A Narrative Dataset of Federal Tax Changes in Canada[1]

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Abstract

This document builds a narrative dataset of all legislated tax changes for Canada for the years 1961-2014. We use various budget documents like the budget speech, budget plan, budget papers, and economic and fiscal updates to document all implemented tax changes. We record the description, size, motivation, and types of these tax changes. We use the reasoning behind each tax change to classify it as exogenous or endogenous based on whether the change was motivated by contemporaneous happenings in the economy.

Key Words: Narrative Account, Canada, Tax Changes

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Introduction

The financial crisis of 2008 and the economic crises of 2020-21 induced by the COVID-19 pandemic result in governments using fiscal policy to stabilize their economies. This has renewed an academic as well as policy makers' interest in how fiscal policy affects the economy. Despite the importance of this question, there is a lack of consensus about the answer to it. The main issue in estimating effects of tax changes is that of simultaneity – changes in taxes affect output but at the same time, changes in output also affect variables that are used to measure tax revenues.

This problem of simultaneity has been tackled in two ways. First, studies have used vector autoregressions to identify those tax shocks that are uncorrelated with other changes in the economy. For example, Blanchard and Perrotti (2002) used a Cholesky decomposition to identify orthogonal tax shocks. Mountford and Uhlig (2009) used sign based restrictions to identify tax and government spending shocks.

Other studies have tackled the identification problem using the narrative approach. These studies use policy documents to identify those tax changes that are not motivated by current happenings in the economy. The seminal paper in this strand of literature is Romer and Romer (2010) who construct a narrative measure of tax shocks for the US. The same methodology was then adopted by Cloyne (2013) and Hussain and Liu (2017) – for the UK, Hayo and Uhl (2014) – for Germany, Pereira and Wemans (2015) – for Portugal, and Gil et al. (2018) – for Spain.

In this document, we construct a new measure of exogenous tax changes using the narrative approach for Canada for the time period 1961:1 – 2014:4. We use various types of government budget documents, like the budget speech and the budget reports, to document tax changes, the motivations behind them, and several other characteristics. Using these details we identify exogenous tax changes as those that are not taken in response to contemporaneous movements in the economy. We also document the *endogenous* tax changes that are taken in response to other changes in the economy. Our methodology to construct the exogenous tax measures closely resembles that of Cloyne (2013) in that we use the same categories to classify various tax changes.

Next, we describe the process that we followed to construct the narrative tax series.

Narrative Data Construction

This section deals with explaining in detail the construction of the data narrative presented below. The aim of this construction is to generate a quarterly tax series that is categorized into endogenous and exogenous tax changes as defined by Cloyne (2013). Disaggregation into personal and corporate taxes as well as anticipated and unanticipated taxes is also carried out.

Data Collection

The narrative takes into account tax measures enacted between 1961 to 2014. To gather this information, we examined various types of budget documents like the budget speeches, budget plans, or budget papers starting from December 1960 to 2014. Although budget speeches are available for the entire sample period, budget papers are accessible from 1975 onwards only. Hence, before 1975 all measures and their sizes reported are taken from speeches. We consulted both the budget speeches and budget documents in order to ensure that even those measures that had not been mentioned in the speeches, but which were significant enough would not be missed, since the speeches at times did not cover all details.

Although, tax measures were clearly stated in either budget speech or budget paper for most of the years, there were a few years where budget speeches did not declare the figures for the changes and the budget papers were also not available. Therefore, we dropped those measures for which we could not find any size. There were also times when the Canadian government had announced two budgets in a year and so both budget's tax changes have been included. The Canadian government has been introducing and Economic and Fiscal Update every year from 2005 onwards. There were instances where an Economic Statement and Budget Update published had introduced new tax measures. We incorporate all such updates in our data as well.

Size Allocation

The size mentioned is taken as the full year cost or revenue for the year following the budget year. While the speeches clearly mention the fiscal estimates of the tax measure for the relevant year, the budget papers give a more detailed revenue and cost estimates consisting of previous as well as following few years. Some taxes were enacted such that they were to be implemented in steps. For such tax changes, we calculate the full year revenue effect of each step and assign it to the quarter when it would be implemented. The detailed calculations for such tax changes are included in footnotes.

Implementation Date

For most tax changes, the implementation date is explicitly mentioned. For the remaining, we assume the announcement date (the budget date) to be the implementation date. Following Romer and Romer (2010) and Cloyne (2013), if the implementation date of tax change was after the middle of a quarter, we assign it to the following quarter.

Categorization according to motivation

We use the methodology used by Cloyne (2013) to categorize the tax changes according to the motivation behind them. We primarily used the statements of the finance minister made in the budget speech to categorize a tax change. We also used the budget reports and other documents to find the motivation behind a tax change if it was not mentioned in the budget speech. As mentioned earlier, we classified those tax changes that were enacted in response to contemporaneous movements in the economy as *endogenous* tax changes and the others – that were not in response to current events of the economy – as *exogenous.*

Exogenous changes were further classified into three categories. *Deficit consolidation* changes are those that are taken in response to concerns about the *long-run* debt of the economy. *Ideological* changes are the ones enacted for philosophical or ideological reasons. Finally, *long run* changes are used to improve the long run performance of the economy.

Endogenous changes were also further classified into four categories. *Demand management* changes are enacted to affect the aggregate demand or inflation of the economy. *Supply stimulus* changes are undertaken with an aim to affect the supply side of the economy.[4] *Deficit reduction changes* tax changes are designed to offset *current* deficit of the economy. Finally, *spending driven* changes are used to finance changes in government spending.

Disaggregating into Personal and Corporate Taxes

We also classify each tax change as change in personal taxes, corporate taxes, or other taxes. Any tax cut or hike aimed at increasing individual income (like medical expense deductions- to increase spending power as well as provide relief to lower and middle income groups), facilitating taxpayers who support dependents (elderly as well as children), employment expense deductions and employment benefits, exempting investment income, providing assistance to pensioners, impacting capital gain income, helping disabled and students, encouraging donations, enabling social development, and some more like these are measures that impact the personal income of people and are included in the personal income taxes.

For the corporate taxes, tax deductions for encouraging small business development as well as investment and research in new areas, supporting production of goods not been produced in Canada, facilitating expansion (by providing relief on new machinery costs), capital cost

[4] Together these two form what Romer and Romer (2010) called the counter-cyclical series whose aim is to mainly reverse the effects of a recession.

allowances, write-offs, depreciation relief as well as tax increases aimed mostly at large corporations are considered.

Other types of taxes, mainly the excise and sales tax measures, are included in the *other* taxes category.

Disintegrating into Anticipated and Unanticipated Taxes

We considered the announcement date of a tax change as the budget date. The implementation dates were mentioned for most of the tax changes. For others, we assigned the announcement dates as the implementation dates. Following Mertens and Ravn (2011), we defined a tax change as unanticipated if it were to be implemented within 90 days of the announcement date.

Permanent and Temporary Changes

Another important distinction to make is between temporary and permanent tax changes. While majority of the taxes were enacted as permanent measures, there were some that were announced for a specific time period only. While there are varying methods of dealing with temporary measures where they are included and expired at the end date or not included at all or included but not cancelled at the end date, we follow Cloyne (2013) and expire the tax change at the time of expiration (i.e. enter the negative of the temporary change at the expiration date). For temporary measures the size allocated is not the full year revenue or cost but rather the impact that mostly closely represents the total cost or revenue of the measure over its lifetime. For example, in some cases the initial values for revenue effects are very small as compared to the later values and so we then take the value from the later years to ensure that the closest possible impact is recorded.

Retroactive Measures

One more aspect to keep in mind was the implementation of measures that had retroactive element. In order to incorporate all such measures rather than completely ignoring them we just take their full year effect and assign them to the budget date.

Next, we describe all the tax changes beginning from 1960.

December 20, 1960:

Context:

The economy needed a supplementary budget due to a number of changes that took place in Canada and abroad. Most importantly, the rate of economic expansion was falling both in Europe and US which affected exports of these countries. The exports to United States constituted more than half of the total exports, for which a decline of 1.5% was observed during the first ten months of 1960. Although the government was not expecting a serious downturn in this regard, an expectation of substantial increase was also unrealistic.

Apart from these issues, the economy overall was progressing well, employment rate showed a continuous increase which was 1.7 percent higher for the first 11 months of 1960 as compared to the same period last year. The state of the economy was summarized in four features. The first feature explained an important problem; although level of employment was increasing in Canada, it was unable to cope up with the rate of increase in labor force which was 2.8% against the 1.7% increase in employment, as compared to 1959. The second feature pointed towards the rising production costs and the competitiveness of Canadian products both at home and abroad. Third feature highlighted that total capital investment for this year was expected to fall, which implied rearrangement of sources for capital investment. Fourth feature was that net imports/ budget deficit for the current year was $1 billion, which was less than the deficits in the past four years. Large inflow of capital from abroad caused upward pressure on the external value of dollar, which affected the competitive position of Canadian products in both domestic and foreign markets.

Tax Measures:

1). The size of income bracket for corporations bearing low tax rate of 21 percent instead of 50 percent was enlarged from $25,000 to $35,000. (Budget Speech-P. 1006)

Reason: To assist small companies to expand their scale of operations so that the economic activity could improve. The limited had already been expanded in 1957 from $20,000 to $25,000 and the results had been viewed as largely successful. The higher threshold was seen as a simple way to encourage investment by increasing the smaller businesses available funds. Since this change was taken in response to the fluctuations of the economy and not independent of the current economy, we are labeling this change as endogenous and its focus on small companies makes us categorize it as supply stimulus for this specific sector.

Size: -$24 million (Budget Speech-P. 1006)

Classification: Corporate Income tax

Date Implemented: January 1, 1961. (Budget Speech-P. 1006)

Intended to be: Permanent

Categorization: Endogenous-Supply stimulus

Type: Unanticipated

2). A new program was introduced to deal with the problem of unemployment by helping new industries to establish and provide more employment. The program supplemented the tax concessions provided by the Income Tax Act in the form of write-off for current and capital expenditures. (Budget Speech-P. 1007)

Reason: The changing economic conditions in some areas had created a degree of unemployment which required attention. This new program aimed to cope with this problem by encouraging new industries to establish themselves and provide employment. The idea was to increase the country's productive capacity, increasing domestic production and extraction and therefore, increase the demand for labor which would decrease unemployment. This is can be considered a supply stimulus measure given that it was meant to increase economic output. Our main rational for this is that it dealt with improve the state of businesses and therefore reducing unemployment. While it could be labeled as a demand stimulus measure, since the increase in grow seems to be seen as a means to help curb unemployment and not a goal and specifically through helping businesses, we are deciding against it. The fact that it was a counter move to the current economic situation would mean that we will label this tax change as endogenous.

Size: -$25 million (Budget Speech-P. 1007)

Classification: Corporate Income Tax

Date Implemented: January 1, 1961. (Budget Speech-P. 1007)

Intended to be: temporary (intended for 2 years initially)

Categorization: Endogenous-Supply stimulus

Type: Unanticipated

3). Investment income of the Canadian people was exempted from 4 percent surtax. (Budget Speech-P. 1007)

Reason: To encourage investment and it was the most efficient application of the savings of Canadians. The Finance Minister became convinced that the surtax discouraged investment more than the small amount of revenue that the tax yielded. As such, repealing the surtax was seen as a positive sock to investment and therefore a stimulus to the economy. However, because this change in regards to the current economy, instead of categorizing it as long run due to the savings concept here, we consider it as demand management since it is also a measure that was enacted to deal with bolstering the 1960 economy in mind. Since it was a response to the current economic conditions, it will be considered an endogenous change. From there, the most applicable subcategory is demand management and we will categorize it as such.

Size: -$11 million (Budget Speech-P. 1008)

Classification: Personal Income

Date Implemented: December 20, 1960

Intended to be: Permanent

Categorization: Endogenous-Demand management

Type: Unanticipated

4). 15% withholding/tax was made applicable on the profits of branches of non-resident corporations carrying on business in Canada. (Budget Speech-P. 1011)

Reason: The purpose was to avoid unfair tax incentives for the non-resident corporations and create a balance between them and the subsidiary companies operating in Canada. Canada had greatly benefited from foreign investment and adding addition expenses to those investments seemed to stymie new investment in the nation. Since there is no mention of the current economic state of the Canadian economy, the change will fall under exogenous. From there the element of fairness here makes us categorize it as ideological. There is an argument to be made for considering it as a long run performance change because it could help the competitiveness of domestic firms. Phrases like "the Canadian economy has derived great benefits from the inflow of capital from abroad" and "There is no intention, therefore, of recommending policies antagonistic to foreign capital" definitely portray as sense of a long run outlook. However, the Finance Minister's verbiage when presenting the change leads us to believe that the label of Ideological is the most applicable in this case.

Size: $50 million in a full year (Budget Speech-P. 1011)

Classification: Corporate tax

Date implemented: applicable on profits earned after 1960 (Budget Speech-P. 1011)

Intended to be: Permanent

Categorization: Exogenous- Ideological

Type: Unanticipated

June 20, 1961:

Context:

The restraining influence on expansion witnessed in 1960 disappeared and signs of improvement started to appear in mid-1961. The employment rate rose but it was still below the acceptable level. The level of output was also expected to rise at a slower rate. These economic difficulties were long term in nature, caused by the changes during World War II, which were somehow hidden as a result of demand created in post war due to shortage of goods and capital investment. As a result of these changes, United States suffered from inadequate growth which negatively affected Canada's exports.

The objective of the government was to use an appropriate mix of fiscal, financial and commercial policies to increase output, create more jobs, and to improve the general state of the economy and they were ready to do this by even incurring a deficit: "In the circumstances confronting Canada today, it is appropriate, indeed desirable, that the federal government should, by incurring a sizeable deficit, help to stimulate the economy. This we propose to do. Accordingly, I shall not be introducing any increase in our general level of taxation. Indeed, I shall be proposing some significant tax reductions to accomplish certain specific economic objectives. This contribution…will bring about higher levels of production and employment, and a more satisfactory rate of growth". (Budget Speech-P. 6643)

Tax Measures:

1). Abolition of 7.5 percent tax on automobiles (Budget Speech-P. 6664)

Reason: It was believed that this tax was acting as a big deterrent to the sales of automobiles in Canada and its abolition could lead to increased sales as well as employment and production. Based largely on a report submitted by Professor V. W. Bladen, the measure was met with resounding approval. Many felt the change was overdue and it became an easy way to stimulate growth in a key industry and by extension, increase growth in the Canadian economy as a whole. The measure could be categorized as either supply stimulus or long run but given that the main aim was to support the local automobile industry and the economy also needed a boost, we consider it as endogenous and put it change under the supply stimulus category. The phrasing before the change indicates the current government was concerned with a short term boost to the economy. Stimulating the automobile industry would help this sector of the economy and prop up a key part of the economy.

Size: -$66 million (Budget Speech-P. 6665)

Classification: Other taxes

Date implemented: June 20, 1961 (Budget Speech-P. 6664)

Intended to be: Permanent

Categorization: Endogenous- Supply Stimulus

Type: Unanticipated

April 10, 1962:

Context:

Canadian economy experienced a rapid expansion as a result of an increase in economic activity during 1961. The gross national product, expressed at annual rates, showed an increase of 7 percent for that fiscal year. For the period of March to December 1961, the industrial output rose by more than 9 percent, which was roughly 5 percent higher than it had ever been before, by the end of the year. The output for certain types of heavy industries, in particular, showed sharp increases. There was also a rise in the exports of Canadian goods; an increase of 9 percent was achieved by the end of 1961 as compared to the same period in 1960. Moreover, the rapid expansion in the economy was not accompanied by an increase in the level of prices rather the consumer price index increased by only half percent, while there was a one and half percent increase in the same period last year. (Budget Speech-P. 2689)

The finance minister claimed that an appropriate mix of fiscal and financial policies contributed towards utilizing the unused productive capacity of industries, to increase employment, to increase trade, and to stimulate growth in the economy. (Budget Speech-P. 2690) However, they believed that they should not be complacent as they still had unused capacity in industry. Also unemployment level fell from 7.8 percent in February 1961 to 6.0 percent in February 1962, but there was still room for reduction. Furthermore, the position of balance of payments also needed improvement (Budget Speech-P. 2692). Thus, a continuation of appropriate policies: “We are in a period of substantial and healthy expansion, and our fiscal policy must neither put the brakes on the momentum of our expansion nor invite the danger of inflation” (Budget Speech-P. 2702)

Therefore, it can be said that the tax measures introduced in this year were both exogenous and endogenous.

Tax Measures:

1).The exemption for municipalities for purchase of sewage and drainage materials was extended to include all items. Exemptions for goods used in the manufacture of the fishing industry were also included. (Budget Speech-P. 2704)

Reason: The aim of the sales tax measures was to "extend and clarify some existing exemptions. (Budget Speech-P. 2704). Overly high cost of repairing and building sewage and drainage systems acted as a deterrent to further expansion. In addition the convoluted nature of when to apply the exemption proved inefficient. The phrase "and take account of technological changes" clearly indicated a desire to update and expand existing infrastructure." (Budget Speech-P. 2704). There is no mention of current economic fluctuations so we will therefore put this change under the category of exogenous. The nature of the tax measure seems more concerned with long term efficiency; hence we label it as exogenous and long term.

