



## **The Conservative Fiscal Plan**

The 2006 Conservative platform, Stand Up for Canada, is based on a sound fiscal plan.

The highlights of the Conservative Fiscal Plan are:

- It is fully budgeted – it maintains a balanced budget, every year, with money left over.
- It has been independently verified by the Conference Board of Canada.
- It is fully costed – it covers all our commitments.

## **Fiscal Overview**

Both the Conservative and Liberal campaigns have made a number of promises on taxes, spending, and repaying the national debt.

Table 1 shows the Liberal government's baseline fiscal projections as they stood in November, before they began making election promises.<sup>1</sup> They show government revenues and spending both rising over the next five years, from \$217.4 billion to \$254.6 billion in revenue, and from \$168.0 billion to \$200.4 billion in spending.

Starting with The Economic and Fiscal Update and continuing ever since, the Liberals have made dozens of campaign announcements on lower taxes and higher government spending. Table 1 shows the impact of these promises on the government's fiscal projections. Government revenues will grow more slowly and spending will rise more quickly, from \$211.9 billion to \$247.3 billion in revenue, and from \$172.8 to \$206.3 billion in spending. Using estimates of debt servicing costs found in the Update, we project the Liberal election platform would produce a cumulative, five-year surplus of \$13 billion.

Stand Up for Canada commits to deeper tax cuts. Yet, our commitments to moderate the growth of certain kinds of government spending and invest in a few priority areas slow the growth in overall spending. Government revenues and spending will rise more slowly than under the Liberal plan or the government's baseline projections,

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<sup>1</sup> The Liberal government has never published these numbers. They can be derived from figures released in The Economic and Fiscal Update.

from \$210.7 billion to \$241.7 billion in revenue, and from \$171.6 to \$198.8 billion in spending. We project a cumulative, five-year surplus of \$23 billion.

**Table 1: Fiscal Overview, 2006-07 to 2010-11**

	2006/07	2007/08	2008/09	2009/10	2010/11	Cumulative
(\$ millions)						
<b>Base Case from the November Economic Update</b>						
Revenue	217,355	226,755	234,030	243,645	254,625	
Spending	167,960	175,595	183,745	192,600	200,395	
Debt Service	34,395	34,760	34,585	34,545	34,430	
Underlying Surplus	15,000	16,400	15,700	16,500	19,800	<b>83,400</b>
<b>Conservative Fiscal Plan</b>						
Revenue	210,725	220,050	227,310	235,190	241,700	
Program Spending	171,623	177,559	184,719	191,840	198,784	
Debt Service	34,395	34,760	34,585	34,545	34,430	
Debt Repayment	3,000	3,000	3,000	3,000	3,000	
Surplus	1,707	4,731	5,006	5,805	5,486	<b>22,735</b>
<b>Liberal Fiscal Plan</b>						
Revenue	211,855	221,605	229,465	238,865	247,315	
Program Spending	172,769	180,831	189,656	198,449	206,271	
Debt Service	34,395	34,760	34,585	34,545	34,430	
Debt Repayment	3,000	3,000	3,000	3,000	3,000	
Surplus	1,691	3,014	2,224	2,871	3,614	<b>13,414</b>

## **Independent verification**

The Conservative Fiscal Plan is therefore affordable. It produces surpluses in each of the next five years.

But you don't have to take our word for it.

We asked the Conference Board of Canada, a well-known and independent economic think tank, to review our numbers. We asked them to run the Conservative Fiscal Plan through their national economic model. Although their projections of federal revenues and spending are a bit more conservative than the government's baseline projections, the Conference Board analysis (attached) concluded that:

*... the Conservative Party's economic platform is affordable in each fiscal year from 2005-2006 through 2010-2011.*

## **Costing the Commitments in Stand Up for Canada:**

Stand Up for Canada makes a number of commitments for tax relief, paying down the national debt, and spending. Some of these measures come into effect in 2006-07. Others come into effect later or are phased in over time. Table 2 summarizes the costs of these commitments over the next five years.

The bottom line: Table 3 pulls together all of the elements of the fiscal plan and reconciles to the base case fiscal projections of the November Economic and Fiscal Update.



