

THE BUDGET IN BRIEF 1999



*Building today for
a better tomorrow*

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

February 16, 1999



Department of Finance
Canada

Ministère des Finances
Canada

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“This budget demonstrates that the finances of the nation are now in better shape than they have been in a generation – and that further progress lies ahead.

It is a budget that acts strongly on the highest priority Canadians have – strengthening their system of health care for today and tomorrow.

It is a budget that continues to equip Canadians to succeed in the 21st century.

And it is a budget that for the first time in many years offers tax relief to every taxpayer and it does so without using borrowed money.”

Finance Minister Paul Martin
1999 budget speech

Building Today for a Better Tomorrow

The 1999 budget extends the government's plan to build a strong economy and secure society – one which generates a higher standard of living for all Canadians and builds today for a better tomorrow.

To achieve this goal, the government has consistently followed a strategy designed to advance living standards by promoting well-paying jobs, productivity growth and equal opportunities for all, and by providing a safety net for those in need.

This is the strategy that was first set out by the Prime Minister in Québec City on September 18, 1994.

It was outlined in the 1994 document entitled *A New Framework for Economic Policy* and it is the strategy behind the actions in each of the last five budgets and again in the 1999 budget.

The strategy acts on three fronts.

Maintaining Sound Economic and Financial Management

- Strong economic growth and a reduced debt burden better enable the government to make key investments and provide tax relief.

Investing in Key Economic and Social Priorities

- Investments in health care, in access to knowledge and skills training and in other important areas improve Canadians' quality of life and ability to work.

Providing Tax Relief and Improving Tax Fairness

- Lower taxes mean higher disposable income and therefore increased living standards. Lower taxes also provide increased rewards for work, saving and investment.

All three elements of this plan work together to improve Canadians' standard of living and quality of life.

Maintaining Sound Economic and Financial Management

Canada's economic fundamentals are strong and have helped it weather the recent global economic turbulence.

Interest rates remain low, despite the volatility in financial markets caused by the fallout from the Asian crisis.

Employment has soared, gaining 453,000 jobs in 1998 on the heels of the already impressive gain of 368,000 jobs in 1997. This marks the best annual performance of the decade and outpaces the job performance of any other G-7 country.

The strong job performance has continued in January 1999, with 87,000 new jobs created.

Almost 40 per cent of the new jobs created in the last 12 months went to Canada's youth, who posted their strongest yearly employment growth in over 25 years. This strong job performance pushed the unemployment rate down to 7.8 per cent in January 1999, its lowest level since June 1990.

This year, in terms of economic growth, both the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) expect Canada to be among the top performers of the G-7 nations. And they expect Canada to be second to none in the creation of jobs.

The deficit has been eliminated much faster than anyone expected. The budgetary deficit, which stood at \$42.0 billion in 1993-94, was eliminated in just four years. In fact, a surplus of \$3.5 billion, the first surplus in 28 years, was recorded in 1997-98 and went to pay down the debt.

The 1999 budget builds on the record of maintaining sound economic and fiscal management.

The 1999 Budget Delivers

Balanced budgets or better

- A balanced budget or better is expected for 1998-99 – the second consecutive year in which the budget has been deficit-free. The last time this occurred was almost half a century ago, in 1951-52.
- The government is committed to balanced budgets or better in both 1999-2000 and 2000-01, marking four consecutive years in which the budget will be in balance or surplus. This has happened only twice since Confederation, 132 years ago.

Reducing the debt

- To the extent that the Contingency Reserve is not required for 1998-99, it will be used to reduce the public debt.
- The Debt Repayment Plan and continued economic growth will ensure that the debt-to-GDP ratio – the debt in relation to the total income generated in the economy – remains on a permanent downward track.
- The debt-to-GDP ratio is expected to be 65.3 per cent in 1998-99, and then fall to just under 62 per cent by 2000-01. This compares to 71.2 per cent in 1995-96.
- The cost of paying interest on the debt has dropped from a high of 36 cents of every federal revenue dollar to the current low of 27 cents.
- Market debt – the debt outstanding and held by investors – is expected to fall even faster than the public debt. Market debt is expected to decline to about \$457 billion in 1998-99, down about \$20 billion from its peak of \$476.9 billion in 1996-97.
- By the accounting standards used in most other countries, the federal government will post a financial surplus for the third consecutive year in 1998-99 – the only G-7 country to do so.