Size: -$2 million (Budget Speech-P. 2704)

Classification: Other taxes

Date implemented: April 10, 1962

Intended to be: Permanent

Categorization: Exogenous-LR-Performance

Type: Unanticipated

2). Deduction for children eligible for family allowance was increased from $150 to $300. For other dependents the new deduction was to be $550, instead of $400 in 1957. (Budget Speech-P. 2706)

Reason: To facilitate taxpayers who supported dependents by freeing them from income tax. This was a measure purely to show concern for people who had to take care of other people and not as something that was aimed at the purchasing power of people since the economy at the moment was neither performing badly nor was it plagued by inflation; therefore, we take it as exogenous and place it in the ideological category.

Size: -$35 million (Budget Speech-P. 2706)

Classification: Personal income tax

Date: April 10, 1962

Intended to be: Permanent

Categorization: Exogenous- Ideological

Type: Unanticipated

3). For companies engaged in manufacturing or processing, fifty percent reduction in tax was proposed on the taxable income of $50,000 arising from increased sales and 25 percent reduction on tax on any additional income arising from increased sales. (Budget Speech-P. 2706)

Reason: The government was of the opinion that the greatest opportunity for employment was to be found in the processing and manufacturing industry. The aim was to increased production and employment in the country. The thinking went: since larger sales will involve more production and more employment for the citizens, this new incentive would bring about benefits to the larger community in addition to those which will naturally accrue directly from successful enterprises. Since their economic policy was targeted towards facilitating private expansion specifically, we are categorizing this measure as an endogenous and supply stimulus change. Since the economy was doing well and the Finance Minister merely wanted to keep the economy growing at a stable rate, the argument can be made to label this change in the "Exogenous-Long Run Performance" category. The passage pertaining to the change in the budget speech doesn't directly mention current economic fluctuations so it could be considered more of an exogenous change than an endogenous one. However, since the Finance minister mentioned that there was unused capacity in industry, it follows that the aim of this measure was to use that capacity and increase employment. For this reason, we classify this change as endogenous.

Size: - $50 million (Budget Speech-P. 2707)

Classification: Corporate income tax

Date implemented: April 10, 1962 (Budget Speech-P. 2707)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

4).The program of double depreciation introduced in December 1960 was extended further for one year. (Budget Speech-P. 2707)

Reason: To encourage the production of goods not produced in Canada and to stimulate industrial development that would lead to more employment especially in the manpower surplus area. The extension was in response to the interest shown by the companies in this program and the fact that the investment made by manufacturers was going to take more time for completion. The measure was targeted for future development and more employment opportunities all over, we take it as exogenous and label it as long term. There is no mention in the Budget Speech of current economic fluctuations and so it is not an endogenous change. In addition, since the change was seen as necessary because the original intended benefits of the program would need more time to be fully realized, we do not see this as short term aim but one that is intended to take time to accrue. This is in contrast to the idea of labeling the change as a supply stimulus which would involve growth in the short to medium term.

Size: Revenues in 1962-63 would not be affected, but of course the revenue effects would be extended by the extension of the program. Original estimate was $25 million in a full year. (Budget Speech-P. 2707)

Classification: Corporate tax

Date implemented: January 2, 1963 (Budget Speech-P. 2707)

Intended to be: temporary, till January 1, 1964

Categorization: Exogenous- Long run performance

Type: Unanticipated

5). Deduction of 150 percent of the expenditure incurred for scientific research in calculating taxable income. (Budget Speech-P. 2708)

Reason: To promote scientific research in the industrial sector. We can categorize this measure as long term in nature since more scientific research would lead to greater efficiency and development in the country and the belief of the government in introducing the measure was also "that this program will be of far reaching assistance in building up new research and development in industry, and in expanding existing efforts" (Budget Speech-P. 2708). In addition, scientific advancements can take years or decades to be both developed and implemented. As such, the benefits of such a measure are in no means short term neither are they endogenous since they cannot possibly take effect to cause growth in response to current economic fluctuations.

Size: -$20 million (Budget Speech-P. 2708)

Classification: Corporate income tax

Date implemented: April 10, 1962 (Budget Speech-P. 2708)

Intended to be: Temporary- Intended for five years initially

Category: Exogenous-LR performance (Scientific research would benefit in the long run)

Type: Unanticipated

6). Federal tax credit was allowed equal to two thirds of a provincial logging tax up to a maximum rate of tax of 10 percent. (Budget Speech-P. 2709)

Reason: To remove the existing tax discrimination for forest industry. The Prime Minister was concerned with the taxation of the forest industry [has] been more than other industries since provinces were allowed to tax the logging profits and so this measure was enacted to ensure that there was no such discrimination. Since the measure was not as a result of current economic activity but rather more towards ensuring a fair tax regime, we call this as ideological motivation.

Size: -$3 million (Budget Speech-P. 2710)

Classification: Corporate Income tax

Date Implemented: April 10, 1962

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

June 13, 1963:

Context:

The year 1962 in Canada's economic history was an improvement over the year 1961. Despite the exchange rate crisis, the industrial and agricultural output depicted rising trends. The prospects for the year 1962 were also favorable for these sectors. However, the Finance Minister argued that there was no room for complacency. The rate of growth of the Canadian economy for past six years as a whole had been quite inadequate. The economy faced falling rate of new investment, chronic deficits in international balance of payments, and most importantly chronic unemployment. (Budget Speech-P. 996) He also pointed out that all of these problems were interrelated; if one problem was solved, others would be eliminated as well. In order to deal with the problem of budget deficits which averaged $ 1.2 billion annually during the past six years, they believed that they needed to increase the production of goods that were being imported, which basically implied providing more jobs and getting rid of unemployment problem to a great extent. Producing more goods and services and providing more jobs required added investment, which in turn would lead to increased government revenues and reduced budget deficits. According to the Finance Minister, "we have no alternative but to look to our tax structure not only with a view to providing incentives for increased employment and industrial growth, but also in a search for additional sources of revenue". This statement of the finance minister made it clear that the tax increases were designed to offset the recent budgetary deficits that the government faced.

In particular, the problem of unemployment was regarded as the most important problem for the Canadian economy at that time. The government proposed a number of programs to provide more jobs to combat this problem (Budget Speech-P. 998). These tax concessions were meant to encourage private capital expenditures and increase employment. So the tax measures proposed were exogenous and endogenous.

Tax Measures:

1). Manufacturing and Processing Industries Measures

a. For new manufacturing and processing industries, income tax exemption for three years from the date of their inception was allowed in the areas of slower growth. The write off was extended to new machinery and equipment up to two years as well as the cost of new buildings located in designated areas of slower growth. (Budget Speech-P. 1004)

b. Manufacturing and processing industries were allowed deduction on depreciation on new assets which was previously under class 8 at the rate of 50 percent per annum on a straight line basis. (Budget Speech-P. 1004)

Reason: To encourage Canadian participation as this exemption was restricted only for Canadian residents. The proposals were meant to stimulate activity in the Atlantic Provinces as well as in other areas of slowed economic progress. These measures were a part of the policy that aimed to encourage private capital expenditures which according to the budget speech "have lagged so conspicuously over the past six years" (Budget Speech-P. 1004). While this change has aspects that could be considered ideological in nature, namely focusing on areas of slow growth which were left behind, the main focus seems to be in response to the overall problems facing the economy. Since the change seems more concerned with overall growth rather than only specific areas, the emphasis on increasing manufacturing and processing with this measure drives us to label it as an endogenous and supply stimulus measure.

Size: -$100 million (Budget Speech-P. 1008)

Classification: Corporate Income tax

Date implemented: June 14, 1963 (Budget Speech-P. 1004)

Intended to be: Permanent

Category: Endogenous-Supply Stimulus

Type: Unanticipated

2). Changes in the sales tax for gasoline. The wholesale discount of 25 percent which existed for tax purpose in previous years was eliminated. (Budget Speech-P. 1005)

Reason: The wholesale discount was deemed inappropriate as the wholesalers had almost entirely disappeared. Wholesalers where seen as an important part of any economy and it was deemed that if there was a way to stimulate these businesses, the Canadian government had a responsibility to assist in anyway it could. While there is a solid argument to be made for categorizing this change as deficit consolidation, the main motivation seems to be of an ideological nature and the increase in revenues as an added bonus, perhaps to win over MPs skeptical to the program. The speech makes it clear that this was a measure enacted in order to remove any “anomalies” and so we can categorize it as ideological.

Size: $25 million (Budget Speech-P. 1005)

Classification: Sales tax

Date Implemented: June 13, 1963

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3). Measure of taxation on certain sales which might contribute to takeovers by non-residents. A 30 percent tax was imposed on certain sales by Canadian residents to non-residents and non-residents controlled companies, of shares in Canadian companies listed on Canadian stock exchanges. Another similar 30 percent sales tax was imposed on the sale of property by a listed Canadian corporation to a non-resident or non-resident controlled company. (Budget Speech-P. 1006)

Reason: To avoid the possibility of takeovers by non-residents arising as a result of increased foreign investment. They believed that any such takeovers were not of any economic benefit to the Canadian economy and so should be discouraged. This was a form of protectionism for domestically own companies and something necessary to protect Canadian economic autonomy. Quotes like “it is the policy of this government to encourage direct foreign investment in new enterprises in this country on the basis of partnership with 'Canadian residents” (Budget Speech-P. 1006), clearly seem to demonstrate a felt responsibility by the government to look after the welfare of its domestic firms. The overall message of the budget speech also indicated the need to raise revenues to address the budget deficit that the government was facing. Based on this, we classify this measure as endogenous-deficit reduction.

Size: $385 million (Budget Speech-P. 1008)

Classification: Sales tax

Date implemented: June 13, 1963 (Budget Speech-P. 1006)

Intended to be: Permanent

Category: Endogenous Deficit Reduction

Type: Unanticipated

Note: This measure was later withdrawn and hence is not included in the data (source: NY Times, July 9, 1963).

4). The exemptions for building materials and also for production machinery and equipment, other than those employed in fishing and agriculture, were withdrawn. (Budget Speech-P. 1007)

Reason: To gain additional revenue, manufacturers sales tax was used instead of income tax. The additional revenue was needed to deal with the problem of chronic deficits for the old age security fund. The fund was a more valuable program and affected more Canadian residents so the benefits to this program over the costs imposed on production of machinery and building materials. For the Finance Minister and other members of Parliament, the tradeoff was seen as necessary.

Size: $360 million in 1964-65(Budget Speech-P. 1007)

Classification: Sales tax

Date implemented: June 13, 1963 (Budget Speech-P. 1007)

Intended to be: Permanent

Category: Endogenous Deficit Reduction/ Exogenous-Deficit Consolidation

Type: Unanticipated

Note: The measure was later revised to restore exemption for building materials for schools and universities. The modified size of this measure was given as $235 million in a full year. (source: NY Times, July 9, 1963).

5). Change of schedule was proposed for corporations tax payments. Corporate taxpayers were initially used to make payment after the seventh month of the fiscal year and filed their return six months after their fiscal year ended. They were instead required to move their payment period forward two months, which basically implied that the final filing time for corporate tax returns would be the same as that for individuals. (Budget Speech-P. 1007)

Reason: To remove disparity between corporations and individual taxpayers, to increase revenue so that old age security fund could be improved and also to show changes in economic conditions promptly in the future. We label this change as deficit reduction because this was not going to increase the revenue but only change the timing of collection of the revenue. The overall tone of the budget speech made it clear that the recent budgetary deficits necessitated an increase in revenues and hence we label it endogenous-deficit reduction.

The change contains both an ideological and a long-term motive. We feel that since these changes won't take effect for a two year period and the revenue and new private cost won't be fully realized till then, it would be more appropriate to label it as exogenous long term. The more prompt arrival of economic conditions would also decease the effects of internal lags since the more time the government has to know about a potential economic downturn, the soon it can take corrective measures against them.

Size: $165 million in 1964-65 (Budget Speech-P. 1008)

Classification: Corporate taxes

Date implemented: June 13, 1963

Intended to be: Permanent

Exogenous: Endogenous-Deficit Reduction

Unanticipated

Note: We do not include this measure in the data since it was not going to increase the revenues on a recurring basis and only changed the timing of the collection of revenues.

April 26, 1965:

Context:

The Canadian economy was in a very healthy state and moving satisfactorily towards achieving the economic objectives of the government. Unemployment rate was at its lowest since 1957 with a figure of 3.9 percent on a seasonally adjusted basis, which was half of what it was in the first quarter of 1961. Also there was a rapid increase in the Gross national product during the years 1963 and 1964, with a value of about 16 percent for these two years. The economy achieved a significant improvement in the balance of trade and payments accompanied by reasonable price stability. An important fact highlighted was that this improvement was not restricted to one or two favored parts of Canada, rather all areas contributed towards this improvement.

The primary objective for the economy at that time was to sustain the healthy rate of economic expansion (Budget Speech-P.427). Hence, both endogenous and exogenous tax reforms were introduced with the endogenous measure enacted in an attempt to stimulate more demand.

Tax Measures:

1). The measure which allowed the cost of machinery and equipment to be deducted from income over a period of two years for tax purposes was extended until the end of December 1966, which was originally scheduled to expire on 13th June, 1965. (Budget Speech-P.436)

Reason: To encourage the expansion and modernization of Canadian manufacturing and processing industries. It was an extension of a previous measure which had been introduced to give an impetus to the slow growth areas. Here the economy was performing well and so we take it as an exogenous measure as well as one that is aiming to further enhance the growth of these industries. Many of the benefits of the previous measures had yet to be fully realized and so it was felt that an extension in the deduction would help the growth from the policy to be reach its full potential. The emphasis of the intertemporal nature of the measure makes us believe that labeling the change as LR performance is the most appropriate.

Size: -$15 million

Classification: Corporate income tax

Date Implemented: June 14, 1965 (Budget Speech-P.436)

Intended to be: Temporary

Category: Exogenous-LR Performance

Type: Unanticipated

2). Reduction in the federal tax of an amount equal to 10 percent of the basic tax payable, with the maximum deduction limit of $600. (Budget Speech-P.440)

Reason: To encourage and stimulate private expenditure as according to the speech this measure would lead to a greater “take-home pay” for the people and so increase their spending which would then lead to a higher rate of GNP. The idea being to stimulate consumption in an economy.

According to basic Keynesian theory, an increase in consumption, should, in theory, increase aggregate demand. This would in turn increase overall expenditures and increase national GNP. "Since this tax reduction is being deliberately made to achieve these economic effects" (Budget Speech-P.440). Given these conditions, we call it endogenous and label it as demand management.

Classification: Personal Income tax

Size: -$265 million (Budget Speech-P.440)

Date Implemented: July 1, 1965 (Budget Speech-P.440)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Unanticipated

March 29, 1966:

Context:

The rapid economic expansion of the Canadian economy continued during the year 1965. The output of goods and services rose by about 9.5 percent as compared to the previous year. The increase in the volume of Gross National Product was about 9.5 percent in contrast to an expected 6.5 percent. By the end of 1965, the rate of unemployment level had reduced to 3.5 percent despite the addition of 208,000 workers in the labor force. The Canadian economy depicted the most sustained economic expansion during the preceding five years. Most of the sectors of the economy were operating at or close to capacity despite the substantial increase in the plant and equipment throughout the economy as well as the unusual large growth in the labor force. Therefore, the economy showed no appreciable slack at that time but the boom needed to be moderated so that it would not lead to a bust. (Budget Speech-P. 3377)

Therefore, one can say that the aim was to enact exogenous measures that would be beneficial in the future, as can be understood from the words of the Finance Minister: "We have been successful during these past few years in stimulating the economy until it is now operating close to capacity……In other words can we now pace and prolong our prosperity?" (Budget Speech-P. 3378)

Tax Measures:

1). Changes were made in the tax cut proposed in the 1965 budget. The present limit on tax cut of $600 was reduced to $20 per year. On the other hand, the rate of the tax cut was changed from 10 percent to 20 percent of the total tax payable. As a result of these changes, the taxpayers with average or better than average income would return to tax levels somewhat lower than the levels that prevailed in 1964 and the taxpayers with lower than average incomes would pay less tax than they did at that time and less than they were then paying. (Budget Speech-P.3383)

Reason: The tax cut proposed in 1965 had served the purpose, and thus was not appropriate anymore. While this change could be considered deficit consolidation, as a larger tax revenue stream would curb deficit spending, we feel a stronger case can be made for categorizing it as an ideological measure. There is no mention of increasing revenues or balancing the fiscal budget, while there is an explicit mention of helping poor Canadians. "I feel that we should, however, lighten the load upon those with the lowest incomes." (Budget Speech-P. 3378)

Size: $210 million (Budget Speech-P.3383)

Classification: Personal Income tax

Date implemented: June 1, 1966 (Budget Speech-P.3383)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2). The interest on bonds and debentures issued by the federal or provincial government for their agencies guaranteed by them or issued by municipalities, or by hospitals and educational institutions guaranteed by a province, was to be exempted from the withholding tax of 15 percent. (Budget Speech-P.3385)

Reason: To encourage the sale of Canadian bonds to foreign buyers which would encourage foreign investment in the country and so is a long term effect measure. The clear motivation for this measure seems to be one no of ideology but of prudent long run positioning. The drop in tax revenue cause by this change was considered of little consequence to the potential long term gains. As such we are labeling this change as being of exogenous and long run performance, since there is no mention of the contemporary state of the economy nor of any sub-category motivation other than LR performance.