**Table 2: Stand Up for Canada Commitments  
2006-07 to 2010-11**

	<b>Five-Year Cumulative Cost (\$ million)</b>
<b>Tax relief:</b>	
Reduce the GST from 7% to 6% to 5%	\$32,300
Eliminate capital gains tax when reinvesting	750
Deliver corporate tax relief cancelled in the NDP budget deal, and the Forestry-Bio-energy CCA measures announced by the government in November, 2005	900
Raise the threshold for the small business tax rate and reduce the small business tax rate	1,800
Implement the new tools tax deduction	150
Implement the new apprenticeship job creation tax credit	800
Exempt \$500,000 of capital gains from taxation when transferring certain family fishing assets	150
Raise Seniors Pension Income Amount	2,235
Implement textbook tax deduction and raise scholarship income exemption	400
Implement the new physical fitness tax credit	650
Implement the new affordable housing tax credit	800
Implement the new transit pass tax credit	2,000
Eliminate capital gains tax on charitable contributions	250
Deliver dividend tax credit changes announced by government in November, 2005	1,600
Deliver on jewelry excise tax relief announced	120
<b>Total Tax Relief</b>	<b>\$44,905</b>

	<b>Five-Year Cumulative Cost (\$ million)</b>
<b>Spending plans:</b>	
New apprenticeship incentive grant	\$400
Additional support for agriculture	2,500
New assistance to the forestry industry to battle the pine beetle	500
Additional measures for security, crime prevention and assistance to victims	500
National Cancer Strategy	260
New Choice in Child Care Allowance and funds to create workplace child care spaces	9,500
Additional support for students, research and development	600
New Highways and Borders Infrastructure Fund	2,000
Reduce the Right of Landing Fee	500
Additional overseas development assistance	425
Additional funds for National Defence	5,325 <sup>2</sup>
New agencies and inquiries	285
Post-budget government funding plans to be honoured:	
• Canada-Ontario Agreement <sup>3</sup>	2,914
• Pacific Gateway commitment	591
• Immigration measures included in <u>The Economic and Fiscal Update</u>	1,257
• C-66 Energy Assistance planned for 2006-07	400
• Other "post-budget measures" in <u>The Economic and Fiscal Update</u> such as operations in Darfur and Afghanistan	2,103
<b>Total Spending Plans</b>	<b>\$30,063</b>
<b>Reallocations:</b>	
From the climate change fund to pay for transit pass tax credit	\$2,000
From Liberal child care plan to pay for Choice in Child Care Allowance	4,800
<b>Debt repayment:</b>	<b>\$15,000</b>

<sup>2</sup> The Conservative fiscal plan includes the cost of capital investments (i.e., the purchase of new equipment and construction of new facilities) on exactly the same basis as the government's current budget. It therefore contains the additional annual cost of financing these capital projects for National Defence.

<sup>3</sup> Our fiscal plan includes the first four years of the Canada-Ontario Agreement, on the understanding that the problems the Agreement was intended to address will be dealt with as a Conservative government moves to address the issue of fiscal imbalance.

**Table 3: Costing of Stand up for Canada  
2006-07 to 2010-11**

	<b>Five-Year Cumulative Cost (\$ million)</b>
<b>Base case five year surplus</b>	\$83,400
Tax Relief	– 44,905
Spending Plans	– 30,063
Debt Repayment	– 15,000
Reallocations	6,800
Moderating Spending on grants and contributions and in government departments and agencies	22,500
<b>Unallocated Surplus</b>	<b>\$22,732</b>



December 22, 2005

Mr. Stephen Harper, Leader  
Conservative Party of Canada  
#1720 – 130 Albert Street  
Ottawa, Ontario  
K1P 5G4

Dear Mr. Harper:

In response to your request, the Conference Board of Canada (CBoC) has undertaken an analysis of the fiscal impact of the Conservative Party's economic platform over the fiscal years 2005-2006 through 2010-2011.

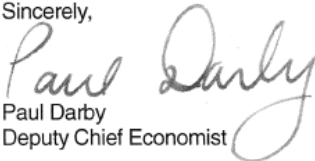
This analysis required an appropriate base case economic outlook that does not incorporate any new fiscal measures beyond the 2005 budget, except for a few exceptions detailed in the report. This base case is similar to our report to the Finance Committee on October 24. It is then altered by incorporating all of the fiscal measures contained in the Conservative Party's economic platform, and simulating the CBoC national economic model to create an alternative economic and fiscal outlook.

In summary, we found that the Conservative Party's economic platform is affordable in each fiscal year from 2005-2006 through 2010-2011. In each year there is enough fiscal room to pay down at least \$3 billion a year in debt, as in the fiscal plan.

Over the five-year forecast horizon to 2010-11, the CBoC economic and fiscal outlook suggests that there remains \$15.7 billion in unallocated fiscal room, over and above the \$3 billion annual debt payment, which provides further cushion to ensure that deficits do not occur due to adverse economic events.

Attached please find our report which details the results.

Sincerely,



Paul Darby  
Deputy Chief Economist