Spending share continues to fall

- Program spending as a share of gross domestic product (GDP) is expected to decline from 12.6 per cent this year to 12 per cent in 2000-01, the lowest level in 50 years.

Investing in Key Economic and Social Priorities

Over three-quarters of the spending initiatives announced in the 1998 and 1999 budgets reflect two of the highest priorities of Canadians – increased funding for health care and access to knowledge and innovation.

Strengthening Health Care for Canadians

Renewing federal transfers to provinces and territories

The budget makes significant investments to help provinces and territories deal with Canadians' immediate concerns about health care – waiting lists, crowded emergency rooms and diagnostic services.

It also helps to build a stronger health care system that reflects the changing needs of Canadians and provides timely access to high quality health care.

Medicare: this government's largest investment ever

- The budget invests in medicare by increasing transfers to provinces and territories. Over the next five years they will receive an additional \$11.5 billion specifically for health care. This represents the largest single new investment this government has ever made.
 - Of this amount, \$8 billion will be provided through future-year increases in the Canada Health and Social Transfer (CHST) and \$3.5 billion as an immediate one-time supplement to the CHST from funds available this fiscal year.
 - Allowing for a gradual and orderly drawdown of the supplement over the next three years by the provinces and territories means that total support for health care would increase by \$2 billion in 1999-2000 and in 2000-01 and by \$2.5 billion in each of the following three years of the five-year commitment.
 - However, individual provinces and territories could draw down the supplement over the next three years in a pattern which best meets the needs of their health care systems.
- The \$2.5 billion increases CHST cash from \$12.5 billion to \$15 billion and takes what is regarded as the health component of the CHST as high as it was before the period of expenditure restraint of the mid-1990s.
- Together with the growing value of CHST tax transfers, federal support is expected to reach a new high by 2001-02, surpassing where transfers stood prior to restraint.

Increasing Equalization

- Significant increases in Equalization will also make more resources available to most of the less prosperous provinces for public services, including health care.
- Payments this year are expected to reach \$10.7 billion – up \$2.2 billion from the 1998 budget estimate.
- Legislation is now before Parliament to renew the Equalization program for the next five years. It is projected that payments will be \$5 billion higher than over the previous five years, including technical improvements totalling an estimated \$700 million over that period.

Eliminating disparities

- The disparities in the way the CHST is allocated across provinces would, under current legislation, have been reduced by half over the next four years.
- The 1999 budget completely eliminates these disparities over the next three years. All provinces will then receive identical per capita CHST entitlements, providing equal support for health and other social services to all Canadians.

Further health investments

The budget also strengthens the federal government's contribution to Canada's health system and the health of Canadians by investing close to \$1.4 billion over the remainder of this fiscal year and the next three years through several initiatives.

Improving information systems

- Health information systems will be improved to better meet the information needs of health care providers and patients and to foster greater accountability to the public on how the health care system is serving them, consistent with the new Social Union Framework.

Promoting research and innovation

- New funds will promote health-related research and innovation to improve diagnosis and treatment of diseases, promote best practices in health care delivery and enhance the health and well-being of Canadians.

Improving First Nation and Inuit services

- First Nations and Inuit health services will be improved by strengthening community and home care in particular.

Preventing health problems

- More will be done to prevent health problems from occurring by building on efforts to improve prenatal nutrition, food safety, and the control of toxic substances. Steps will also be taken to foster innovation in rural and community health, in partnership with the provinces, and to combat diabetes, the incidence of which is particularly high in Aboriginal communities.

Summary

- Combined with the \$6.5-billion cash increase in the CHST over the next three years, the \$1.4 billion invested in these activities means a total of \$7.9 billion in new resources for health over the remainder of this fiscal year and the next three years.