Size: -$3 million (Budget Speech-P.3386)

Classification: Withholding tax

Date Implemented: April 15, 1966 (Budget Speech-P.3386)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

December 19, 1966:

Context:

The purpose of this budget was to present proposals that would help increase revenues for budget and economic reasons. The government needed about another $280 million for financing the guaranteed income supplement program. (Budget Speech-P. 11330)

During the end of year 1966, the undesirable increase in demand had moderated. The economy was going through economic readjustment after the excessive rate of expansion that occurred earlier that year. The Finance minister highlighted that the economic expansion in progress was more in line with the capability of the economy in the long term. He also said that the economy was at a delicate balance and the key objective while formulating policies should be to avoid a serious decline in 1967 and not to succumb to the strong inflationary pressure while attempting to achieve a sustained rate of economic growth (Budget Speech-P.11332). As is clear from the context, the government was concerned about budget deficit and so we see endogenous tax changes.

Tax Measures:

1).The maximum amount of tax payable on personal income under the Old Age Security Act was raised from $120 per year to $240 per year. (Budget Speech-P. 11334)

Reason: To fulfill the immediate cash requirements for the governments’ income supplement program, thereby relieving the burden imposed by the parliament on the Old Age Security fund. From the overall context of the situation, it is clear that the economy was is a precarious situation and the government needed to tread carefully with is fiscal decisions. This change was seen as fulfilling the nation’s immediate budgetary needs while not significantly increasing the probability of a recession. While it may initially seem as though the target of Old Age Security as an ideological change, the clear emphasis on the state of the late 1966 economy means that it was meant to be endogenous in nature. As such we are classifying this measure as endogenous and spending driven, since it was meant to help a specific sector.

Size: $135 million (Budget Speech-P. 11334)

Classification: Personal Income

Date Implemented: January 1, 1967 (Budget Speech-P. 11334)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

2).The general sales tax was increased by one percent, making it 12 percent in total. (Budget Speech-P. 11336)

Reason: The overall budget motivation tells us that the government needed to raise revenues for financing the guaranteed income supplement program. In a similar fashion to the measure taken above, this change both increase revenue and targeted a specific sector, so we will label it as supply stimulus and therefore also endogenous.

Size: $155 million a year

Classification: Sales tax

Date Implemented: January 1, 1967 (Budget Speech-P. 11336)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

June 1, 1967:

Context:

The economy required restraint in economic expansion during 1966 to bring the demand to moderate levels and sustain long run economic growth. The government exercised a mix of fiscal and monetary restraint policies to achieve the goal. By September 1966, the rate of expansion began to slow down, however, the tendency of inflationary pressure also started to appear. Then the economic situation improved by the end of the year. The rate of expansion in demand had moderated significantly and there was no further requirement of restraint policies.

At the beginning of the year 1967 it became evident that the government needed to remove the restraint policy in the form of the refundable tax on business profits, as it had decreased the rate of business capital expenditures, which was done in the later months of the year. (Budget Speech-P. 858-859)

The current economic situation was reasonably satisfactory; the overall unemployment rate, seasonally adjusted, was 3.9 percent during May 1967. Production level also increased over the previous year but with a small increase in productivity (Budget Speech-P. 861). Hence, the changes proposed were exogenous in nature.

Tax Measures:

1). Removal of sales tax on all kinds of drugs whether prescribed or non-prescribed, for human or animal use. (Budget Speech-P. 869)

Reason: The government believed that the high prices of drugs needed to be controlled as consumers had to pay large sums to get medicine for themselves and their families. The contemporary state of the economy was not mention in the reasoning given for the change, nor is it reasonable to assume that a measure like this would have a significant enough effect on the economy to induce economic growth. Allowing Canadians to have access to cheaper drugs was seen as a positive goal and this was felt independently of extraneous economic factors. Given the concern shown for the welfare of public as the main motivation for the introduction of the measure, we label it as exogenous and ideological.

Size: -$22 million per year (Budget Speech-P. 869)

Classification: Sales tax

Date implemented: September 1, 1967 (Budget Speech-P. 869)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

2). The tax measure of six percentage point of sales tax intended to postpone some capital expenditures, applicable till April 1st 1968, was removed. (Budget Speech-P. 870)

Reason: The motivation to restrain capital expenditures was no longer felt under the economic circumstances. It was also expected to benefit Canadian producers in future, with reduced cost of production arising from acquiring the machinery and equipment, thereby providing Canadian producers' competitive edge over producers outside Canada, which then would lead to a greater prosperity in the future, hence the categorization to long term. While phrases like "In the present economic circumstances we no longer wish to restrain capital expenditures" would indicate an endogenous motivation, the true connotation of the passage indicates merely a reassurance that the current economic situation was doing fine and should therefore should not be seen as a concern. Additionally, the Finance Minister explicitly mention a long term outlook when implementing this change. “This action will provide an additional benefit in reducing somewhat the costs of production in future arising from the acquisition of such machinery and equipment this year, thereby enabling Canadian producers to compete more effectively in future with producers outside of Canada.” (Budget Speech-P. 870) As such, we feel that the most applicable category to place this measure under is exogenous-Long Run Performance.

Size: -$60 million (Budget Speech-P. 870)

Classification: Sales tax

Date Implemented: Immediate cancellation of an existing measure; June 1, 1967 (Budget Speech-P. 870)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

November 30, 1967:

Context:

The budget for the fiscal year 1968-69 was intended to achieve three objectives important for the economy at that time; the first one was to reduce the inflationary pressure on prices, costs and cost of living which was a hindrance for prosperity, second was to remove disturbing factors in the capital market which were harmful for continued economic growth, and the third was to fulfill the costs of continuing public program without affecting inflation. (Budget Speech-P. 4899)

The economy faced a reduction in the rapid economic growth achieved in the previous years. It was difficult to reach the full employment level with price stability. Even for the unsatisfactory levels of unemployment, prices and wages were too high. The level of inflation was rising rapidly as compared to United States and most other western industrialized countries, deteriorating the international competitive position of Canada (Budget Speech-P.4900). Looking at the situation of the economy, the budget proposed increase in taxes in order to meet the growing expenditure needs (Budget Speech-P.4904), hence the endogenous classification for all measures.

Tax Measures:

1). A special surtax of 5 percent of the basic tax payable by an individual in excess of $100, with a maximum payable of $600, was imposed. (Budget Speech-P. 4907)

Reason: Looking at the budget objectives we see that the government needed cash to fulfill needs of public program. While under prosperous economic conditions, such measures meant to raise public revenue would be considered deficit consolidation under exogenous, since added revenues would reduce budgetary deficits, as we have already mentioned all of these changes are endogenous in nature. I thus, we label it as endogenous-spending driven.

Size: $185 million (Budget Speech-P. 4908)

Classification: Personal Income

Date Implemented: January 1, 1968 (Budget Speech-P. 4908)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

2). Increase in the taxes on liquor and tobacco including an increase in federal tax on spirits, beer, wine, cigarettes, cigars and tobacco, by approximately 10 percent. (Budget Speech-P. 4907)

Reason: Not specifically mentioned for this change, but the motivation for the overall increase in taxes was to raise revenues to meet the growing expenditures. Ordinarily such “moral” taxes are almost always primarily exogenous in nature, due to societal ideological concerns, and only secondarily fiscal related. Essentially, the motivation for a moral deterrents outweigh any motivation for increase tax revenue. In this case, however, it was the fiscal concerns that were primary and the moral incentives were merely a positive bonus. The Canadian government went looking for funds and choose a target with positive side effects.

Size: $95 million for 1968-69, $20 million for the current year (Budget Speech-P. 4908)

Classification: Other taxes

Date Implemented: Effective immediately; November 30, 1967 (Budget Speech-P. 4908)

Intended to be: Temporary (Revenue change is forecasted for 2 years)

Category: Endogenous-Spending driven

Type: Unanticipated

3).The schedule for the payment of tax for corporations was changed. Corporations were required to make their first payment in the third month of the taxation and complete their payment by the second month, following the year on account of their estimated tax. (Budget Speech-P. 4908)

Reason: This measure basically provided cash and the budget objectives show that the government needed cash to fulfill the need of public programs as mentioned above. The sooner the government could collect their accounts relievable, in the form of future tax revenue, the sooner it could use that money to finance its public programs. This would means going into less debt than it would otherwise and would therefore forgo accruing as much interest on that debt. As such, by simply moving up the due date for corporate taxes, the government could reduce its budget deficits quickly. As such we are categorizing it as endogenous-spending driven, since it would allow the government to increase government spending through the public sector.

Size: $290 million (Budget Speech-P. 4908)

Classification: Corporate tax

Date Implemented: November 30, 1967

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

October 22, 1968:

Context:

The Canadian economy depicted a moderate expansion again in this year after a slowdown in 1967. The economy was in a period of prosperity but there were problems associated with it. There was a widespread increase in production, national income, exports, housing investment, and industrial activity. But the rate of increase in unemployment and prices was also quite significant. The balance of trade for the year showed improvement but the capital markets were under serious strains, resulting in high interest rates and many other problems for the borrowers (Budget Speech-P. 1678).

Looking at the economic situation, the finance minister concluded that in order to bring the budget into balance in 1969-70, more revenues must be raised substantially. This was expected to contribute towards achieving price stability as well as strengthening the overall economy through investment programs in housing, farm credit and other economic fields (Budget Speech-P. 1684). Thus, there was a mixture of endogenous and exogenous tax reforms that would be helpful in balancing budget as well as raising revenues and initiating new social welfare programs.

Tax Measures:

1). There were some changes proposed in the tax rules concerning Life Insurance companies. At that time these companies were exempt from tax on their income and instead, paid taxes only on shareholders' income. Hence, it was proposed that the Income tax Act apply to this industry like other industries. Moreover, a 15 percent tax was also levied on part of the investment income of insurance incomes. (Budget Speech-P. 1686-1687)

Reason: This measure seems ideological since it aimed to bring tax fairness for people who were saving in the form of insurance policies and those who used other forms and were being taxed already. This action would also result in setting the Canadian Insurance industry at par with the way this industry was taxed abroad. Having such a large industry only taxed on a small fraction of its earned income may have been useful in the past, however the current government that it was no longer necessary and that it was unfair to other corporations who were not exempt. Phrase like "for the fraternal benefit societies" are clearly meant to appeal to equality. As a result, we are going to label this as an exogenous-ideological change.

Size: $95 million (Budget Speech-P. 1687)

Classification: Corporate Income tax

Date Implemented: October 22, 1968

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2).The limits on reserves allowed for banks and mortgage lenders for tax purposes were reduced. (Budget Speech-P. 1688)

Reason: Nothing was specifically mentioned for this measure other than the statement that by the Finance Minister that in accordance with the loss shown by the mortgage lenders over the past twenty years, the limits were being reduced. While we don't have much that is concrete about the rational for the change, we can infer from the general motivations for the entire budget and see if the change fit the general goals. In this case, the main goal of the budget was to reduce the deficits of the previous years, and there is little indication of contemporary economic fluctuation in regards to this deficit responsibility, we feel that labeling this change as exogenous-deficit consolidation would be most appropriate.

Size: $45 million (Budget Speech-P. 1688)

Classification: Part of tax reforms package

Date Implemented: October 22, 1968

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

3). Other changes in the income tax act included: change in the law for crown corporations to be excluded from exemption in case they had an option to buy shares, the collection of tax on interest payments, the exemption of capital cost of new buildings, structures and bins designed for the purpose of storing grains to help farmers who needed more grain storage capacity. (Budget Speech-P. 1688)

Reason: These changes were proposed to bring tax reforms for more equity as well as to gain more revenue, albeit not a substantial one.

Size: $10 million in 1969-70 (Budget Speech-P. 1689)

Classification: Corporate Income tax

Date Implemented: October 22, 1968 (Budget Speech-P. 1689)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

4). Social development tax of 2 percent was levied on the taxable income with a maximum limit of $120 per annum. (Budget Speech-P. 1691)

Reason: The speech clearly points towards the enactment of the measure in an attempt to raise more revenue sources, therefore allowing us to categorize it as an exogenous-deficit consolidation change.

Size: $440 million in 1969-70 (Budget Speech-P. 1691)

Classification: Personal income tax

Date Implemented: January 1, 1969 (Budget Speech-P. 1691)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

June 3, 1969:

Context:

The fiscal policy for the year 1968 intended to bring the budget into balance for the year 1969-70. The implementation of the policy resulted in a strong upswing in the economy, a faster than expected increase in the revenues which reduced the budget deficit substantially as compared to the previous year. The prospects for the balance of budget were even stronger than in 1968. Furthermore, expecting a gain in employment of about four percent, an increase in real output of about five percent, and assuming same rate of increase in prices as of 1968, the gross national product was expected to increase by nine percent. This strong expansion was associated with concerns regarding inflationary pressures. (Budget Speech-P.9414)

The finance minister argued that maintaining a strong fiscal position was necessary to check the rise in prices and achieve more balanced and sustained economic growth. For this reason, no reduction in taxes were proposed for the year, rather they were maintained in full force for the period ahead (Budget Speech-P. 9417). The aim for a sustained inflation free economic growth led to exogenous tax changes.

Tax Measures:

1). Personal income surtax and corporation income surtax applicable for the years 1968 and 1969 were extended until December 31, 1970. (Budget Speech-P. 9417)

Reason: With sustained economic growth as the main motive for the budget, this continuation of a previous action was meant to not put brakes on the fiscal policy adopted but rather to keep it going. It was clearly stated by the Minister that this measure was for the purpose of economic stabilization and not to raise revenues. Therefore, we label it as exogenous long term.

Size: $25 million for current fiscal year, and $155 million next fiscal year if maintained throughout 1970 (Budget Speech-P. 9417)

Classification: Personal Income tax and Corporate Income tax (we assigned 70 percent of this size – the rough percentage of personal income in GDP – to personal income tax and remaining to corporate tax).

Date implemented: extension of already existing measure, June 3, 1969 (Budget Speech-P. 9417)

Intended to be: Temporary

Category: Exogenous- LR Performance

Type: Unanticipated

2). Changes made in the tariff rates. For example, the tariff reductions of Kennedy round which were originally planned to come into effect on January 1, 1972, actually got implemented immediately. Those reductions amounted on average to about three percentage points, on imports of worth somewhat $2 billion a year. Also an extension in the exemption was proposed for the two existing tariff items which would provide free entry for goods brought in by Canadian residents returning from trips abroad. (Budget Speech-P.9417-9418)

Reason: To reduce prices to intensify competition that would then lead to greater production and therefore, more growth. While changes in tariff rates can have immediate effects on a country, in this case the specific motivation seems to be positive growth that is not immediately realized. “One of these is the need to increase the element of price competition and efficiency in the domestic economy.” (Budget Speech-P9419) Both price competition and efficiency are net immediately realized and those gains take time to reach the goals set out by the change. As a result, we are labeling this change as exogenous-long term.

Size: -$50 million (Budget Speech-P.9419)

Classification: Tariffs

Date Implemented: June 3, 1969 for Kennedy round tariff reductions and January 1, 1970 for tourist exemptions (Budget Speech-P.9417, 9419)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

3). Tax was levied on the price of air tickets or other charges made by air carriers for carrying passengers. (Budget Speech-P.9420)

Reason: The purpose here was to gain revenue to be utilized on the costs incurred for sir transport facilities that were becoming difficult for the government to manage. Therefore, we categorize it as endogenous-spending driven.

Size: an estimate of $20 million (Budget Speech-P.9421)

Classification: other taxes

Date Implemented: June 3, 1969

Intended to be: Permanent

Category: Endogenous- Spending Driven

Type: Unanticipated

December 3, 1970:

Context:

The main focus of this budget was to achieve a steady and sustainable improvement in the standard of living of all Canadians. In particular, the government was concerned about reasonable economic stability without which it was impossible to reach a steady improvement in the prosperity of the Canadian people. Therefore, both endogenous and exogenous measures were taken.

The key features of the economy at that time included falling unemployment, after allowing for normal seasonal patterns and rising real output as revealed in the national income accounts. Moreover, the economy faced a pause in the growth of production of goods and services during the second quarter of the year 1970, which however did not continue and was back on the path of advancement later on. In terms of international trade, the year 1970 showed a record improvement as a result of vigorous increase in the exports (Budget Speech-P. 1738). The strength of the trade balances successfully contributed towards putting brakes on price increases and thus the price performance of Canada depicted a clear and marked improvement, as compared to other nations in the trading group of the western world.

The finance minister regarded both inflation and high unemployment as the two enemies in the path to achieving the primary objective of the economy, and he reinforced the need for the government to maintain its fight against the two. He was also aware of the fact that the reduction in the inflationary pressure for the year should not lead them towards complacency, as cost increases were still high, and the capacity to absorb them in further reductions of unit profits was also limited. The government policies for the year included programs for intensifying the fight against inflation and unemployment (Budget Speech-P. 1739), leading to both endogenous and exogenous measures.

