated that people are living longer. In 2009 there were 1.3-million Canadians over the age of 80 (3.6 per cent of the population). By 2036 that number is expected to climb to 3.3-million (8.25 per cent of the population). Since Old Age Security (OAS) is traditionally collected at the age of 65, the Harper government took the controversial step of boosting the eligibility age for the benefit to 67. Many people wonder if this is just the first phase in a government plan to make people wait until they are 70 before collecting OAS. Essentially the government is sending the message that if you want to retire any time before the age of 70, you need to start saving or investing in RRSPs. OAS is drawn from the revenue the government collects from taxpayers. The government is concerned that, with people living longer lives and the baby boomers about to start collecting en masse, OAS will become too much of a tax burden for working Canadians.

### Battle of Generations

Many people worry that the movement of the baby boomers into old age will generate a kind of “war of generations” between younger workers and retirees. Resentment could grow as the working population is charged with the responsibility of producing the tax revenue to pay for the health care and social

security of people who are too old to work.

However, most social scientists think this concern is misguided. First of all, senior citizens are contributing members of society who pay taxes. All pension income is subject to taxation, and many seniors who bought RRSPs when they were younger simply deferred paying taxes until they cashed in their investments during retirement. Second, many baby boomers may decide that, instead of leaving their highly skilled, high paying jobs, they will put off retirement for a few years. This would help alleviate the potential damage to the economy brought on by mass retirements. Add to this the fact that Canada has a very aggressive immigration policy that targets highly skilled workers and one can see that the burden of the baby boomers will not rest entirely on the shoulders of Canada's youth.

## **Peace in Our Time**

Canada is a nation that values compassion and generosity. Its people have faced challenges and adversity with courage and conviction on many occasions in the past, such as the two world wars and the Depression of the 1930s. If the aging population causes a substantial shift in the social, political, and economic dynamic of Canada, the nation will adjust. And part of this adjustment will be a demonstration of the core values on which this nation was founded. In other words, there will be old and there will be young and there will be “peace, order, and good government”—Canadian style.

Source: *The Canadian Encyclopedia* article “Baby boom,” [www.thecanadianencyclopedia.com/articles/baby-boom](http://www.thecanadianencyclopedia.com/articles/baby-boom)

## **Follow-up**

1. With a partner, compare your responses to the questions posed in the Focus for Reading above. How do you feel about the possibility that you may be asked to pay higher taxes in the future to provide for the health care and social security of a growing group of elderly, retired Canadians?
2. Who are the baby boomers? Why are they such an important part of Canada's population?
3. Why did the government raise the eligibility age for Old Age Security?
4. Why is the government worried about Canada's aging population? Do you think it is right to do so? Why or why not?
5. Do you think it is likely that the youth of Canada will turn its backs on the old? Why or why not?

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## **Activity: Make your own budget**

### **Part A: Make a budget**

While the federal government was able to present a budget to the House of Commons that allowed for a deficit in 2012, the average Canadian citizen is not afforded such a luxury. Unlike governments, citizens have to live within their means and avoid running a deficit or they will go bankrupt. Work on the following exercise to see how to create a personal budget.

#### **Step One: Pick an income from the following three options**

- Median after-tax income of families of two or more: \$63 800
- Median after-tax income of two-parent families with children: \$75 600
- Median after-tax income of unattached individuals: \$25 500

Source: The Daily, Statistics Canada, [www.statcan.gc.ca](http://www.statcan.gc.ca), June 15, 2011

#### **Step Two: Pick a housing option**

- Renting: \$833 per month – average rent in Canada for a two-bedroom apartment
- Owning: \$1 900 per month – average house price in Canada – \$348 000 (\$1 900 per month based on a 10 per cent down payment with a five-year closed mortgage at an interest rate of 5.44 per cent amortized over 25 years) – homeowners will also have to pay roughly \$300 per month in property tax

Sources: Canadian Mortgage and Housing Corporation, Fall 2011, [www.cmhc-schl.gc.ca/en/hoficlincl/homain/stda/index.cfm](http://www.cmhc-schl.gc.ca/en/hoficlincl/homain/stda/index.cfm); Canadian Real Estate Association, January 2012, <http://creanews.ca/2012/02/15/canadian-home-sales-pull-back-in-january/>

#### **Step Three: Pay your bills**

Natural gas/electricity/water: \$200 per month

Cable/Phone/Internet/Smartphone bundle: \$150 per month

Groceries: \$150 per month per person

Entertainment: \$200 per month per person

Dining: \$200 per month per person

Shopping: \$200 per month per person

#### **Step Four: Pick a transportation option**

- Public transportation: \$130 per month (based on two rides per day, five days per week at \$3 per ride)
- Vehicle ownership: \$570 per month – average new car price: \$26 000 (\$570 per month based on a 60-month term with a \$5 000 down payment at an interest rate of seven per cent). If you own a car you will have to pay insurance so add a modest \$150 per month per driver to your budget. You'll also have to pay for gas and service your car on occasion so add another \$300 per month.

Based on Statistics Canada data

Make a chart in your notebook that looks like this:

### My Budget

Item	Per month	Per year
Income		
Housing		
Bills		
Transportation		
Total		

Subtract the cost of housing, bills, and transportation from the income you selected. How did you do? Did you spend more than you earned or did you stay within your budget?

Repeat the process two more times with different scenarios to see how easy or difficult it is to stay on budget.

You may wish to post the charts around the classroom to enable other students to study them and compare them with their own.

### Part B: Analysis

In a 250- to 500-word opinion paper, describe your thoughts regarding the budget exercise.

Here are some reflection questions to help you before you begin writing:

- Was the process fair and realistic?
- Is the use of average income and expenses useful considering how both can vary from person to person?
- Were there important items missing from the budget plan that made the balancing of the personal budget less accurate?
- Canadians are currently carrying a huge debt load. In fact many Canadians are spending more than they are earning (just like the government). Does this suggest that many Canadians don't know how to keep a budget?

When you have completed your opinion papers, you may wish to share your views with your classmates in a general discussion of the issues involved in preparing a personal budget.