Building a Strong Economy Through Knowledge and Innovation

The 1999 budget includes measures totalling more than \$1.8 billion over the remainder of 1998-99 and the next three years to build on the Canadian Opportunities Strategy and on other knowledge and innovation investments introduced in previous budgets.

The measures are designed to support the creation, dissemination and commercialization of knowledge by strengthening Canada's research facilities, providing more opportunities for advanced research, developing new and better uses of the information highway and strengthening federal programs that invest with companies to transform new ideas into products and services.

These measures also directly support employment, particularly for youth.

Creating knowledge

- The 1999 budget provides an additional \$200 million in 1998-99 to the Canada Foundation for Innovation. Based on awards in 1998, it is expected that about \$100 million will support research in the areas of environment, science and engineering.

- The budget also provides \$176 million in additional funding over the remainder of this year and the next three years to the Natural Sciences and Engineering Research Council (NSERC), the Social Sciences and Humanities Research Council (SSHRC) and the National Research Council, and provides support for biotechnology related research and development.

Disseminating knowledge

■ As part of the government's plan to make Canada one of the most connected countries in the world by the year 2000, this budget provides \$96 million over the next three years to support the GeoConnections initiative, which makes geographic-related information more accessible, and the establishment of one "Smart Community" within each province, the North and in an Aboriginal community.

Commercializing knowledge

For innovation to remain the driving force behind improving productivity and living standards, knowledge must be applied to creating new products and production processes, thereby leading to economic growth and generating job opportunities.

■ Over the next three years an additional \$150 million will be provided to the Technology Partnerships Canada (TPC) program, to help companies bring to market innovative products and processes.

■ The Networks of Centres of Excellence program, which facilitates the transfer of knowledge among world-class researchers and the private sector within Canada, will be provided with an additional \$90 million over the next three years.

■ Funding for the Canadian Space Agency is being increased by \$430 million over the next three years and stabilized at \$300 million per year thereafter.

■ The government will also inject a further \$50 million as equity into the Business Development Bank of Canada, increasing its ability to provide financing to knowledge-based and export-oriented companies.

Supporting employment

■ Two recently-announced initiatives will provide a total of \$795 million for the Youth Employment Strategy and the Canadian Jobs Fund.

Providing Tax Relief and Improving Tax Fairness

The 1999 Budget Builds on the 1998 Budget

Raising tax-free earning levels

- The 1998 budget provided a \$500 increase in the amount low-income Canadians can receive tax-free. The 1999 budget increases this amount to \$675 and extends this tax relief to all taxpayers.
- The \$675 increase more than offsets the effect of inflation since 1992 on the value of this amount.

Eliminating the 3-per-cent surtax

- The 1998 budget began the process of eliminating the 3-per-cent surtax by providing complete relief for taxpayers with incomes up to about \$50,000 and reductions for those with incomes between \$50,000 and \$65,000. The 1999 budget completes this process by eliminating the 3-per-cent surtax for all remaining taxpayers.

Improving the Canada Child Tax Benefit

- The 1998 budget, on top of the \$850 million provided in the 1997 budget, committed an additional \$850 million to the Canada Child Tax Benefit (CCTB) targeted exclusively at low-income families.

- The 1999 budget sets out the design of this increased assistance, agreed to by federal, provincial and territorial governments, and also commits an additional \$300 million to increase CCTB payments for modest- and middle-income families.

Substantial tax relief

- The 1998 budget actions will provide Canadians with \$2.4 billion of tax relief in 1999-2000, \$3.2 billion in 2000-01 and \$3.3 billion in 2001-02 for a cumulative total of \$8.8 billion over the three fiscal years.
- The 1999 budget actions will provide an additional \$1.5 billion of tax relief in 1999-2000, \$2.8 billion in 2000-01 and \$3.4 billion in 2001-02. Cumulative tax relief from the 1999 budget totals \$7.7 billion over the three fiscal years.
- The 1998 and 1999 budgets together provide tax relief of \$3.9 billion in 1999-2000, \$6 billion in 2000-01 and \$6.6 billion in 2001-02, for a total of \$16.5 billion over three years.
- In combination, the 1998 and 1999 budget actions, and the \$800-million employment insurance (EI) premium rate reduction for 1999-2000, provide tax relief of \$17.3 billion over the next three years.