Tax Measures:

1).The surtaxes on personal and corporate incomes were extended till the calendar year 1971. (P.1743)

Reason: To meet cash requirements for the current and next fiscal year, needed by government programs to overcome unemployment, etc. Government programs can often be an important method of reducing unemployment by stimulating a demand for labor. Government programs, like most spending initiative, is preferably paid for by available funds as opposed to being financed by debt. Since unemployment was a concern of the time and this measure was meant to finance initiatives to combat it, we are labeling this change as both exogenous and spending driven.

Size: $245 million over a 12-month period (Budget Speech-P.1743)

Classification: Personal and Corporate Income tax (we assigned 70 percent of this size – the rough percentage of personal income in GDP – to personal income tax and remaining to corporate tax).

Date implemented: December 3, 1970

Intended to be: Temporary

Category: Endogenous-Spending driven

Type: Unanticipated

2). The capital cost allowance for manufacturing and processing enterprises enabling them to value new investments in machinery, equipment and structures at 115 percent of their actual cost which would help reduce tax bills for those enterprises. This capital cost allowance would apply to new capital investments put in place during the period December 4, 1970 to March 31, 1972. (Budget Speech-P.1743)

Reason: To encourage new capital investments and speed up the implementation of capital outlays planned for the future which was expected to create new jobs. This change would free up funds that would be used to pay for these investments. Capital cost allowances encourage investment in new equipment which is hardly an overnight process (as anyone who has work on that side of the business sector can tell you), and it would take even longer to see those investments reflected in increased productivity. As such we are labeling it as a long run performance, and exogenous by extension.

Size: -$25 million for the fiscal year ending March 31, 1972, $250 million for several years ahead (Budget Speech-P.1743)

Classification: Corporate tax

Date implemented: December 4, 1970 (Budget Speech-P.1743)

Intended to be: temporary

Exogenous-LR performance

Unanticipated

June 18, 1971:

Context:

The budget for this year provided reforms for the Canadian tax system, intending to deal with many of its shortcomings. The expected effect of the reforms was to reduce significantly the tax burden borne by lower income Canadians through a combination of increased exemptions, changes in the rate schedule and other similar measures that would then lead to greater private spending in the economy. One of the major reforms was the change in the definition of income to make the tax system more equitable for taxpayers. Several items, which were excluded in the past, made their way in to the definition of income. Similarly certain items which were recognized as expenses became new deductions from income. The motivation behind these changes was to create a balance in determining the income that was been taxed (Budget speech-P. 6893). The government was clear on the objective that no tax increases would follow such reforms: “we have developed a program which will ensure that the increases in revenue derived from the more equitable distribution of the tax burden will be returned to all taxpayers. This program fulfills the government's commitment that tax reform will not be a steppingstone to tax increases”. (Budget speech-P. 6894)

The process of tax reforms included reforms in the tax treatment for various items of Personal income, corporate income, capital gains, business and property income, etc so that there would be more money in the hands of people for spending and therefore, can be grouped under the category of endogenous changes.

Tax Measures:

1). Changes made in various items of Income taxes: The 3 percent surcharge on personal incomes was removed, effective July 1, 1971. Another change was in the lowest rates of federal tax to eliminate taxes after July 1 on persons with taxable income of less than $500. Also, a change was proposed to assist pensioners with lowest incomes. (Budget speech-P. 6905)

Reason: These measures reflected the government’s belief that a taxation system “must be sensitive to the economic and social needs of the country”. (Budget speech-P. 6893). The budget speech talked about lowering the personal income tax burden on lower income individuals to provide them with tax relief. (Budget speech-P. 6894)

Size: -$135 million for the current fiscal year (Budget speech-P. 6906)

Classification: Personal income tax

Date implemented: July 1, 1971 for removal of surcharge, others unknown (Budget speech-P. 6905)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2). The three percent federal surtax on corporation income tax was withdrawn (Budget speech-P. 6906)

Reason: The government was engaging in a plan to reduce corporate tax liabilities. This plan was undertaken with a view to make the business sector more competitive with the US – the main trading partner of the US which would allow it to create more jobs in the economy. (Budget speech-P. 6897).

Size: -$40 million for the current year (Budget speech-P. 6905)

Classification: Corporate Income tax

Date implemented: July 1, 1971

Intended to be: Permanent

Category: Exogenous-Long-Run.

Type: Unanticipated

3). Commodity tax reductions.

a). A sales tax of 12 percent on margarine and other similar spreads was withdrawn. (Budget speech-P. 6906)

Reason: To provide tax relief to Canadians as the industry promised to pass on the tax savings to them. Commodity taxes were reduced to encourage spending and provide stimulus to the economy. Withdrawing such a tax of and individual commodity would lower the price on such a good and since people buy more of a normal good at lower prices, the measure would stimulate consumption. As a result, we feel the best label for this change is endogenous-demand management.

Classification: sales tax

Size: -$7 million a year (Budget speech-P. 6906)

Date Implemented: Immediate implementation, June 18, 1971 (Budget speech-P. 6906)

Intended to be: Permanent

Category: Endogenous- Demand Management.

Type: Unanticipated

b). Withdrawal of the sales tax on the acquisition of anti-pollution equipment used in production. (Budget speech-P. 6906)

Reason: Commodity taxes were reduced to encourage spending and provide stimulus to the Canadian economy. In as similar fashion to the tax change introduced above. Lowering the tax lowers the price, which increases demand, which grows the economy. So this is another demand management change.

Size: -$8 million a year (Budget speech-P. 6905)

Classification: Sales tax

Date Implemented: immediate implementation, June 18, 1971 (Budget speech-P. 6905)

Intended to be: Permanent

Category: Endogenous- Demand Management.

Type: Unanticipated

c). The 15 percent excise tax on home entertainment equipment was withdrawn; this measure would significantly reduce the price of these items. (Budget speech-P. 6906)

Reason: Commodity taxes were reduced to encourage spending and provide stimulus to the economy. This is the same motivation as the two measures taken above, and so it's also a demand management change.

Size: -$40 million (Budget speech-P. 6906)

Classification: sales tax

Date implemented: June 18, 1971

Intended to be: Permanent

Category: Endogenous- Demand Management.

Type: Unanticipated

October 14, 1971:

Context:

The budget provided measures to deal with the problems faced by the Canadian economy as well as sustaining and reinforcing the growth of production and employment taking place at that time. The economy, in terms of production, employment and prices, was moving towards the position as forecasted in the June budget. However, there was disappointing news concerning unemployment; it was expected to fall during the second half of 1971. However, the September figure turned out to be actually three-tenths of a point higher over the last year. On the other hand, output was increasing sharply; it accelerated to 6.2 percent during the first half of 1971. Regarding price, the Canadian economy was performing better as compared to other industrial nations.

For the case of unemployment the Finance Minister had an explanation: he said that the unemployment rate was not really the result of a failure of employment to grow; rather the increased unemployment figure was the result of a survey of Canadians of working age who had jobs but had responded as being without a job and looking for work. Also, those recorded as unemployed were men and women who had lost their regular employment, teenagers of age 14 or older who had decided not to return to school, women who had decided to seek work, etc. The budget, therefore, proposed a number of measures to provide jobs for Canadians who wanted to work but who had no work (Budget Speech-P. 8688). Both endogenous and exogenous tax changes can be seen in pursuance of this objective.

Tax Measures:

1).The tax payable by Canadian corporations was reduced by 7 percent. (Budget Speech-P. 8690)

Reason: The corporate sector was dealing with the adverse effects of the American import surtax and the threat of other US measures. Therefore, the government responded to these by cutting corporate taxes. (Budget speech-P.8690)

Size: Reduction of federal revenues of $160 million in fiscal year 1971-72, and a reduction of $175 million in fiscal year 1972-73. (Budget Speech-P. 8690)

Classification: Corporate tax

Date Implemented: July 1, 1971 (Budget Speech-P. 8690)

Intended to be: Temporary, till the end of 1972

Category: Endogenous-Demand Management.

Type: Unanticipated

2).The federal tax payable by persons was reduced by 3 percent. (Budget Speech-P. 8690)

Reason: To increase private spending through increased demand for goods and services. This change very clearly was implemented in order to increase consumption by the private sector and in turn, increasing aggregate demand. The more of an individual's income not going towards taxes, the more that can be spent on normal goods and services, growing the economy and reducing unemployment. As such we feel that the best category is clearly endogenous-demand management.

Size: Reduction in federal revenues of $125 million for 1971-72 and $225 million for 1972-73 (Budget Speech-P. 8690)

Classification: Personal taxes

Date implemented: July 1, 1971 (Budget Speech-P. 8690)

Intended to be: Temporary; until December 31, 1972

Category: Endogenous-Demand Management

Type: Unanticipated

May 8, 1972:

Context:

The economy depicted improvement in 1971 as compared to 1970, in terms of providing goods, services and employment as a result of the expansionary policies of the government. Due to higher employment, higher wage rates, and higher farm incomes, personal income grew rapidly. On the other hand, reduction in personal income taxes during 1970 resulted in higher net incomes; the rate of increase in after tax incomes was higher than the gross incomes. Despite the declining growth in exports for European and Asian countries and other menacing developments in the international commercial environment, Canadian exports showed a positive growth in 1971. However, imports also increased at a high speed, in accordance with the level of activity in the economy. The higher level of imports decreased the surplus achieved from merchandise trade in 1971. The economy showed an overall surplus in 1971, taking goods and services together. Although, the unemployment rate showed a downward trend, it was still unacceptably high, which remained as the major challenge for the government (Budget Speech-P. 1999). In light of such economic conditions the changes can be categorized as long term and ideological.

Tax Measures:

1). Measures Proposed for manufacturing and processing industries (Budget Speech-P.2001)

a) Cost of all machinery purchased to be used for the purpose of manufacturing and processing industries for sale or lease in Canada was to be written-off in two years.

b) The top rate of corporate tax applicable to manufacturing and processing profits earned in Canada was to be reduced to 40 percent. For small business, this rate was to be reduced from 20 to 25 percent.

Reason: The motivation behind these changes was to reinforce the expansion of manufacturing industries. These measures were expected to help this sector improve its competitive position in the world, protect existing jobs and create new well-paying jobs through increasing economic activities. Moreover, these measures would help the whole economy grow by boosting expansion in capital investment. While there is a good argument to have about an ideological component for the motivation since an improved manufacturing sector is often seen as a valuable part of the economy because it directly benefits working class Canadians. However, the Finance Minister seems to indicate the most important reason to help the manufacturing sector is to put the economy is a good potion in the future, not in the immediate.

Size: -$500 million. (Budget Speech-P.2002)

Classification: Corporate tax

Date implemented: January 1, 1973 (Budget Speech-P.2001)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

2) For persons 65 years of age and over for income tax purposes, the special exemption allowed was increased further to $1,000 from $650. This increased exemption was further extended for taxpayers who were confined to bed or a wheelchair, and for those who were blind. (Budget Speech-P.2003-2004)

Reason: To relieve the elderly persons of the hardship of a declining standard of living as a result of increase in the cost of living. This is classified as demand management since it increased the purchasing power of elderly so as to make it easier for them to get by, as opposed to ideological since it focuses specifically with increasing the contemporary economic situation of 1972. According to the Cloyne methodology, ideological must be exogenous in nature and this one is an endogenous change and therefore it cannot be considered ideological. This is in response to the rising cost of living for elderly persons and not independent of immediate economy.

Size: -$350 million for the complete program which included full escalation of the pensions for the aged, benefits and the increase in the exemptions for the elderly, blind and the disabled. (Budget Speech-P.2004)

Classification: Personal Income

Date Implemented: January 1, 1972. (Budget Speech-P.2004)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Unanticipated

3). In addition to the existing deduction for tuition fee, a new deduction of $50 per month per student for each month in the year during which the student was in full-time attendance at certain educational or training institutions was proposed. (Budget Speech-P.2005)

Reason: To encourage students and their families to invest further in education and vocational training programs and to meet the growing costs that were incurred in the process. We take it as demand management because the government was aware of the efforts put in by people to advance their educational growth and the rising costs associated with the process were a source of impediment for them. The Finance Minister claimed that the "age structure of our population, which has resulted in a large inflow of students" which lead to a steep increase in tuition costs. He felt that "we need to ensure that over the longer run Canada places an adequate emphasis on the development of our human resources." This would indicate that his motivation was almost entirely endogenous in nature. This is contradictory the how education subsidies are approach which are typically always ideological in nature.

Size: -$50 million (Budget Speech-P.2005)

Classification: Personal Income

Intended to be: Permanent

Date implemented: January 1, 1972 (Budget Speech-P.2005)

Category: Endogenous- Demand Management

Type: Unanticipated

February 19, 1973:

Context:

The objectives of this budget were to bring a substantial reduction in unemployment, reduce inflationary pressures in Canada and offset the effects of past inflation, increase real income as well as improve the standard of living of Canadians, and contribute to balanced economic expansion in all regions of Canada.

The Canadian economy showed expansion during 1972: the gross national product rose 10 ½ percent to 11 percent, personal income per capita increased by 10 ½ percent, and the standard of living of Canadians in terms of consumer expenditures per capita also went up. Employment increased by 250,000 new jobs, as compared with 200,000 in 1971; an increase of 25 percent. However, during the third quarter of 1972, the economic expansion of Canada was interrupted by a decrease in output as a result of adverse weather conditions. In September, there was a sharp rebound of economic activity and it was anticipated that the fourth quarter of 1972 would turn out to be quite extraordinary. The forecasts for 1973 provided good basis for economic expansion. This expansion was expected to be led by business capital investment and a buildup of inventories. Consumer spending and house building would also continue at high levels but could rise less rapidly. The economy confronted two major problems; unemployment and the rise in prices and costs. The budget measures were directed towards the solution for these problems: "The government, therefore, believes that in its own fiscal policy it should continue to impart stimulus to the expansion of employment and to the supply of goods and service" (Budget Speech-P. 1431). Thus, there was a mixture of endogenous and exogenous measures.

Tax Measures:

1). Sales and Excise Tax Measures:

a).Removal of sales tax on near food items like, confectionaries, chocolate bars, soft drinks, etc, and children's clothing. (Budget Speech-P.1432)

b). Special 10 percent excise tax on toilet articles and cosmetics was to be eliminated. Also, the excise tax on watches and clocks were removed, with a price limit of $50 for the manufacturer. (Budget Speech-P.1432)

Reason: These actions were taken to bring a reduction in prices of these basic necessities with the direct intention of providing a stimulus to the economy and control the effects of inflation as clearly stated in the budget speech. These products accounted for a proportionately large percentage of the budget of lower-income families, so that the tax on these products bore most heavily on those who were least able to afford it. The reasoning being that, proportionally, the excise tax was regressive, effecting poor Canadians more than rich ones since basic goods made up a larger percentage of their income. By cutting prices on these taxes two things would happen; first, poorer Canadians would have a larger take home profits and, because of the marginal propensity to consume, those dollars would be spend more than a reduction in a progressive tax, thereby increasing aggregate demand. The second thing would be that a cut in the prices of basic goods would curb inflation since inflation is, by definition, a rise in prices and this would help temper those concerns. As a result, there would be two sides to the benefits to the measures and since it has a clear contemporary aspect, we will label them as endogenous-demand management.

Size: -$190 million

Classification: Sales and Excise tax

Date implemented: immediate implementation suggested; February 19, 1973 (Budget Speech-P.1432)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Unanticipated

2). Changes in the personal income tax: (Budget Speech-P.1434)

i)- The basic exemption for all taxpayers was increased from $1,500 to $1,600 and the increase in the marital exemption was from $2,850 to $3,000. "That meant that there will be no income tax whatever for a single taxpayer earning less than $1,700 and no tax on a married couple earning less than $3,100." (Budget Speech-P.1434)

ii)- A 5 percent reduction in the basic federal income tax with a maximum reduction of $500 and a minimum reduction of $100, for an individual taxpayer.

Reasons: There were three main reasons for these major reductions in the personal income tax.

i) To stimulate the economy by providing more disposable income for consumers in order to increase their spending, leading towards providing more jobs. It would encourage consumption and therefore help growth.

ii) To contribute towards growth in a way that would not threaten excessive cost increases. This would be opposed to increases in government expenditures would could lead to increased costs. The two basic Keynesian approaches to expansionary fiscal policy, tax cuts and government expenditures, both cause increases in government debt. This particular measure was deemed as being more beneficial than harmful, increasing growth while not substantially increasing deficits.

iii) To offset the damaging effects of inflation on taxpaying citizens. If the economy grew faster than the growth in price levels, then the economy would still see a positive net gain. Inflation was seen as a major issue not just because it hurt consumption, but also since it damage lenders, which would discouraging further growth. Curbing inflation was seen as a goal of upmost importance. In the end, the fear of increased inflation and the felt need to address it was the primary reason for all of these endogenous policies. The other two motivations, increase growth while not substantially increasing deficits, were seen as necessary prerequisites to curbing inflation.

Each of these can be considered demand management since, there is a clear motivation to immediate economic conditions. These include a clear hope to increase growth, reduce unemployment, and curb inflation. Each of these measure would theoretically help in the Canadian economy reaching those goals.

