

CHAPTER ONE

The Economy

Better choices, new directions

Liberals are offering a very different approach to the economy:

- ▶ We are standing with Canadian families as they struggle with financial pressures;
- ▶ We have a prudent plan to tackle the Conservative deficit and return to sound management of public spending;
- ▶ We'll cancel tax cuts for large corporations that already enjoy low rates compared to other countries; and
- ▶ We'll prepare for the jobs of tomorrow by providing leadership on innovation, learning, and Canada's place in the global economy.

Your Money, Your Choices

Liberal Priorities

Family Care: support for those caring for sick loved ones at home: \$1 billion

Learning Passport: direct financial support to families for higher education: \$1 billion

Secure Retirement Option, to help Canadians save

Green Renovation Tax Credit: \$400 million

Conservative Priorities

Tax cuts for the largest corporations: \$5-6 billion per year

Stealth fighter jets: \$30 billion

U.S.-style mega-prisons: \$10-13 billion

Wasteful G8/G20 summit: \$1 billion

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Liberals believe Canada's middle-class families are the bedrock of our economy. Their concerns must drive economic policy.

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Where We Are Today

Under the last Liberal government, Canada had a healthy budget surplus. We were paying down debt and reducing taxes.

Liberals also made major investments in research and development, and committed to long-term federal funding for health care – all of which helped make Canada competitive.

Thanks to a prudent business culture, a tough regulatory system, and good policy decisions made in the 1990s, including a refusal to permit bank mega-mergers, the Canadian financial sector has remained solid while other countries have been spending billions on bank bailouts.

Those balanced policies, and the hard work of millions of Canadians, gave our economy the resiliency to cope with the global downturn.

So where do we stand today? Consider where the present course is taking us:

- ▶ In 2006, when the Harper government took office, unemployment was 6.4 percent. In 2011, it's hovering between 7.5 and 8 percent.
- ▶ In the past five years, the personal debt Canadian families carry relative to their disposable income has risen 20 percent, and is now the highest among the 20 most developed countries.
- ▶ In 2005-06, the federal budget *surplus* was \$13.2 billion. In 2009-10, the *deficit* was \$56 billion, the largest in Canada's history.

Jobs



2006 – 6.4%

2011 – 7.8%
Unemployment

Personal Debt



2006 – 123.5% of income

2010 – 150.2% of income

Federal Budget Balance



2005-06 – \$13.2 B surplus

2009-10 – \$56 B deficit

Federal Government Spending



2005-06 – \$175.2 B

2009-10 – \$244.8 B



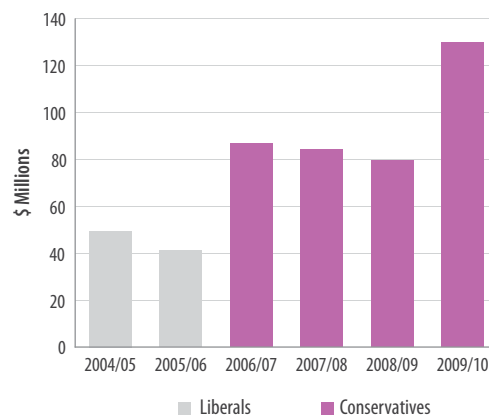
From 2006 to 2008, the Harper government increased spending at three times the rate of inflation, eliminated the contingency reserves included in previous budgets, and went from surplus to deficit *before* the recession hit. What are the Conservatives' big spending priorities?

- ▶ \$30 billion for stealth fighter planes;
- ▶ \$1 billion for a 72-hour, wasteful photo-op at the G8 and G20 summits;
- ▶ \$10 to \$13 billion Canada-wide for US-style mega-prisons;
- ▶ \$5 to 6 billion per year for tax breaks for the largest corporations, which already enjoy rates 25 percent *lower* than in the United States; and
- ▶ More than \$1 billion annually for consultants and advertising, much of which is costly self-promotion at taxpayers' expense.

These are bad choices. While most other countries used their stimulus spending to make their economies stronger and more competitive, the Harper stimulus spending was notable mostly for its partisan slant toward Conservative-held ridings, lavish spending on advertising, and obsession with promotional signs on every street corner. They missed a crucial opportunity to invest in the future.