Improving fairness

- Together, the 1998 and 1999 budgets provide the largest proportionate federal income tax reductions to the lowest income levels.
- As a result of the 1998 budget 400,000 low-income Canadians will no longer pay any federal income tax. The 1999 budget removes an additional 200,000 from the tax rolls for a total of 600,000.
- Single taxpayers earning \$20,000 and less will have their federal income taxes reduced by at least 10 per cent.
- A typical Canadian one-earner family of four that receives income of \$30,000 or less will pay no net federal income tax.
- Families with incomes of \$45,000 or less will have their federal income taxes reduced by a minimum of 10 per cent and some will receive much larger reductions.

Summary of Spending and Tax Actions

The fiscal outlook presented in Table 1 includes all of the spending and tax measures announced since the 1998 budget – measures that will contribute to a stronger economy and a more secure society.

The net fiscal impact of the spending and tax actions proposed since the 1998 budget is summarized in Table 2. The cost of these proposed spending and tax initiatives amounts to \$5.7 billion in 1998-99, \$4.1 billion in 1999-2000, \$5.6 billion in 2000-01 and \$7.5 billion in 2001-02.

Table 1
*Summary statement of transactions: fiscal outlook
 with budget measures*

	1997-98	1998-99	1999-00	2000-01
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	153.2	156.5	156.7	159.5
Program expenditures	108.8	112.1	111.2	113.2
Operating balance	44.4	44.4	45.5	46.3
Public debt charges	40.9	41.4	42.5	43.3
Underlying balance	3.5	3.0	3.0	3.0
Contingency reserve		3.0	3.0	3.0
Budgetary balance	3.5	0.0	0.0	0.0
Net public debt	579.7	579.7	579.7	579.7
Non-budgetary transactions	9.3	11.5	5.0	7.0
Financial requirements/surplus (excl. foreign exchange transactions)	12.7	11.5	5.0	7.0
Percentage of GDP				
Budgetary revenues				
Including budget measures	17.7	17.6	17.2	17.0
Excluding 1998 & 1999 budget measures/ EI rate reductions	17.7	17.9	17.8	17.7
Program spending	12.6	12.6	12.2	12.0
Public debt charges	4.7	4.7	4.7	4.6
Budgetary balance	0.4	0.0	0.0	0.0
Financial requirements/surplus	1.5	1.3	0.5	0.7
Net public debt	66.9	65.3	63.7	61.7

Note: Numbers may not add due to roundings

Over the four years 1998-99 to 2001-02 the cost of the spending and tax actions amount to \$22.9 billion. Of this amount, \$14.1 billion is for spending initiatives.

These include the \$6.5-billion increase in the CHST, \$1.4 billion for other health initiatives and \$2.3 billion for “Building a Secure Society” initiatives, including increased funding for Aboriginal peoples, crime prevention, furthering international co-operation, renewing the Equalization program, official languages and for compensation and benefits in the Canadian military.

More than \$1.8 billion is allocated to building on the Canadian Opportunities Strategy, for research and innovation and for employment programs.

Finally, funding has also been provided for economic adjustment in a number of sectors. These include the previously announced funding for the Canadian Fisheries Adjustment and Restructuring Program and the Agricultural Income Disaster Assistance Program.

The general tax relief and fairness measures, including the proposed increase to the Canada Child Tax Benefit, amount to \$7.7 billion over the three years.

In addition, EI premium rates were lowered in 1999. For employees, the rate dropped from \$2.70 in 1998 to \$2.55 in 1999, with corresponding declines for employers. The premium cut will reduce the cost to Canadians of paying EI by \$1.1 billion in 1999.

Since 1994 EI premium rates have been reduced by 52 cents. Together, employees and employers will pay about \$3.5 billion less in 1999 than they would have if premium rates had remained at the 1994 levels.