Size: -$132800 million (Budget Speech-P.1434)

Classification: Personal Income tax

Date Implemented: January 1, 1973 (Budget Speech-P.1434)

Intended to be: Permanent

Category: Endogenous- Demand management

Type: Unanticipated

May 6, 1974:

Context:

The budget for this year meant to cater three main purposes. The first one was to reinforce the attack on inflation through increased supplies of goods and services, the second was to act directly against high prices where practical, and the third was to further alleviate the adverse impact of rising prices on all Canadians, especially so for lower income groups. (Budget Speech-P. 2076)

Canada had been less affected by unfavorable global events; since output, employment and income, all continued to increase. According to the forecasts for 1973, the real growth of the economy was predicted to amount to 7 percent, whereas the actual value turned out to be 7.1 percent, the highest rate achieved in 17 years. In 1973, the employment of Canadians increased by 430,000 giving rise to an increase of 5.2 percent, which was a record achievement for Canada by a substantial margin. (Budget Speech-P. 2077)

Looking at the growth of output and employment for the early months of 1974, a sharp rise was observed. Rate of real output in 1974 was expected to increase by 5 percent as compared to the year 1973, assuming favorable weather conditions. Employment was expected to further increase by 300,000, on top of the massive increase of 430,000 jobs in 1973. (Budget Speech-P. 2078)

Given that inflation was the main concern for the then government, all measures that were implemented dealt with this problem. The solution was to come up with new initiatives and so there were tax reforms that were aimed at gaining revenue that would then allow more spending by the government and hence are mostly endogenous in nature. This strategy is also apparent from the speech: "In choosing tonight's measures to extend our specific policy thrusts against inflation, I have therefore had to find additional revenues to pay for the costs of new initiatives." (Budget Speech-P. 2079)

Tax Measures:

1). The level of tax free reserves was reduced from 1 ½ percent to 1 percent of eligible assets for all financial institutions such as banks, trust companies, insurance companies and any others who were required to compute their reserves on this formula basis. (P. 2080)

Reason: It was determined that the status of the financial market had increased dramatically over the past few years and as a result, they could take the hit of a reduced tax exemption. It was estimated that he change would increase government revenue by $40 million in the next fiscal year. There was an added clause that this change would only apply to institutions whose tangible assets exceed 2 billon as a means of shielding smaller institutions from the burden. The revenue raised by this measure was in accordance with the plan of the government to gain money that could then be spent on other initiatives. As such we are labeling this change as being endogenous-spending driven.

Size: $40 million in 1974-75. (Budget Speech-P. 2080)

Classification: Corporate taxes

Date implemented: May 6, 1974

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

2). A temporary 10 percent surtax was imposed on federal corporate income tax. Excluding small businesses, mining and petroleum and manufacturing. (Budget Speech-P. 2081)

Reason: To get additional tax revenue from the huge corporate profits for the spending plan of the government mentioned above. This was due to the fact that these industries were specifically being targeted by other tax changes in order to benefit from them. A change to increase the tax budget would be counterproductive. As such, just as the change mentioned above, we are labeling it as spending driven.

Size: $150 million (Budget Speech-P. 2082)

Classification: Corporate tax

Date Implemented: May 6, 1974 (Budget Speech-P. 2081)

Intended to be: Temporary, till April 30, 1975

Category: Endogenous-Spending driven

Type: Unanticipated

3).Another measure was proposed to ensure that the corporations paid their fair share of taxes promptly. The timing of the final payment of a corporation's tax was advanced to the end of the second month instead of third month after the end of corporation's fiscal period. (Budget Speech-P. 2081)

Reason: Another revenue raising measure, this one making the date of receiving government revenues sooner and therefore allowing the government to implement its policies sooner and for them to then take effect sooner.

Size: $600 million (Budget Speech-P. 2081)

Classification: Corporate tax

Date Implemented: May 6, 1974

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

All these measures (1-3) together were expected to bring $790 million in revenue for the current fiscal year. (Budget Speech-P. 2082)

4). A special excise tax was to be implemented on high-energy consuming passenger cars and other types of energy-consuming vehicles. (Budget Speech-P. 2082)

Reason: the aim of this measure was to raise government revenue. “The tax will yield the federal government an additional $10 million of revenue in 1974-75. I have stressed that one of my requirements in this budget is to raise in revenues an amount at least equivalent to the tax reductions I will propose shortly.” (Budget Speech-P. 2082) While at first glance the quote may suggest an equally strong argument for deficit reduction, other passages such as “I now turn to other sources of revenue. I have already made considerable reference to the energy crisis with which we struggled this past year.” (Budget Speech-P. 2082) Show that it was more about a need to raise money rather than just reduce the deficit. This measure specifically had another side benefit. The reasoning was clearly to help stem consumption of energy consuming products (such a gasoline for cars) by raising the price. At the same time, this would increase revenues for the government. The finance Minister needed funding to offset his other tax cuts and this way he could also help encourage more responsible use of energy. Therefore since we consider it a revenue raising policy first, we will consider this a spending driven policy.

Size: $10 million in 1974-75 (Budget Speech-P. 2082)

Classification: Excise tax

Date implemented: May 6, 1974 (Budget Speech-P. 2082)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

5). Increase in the federal levies on cigarettes, cigars, tobacco, spirits other than bear, and wine other than cider, by approximately 15 percent. (Budget Speech-P. 2082)

Reason: Once more this was an attempt to find new sources of revenue that could be used by the government for spending for new initiatives. Like the measure before it, it had other positive side effects, which made it appear to be an attractive way of raising revenue while also helping the country. In this case, the primary motivation was an attempt to raise revenue, and secondly to decrease use of cigarettes, cigars, tobacco, spirits other than bear, and wine.

Size: $100 million in 1974-75 (Budget Speech-P. 2082)

Classification: Excise taxes

Date Implemented: May 6, 1974 (Budget Speech-P. 2082)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

6). Removal of sales tax on all clothing and footwear (Budget Speech-P. 2082)

Reason: One of the measures against inflation. The purpose of this measure was to help the people of Canada by reducing prices which was possible by increasing demand in this market, and so is labeled as demand management. Clothing is a major consumer product which is more likely to be an impulse buy than various other goods. As such it can be seen as a way of increasing private consumption which is the largest component of GDP (or GNP). Therefore, the best categorization of this tax change is one of endogenous-demand management.

Size: -$280 million (Budget Speech-P. 2083)

Classification: Sales taxes

Date Implemented: May 6, 1974

Intended to be: Permanent

Category: Endogenous-demand management

Type: Unanticipated

7). The measure introduced in last the budget where taxpayers were given a reduction in the form of a 5 percent credit against federal tax payable, with a minimum credit of $100 and a maximum credit of $500 was not only maintained but was augmented for the lower income groups. The measure this year proposed an increased minimum credit of $150. (Budget Speech-P. 2084)

Reason: The purpose was to ease the burden of inflation once more by allowing the tax-payers relief that would then be translated into more spending.

Size: -$440 million (Budget Speech-P. 2084)

Classification: Personal income tax

Date implemented: January 1, 1974 (Budget Speech-P. 2084)

Intended to be: Permanent

Category: Endogenous-demand management

Type: Unanticipated

8). The first $1,000 interest income from securities such as bank and trust company deposits, mortgages, Canada savings bonds and other bonds was to be made deductible in calculating taxable income of individuals. (Budget Speech-P. 2085)

Reason: One of the measures to encourage and protect savings. The limit of $1,000 per year was intended to help the average person and stop the wealthy members of the society to avoid paying their fair share of tax burden. Although it can be categorized as ideological, we choose long run due to its emphasis on savings that are more geared towards a long-term nature.

Size: - $270 million (Budget Speech-P. 2085)

Classification: Personal taxes

Date implemented: January 1, 1974 (Budget Speech-P. 2085)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

November 18, 1974:

Context:

The trends for the world economy depicted slower real growth, more protracted inflation and issues concerning payment imbalances. Canadian economy too was not as bright as it was during the last budget. Output, employment and income were expected to rise, albeit, at a rate below potential. The Canadian economy at the beginning of the year 1974 showed momentum from last year which took it to the peak of productive capacity. However, since early summer, signs of slowing down appeared mainly as a result of the deteriorating economic performance of the countries to which they exported. Canada, like other countries, had also shown a sharp increase in inflation. However, the unemployment rate was lower for this year than the last year; the forecast during the May budget for the year 1974 was an increase in employment of 300,000, whereas the actual figure turned out to be 390,000. (Budget Speech-P.1421)

The prospects for the Canadian economy for the year 1975 looked substantially poorer in terms of housing activity and exports which would translate into increased current account deficits. The budget policy for the economy for the year was intended to solve the twin problems of inflation and slower growth in a way that would also achieve good economic performance in every respect (Budget Speech-P. 1422). Hence in the words of the Finance Minister: “No single approach can do the whole job. A combination of policies is needed” (Budget Speech-P. 1422), and so a mixture of endogenous and exogenous tax changes aimed towards long term performance as well as creating stimulus for economic growth were used.

Tax Measures:

1) The write-off for the exploration expenditures was restored to 100 percent from a previous rate of 30 percent. (Budget Speech-P. 1425)

Reason: Exploration in Canada was becoming more expensive, and therefore, it was difficult for smaller companies to borrow capital for exploration expenditures and so they relied on internal funds. This measure would allow them financial security and enable them to prosper. Essentially the logic was that increasing the write off to a complete rate of 100 percent would mean a greater availability of funds to then be put specifically into R&D. The payoffs to R&D are substantial but also long term in nature. New technologies take time to be developed and almost as long to implement. The finance minister also talked about the need to strengthen private resource industries in order for Canada to have ample supplies in future years. Since this move was aimed at strengthening the industries for the future, we label it as exogenous and LR performance.

Size: -$185 million (Budget Speech-P. 1425)

Classification: Corporate

Date Implemented: November 18, 1974

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

2). The rate of sales tax on building and construction materials was cut more than half to 5 percent. (Budget Speech-P. 1426)

Reason: The finance minister talked about the need to “add stimulus to the industry” and “contribute to a moderation of prices of housing” (Budget Speech-P. 1426). The finance minister mentioned that these changes were required because of the events of the past few months. As a result, we feel the best label for this change is a supply stimulus one.

Size: -$450 million in a full year (Budget Speech-P. 1426)

Classification: Sales tax

Date Implemented: November 18, 1974 (Budget Speech-P. 1426)

Intended to be: Permanent

Category: Endogenous-Supply stimulus

Type: Unanticipated

3). Removal of federal sales tax on transportation equipment including railway cars, large trucks and buses and commercial aircraft. (Budget Speech-P. 1427)

Reason: The budget proposed this measure in order to bring some relief to the cost pressures faced by the transportation industry as this was weakening the industry and leading to increased prices for the people. Since this targeted the transportation sector specifically in order to help them from economic situation at hand, we label it as supply stimulus.

Size: -$100 million for a full year (Budget Speech-P. 1427)

Classification: Sales tax

Date Implemented: November 18, 1974 (Budget Speech-P. 1427)

Intended to be: Permanent

Category: Endogenous-Supply stimulus

Type: Unanticipated

4). The measure of two year write-off of expenditures on new machinery and equipment for manufacturing and processing in Canada was extended without a terminal date, which was initially scheduled to expire at the end of the new year. (Budget Speech-P. 1427)

Reason: The implementation of this measure contributed towards strong investment performance which helped in improving productivity, enhancing supply, creating new jobs, and sustaining the Canadian economy when many others were faltering. Thus, we categorize it as long run.

Size: -$150 million in 1975 (Budget Speech-P. 1427)

Classification: Corporate tax

Date implemented: November 18, 1974

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

5). Changes proposed in the 1974 May budget for personal income tax were reintroduced with a further major cut for 1975. Specifically, the basic reduction of federal income tax was increased from 5 percent to 8 percent. The maximum limit was increased from $500 to $750, and most importantly the minimum reduction was increased to $200. (Budget Speech-P. 1427)

Reason: In accordance with the statement of the Finance Minister: "In view of the need to add some stimulus to the economy by reducing taxes" (Budget Speech-P. 1427), we categorize this measure as endogenous and demand management since it effected the take-home income of people which then enabled them to increase their demand and thus provide the requisite stimulus.

Size: -$615 million (Budget Speech-P. 1427)

Classification: Personal income tax

Date implemented: January 1, 1975 (Budget Speech-P. 1427)

Intended to be: Permanent

Category: Endogenous- Demand Management

June 23, 1975:

Context:

The world recession left negative effects on the economy resulting in less bright prospects for economic expansion for the year 1975. Nevertheless, Canadian economy was able to escape from the full impact of the deep recession witnessed in United States, mainly due to their expansionary policies. However, the dilemma confronted by the economy at that point was of worsening inflation in face of the expansionary policies versus rising unemployment as a result of pursuing contractionary policies. Another problem faced by the economy was related to the field of energy; there was a sharp increase in the domestic price of oil and gas, which was making them dependent on imported oil. Looking at the situation, it was inferred that the economy would have to keep a balance in the choice of policies so as to deal with the problems of inflation, unemployment and energy simultaneously. (Budget Speech-P. 7020)

In light of the Finance Minister's remarks like: "If Canadians generally come to recognize that moderation and restraint are in the interest of everyone-that will in itself dampen inflation" and "Canadians generally will have to moderate their individual claims against the economy if we are all to enjoy the benefits of a sustained expansion in output and employment." (Budget Speech-

P.7025), the measures adopted tilted more towards endogenous changes like creating supply rather than demand so that where output and employment increased, prices would not.

Tax Measures:

1) The federal tax cut increase proposed in the November budget was removed. Currently, the taxpayer was entitled to a tax credit of 8 percent with a maximum reduction $750 and a minimum reduction of $200. According to the proposed measure, the maximum reduction of $750 was reduced to $500. However, there was neither a change in the 8-percent rate nor in the minimum tax reduction of $200, ensuring that the taxes would increase only for the high income groups. (Budget Speech-P.7030)

Reason: "the general balance of ways and means which I shall summarize later tonight, does require some increment of revenue to help pay for these special programs" (Budget Speech-P.7030). The statement shows the intention of the government with respect to the introduction of the measure: to attain more revenues for the government employment programs from the higher income groups of the country and therefore, we call it endogenous, spending driven.

Size: $50 million in a full year (Budget Speech-P.7030)

Classification: Personal Income tax

Date implemented: June 23, 1975

Intended to be: Permanent

Category: Endogenous- Spending Driven

Type: Unanticipated

2) The tax at a rate of 10 cents per gallon on gasoline for personal use was proposed. The tax would be implemented in the same way as the general 12-percent manufacturer's sales tax. (Budget Speech-P.7032)

Reason: There was a gap between the "compensation payments and the oil exports charge revenue" (Budget Speech-P.7032), and so to bridge the gap to some extent this measure was levied. The Finance Minister plainly states that the revenue would be "used for farming, fishing, construction, mining and most commercial transportation." (Budget Speech-P.7032) Since the measure was clearly implemented to raise funds for other spending programs, we call it endogenous and put it under the spending driven category.

Size: $350 million (Budget Speech-P.7032)

Classification: Excise tax

Date implemented: June 23, 1975 (Budget Speech-P.7032)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

3). The basic corporate tax rate of 50 percent for resource profits was reduced to a net federal rate of 25 percent after the standard provincial abatement of 10 points and a special resource tax abatement of 15 points. According to the new proposal, this rate was increased to 46 percent through withdrawal of the extra 15 points abatement. Moreover, a new resource allowance was introduced providing an extra deduction from income equal to 25 percent of production income from petroleum gas or mineral resources. (Budget Speech-P.7033)

Reason: It was introduced mainly to provide more incentives for those who were engaged in developing the resources. The idea was to restructure corporate taxation in order to stimulate investment and therefore productivity. These investments would not be able to be realized in the current fiscal period, however it was still in response to contemporary economic conditions. Since this continuation would eventually lead to greater growth, we call it exogenous long term.

Classification: Corporate tax

Size: -$40 million (Budget Speech-P.7033)

Date implemented: January 1, 1976 (Budget Speech-P.7033)

Intended to be: Permanent

Category: Endogenous- LR- Performance

Type: Anticipated

4) A temporary investment tax credit of 5 percent of taxpayer’s investment in new building, machinery, and equipment. (Budget Speech P-7028)

Reason: This measure was introduced to create jobs and sustain business investment in the economy. (Budget Speech P-7028) Therefore, we classify this change as endogenous – supply stimulus

Size: -$200 million (Budget Speech P-7028)

Date Implemented: June 23, 1975 (Budget Speech P-7028)

Intended to be: Temporary (until June 30, 1977)

Type: Unanticipated

May 25, 1976:

Context:

The world economy was recovering from the depths of the worst recession since the great depressions of the 1930s (Budget Speech-P. 13821). As an exporting nation, Canada was heavily dependent on the growth of its trading partners and thus, was unable to avoid the effects of recession. However, the performance of the Canadian economy was still better than many industrial countries in terms of output, employment and real incomes, which was the result of concerted and far reaching action by both federal and provincial governments. The effects of this recession would have been much more severe if the government had not adopted expansionary policies during the course of 1974. The better performance of the economy relative to other industrial countries in itself raised problems, for example continuous strong inflationary pressures arising out of the domestic spiral of costs and prices threatened the competitive position of Canada. (Budget Speech-P. 13822)

The real growth of the Canadian economy for the year 1976 was forecasted to be about 5 percent. Employment showed a positive trend during the past year which was expected to continue. The economy was predicted to generate around 250,000 new jobs during the year. The recovery depicted in 1976 was to be sustained by the growth of exports in response to the recovery in the United States and most other industrial countries. The forecasts for the year 1977 predicted the expansion to continue at the same pace and the level of inflation to come down. (Budget Speech-P. 13833)

The tax measures introduced in the budget did not intend to produce any significant net change in revenues; rather they would significantly reinforce the policies of the government (Budget Speech-P. 13830).