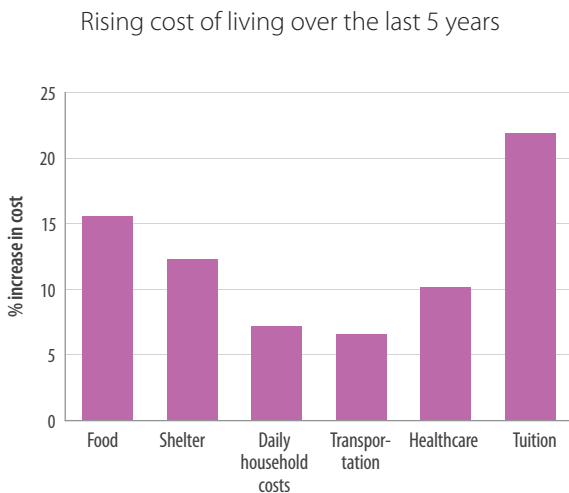
Liberals believe middle-class families are the bedrock of our economy. Coming out of the recession, Canadian families carry more debt than most others in the Western world, including the United States. Every dollar of disposable income in the average household is offset by nearly \$1.50 in debt. Against that troubling backdrop families are struggling to meet the increasing costs of putting children through college and university. Many parents must choose to stay in the workforce while raising kids, but can't find high quality, affordable child care and early learning. Many of the same families must also care for aging parents or other loved ones in need. Saving enough for a comfortable retirement is impossible for too many of us. On top of that, families are less certain than ever that the health care system will be there for them when they need it.

Federal government spending on advertising has tripled



Sandwiched by all these financial and emotional strains, Canadian families feel they're falling further behind, even though they're working harder than ever. But at the top end of the income scale, the richest are getting still richer, and the gap between them and the average family is getting wider.

Liberals believe that a more fair and equal Canada, with a thriving middle class, will be a more competitive and productive Canada.



Families are beginning to feel the impact of Canada's aging population. As baby boomers retire, we'll have an ever smaller proportion of the population in the workforce. As a result, experts predict that in the next thirty years, our standard of living will grow at only half the rate of the last four decades.

Are we willing to accept the current direction when it means our children will be poorer than we are today?

Today, 14 percent of the population is 65 or older; by 2040 the figure will be roughly 25 percent. That means fewer working age Canadians to support the elderly, at the same time as costly demands on social services, especially health care, continue to increase.

That's why it's more important than ever that our economy becomes more productive more quickly. Unfortunately, Canada's productivity growth lags well behind the United States, and most of our competitors.

The jobs of tomorrow will require more skills and knowledge. So investing more in learning is one of the most important things governments, businesses and individuals can do. We also know that productivity and our standard of living are driven by innovation. Businesses and entrepreneurs have the responsibility here, but governments can shape incentives.

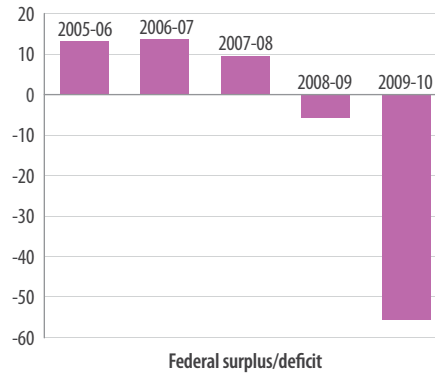


Further, as the global economy becomes ever more competitive, and new economic powers like China and India influence how wealth is created and where jobs are located, it's crucial that the federal government works effectively with partners in other governments, the private sector and civil society to strengthen Canada's presence in the world.