Table 2
Spending and tax initiatives since the 1998 budget

	1998-99	1999-00	2000-01	2001-02	Cumulative total
	(millions of dollars)				
<i>Spending initiatives</i>					
<i>Building a Secure Society</i>					
<i>Strengthening health care for Canadians</i>					
Increased CHST cash transfers			1,000	2,000	3,000
CHST supplement ¹	3,500				3,500
Total CHST	3,500		1,000	2,000	6,500
<i>Potential cash flow to provinces</i>					
<i>Increased funding for health care</i>					
<i>Of which:</i>					
<i>CHST</i>		2,000	2,000	2,500	6,500
<i>CHST supplement</i>		2,000	1,000	500	3,500
<i>Other health initiatives</i>					
Improving health information systems	95	28	85	120	328
Promoting health-related research and innovation ²	160	50	115	225	550
First Nations and Inuit health services		20	60	110	190
Preventive and other health initiatives		49	104	134	287
Total	255	147	364	589	1,356
Other initiatives	247	510	710	804	2,271
Total – Building a Secure Society	4,002	658	2,074	3,393	10,127

Table 2
Spending and tax initiatives since the 1998 budget (cont'd)

	1998-99	1999-00	2000-01	2001-02	Cumulative total
	(millions of dollars)				
Building a Strong Economy					
Building on the Canadian Opportunities Strategy					
Creating knowledge					
Canada Foundation for Innovation ²	100				100
Support for advanced research	16	50	55	55	176
Disseminating knowledge		27	42	27	96
Commercializing knowledge		121	232	317	670
Supporting employment		265	265	265	795
Total	116	463	594	664	1,837
Economic adjustment	1,241	645	152	69	2,107
Total – Building a Strong Economy	1,357	1,108	746	733	3,944
Total spending initiatives	5,358	1,766	2,820	4,126	14,070
General tax relief and fairness measures					
General tax relief		1,530	2,555	2,965	7,050
Canada Child Tax Benefit			225	300	525
Tax fairness measures		15	25	100	140
Reduction in EI premiums	300	800			1,100
Total	300	2,345	2,805	3,365	8,815
Total spending and tax initiatives	5,658	4,111	5,625	7,491	22,885

¹ CHST supplement in 1998-99 will be paid to a third-party trust in 1999-2000, on passage of authorizing legislation.

² An additional \$200 million is being allocated to the Canada Foundation for Innovation. It is expected that about half will be used to improve infrastructure for health research, and the other half in research infrastructure in the areas of the environment, science and engineering.

Tables 3 to 6 detail the 1999 budget health initiatives, the knowledge and innovation actions and the cost of providing tax relief and improving fairness.

Table 3
Canada Health and Social Transfer

	1999-00	2000-01	2001-02	2002-03	2003-04	5 years
	(billions of dollars)					
Increased funding for health care	2.0	2.0	2.5	2.5	2.5	11.5
Of which:						
CHST		1.0	2.0	2.5	2.5	8.0
CHST supplement ¹	2.0	1.0	0.5			3.5
Existing CHST cash	12.5	12.5	12.5	12.5	12.5	62.5
Total CHST cash	14.5	14.5	15.0	15.0	15.0	74.0
CHST tax transfers	13.9	14.4	15.0	15.6	16.4	75.3
Total CHST	28.4	28.9	30.0	30.6	31.4	149.3

¹ The \$3.5-billion CHST supplement will be accounted for in 1998-99 by the federal government. Payments will be made in a manner that treats all jurisdictions equitably, regardless of when they draw down funds.