Tax Measures:

1). Removal of the federal sales tax from a number of items which directly contributed to the development of energy sources. (Budget Speech-P. 13830)

Reason: One of the measures introduced to achieve governmental objectives for energy conservation announced by the Energy minister. Although the measure is specific to one sector, we still use the long term exogenous category here rather than supply stimulus, since these were targeted more to increase the efficiency of the sector rather than stimulating the industry so that it could recover from the effects of economic activity in the country. The resultant small revenue impact also supports our choice since it is not large enough to actually impact the industry in a way that would be necessary to get out of a bad economic situation.

Size: -$8 million in a full year (Budget Papers-P. 22)

Classification: Sales tax

Date implemented: Immediate (Budget Speech-P. 13830)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

2). A specific excise tax of $100 was imposed on air conditioners for use in automobiles, station wagons, vans and smaller trucks. (Budget Speech-P. 13830)

Reason: This measure was introduced to deter wasteful consumption of energy as the studies indicated that air conditioners of motor vehicles increased fuel consumption by as much as 20 percent (Budget Speech-P. 13830) In the previous budget speech, June 1975, it had be suggested that Canadian heed his call to conserve energy consumption in order to not further plug the economy into a more precarious situation. This measure was then taken as a way of helping that front. However, since this goal was not stated anywhere in the 1976 speech, we can only infer that the previous economic situation could've played a roll in its motivation. As such, since conserving energy is often seen as inherently a good thing, and since it was not seen as a way to gain more revenue, we call it an ideological change.

Size: $7 million (Budget Papers-P. 22)

Classification: Excise tax

Date implemented: May 25, 1976 (Budget Speech-P. 13830)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

3). Significant increases in the special excise tax on high-energy consuming motor vehicles were proposed. (Budget Speech-P. 13830)

Reason: In a similar fashion to the tax change mention immediately above, the motivation behind this measure was not to raise revenues, but to encourage the use of lighter more energy-efficient cars. We don't feel as if speculation from previous speeches is sufficient to attribute to this motivation. Therefore, we are categorizing it once more as ideological.

Size: $35 million (Budget Papers-P. 22)

Classification: Excise tax

Date implemented: August 1, 1976 (Budget Speech-P. 13830)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

March 31, 1977:

Context:

The inflationary pressure for the Canadian economy was decreasing; the unit labor costs were being brought under control with the anti-inflationary program. At the same time, the real income of working Canadians was showing a significant increase. However, while output grew rapidly in the beginning of the year 1976, the pace slowed down, like in other industrial countries, during the year. Consequently, the number of new jobs rose (by 209,000) but less than what was anticipated. The most important concern regarding the performance of the economy was the recent rise in unemployment, particularly among the young people of the country. This situation required not only some general measures of economic stimulus, but also specific initiatives directed at these structural problems (Budget Speech-P. 4534), and so we endogenous changes here.

Tax Measures:

1). The five percent investment tax credit for manufacturing and resource industries was extended for an additional three years which was originally scheduled to expire on 30th June of this year. Also, this credit was to be expanded to include capital and operating expenditures on scientific research and development, and the rate of credit was also to be increased for the slower-growth regions. (Budget Speech-P.4536)

Reason: The investment tax credit had proved beneficial for the manufacturing and resource industries, therefore extension and expansion measures were proposed to gain more advantage for the industry.

Size: -$385 million (Budget Plan- P.33)

Classification: Corporate tax

Date Implemented: July 1, 1977 (Budget Plan- P.32)

Intended to be: Temporary

Category: Exogenous-LR-Performance

Type: Unanticipated

2). A major increase in the dividend tax credit was proposed. Dividends received from taxable Canadian corporations were to be grossed-up by one half, as opposed to one third at that time, and taxpayers would be allowed to claim tax credit on this higher amount of dividend. (Budget Speech-P.4536)

Reason: The motivation for implementing this measure can be taken from the speech: "I am proposing further action to assist the financing of business investment" and "The market for such issues has not been very receptive in recent years" (Budget Speech-P.4536). This shows that this was an endogenous motivation enacted to stimulate demand for this industry; therefore, we call it demand management.

Size: -$120 million in first full year (Budget Plan- P.35)

Classification: Personal Income tax

Date implemented: January 1, 1978 (Budget Speech-P.4536)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Anticipated

3). A deduction was proposed in calculating business income each year at 3 percent of the opening value of qualifying inventories, both for incorporated and unincorporated businesses. (Budget Speech-P.4537)

Reason: To deal with the liquidity problems facing business which were deemed as urgent by the Minister, and enhance the flow of internally generated funds available for business expansion. It would act as a stimulus for these businesses.

Size: -$300 million (Budget Speech-P.4536)

Classification: Corporate tax

Date implemented: March 31, 1977

January 1, 1977 - retroactive measure (Budget Speech-P.4537)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

4).The rate of federal tax credit was to be 9 percent, with the maximum limit of $500 per taxpayer and the minimum of $200. This measure proposed an additional credit of up to $50 for each dependent child less than 18 years of age, resident in Canada. (Budget Speech-P.4537)

Reason: This measure intended to provide help to people with modest income so that unemployed would not have to cut down their expenditure. Therefore, we take it as demand management.

Classification: Personal income

Size: -$275 million (Budget Speech-P.4537)

Date implemented: 1977 taxation year (Budget Speech-P.4537)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Unanticipated

5) The maximum deduction limit for the employment expense allowance was increased to $250 from an initial $150. (Budget Speech-P.4537)

Reason: Once more this measure was a way of making it easier for the working class so that they could "sustain personal expenditure" and so it can be called demand management.

Classification: Personal income

Size: -$115 million (Budget Speech-P.4537)

Date implemented: March 31, 1977

1977 taxation year- retroactive measure (Budget Speech-P.4537)

Intended to be: Permanent

Category: Endogenous- Demand Management

Type: Unanticipated

October 20, 1977:

Context:

The Canadian economy had shown progress in bringing down the rate of inflation. The anti-inflation control programs contributed towards decreasing wages and non-food prices. However, the economy faced some setbacks due to higher food prices and a weaker Canadian dollar. The growth in output was slower; total output in 1977 was forecasted to increase by only 2 percent from 1976. The employment target of 250,000 jobs had been achieved, but the number of Canadians willing to work was also increasing at the same time. Consequently, unemployment had increased by 8.3 percent for Canada as a whole. (Budget Speech-P. 98)

The budget measures introduced for this year intended to offset the cut in the wages for low and middle income wage earners, stimulate consumer spending, housing and create jobs (Budget Speech-P. 100).

Tax Measures:

1). A $100 cut in taxes was proposed for middle and lower income taxpayers. This was done by increasing the minimum amount of the 9 percent federal tax credit from $200 to $300. (Budget Speech-P. 100)

Reason: Consistent with the objective of the budget mentioned above, this measure aimed to increase the spending power of the people so that production, which had slowed down, would receive an impetus. Therefore, we label it as endogenous and demand management.

Size: -$700 million (Budget Speech-P. 100)

Classification: Personal Income

Date implemented: 1978 taxation year (Budget Speech-P. 100)

Intended to be: Temporary, only for the 1978 taxation year

Category: Endogenous- Demand Management

Type: Unanticipated

2) The indexing factor for the personal income would be 7.2 percent for the year 1978. As a result of which the basic personal exemption was increased from $2,270 to $2,430, whereas for a family of four, the exemption would increase from $5,120 to $5,480. (Budget Speech-P. 100)

Reason: Once more the reason for this exemption is to provide more money in the hands of people which would then translate into more spending, thereby generating more demand for goods and increasing production.

Size: -$850 million (Budget Speech-P. 100)

Classification: Personal income

Date implemented: 1978 taxation year (Budget Speech-P. 100)

Intended to be: Temporary, for 1978 taxation year

Category: Endogenous- Demand Management

Type: Unanticipated

November 16, 1978:

Context:

The Canadian economy showed improvement in performance during 1978. Employment increased strongly; 362,000 more Canadians had jobs as of October, as compared to the same period last year. But unemployment was still too high because of the increase in the labor force. The GDP increase in current dollars was estimated to be close to 11 percent. Growth in prices of goods produced was estimated to be 6 ½ percent with the real output growth rate of 4 percent. There was a sharp increase witnessed in the consumer price index; it was 8.6 percent higher during September than a year earlier. The rise in food prices and decline in the value of the dollar were seen as the reasons behind this outburst of inflation. The faster rise in CPI led to reduction in the growth rate of real income and real purchasing power of Canadians. As a result of that, consumer spending increased less than expected, affecting growth negatively. The April budget of this year provided stimulus to the economy in the form of personal income tax cuts and temporary reductions in provincial sales taxes; the expansionary impact of which were offset by higher food prices and other imported goods. (Budget Speech-P. 1198)

In these circumstances, the economy needed actions to stimulate investment, respond to the needs of regions and sectors, and to keep the costs competitive while reducing high cash requirements (Budget Speech-P. 1201). Thus, there was a combination of endogenous and exogenous tax changes.

Tax Measures:

1) For the year 1979, the indexing factor was announced to be 9 percent. As a result, the total personal exemptions for a family of four would increase by $490 to $5,970. Also, this adjustment would increase the child tax credit by $18 per child during spring of 1980 to $218. (Budget Speech-P. 1201)

Reason: Inflation indexing of personal income tax exemptions was an important feature of the Canadian tax system; it had reduced personal taxes significantly since its introduction. This measure was adopted to directly to counteract the CPI effects of decrease in the purchasing power of people which had decreased consumption. In traditional Keynesian fashion, the lowered consumption had had a negative impact on growth and therefore we have labeled it as endogenous and demand management.

Size: -$1.2 billion (Budget Speech-P. 1201)

Classification: Personal income tax

Date implemented: November 16, 1978

Intended to be: Temporary

Category: Endogenous-demand management

Type: Unanticipated

2) The employment expense deduction on wage and salary income was modified. It was initially 3 percent with a maximum deduction of $250 which was doubled to $500. (Budget Speech-P. 1201)

Reason: Despite the inflation counter measures strategy, this tax change is categorized as ideological since it was mainly enacted to help the working class of the country. The permanent nature of the tax points to the government's intention of maintaining this advantage, thereby, showing this as not merely a concern of contemporary effects of inflation. It can also be seen as an exogenous tax change in that long term employment is seen as a societal good. If this change was temporary, the change may seem more endogenous as a means of reducing unemployment spurring growth. However since it is permanent, we feel that the long term benefits to employment in conjunction with helping the working class we feel this is an ideological tax change.

Size: -$270 million (Budget Speech-P. 1201)

Classification: Personal Income tax

Date implemented: 1979 taxation year (Budget Speech-P. 1201)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3).An increase of 15 percent in the tax on airfare was proposed for flights within Canada and to the United States, with a maximum of $15. For international flights, this tax was increased to $12. (Budget Speech-P. 1202)

Reason: This measure was proposed to shift the costs of airport services from the general taxpayer to those who used the airport services and so allowed a fairer tax regime to be implemented. This was in contrasted to the detriment that the airline industry would incur as a result of increased cost. The move was seen as necessary and the benefits outweighed the relative costs. The overarching motive of fairness and shielding Canadians who did not benefit from the airline industry from an undue burden leads us to see the categorization as ideological.

Size: $72 million for the fiscal year 1979-80 (Budget Papers-P. 40)

Classification: Air Transportation tax

Date implemented: After March 31, 1979 (Budget Speech-P. 1202)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

4). Investment tax credit was extended beyond June 30, 1980, and some changes were made. (Budget Speech-P. 1202)

a). The basic rate of the investment tax credit was raised from 5 to 7 percent.

b) The investment in equipment for rail, air, water and long-haul road transportation were allowed to attain the basic 7 percent tax credit.

c). For investments in areas designated under the Regional Development Incentives Act, the credit was increased from 7.5 percent to 10 percent.

Reason: The rationale behind these changes was to continue and expand benefits to the manufacturing, resource, farming and fishing sectors by stimulating investment. “Since 1975 this credit has supported expansion and modernization of business" (Budget Speech-P. 1202). We label this change as exogenous-long-run.

Size: -$500 million (Budget Speech-P. 1203)

Classification: Corporate Income tax

Date implemented: immediate, November 16, 1978 (Budget Speech-P. 1202)

Intended to be: Permanent

Category: Exogenous-Long Run

Type: Unanticipated

5). These measures targeted the industrial Research and development sectors. (Budget Speech-P. 1203)

a).The basic investment tax credit for R&D was increased from 5 to 10 percent. However, for Atlantic province and the Gaspe, this credit would be 20 percent.

b). Small business corporations could qualify for a research and development tax credit of 25 percent.

c). The budget of April 1978 provided an additional 50 percent deduction for R&D from income for tax purposes.

Reason: To bring improvement in the R&D activities of these selected industries. Due to the nature of these activities, that being of only really being beneficial in the long term, we will consider it exogenous long term category here.

Size: -$100 million (Budget Papers- P. 34)

Classification: Corporate tax

Date implemented: November 16, 1978

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

6).The current write-off for development expenditures incurred in mining was raised from 30 percent to 100 percent. (Budget Speech-P. 1203)

Reason: The tax system for resource industries was given an in-depth review, the federal tax system was found to be sound. However, some changes were proposed to spur the development of new ventures that would result in more growth for the future. Increasing the write-off for just development is a way of only stimulating a specific subset of a business, one that is deemed to contribute to technological innovation and therefore help the country as whole through positive externalities increase their collective productivity. In a similar fashion to the changes listed from above, the focus on development in the near future makes it easy categorization into exogenous long term.

Size: -$25 million (Budget Papers-P. 21)

Classification: Corporate income taxes

Date implemented: November 17, 1978 (Budget Speech-P. 1203)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

7) The manufacturer's sales tax was reduced from 12 percent to 9 percent. (Budget Speech-P. 1203)

Reason: Motivation behind this tax measure was to pass on this tax cut to consumers and not the manufacturers. While this may meet the criteria for a demand management, there is no mention of the 1978 economic situation and gives us every reason to believe this change is an exogenous one. In addition, the sales tax reduction explicitly excluded "alcoholic beverages and tobacco," and not affecting gasoline and leaving the construction materials tax unchanged. (Budget Speech-P. 1203). This would suggest a conscience's motivation to only apply in "culturally acceptable" ways. As such, we are labeling it as exogenous-ideological.

Size: - $1 billion (Budget Speech-P. 1204)

Classification: Other Taxes

Date implemented: November 16, 1978 (Budget Speech-P. 1203)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

December 11, 1979:

Note: This budget was never passed following a no-confidence vote against the government. Thus, we do not include the measures announced in this budget in our data set.

Context:

Output and employment for the Canadian economy showed improvement during the third quarter of the year 1979.The increase in Gross national expenditure was estimated to be 3 percent in real terms. In particular, business investment grew strongly with an increase of 12 percent. Employment increase was also impressive with 440,000 more people employed in October 1979 as compared to the same period last year. However, the economic performance of the country during the year was not good from all aspects. The exports of the country decreased as a result of the slowdown in the US economy, while imports increased because of greater outlays on machinery and equipment which gave a negative balance on the current account. Consumer prices also depicted year-to-year increase in excess of 9 percent. (Budget Speech-P. 2359)

The prospects for the year 1980 reflected that the economy would face recession which appeared to be under way in the United States. As a result, Canadian output was expected to rise by 1 percent. Employment was forecasted to rise less that year and so unemployment rate was expected to increase by 8 ¼ percent. The increase in energy prices would put an upward pressure on the consumer price index. In these circumstances, the major challenge for the economy would be to bring the rate of inflation down.

The measures introduced in this budget were intended to reduce the deficit for the economy (Budget Speech-P. 2360) and exhibited both endogenous and exogenous aspects.

Tax Measures:

1).An excise tax of 25 cents a gallon was imposed on gasoline, diesel and other transportation fuels. (Budget Speech-P. 2258)

Reason: The motivation was to encourage people to use fewer oil products, and to reduce the import of oil products at ever greater prices and also to raise revenues for the Government of Canada. “The Government of Canada intends…to ensure that excess profits are not made by the industry as a result of accelerating prices but that the industry has an adequate rate of return and retains the necessary revenues for continuing exploration and development of new energy sources.” (Budget Speech-P. 2258). The government wanted to increase government revenues but not strangle the industry so much that it negatively impacted growth. While this might suggest a deficit reduction motivation, this seems to be only one side of the story. Canada had greatly subsidized energy consumption in the face of higher global prices. Keeping the price artificially low too indefinitely was not a feasible solution so the tax hike was deemed necessary in order to adjust to “the new realities” (Budget Speech-P. 2258). There is a definite undercurrent that the main reason for the change was as a necessary one in order to best lookout for the welfare of the country. Even a portion of the revenue raised would go to more sustainable energy development. This would suggest a spending driven motivation, thereby further suggesting that the true motivation was a multifaceted. Overall, since they dealt with the welfare of people in general, we call it ideological rather than deficit reduction or even spending driven.