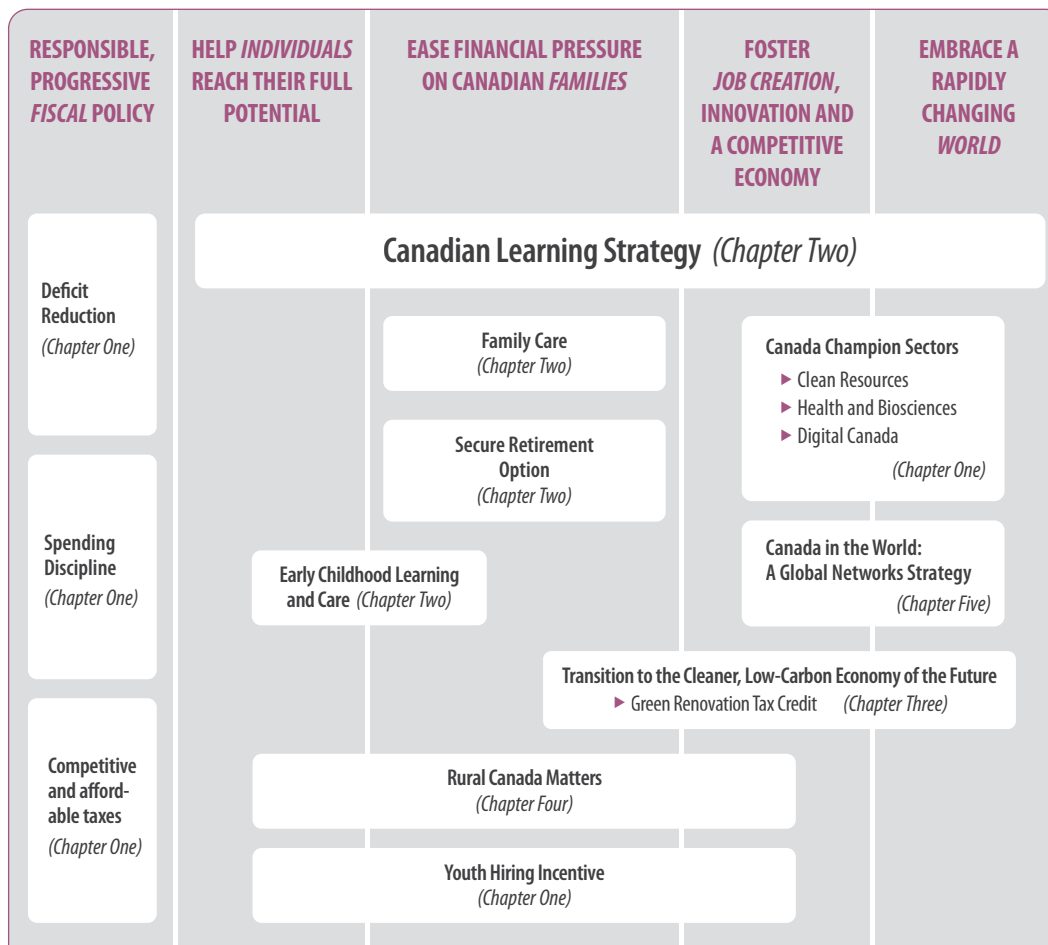
We need a different kind of federal leadership – responsible, balanced and progressive. The Liberal plan proposes significant investments in learning, caring for children and loved ones who are sick at home, and jobs. These are the priorities of middle-class families, and the essentials for a strong economy.

If we avoid these challenges, they don't disappear – they only get worse, and they get dumped on our children and grandchildren to solve. This country is better than that. We have the resources, the ability and the ambition to confront our challenges together and win. All we've been lacking is the leadership.

Federal surplus has become a record deficit



Stronger Economy, Better Future: The Liberal Approach



Equal Opportunity for all Canadians

Balanced, Progressive, Responsible Fiscal Policy

The Liberal approach to **fiscal responsibility** has 3 pillars:

- ▶ Deficit Reduction
- ▶ Competitive and Affordable Tax Rates
- ▶ Spending Discipline

Deficit Reduction

Our plan begins with a commitment to a strong fiscal anchor.

A Liberal government will commit to **reducing the deficit to one percent of GDP** within two years, down from 3.6 percent in 2009-10. We will set subsequent, rolling targets to continue decreasing the deficit every year after that until the country is returned to surplus. Unless Canada is faced with an unexpected second recession, all fiscal planning will be consistent with this anchor.

We will restore a two-year budgeting framework to increase transparency and make steady, measurable progress in deficit reduction. That progress will be driven by **rolling, near-term targets** that are firm and achievable.