Table 4
Other 1999 budget health initiatives

	1998-99	1999-00	2000-01	2001-02	Total
(millions of dollars)					
Improving health information systems					
Canadian Institute for Health Information	95				95
Other health information initiatives		20	70	100	190
Accountability for federal health programs		8	15	20	43
Subtotal	95	28	85	120	328
Promoting health-related research and innovation					
Canadian Institutes for Health Research			65	175	240
Increased health funding for research councils/organizations	35	50	50	50	185
Canada Foundation for Innovation ¹	100				100
NURSE Fund	25				25
Subtotal	160	50	115	225	550
First Nations health services		20	60	110	190
Preventive and other health initiatives					
Prenatal nutrition		10	30	35	75
Food safety		15	20	30	65
Toxic substances		14	14	14	42
Innovations in rural and community health		5	20	25	50
Diabetes		5	20	30	55
Subtotal		49	104	134	287
Total	255	147	364	589	1,356

¹ Funding will be increased by \$200 million. Based on awards in 1998, it is expected that about half this amount will be allocated to support health-related research infrastructure.

Table 5
*Building on the Canadian Opportunities Strategy:
 knowledge and innovation*

	1998-99	1999-00	2000-01	2001-02	Cumulative total
	(millions of dollars)				
Creating knowledge					
Canada Foundation for Innovation ¹	100	–	–	–	100
NSERC		25	25	25	75
SSHRC		5	5	5	15
National Research Council Biotechnology	16	5	5	5	31
		15	20	20	55
Disseminating knowledge					
Smart Communities		15	30	15	60
GeoConnections		12	12	12	36
Commercializing knowledge					
Business Development Bank of Canada ²	50	–	–	–	50
Technology Partnerships Canada		50	50	50	150
Canadian Space Agency		41	152	237	430
Networks of Centres of Excellence		30	30	30	90
Supporting employment					
Youth Employment Strategy renewal		155	155	155	465
Canada Jobs Fund		110	110	110	330
Total	166	463	594	664	1,887

¹ Funding will be increased by \$200 million. Based on actual awards in 1998, it is expected that about half this amount will support research infrastructure in areas other than health.

² Federal support for the Business Development Bank of Canada is in the form of an equity injection – i.e. the purchase of shares. As such, it is not counted as a budgetary expenditure.

Providing tax relief and improving tax fairness

Table 6
Impact on federal revenues

General tax relief and Canada Child Tax Benefit (CCTB)	1999-2000	2000-01	2001-02	3-year cumulative impact
(millions of dollars)				
Measures effective July 1, 1999				
Extension of \$500 supplement to all taxpayers	-665	-1,110	-1,290	-3,065
\$175 increase in tax-free income	-270	-450	-525	-1,245
Elimination of 3% surtax	-595	-995	-1,150	-2,740
Total	-1,530	-2,555	-2,965	-7,050
Tax fairness measures	-15	-25	-100	-140
Increase to CCTB for middle-income families ¹	0	-225	-300	-525
Total-1999 budget	-1,545	-2,805	-3,365	-7,715
Memorandum item: 1998 budget				
General and tax fairness measures	-2,070	-2,405	-2,425	-6,900
Increase to CCTB for low-income families ²	-320	-750	-850	-1,920
Total-1998 budget	-2,390	-3,155	-3,275	-8,820
Total-1998 and 1999 budgets	-3,935	-5,960	-6,640	-16,535

¹ Effective July 2000. The amount is in addition to the cumulative \$1.7-billion increase in CCTB in the 1997 and 1998 budgets.

² \$425 million effective July 1999 and an additional \$425 million effective July 2000.

Conclusion

“First, when we came into office, the deficit and debt burden was rising relentlessly. The finances of the nation were out of control. Our response was immediate. Initially, we reduced the deficit. Then we eliminated it. Then, last year, we began to get our debt burden down.

Second, in this budget, we have moved to strengthen the confidence of Canadians in their health care system and we have further strengthened the sinews of an innovative, productive economy.

Third, we said at the outset that lowering taxes for Canadians was an ongoing priority. And so, as our financial health has improved, we have moved forward, focusing first on those least able to pay.

And in this budget, tax relief has been provided for each and every Canadian taxpayer.

From rising deficits to balanced books. From an increasing debt burden to one that is declining. From years of difficult cuts to an era where needed new investments are being made. From a tax burden that was rising to a time where it is falling.

That is the summary of this budget.”

Finance Minister Paul Martin
The Budget Plan 1999