Size: $2,545 (Budget Papers-P. 45)

Classification: excise tax

Date implemented: December 11, 1979 (Budget Papers-P. 45)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2).An income tested refundable energy tax credit of $80 per adult and $30 per child per year was imposed. (Budget Speech-P. 2259)

Reason: To cushion the impact of higher energy prices for lower- and middle-income Canadians so that it would not adversely affect the spending of people leading to lower production. The Canadian government was afraid that the higher cost of energy would be too damaging to the economy and wanted to keep discretionary income in the hands of individual Canadian in order to keep consumption high. The measure takes special care to insure that the Therefore, we take it as an endogenous and demand management measure.

Size: -$500 million (Budget Papers-P. 45)

Classification: Personal Income tax

Date implemented: January 1, 1980 (Budget Papers-P. 45)

Intended to be: Permanent

Category: Endogenous-demand management

Type: Unanticipated

3). Unincorporated businesses were allowed to deduct salaries paid to spouses who worked in their business. (Budget Speech-P. 2264)

Reason: To aid small businesses and give recognition to the contribution that many wives and husbands made in running these businesses. It was also hoped this measure may be another step in the direction of equal status for Canadian women. While initially there seems to be a good case for calling this measure ideological in nature, it was explicitly stated that measures such as this were adopted to help small business on issues beyond just helping to improve equality. Helping the status of wives was more of an added bonus, rather than a primary motivation. "Given that the government recognizes these small businesses as a major strength for the economy (Budget Speech-P. 2264), their attempt to assist such a vital part of the economy points to a strategy that would enable them to prosper. Hence, we call this long term, since the benefits of such deduction are not immediately realized.

Size: -$160 million in a year (Budget Papers-P. 45)

Classification: Corporate tax

Date implemented: January 1, 1980 (Budget Papers-P. 45)

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

4). Corporate surtax of 5 percent of federal tax was imposed, otherwise payable by all corporations. (Budget Speech-P. 2264)

Reason: "There is need for a short-term temporary tax increase to ensure that the deficit comes down" (Budget Speech-P. 2264). An added benefit of the tax was that "this simple surtax is that it leaves intact the structure of tax rates and tax incentives." (Budget Speech-P.2264) Essentially, it was a way of raising revenue without changing the all of the intricate tax incentive that the finance minister, and previous finance ministers had put in place over the preceding years. So taking into consideration the recessionary period and this statement, we categorize it as endogenous deficit reduction.

Size: $510 million (Budget Papers-P. 45)

Classification: Corporate tax

Date implemented: Immediate (Budget Papers-P. 45)

Intended to be: Temporary, scheduled to expire at the end of 1981

Category: Endogenous- Deficit Reduction

Type: Unanticipated

5). A series of changes were proposed for taxes on alcohol products: Increase in taxes implemented on products like spirits, brandy, fortified wines, table wines and regular and light beer, whereas, taxes for products like sparkling wines and malt beer were decreased. (Budget Speech-P. 2264)

Reason: The federal levies were not increased for alcohol products for a number of years, and thus the real burden of these taxes had decreased significantly with inflation. Moreover, the tax per unit varied among different alcohol products, so the changes proposed intended to remove disparity. Essentially, the move adjusted the current tax rates so that they would effectively match the original intended rates from when the tax was implemented. It also sought to streamline the previous taxes to simply its administration. In the end, this measure is pretty obviously ideological in nature. The updating of an older tax does not negate the motivation behind the original tax, it merely reaffirm it by implicitly restating the government's commitment to societal benefits of such a tax.

Size: $135 million (Budget Papers-P. 45)

Classification: Commodity taxes

Date implemented: Immediate (Budget Papers-P. 45)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

6). Provision of employment tax credit of $80 per week. (Budget Speech-P. 2265)

Reason: To help create permanent jobs in the private sector for youth and for the long unemployed people as per the government's objective to increase employment. Specifically, the government believed "the jobs created should be of a permanent nature, be in the private sector and be available to those who are most vulnerable to unemployment." (Budget Speech-P.2265) The idea was that the credit would incentive hiring, especially in area deem most important by the government. The tax would also replace the older Employment Tax Credit Act, in order to simply the process and exceed its benefits, going further to fulfil their stated goals. While there is a hint of an ideological overtone, the overall motivation was to help those most needed in the long term, hence the need for them to be permanent in nature. As such, we feel the most appropriate label is that of Long Run performance.

Size: -$250 million (Budget Papers-P. 45)

Classification: Corporate Income Tax

Date Implemented: 1980 taxation year (Budget Papers-P. 45)

Intended to be: Permanent

Category: Exogenous- LR performance

Type: Unanticipated

7). A new energy tax was imposed to capture roughly one-half of the returns accruing from annual oil and gas price increases. (Budget Speech-P. 2262)

Reason: The motivation behind this tax change was to capture share in the gains arising from oil and gas price increases. The changes in the world economy at the time coupled with domestic Canadian policies had resulted in increases returns for oil and gas firms. As such, since the Canadian government was seeking out ways in which to increase their tax revenue in order to finance their other programs, this was seen as an easy place to start. The revenue collected from this tax was used in energy-related initiatives. This meant that the tax of already wildly profitable energy industries could be used to fund other energy programs that the government had deem more necessary. Considering this, we feel that this tax should be labeled as endogenous supply spending would be most appropriate. This is because it came about due to the landscape of the 1979 economy and was levied to directly pay for other programs.

Size: $1640 (Budget Papers-P. 45)

Classification: Other taxes

Date implemented: July 1, 1980 (Budget Papers-P. 45)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Anticipated

October 28, 1980:

Context:

The world economy was hit by a second major oil shock in 1979 which produced devastating effects both for the industrial as well as developing countries. The industrial countries faced a sharp renewal of inflationary forces, whereas the developing nations were confronted by a sharp rise in their international deficits, which were two to three times the amount they received in aid from the rest of the world. In such circumstances, the tasks of economic policy presented a great challenge. The world economy in particular, was facing two problems; high real cost of additional output and inflation. These problems of the international community could not be solved by nations acting on their own; the government of Canada was ready to play its part in achieving an international economic system while realizing the challenges faced by the international economic cooperation. (Budget Speech-P. 4184)

The Canadian economy, like the rest of the world experienced fall in output during 1980. Productivity showed a sharp decline, while the rate of inflation went back to 10 percent. The finance minister argued: "the problem is not a simple matter of ensuring an appropriate demand for goods and services but is more deep- seated. There are no quick solutions, so we will need to be patient and plan in a longer-term framework." He also pointed that the economy needed a mix of structural, regional and industrial policies with the right implementation of fiscal and monetary policies. The most important task for the finance minister at that time was to reduce the large deficits in international account and so that was the main focus of the budget measures (Budget Speech-P. 4185). Therefore, a combination of endogenous and exogenous policies was implemented.

Tax Measures:

1). A new uniform federal tax was imposed on all natural gas, including liquefied petroleum gases except those produced from oil. (Budget Speech-P. 4188)

Reason: The price of natural gas in Canada was lower than the world price and Canada was exporting large quantities of natural gas. The ministry of finance proposed to impose export tax on natural gas to capture the gain arising out of the difference between Canada's domestic price and world price. The Canadian government was in need of funding for financing its impending energy initiatives, because of the discrepancy between the world price and the domestic price, the Finance Minister felt that this could be a way to raise revenue for those plans. However, the initial idea was rejected by the producing provinces, and hence an alternative plan of imposing uniform tax on all natural gases was used. This plan passed and since the planned energy program were designed in response to shocks to the energy sector spilling over into the Canadian economy as a whole. Also, because the motivation seems almost entirely to have been thought up to generate much needed revenue for financing energy programs, we have decided to label this measure as spending driven.

Size: Calculated based on figures available in the budget (Budget Plan-P. 81)[5]

$540 million in November 1, 1980

$760 million in July 1, 1981

$700 million in January 1, 1982

$880 million in January 1, 1983

Classification: Other taxes

Date implemented: For domestic sales—November 1, 1980

For sales to US consumers—February 1, 1981

A further increase of 15 cents on July 1, 1981, Jan 1, 1982, and Jan 1, 1983 (Budget Speech-P. 4188)

Intended to be: Permanent

Category: Endogenous- Spending Driven

Type: Unanticipated

2). A new tax of 8 per cent on revenue from the production of oil and gas in Canada was introduced. It was to be imposed on net production revenue and on royalties or rentals (other than royalties received by governments) that were computed by reference to the amount or value of production of oil or gas in Canada. (Budget Speech-P. 4188)

Reason: There was still a significant need to find money to pay for energy spending initiatives. The revenues obtained from these sources were used to finance the major federal spending

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[5] The budget plan gave the aggregate revenue effects for the years rather than revenue effects of each step of the tax measure. To calculate the size of each step of the tax measure, we made the assumption that those steps would have a uniform monthly revenue effect after implementation. We then used this assumption together with the yearly revenue changes to calculate the effect of each step of the tax measure. Our exact calculations proceeded as follows: Suppose that the monthly effect of the first step can be represented as x, that of second step as y, that of third step as z, and that of the fourth step as w. The revenue effect of the first year was given as $225 million during which time only the first step was implemented. There were 5 months left in the fiscal year when the first step was implemented hence the monthly size of the first step comes out to be $a = 225/5 = 45$.
The revenue effect for 1981/82 was given as $1285. During this year, the first step was in place for the entire 12 months of the fiscal year, the second step was in place for 9 months, and the third step was in place for 3 months. Thus we get an equation $12x + 9y + 3z = 1285$. Similarly, we get $12x + 12y + 12z + 12w = 2220$ for 1982/83 and $12x + 12y + 12z + 12w = 2880$ for 1983/84. Solving these equations yield the monthly size of the first step as $45 million, $63.33 million for the second step, $58.34 for the third step, and $73.33 for the final step. We then multiply these with 12 to arrive at annual figures for each of the steps.

initiatives in the field of energy as was seen in the previous budget as well. In almost the exact same fashion as the measure before, any place the government could find available funds, it felt it needed to take them. Therefore, we have labeled this tax as being endogenous-spending driven.

Size: $1,410 million (Budget Plan-P. 81)

Classification: Corporate tax

Date implemented: January 1, 1981 (Budget Plan-P. 81)

Intended to be: Permanent

Category: Endogenous- Spending Driven

Type: Unanticipated

3).As part of the national energy program, some alterations were made in the depletion allowances under Income tax act for oil and gas exploration activities. These changes included elimination of depletion for development expenditures and the phasing out of depletion for exploration over the next three fiscal years. (Budget Speech-P. 4188)

Reason: These changes were made to gain revenue for the national energy program that aimed to keep the energy sector of Canada sufficient equipped to meet their growing demands. While there is evidence that there was an ideological aspect in its motivation, the Finance Minister did state "primarily benefitted large established corporations which are for the most part foreign owned or controlled" there seems to be more evidence in saying that it was to fund their energy spending programs. As such we have chosen to label this change as Endogenous-spending driven.

Size: $260 million (Budget Plan-P. 81)

Classification: Corporate Income tax

Date implemented: January 1, 1981 (Budget Plan-P. 81)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

4). As part of the indexing measures, the exemptions, tax bracket limits and the child tax credit were raised by 9.8 percent above the current levels. The child tax credit was increased from $238 to $261 as a result of this measure. (Budget Speech-P. 4191)

Reason: A sufficient reduction in the deficit was achieved through spending restraints, thus the Minister of finance decided to avoid general increase in taxes and continued indexing for the year 1981. The government felt that it no longer needed the high rates on individual households so it felt that this was a good time to introduce a tax credit to reduce the burden on families. The very nature of the tax credit by who it affects would suggest a strong motivation for helping families, thus, it points towards ideological motivation.

Size: - $1,580 million (Budget Speech-P. 4191)

Classification: Personal Income

Date implemented: October 28, 1980

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

5).The measure of an extra 4 percent capital cost write-off for railway track and grading was extended till the end of 1982. (Budget Speech-P. 4192)

Reason: To provide incentives for Railway to upgrade their infrastructure which would be beneficial in the long run growth of the industry, hence the use of exogenous long run rather than supply stimulus. Also the speech or the economic situation of the country does not point to any dire situation of the industry but rather an overall long term strategy employed by the government to keep themselves away from the negative effects of the oil shock.

Size: -$7 million in a full year (Budget Plan-P. 82)

Classification: Corporate tax

Date implemented: March 31, 1981 (Budget Plan-P. 82)

Intended to be: Temporary, till 1982

Category: Exogenous- LR performance

Type: Anticipated

6).The excise tax on fortified wines was reduced from $3 per gallon to $1.25 per gallon. (Budget Speech-P. 4192)

Reason: “The substantial increase of the tax on fortified wines has had an adverse impact on the industry” (Budget Speech-P. 4192). While the nature of the excise tax was on wine, which is typically taxed in order to reduce consumption mainly for ideological reason, this is in fact a tax reduction. In this particular case, it seems that the original excise tax was too high and was there for strangling the industry. Perhaps the measure was in a similar line of thinking to a Laffer curve, meaning that raising taxes would have stimulated the industry and raised tax revenues overall, this was 1980 after all, there does not seem to be enough evidence to say that for certain. It is quite apparent though that this was an endogenous measure and so we label it as supply stimulus.

Size: -$10 million (Budget Plan-P. 81)

Classification: Excise tax

Date implemented: Immediate, October 28, 1980 (Budget Plan-P. 81)

Intended to be: Permanent

Category: Endogenous- supply stimulus

Type: Unanticipated

7).The measure allowing an immediate deduction of Canada exploration expenses incurred after May 25, 1976 was extended for an indefinite period of time which was originally scheduled to expire in 1982, for individuals and non-resource corporations. (Budget Papers-P. 90)

Reason: To ensure that non-resource corporations and individuals investing in drilling funds continued to obtain the benefit of an immediate 100-per-cent write-off of Canadian exploration costs (Budget Papers-P. 90). While at first glance and argument could be made for long run performance, since the industry would continue to invest its deductible funds, and that the benefits of the 1976 deduction may not have come to fruition yet, there is far more evidence that this change is endogenous. This measure focuses on stimulating the growth of this industry and so in the wake of the recessionary effects we take it as supply stimulus.

Size: -$125 million in 1983-84 (Budget Plan-P. 81)

Classification: Personal Income Tax

Date implemented: January 1, 1982 (Budget Plan-P. 81)

Intended to be**:** Permanent

Category: Endogenous-Supply Stimulus

Type: Anticipated

8). Temporary reintroduction of the provision for Multiple-Unit Residential Buildings until end of 1981. (Budget Speech-P. 4192)

Reason: In light of the motivation of introducing it to help reduce shortages of rental accommodation and was designed to specifically target the construction industry, we categorize it as endogenous and supply stimulus. There is ample evidence that it was an immediate reaction to the contemporary economic landscape of 1980. The Finance Minsters specifically mentions that he “turn(ed) now to more immediate matters.” (Budget Speech-P. 4192)

Size: -$15 million (Budget Plan-P. 81)

Classification: Corporate Income Tax

Date implemented: October 1980 (Budget Plan-P. 81))

Intended to be: Temporary

Category: Endogenous-Supply Stimulus

Type: Unanticipated

9). Extension of Small Business Development Bond provisions until March 31, 1981. (Budget Speech-P. 4192)

Reason: The budget made no mention of small businesses needing this measure to counter any current shocks. The budget papers (P-102,103) mention that the bonds were meant to enable small business corporations to obtain after-tax financing and to reduce their interest cost. The specific extension announced in this budget was due to the delay in “releasing the legislative details of the proposed measure.” We classify this measure as exogenous-long run since the aim was for businesses to attain funding for five years which shows that it would likely not have an immediate effect.

Size: -$50 million (Budget Plan-P. 81)

Classification: Corporate Income Tax

Date implemented: January 1, 1981 (Budget Plan-P. 81)

Intended to be: Temporary

Category: Exogenous-LR performance

Type: Unanticipated

10). Adjustment of excise taxes and duties on alcohol and tobacco in line with price increases. (Budget Speech-P. 4192)

Reason: This was a long-term measure that aimed to stop any disruption that occurs because of price differences not just for now but also for the future and so we take it as long run rather than ideological. At the time, prices of both alcohol and tobacco had risen since the tax had initially been implemented. Increasing the tax was seen as a way of continuing the original intent of the excise tax. That motivation had been to reduce so called “undesirable” behaviors by increasing the price and therefore reducing the overall quantity consumed, by the law of demand. Anyhow, since this was merely an extension of the original tax and the original tax was exogenous in nature, we will also categorize this one as such.

Size: $100 million (Budget Plan-P. 81)

Classification: Sales Tax

Date implemented: April 1, 1981 (Budget Plan-P. 81)

Intended to be: Permanent

Category: Exogenous-LR performance/Exogenous-Ideological

Type: Anticipated

11). Federal sales tax was to be applied to marginal manufacturing activities. (Budget Speech-P. 4192)

Reason: To remove any discrimination between domestic and foreign goods as well as manufacturers who performed these duties themselves, hence allowing us to categorize this as ideological.