In addition, Liberals will restore prudent budget planning, starting with this platform. By its second year, our plan frees up \$7 billion through better choices. We will put some of that money aside in a \$3 billion

Prudence Reserve, to manage any unforeseen events without missing our targets. If the reserve isn't needed, it will go toward the deficit.

These unshakable commitments – rolling deficit reduction targets, a realistic budgeting time-frame, and a tangible commitment to prudence – worked the last time a Liberal government had to clean up a fiscal mess left by Conservatives.



Competitive and Affordable Tax Rates

A new Liberal government will implement two measures to make our tax system fairer and preserve revenues. The funds from these measures will support a prudent plan for eliminating the deficit and several investments in the priorities of middle-class families that will also have long-term benefits for our economy.

First, we will **cancel the Harper government's corporate income tax cuts** of January 1, 2011 and January 1, 2012, restoring the 2010 level for Canada's largest firms. That will still maintain a 25 percent advantage over the United States, and one of the lowest rates in the G-7. Given that Canada's corporate tax rate is very competitive, using borrowed money to cut it further is not a prudent policy. Our action will ramp up to yield over \$5 billion by the second year of our plan, rising to nearly \$6 billion within four years.

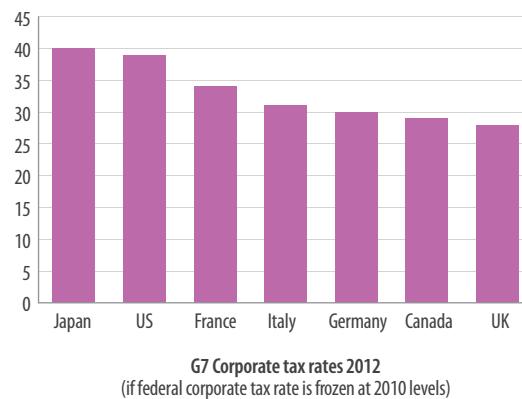
Second, we will **limit the lucrative tax break on stock options**. In some companies, employees are offered the option of acquiring stocks at a set price, below market value if the stock has risen. The difference is treated as employment compensation, but the employee can claim a tax deduction for 50 percent of it. Currently, 8,000 Canadians who earn more than \$500,000 a year deduct an average of \$400,000 from their taxable income based on stock options. Many other taxpayers are claiming much more modest amounts. But those 8,000 high earners are receiving three-quarters of the total claimed under the stock option deduction.

At a time of high deficits and growing inequality between the richest Canadians and middle-class families, this is a disproportionate benefit for the very wealthy. A Liberal government will cap the amount that can be claimed through the stock option deduction at \$50,000 annually.

Stock options are a legitimate method of compensation, and particularly useful for start-up companies. Employees with up to \$100,000 in annual stock option gains will be unaffected by this change. Very wealthy taxpayers will also continue receiving the deduction, and pay the regular income tax rate above this cap. The change will achieve a fair balance, and return approximately \$600 million to the public purse over two years.

Our plan does not require an increase in the GST, personal income tax or small business tax rates.

Canada's 2010 corporate tax rate is competitive



Capping stock option deductions:

Canada's top 100 CEOs averaged \$6.6 million in pay in 2009, or 155 times more than the average worker. Nearly one-third of that was in stock option benefits.

And they're sitting on another \$1.3 billion in stock options they haven't cashed in yet.

Source: Canadian Centre for Policy Alternatives

Spending Discipline

The Liberal Platform will cost less overall than the course the Harper government is on. That difference will allow for an ample Prudence Reserve, as described above.

This platform identifies all the funds needed to pay for all its new initiatives, without adding to the deficit. For example, we will:

- ▶ Fund new directions laid out in the Canada in the World plan by re-allocating more than \$1 billion, after the end of the combat mission in Afghanistan in 2011.
- ▶ Spread the anticipated revenue from the upcoming wireless spectrum auction over the 10-year life of the awarded contracts to support investments in a more creative and connected Canada.
- ▶ Cancel the Harper government's Public Private Partnership Infrastructure Fund, which in its two years of operation has only delivered eight percent of the funds allocated to it. Instead, we will invest in affordable housing. A dedicated fund is not necessary for P-3s, and in fact this one accomplished virtually nothing.
- ▶ Cancel immediately the Accelerated Capital Cost Allowance for oil sands investment. We will invest the savings in measures that will help make oil sands development cleaner.
- ▶ Cancel the mismanaged, \$30 billion deal for F-35 stealth fighter jets. When it is necessary to buy new fighters, we'll spend billions less than the Harper government would have. But the higher priorities will be investments in middle-class families, and building a stronger economy for the future.



A Liberal government will **review all federal program spending**, and implement smart, sustainable savings. We will seek the best analysis and ideas from the professional public service, and provide direction based on a positive and realistic vision of modern government.

We will **cut wasteful spending** that has ballooned under the Harper government. This would include, but not be limited to taxpayer-funded promotional advertising, the

over-sized Cabinet, PMO staff and skyrocketing spending on consultants.

We anticipate saving at least \$500 million by the second year of our plan, consistent with the C.D. Howe Institute's assessment of potential cost savings that should be achieved in the federal government.

Overall, these measures will define a fiscal policy that is balanced, progressive and responsible. We will restore prudence to management of the nation's finances, and make steady, measured progress toward a balanced budget while investing in the priorities of Canadian families in a manner that strengthens the economy for the long-term.

Innovation for the Jobs of Today and Tomorrow

The global economy of the 21st century is being shaped by rising economic powers such as China and India, transformative new digital and internet technologies, and whole new economic sectors.

Developing countries that used to rely on low-cost labour are shifting toward more valuable knowledge-based economic activity, and becoming stronger competitors on the world stage. In this constant race for growth and jobs, no country can afford to stand still.

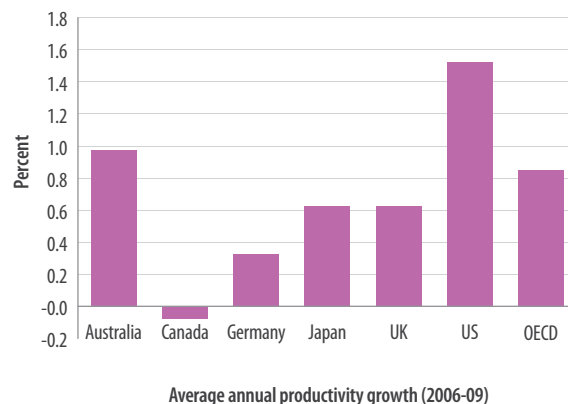
Unfortunately, Canadian productivity has been sluggish in recent years. According to Mark Carney, Governor of the Bank of Canada, “Canada under-invests in machinery and equipment, training, and innovation – in fact, all of the underlying drivers of productivity.” We are ranked 16th in the OECD in terms of business research and development. Venture capital in Canada is at a 14-year low.

A forward-looking government must foster an innovation-friendly environment. While reigning in unnecessary regulation, the federal government can do more to target public investments, and provide the right incentives for entrepreneurs and investors to take risks on new ideas, technologies, business models and other productivity improvements. The most crucial long-term task for the federal government is to make learning through all stages of life truly a Canadian priority.

The Harper government has presided passively over a string of foreign take-overs of major Canadian companies. Conservative ministers did nothing while Nortel, an icon of Canadian innovation, was sold off in pieces to foreign investors. Similarly, Inco, Alcan, and Stelco were bought out, with headquarters and management control removed from Canadian hands. Only intense pressure from Saskatchewan and across the country prevented the same result for Potash Corporation, a dominant player in a key, global commodity.

Foreign investment is good for Canada, and Canadians invest even more in other countries than foreigners do here. We should aim for still more success in global business. That will require the federal government to stop being a passive spectator. A Liberal government will strengthen the **Investment Canada Act** to make foreign investment reviews more transparent, clarify how “net benefit” is assessed, recognize the importance of Canadian headquarters and management control, and articulate when an asset can be considered of particular “strategic” value to Canada. Being pro-active is not the same as being protectionist. Rather, it’s part of a more effective approach to innovation and Canada’s place in the 21st century global economy.

Canada’s productivity lags compared to our competitors



Canadian Champion Sectors

A Liberal government will concentrate on **three key sectors expected to be sources of growth** in the global economy in the coming years, and in which Canada already has a strong foundation and real potential: clean resources, health and biosciences, and digital technology. The goal will be for Canada to become a world leader in each of these “**Canadian Champion Sectors**”. These sectors will be priorities across government departments, as well as the focus of collaboration with other governments, and with business and academic leaders. And we will target new tax incentives for innovative, emerging firms, in these Canadian sectors.

Canadian Champion Sectors

- 1) Clean resources
- 2) Health and biosciences
- 3) Digital technologies



1) Clean Resources

World markets are demanding more sustainable and environmentally responsible resource products and consumption. Environmental footprints of entire supply chains matter more than ever. Canada is well positioned to benefit commercially from its exports of responsibly harvested natural resource products, and the expertise and technologies needed for cleaner extraction, management and consumption of resources abroad.

This broadly-defined clean resources sector, including energy, will be a major driver of the global economy for decades to come, and Canada can lead the world in this area. A Liberal government will offer incentives for innovation and work with industry, experts and other governments to advance Canadian commercial success and job creation.

2) Health and Biosciences

Canada has demonstrated longstanding leadership in health innovation from the invention of insulin in 1922, to the introduction of universal medicare in 1966, to today's breakthroughs in stem cell research, genomics and neuroscience. This positions us well to capitalize on the expected surge in demand for health-related products and services from aging populations throughout the world.



A Liberal government will work with provinces, territories and the research community to bolster innovation in the health and bioscience field, improve the health of Canadians, and help bring Canadian products to global markets.

3) Digital Technologies

The information and communications technology sector has always played an important role in our economy and in Canadian society. Today, it generates over \$155 billion in revenues annually, employs more than half a million Canadians and contributes almost 40 percent of total private sector research and development in Canada, a measure that must continue growing if we are to keep pace with competitors. We're already home to world-leading companies such as Research in Motion, Open Text, Ubisoft and Electronic Arts.

A Liberal government will make digital technologies one of its Canadian Champion Sectors, boosting incentives for investment in innovators seeking to conquer world markets.



Supporting Entrepreneurship and Innovation in the Canadian Champion Sectors

A Liberal government will promote innovation and entrepreneurship in the Canadian Champion Sectors – clean resources, health and biosciences, and digital technology. This requires private capital. But with the modest venture capital market in Canada, new incentives are needed to generate more start-up capital for entrepreneurs. Therefore, we will implement:

- ▶ A new **Innovation and Productivity Tax Credit (IPTC)** that will grant Canadian investors a 15 percent tax credit for investments in small, early-stage start-ups that don't yet have the track record to seek financing from more traditional sources such as banks and the stock market.
- ▶ An extension of the popular "**Flow-Through Shares**" tax model to start-ups in the three Canadian Champion Sectors. This tax incentive would allow venture companies with little or no revenue to pass on tax deductions to investors, creating a significant incentive to invest in Canadian entrepreneurs from promising sectors where Canada can become a world leader.

Small Business: A Liberal Priority

Small businesses account for more than half of all jobs in Canada, and Liberal policies will help them create more.

- ▶ Youth Hiring Incentive – full EI premium holiday on all new youth hires
- ▶ Innovation and Productivity Tax Credit and extension of flow-through shares for investment in start-ups in emerging sectors
- ▶ 100 percent coverage of high-speed internet across rural Canada
- ▶ A responsible, prudent plan to reduce the deficit without increasing personal or small business taxes or the GST
- ▶ Canadian Learning Strategy, with major new investments in the knowledge-based workforce of tomorrow
- ▶ Secure Retirement Option, a voluntary, low-cost option within the CPP that small businesses can choose for affordable pensions

Small and medium businesses are the backbone of the Canadian economy. We need more of them to grow into large, innovative Canadian leaders that take on global markets. These measures to advance the Canadian Champion Sectors will target start-ups, and improve the incentives for the most innovative among them.

A New Innovation Gateway

A Liberal government will also revamp existing innovation programs to ensure that they do a better job of meeting the needs of the private sector. Currently over 100 such programs are scattered across the government, working with little strategic vision or purpose, and leaving Canadian entrepreneurs and major enterprises confused about what government support is available for innovation.

A Liberal government will launch a new **Innovation Gateway providing a “single window” approach** that consolidates government support for innovation and entrepreneurship in emerging fields as well as long-standing areas of strength like aerospace, manufacturing and natural resources. The objective will be a simpler and more efficient emphasis on entrepreneurial, innovative companies. Consolidating all existing federal resources earmarked for innovation, the Innovation Gateway will focus on:

- ▶ Helping entrepreneurs access the business and managerial training they need;
- ▶ Advancing business incubators and innovation clusters in partnership with industry and Canadian colleges, polytechnics and universities; and
- ▶ Supporting growing Canadian companies just past the venture capital stage in bridging the difficult “valley of death” step between research and commercialization.

Investing in Science, Technology and Basic Research



The federal government must continue funding basic research that the private sector – focused more on profitability and returns – will not undertake adequately. History shows that such public investment leads to tremendous economic benefits over the longer-term, as key discoveries are later adapted for commercial use. The CANADARM, the Blackberry, IMAX and canola are among the many examples of innovative breakthroughs that would not have occurred without public investment in basic science, research and development.

As the country’s financial situation improves, we will increase investments in science, technology and basic research. In the near term, several commitments in this platform will advance science investment in cooperation with major national research bodies, including for brain research, oil sands environmental impacts, and the Canadian Freshwater Strategy.

Transportation and Infrastructure to Drive the Economy of the Future

Modern, efficient infrastructure is another driver of a productive economy and high quality of life. Sound investments can reduce pollution and ease congestion in our cities, while making our economy more competitive.

A Liberal government will provide leadership, working with other levels of government and the private sector to put in place a **Canadian Transportation and Infrastructure Strategy** that targets long-term economic benefits.

The last Liberal government took a strategic approach, with the Pacific Gateway Strategy, which combined international trade competitiveness with transportation infrastructure investment. However, under the Harper government, interest in sound policy gave way to partisanship. The federal role in infrastructure became little more than posing for pictures with big cheques in Conservative-held ridings.



Looking to the future, all governments will need to coordinate strategies and investments with each other and the private sector. The successful gas tax transfer to municipalities is ongoing, but other infrastructure funds that were launched before the recession expire in the next several years. A new Transportation and Infrastructure Strategy will underpin a next generation of programming. In a time of record high fiscal deficits and infrastructure deficits, realism, cooperation, clear thinking and tough choices will be necessary. A Liberal government will bring clarity and coherence to the federal role in infrastructure. It's about investing for long-term results on major Canadian objectives such as international trade competitiveness, regional development, economic growth and modernization, urban quality of life and greenhouse gas and other pollution reduction.

Liberal infrastructure priorities include:

- ▶ **Highways and major roads** that support international trade, regional commerce and economic development;
- ▶ **Local and regional transit, rapid transit and commuter rail** that helps reduce greenhouse gas emissions by providing efficient alternatives to private vehicles;
- ▶ **Municipal infrastructure**, particularly for water and sewers to meet local needs and reduce pollution, and major public multi-function spaces;
- ▶ **High-speed rail** in regions where rapid, convenient connections between major urban centres promise environmental benefits, enhanced mobility, decreased congestion and a boost to international commerce, if coordinated with investments underway in the United States.

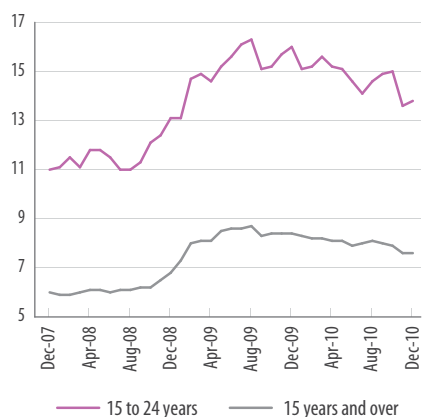
Canada's cities are drivers of good living standards and economic competitiveness in today's global economy. Still, serious infrastructure gaps are costing us jobs and productivity. The Harper government has paid little attention to cities, and advanced no vision of their role in the economy of the future. A Liberal government's Canadian Transportation and Infrastructure Strategy will address the needs and opportunities of cities, and build on their dynamism and innovation.

Acting on Youth Employment

At 14 percent, the youth unemployment rate is nearly twice the national average, and the worst in a generation.

As an immediate step, we will put in place a **Youth Hiring Incentive** for small and medium-sized businesses – a 100 percent Employment Insurance holiday for every Canadian youth age 18 to 25 that they hire. This incentive will apply to all new youth hires by small and medium enterprises for three years, and be evaluated in the third year to verify results and administrative efficiency. The Youth Hiring Incentive will be particularly valuable given that existing payroll taxes pose a significant burden for smaller firms. It is expected to benefit up to 170,000 young Canadians each year, at an annual investment of \$130 – \$160 million.

Youth unemployment is nearly double the national average



The new Youth Hiring Incentive will benefit 170,000 young Canadians annually.

The Digital Canada of Tomorrow

With continuing, rapid leaps in computing capacity, data storage and wireless innovation, digital technology and the Internet have the potential to invigorate our democracy, our economy, and our culture, putting the full power of information and action into citizens' hands.

But in the last five years, Canada has fallen behind more ambitious competitors. The United Kingdom, France, Australia and the United States, for example, have developed far-reaching plans for the digital society of the future, and are introducing comprehensive policies and programs.

A Liberal government will develop and implement **Digital Canada**, focusing on the following objectives:

Access to Broadband for All Canadians. Liberals consider access to a high-speed broadband Internet connection essential infrastructure, just as the electricity grid and the telephone network were over a century ago. A Liberal government will publicly tender contracts for private companies to install broadband capacity for the hundreds of thousands of Canadians in rural, remote or

northern areas who do not currently have access. To make those contracts economical for private investment, we will provide \$500 million in support, allowing Canada to achieve basic high-speed Internet access for all Canadian households within three years. The source of that investment will be the next spectrum auction for wireless licensing rights.

Closing the Digital Divide. Research shows that Internet skills lead to real economic benefits, including lower prices for consumers and more competitive small business. A Liberal government will work with all partners to promote digital life skills and training, in particular for older Canadians and lower income families.

Fair balance Between Creators and Consumers. Digital technology offers many new opportunities, but enjoying content without compensating its creators shouldn't be among them. At the same time, consumers should have freedom for personal use of digital content they rightfully possess. Liberals have worked to pass effective copyright legislation, including a private copying compensation fund instead of any new tax on consumers.

Flourishing Canadian Content, Culture and Identity in Digital Media. Canadians should continue to have access to ever more Canadian stories and Canadian content in the Digital Canada of the future. New media should provide vibrant and rewarding new avenues for expression by Canadian artists. The public broadcasters, Radio Canada and the CBC have crucial roles to play in achieving these objectives.

Competition in a Healthy Business Environment that Rewards Innovation. Consumers deserve choices and carriers that invest heavily in the advanced services and infrastructure of tomorrow deserve the chance to earn a fair return.



An Open Internet. The Internet is today's principal conduit for the free flow of ideas. To ensure it fosters the uninhibited exchange that innovation requires, Canada's Internet environment must remain open. Internet traffic management must remain neutral, and maintain the open sharing of legitimate technologies, ideas and applications. A fair, effective wholesale regime is also essential to allow smaller Internet service providers to lease broadband infrastructure at fair prices.

Open Government. Canada's federal government must embrace information technology and open data in order to improve services to Canadians and make government more transparent and accountable for public spending. Putting Statistics Canada and other government data online wherever possible, after meeting all privacy and other legal requirements, will strengthen Canadian democracy, help create and disseminate knowledge and spur innovation.

Protection from Digital Threats. Just as openness and transparency are the sources of boundless innovation and creativity on the Internet, these same features are too often exploited for criminal purposes causing significant personal and economic disruption, harm to children, and even threats to national security. A Liberal government will make security a priority in Digital Canada, working to advance it with the private sector and other governments at home and abroad.