Size: $25 million (Budget Plan-P. 82)

Classification: Sales Tax

Date implemented: January 1, 1981 (Budget Plan-P. 82)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

12). Measures to remove the anomaly that marine and aviation fuels used in international transportation have been eligible for the lower prices available to domestic consumers in Canada. (Budget Plan-P. 92)

Reason: To ensure that marine and aviation fuel used in international transportation is not sold at the subsidized price paid by domestic consumers in Canada, thereby implementing an efficient tax system. So we label it as long run. While the Finance Minister does say that "Specific energy-related taxes provide an important contribution to budgetary revenue growth over the forecast horizon." Suggest that there was either a deficit reduction or spending driven motivation, there seems to be nothing to indicate that it was endogenous. Likewise, the overall context of this measure and the others taken in step with it, would suggest that they are exogenous and the best subcategory that this would fit under would be that of long run performance.

Size: $330 million (Budget Plan-P. 82)

Classification: Excise Tax

Date implemented: April 1, 1981 (Budget Plan-P. 82)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Anticipated

November 12, 1981:

Context:

The Canadian economy was seen recovering from the oil shock in terms of output which grew more than the forecasts of the last year budget. However, the economy was confronted by severe inflation and extremely high interest rates which were bringing the economic growth to a standstill and increasing the inequities among the people of Canada. The damaging effects of high interest rate were seen on homeowners, small businesses, and farmers. The finance minister argued that the high interest rates were the result of high inflation, so relief was not possible unless inflation was controlled. Thus, the primary motive of this budget was to bring down the level of inflation to achieve other objectives (Budget Speech-P. 12721). So once more, since the government was tackling more than one problem, they resorted to different policies that categorized the changes into both endogenous and exogenous classifications.

Tax Measures:

1). Measures to cut back tax preferences (Budget Spech-P.12722) a). Eliminating tax deferrals through income averaging annuities and the capital gains reserves and general averaging measure was also repealed, and instead a new forward-averaging provision was used.

Reason: The Canadian tax system was deemed unfair by many Canadians; the tax rates were generally considered too high. Selective tax preferences available to individuals in the form of write-offs, exemptions, and deferrals reduced revenues greatly. If these were to be reduced or eliminated, tax rates could be halved without reducing federal revenues. “Lower tax rates provide the incentive to work, save and invest” (Budget Spech-P.12722). Keeping all these factors in mind, a cutback of preferences was proposed to lower the tax rates and we use the motive of saving and saving as our reason for choosing long run instead of ideological here.

Size: (Budget Papers-P. 3)

	1983-84
Cancel deduction through Income averaging annuities	$895 million
Repeal capital gains reserve provisions	$150 million
Introduce new forward averaging	$250 million

Classification: Personal Income tax

Date Implemented: Repeal deduction through income averaging annuities----1982 tax year

Repeal capital gains reserve provisions----Immediate

New forward averaging measure----1982 tax year (Budget Papers-P. 3)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

b). Making employee fringe benefits such as low interest loans and employer provided automobiles tax payable.

Reason: Cutting back tax preferences was yet another measure to lower tax rates and for the reasons listed above we once more use long run as our motivation.

Size: (Budget Papers-P. 3)

	1983-84
For employee benefits, such as cars, health, transportation	$175 million
For low interest loans for employees and shareholders	$50 million

Classification: Personal Income

Date Implemented:

Change in taxation for employee benefits – 1982 tax year (Budget Papers-P. 3)

Change in taxation for low interest loans for employees and shareholders—1982 tax year (Budget Papers-P. 3)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

2). The revenue gained as a result of cut back in tax preferences allowed reduction in tax rates for a broad range of taxable incomes for 5.8 million Canadians. (Budget Spech-P.12722)

a). The marginal rate of federal tax was reduced to 34 percent, at the top income levels.

Reason: "Lower tax rates will also reduce the tendency for taxpayers to devote wasteful effort and money in finding artful ways of avoiding tax" (Budget Spech-P.12722). If we keep this in mind, we feel that this measure would fit under the category of long run since this would then improve the tax system and stimulate growth over time.

Size: -$1,120 million (Budget Papers-P. 7)

Classification: Personal income

Date implemented: 1982 tax year (Budget Papers-P. 7)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

b). Tax reductions through modifications in the federal tax credit in order to benefit the lower income Canadians. This special credit was previously 9 percent of tax with a minimum cut of $200 and a maximum of $500, which was then set at $200 for all individuals. However, married taxpayers were allowed an additional claim of $200 for their dependent spouse.

Reason: Lower the tax rates to provide relief to lower income Canadians and reduce inflation and interest rates as well, we consider it as ideological rather than long term and definitely not as an endogenous demand management since the economy was performing well and production was not an issue.

Size: $655 million (Budget Papers-P. 7)

Classification: Personal Income tax

Date implemented: 1982 tax year (Budget Papers-P. 7)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3).The surtax imposed on large corporations was extended for another two years however, the rate would be halved in 1983 to 2.5% (Budget Spech-P.12723)

Reason: The main goal of this measure was to involve the corporate sector in the reduction of federal deficit and the fight against inflation, as explained by the Finance Minister's speech. Lower inflation and interest rates would provide a more suitable economic environment for business in Canada. The overall motivation for the measure seems to be national deficit reduction. Since the measure was temporary in nature, we consider this to be an endogenous change, intended to affect the contemporary Canadian economy of 1981.

Size: Extension of corporate surtax at 5% in 1982 and 2.5% in 1983 will change revenues according to calculations as follows: (Budget Papers-P. 4)[6]

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[6] The impact on revenues for 1983-84 was given as $255 million. Since the measures were to expire in 1984, this implies that the 255 million would come from the final three quarters of 1983 implying a quarterly change of $85 million or a yearly impact of $340 million for 1983. For 1982-83, the change was given as $465 million. This

$506.67 million in 1982

$340 million in 1983

Classification: Corporate tax

Date implemented: 1982 and 1983 (Budget Papers-P. 4)

Intended to be: Temporary, intended for two more years

Category: Exogenous- deficit consolidation

Type: Anticipated and Unanticipated

4).For small business corporations, the limit for the low tax rate was increased to $200,000 per year. Also, small business firms were exempted from the corporate surtax as part of the initiatives to address the problems of small businesses. (P. 12723)

Reason: The motivation behind this change was to help small business firms leading to more growth in the future. While this may seem ideological since it was aimed specifically at small businesses, the nature of the tax change leads us to a different conclusion. The gains of such growth would take time to come into effect and as such the ideological aspects of the change seem secondary to the overall motivation of long run performance.

Size: -$50 million (Budget Papers-P. 5)

Classification: Corporate tax

Date implemented: 1982 tax year (Budget Papers-P. 5)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

5). Limits for deduction for interest costs on investments to the amount of investment income in the year were imposed. (Budget Papers-P. 25)

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represents the change over the final three quarters of 1982 and first quarter of 1983. The quarterly change in first quarter of 1983 is calculated as $85 million and hence the remaining change of $380 million implies a quarterly change of $126.67 million for 1983. The yearly change becomes $506.67 million for 1982.

Reason: The idea was to collect revenue from high income individuals and remove disparity between low- and high-income groups. Because of the obvious emphasis of fairness underlying this measure, we have labeled it as exogenous-ideological.

Size: $190 million (Budget Papers-P. 3)

Classification: Personal Income tax

Date implemented: 1982 tax year (Budget Papers-P. 3)

Intended to be: Permanent

Category: Exogenous: Ideological

Type: Unanticipated

6). A reduction of the depreciation write-offs in the year the property is acquired. (Budget Speech-P.12723)

Reason: The idea was to eliminate the inefficiency of the tax system that allowed the corporate sector to engage in tax deferrals and so we call it long run since the measure would only lead to growth in the mid and long run.

Size: $1100 million (Budget Papers-P. 4)

Classification: Personal Income tax

Date implemented: November 12, 1981 (Budget Papers-P. 4)

Intended to be: Permanent

Category: Exogenous: LR-Performance

Type: Unanticipated

7). Reduce federal dividend tax credit from 37.5 to 34 per cent of cash dividends to remove the anomaly of double taxation. (Budget Papers-P. 26)

Reason: Here we use the ideological motivation since this measure looks to remove the double taxation that was been done previously.

Size: $140 million (Budget Papers-P. 3)

Classification: Personal Income tax

Date implemented: 1982 taxation year (Budget Papers-P. 3)

Intended to be: Permanent

Category: Exogenous: Ideological

Type: Unanticipated

8). Professionals, both incorporated and unincorporated, be required on their tax returns to value unbilled work in progress at year-end at the lower of its cost or realizable value, and carry the amount into the next year's accounts rather than claiming it as an expense in the old year. (Budget Papers-P. 23)

Reason: Previously the professional firms were receiving a tax advantage in that they were allowed to exclude from their income the work that they had done but not billed by the year end even when they had deducted them from their expenses. This advantage was not available to other tax payers and so this measure removed that discrimination. Hence, the use of ideological as the main motivation.

Size: $75 million (Budget Papers-P. 4)

Classification: Corporate Income tax

Date implemented: 1982 taxation year (Budget Papers-P. 4)

Intended to be: Permanent

Category: Exogenous: Ideological

Type: Unanticipated

9). Impose 12.5% tax on dividends paid by small businesses from income taxed at lower rates. (Budget Papers-P. 34)

Reason: To prevent “managers of small businesses to artificially convert their salaries and wages into dividends to obtain tax savings” (Budget Papers-P. 34), and so we call this ideological.

Size: $90 million (Budget Papers-P. 4)

Classification: Corporate Income tax (can be classified as personal income tax)

Date implemented: 1982 taxation year (Budget Papers-P. 4)

Intended to be: Permanent

Category: Exogenous: Ideological

Type: Unanticipated

10) To end the opportunity now available for individuals and corporations to defer income tax on capital gains by claiming reserves. (Budget Papers-P. 17)

Reason: This measure aimed to remove the inefficiencies of the tax system that resulted from tax avoidance practices and so we label it as long run.

Size: $60 million (Budget Papers-P. 4)

Classification: Corporate Income tax

Date implemented: November 12, 1981 (Budget Papers-P. 4)

Intended to be: Permanent

Category: Exogenous: LR-Performance

Type: Unanticipated

11). For both incorporated and unincorporated small businesses the measure is being extended for one year beyond its scheduled termination date and it will now apply to loans of one to five years taken out before the end of 1982.

Reason: As before this measure is for helping small businesses expand and prosper and so long run categorization is used.

Size: -$20 million (Budget Papers-P. 4)

Classification: Corporate Income tax

Date implemented: November 12, 1981 (Budget Papers-P. 4)

Intended to be: Temporary

Category: Exogenous: LR-Performance

Type: Unanticipated

12). A reduction of the depreciation write-offs in the year the property is acquired for unincorporated businesses.

Reason: As before this measure helps to remove inefficiencies of the tax system that made it possible for companies to engage in tax deferral.

Size: $100 million (Budget Papers-P. 4)

Classification: Corporate Income tax

Date implemented: November 12, 1981 (Budget Papers-P. 4)

Intended to be: Permanent

Category: Exogenous: LR-Performance

Type: Unanticipated

13) Elimination of tax exemption on benefits provided to employees (Budget Papers-P. 19).

Reason: It was stated that the employees were not receiving the benefits and large corporations were the only ones taking advantage of it. We classify this change as ideological (Budget Paper-P. 19).

Size: $175 million (Budget Papers-P.4)

Classification: Personal Income tax

Date Implemented: January 1, 1982 (Budget Paper-P. 4)

Intended to be Permanent

Category: Exogenous-Ideological

14) Prevent access transfer of claims for $1,000 investment and pension income exemptions (Budget Paper-P. 26, P. 27)

Reason: This measure was enacted to ensure that the benefit of the pension income deduction is received by those who are retired and not currently working. This measure was designed to remove a loophole in the taxation system and hence we classify it as ideological.

Size: $45 million (Budget Papers-P.3)

Classification: Personal Income tax

Date Implemented: January 1, 1982 (Budget Paper-P. 4)

Intended to be Permanent

Category: Exogenous-Ideological

June 28, 1982:

Context:

The Canadian economy was facing serious consequences of recession. Unemployment had increased significantly, business profits were at their lowest, and the demand for goods decreased immensely, both at home and abroad. The most important obstacle for the growth of the economy was the persistence of US recession and high interest rates in that country. The performance of the economy in bringing down the rate of inflation was slow; the increase in CPI was 11.8 percent in May, and the wage settlements increased by 12 ¾ percent during the first quarter of the current year. The projected budgetary deficit for the fiscal year 1982 had gone up to $19.6 billion from $12.9 billion in 1981-82, whereas the forecast during the last budget for this year's deficit was $10.5 billion.

The last budget implemented a structure of revenues and expenditures that were expected to lower the deficit gradually when recovery got fully under way. This budget introduced new tax and expenditure measures to deal with these problems, but the government was determined not to add to the deficit already faced by the country in 1982-83. (Budget Speech-P. 18877)

Tax Measures:

1). The indexing factor applicable to personal exemptions and tax brackets would be limited to 6 percent for the 1983 taxation year and to 5 percent for the 1984 taxation year. These indexing limitations were implemented on the pensions paid and family allowances and old age security benefits. The child tax credit was increased by $50 for the 1982 taxation year and continued to be fully indexed to ensure that the limitation of the indexing factor did not hurt families with modest incomes. (Budget Speech-P. 18879)

Reason: Since the economy was in shambles, the Canadian government felt it need to take immediate action. The main cause of concern were the high levels of inflation which it was feared would have adverse effects on grow and stall any hope of a quick recovery. The measure was introduced as part of the government's plan to engage all Canadians in a shared in the effort to bring inflation down. This required everyone to reduce their income demands well below the then rate of inflation. While ordinarily the fact that it targeted specific groups that are typically seen as people the nation had an obligation to assist, the context of the measure and the immediate need to address the dire state of the economy leads us to consider this and endogenous change. Because its main motivation was to bring down inflation, we can safely label these measures as demand management.

Size: Calculated according to the figures available in the budget papers (Budget Papers-P. 13)[7]

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[7] The size of each step is calculated as follows: the revenue effect in 1982/83 was $160 million. During this year, the first step was in place for 3 months which implies that the monthly revenue effect of the first step was 160/3 =

$640 million in January 1, 1983

$2000 million in January 1, 1984

Classification: Personal Income

Date Implemented: January 1, 1983 (Budget Speech-P. 18879)

January 1, 1984

Intended to be: Temporary, till 1984 taxation year

Category: Endogenous-Demand Management

2) Increase in Child tax credit from $293 to $343 (Budget in Brief-P.6)

Reason: The aim of the measure was to offset the effect of the limits placed on indexing factor applicable to personal exemptions (Budget Papers-P.27). This measure can be classified as ideological, however, we classify it as demand management because it was designed to offset the effect of another measure that has been classified as demand management.

Size: -$150 million (Budget Paper-P.13)

Classification: Personal Income

Date Implemented: January 1, 1982 – retroactive measure (Budget in Brief-P.6)

Intended to be: Temporary, for one year (Budget Papers-P.27)

Category: Endogenous-Demand Management

3) Postponement of some measures announced in the 1981 budget (Budget Speech-P.18880).

Reason: The finance minister stated that some concerns were raised after the changes were announced in the 1981 budget and the modifications in those measures were a result of consultations made by the government (Budget Speech-P. 18880). We label these postponements as ideological. These included the following major changes

i) Postponement of corporate distributions tax applicable to small business for one year (Budget Speech-P. 18880).

$53.33 million. The revenue effect in 1983/84 was given as $1140 million. During this time, the first step was in place for 12 months and the second one for 3 months. That implies a monthly revenue effect of $166.67 million for the second step. We then multiply these with 12 to arrive at yearly values for the two steps.

Size: -$90 million (the size is taken from the budget plan 1981).

Classification: Corporate Tax

Date Implemented: January 1, 1982-retroactive measure (Budget Speech-P.18880)

Intended to be: Temporary, for one year

Category: Exogenous-Ideological

Other measures postponed were either or not major or it was not clear whether they were to be implemented or not. So we choose to exclude them.

April 19, 1983:

Context:

The Canadian economy was moving towards recovery after recession. Industrial production was up, growth through the year was forecasted to be fairly strong, and the rate of real GNP was expected to be 6.5 percent higher by the end of 1983 than the same period last year. This growth was expected to continue at an average rate of 5.2 for the year 1984. Inflation continued to decline, averaging 6.3 percent for 1983 and falling further 5 percent in 1984. Employment also increased significantly during the two years 1983 and 1984, over 600,000 more Canadians would be at work by the end of 1984. As the economic prospects improved and employment began to grow again, many workers, who had withdrawn temporarily during recession, joined the labor force. Consequently, unemployment rate continued to increase for this year with a figure of 12.4 percent, which was expected to fall to 11.4 percent, and this downward trend would then continue in the coming years.

The goal of the budget was clearly defined by the Finance Minister: "The first is to make sure that recent stirrings of growth pervade the whole economy as quickly as possible. The second is to make the recovery a durable one by beginning immediately…… Underlying these goals is the government's determination to ensure that Canadians are provided with the jobs they need — good jobs, permanent jobs, satisfying and well-paid jobs." Thus, the measures introduced were a combination of both exogenous and endogenous changes.

Tax Measures:

1). Changes were made in the federal investment tax credit on eligible investment. The limits on the ability to claim credit on investment were removed. It was also proposed that the credits earned in a year could be utilized to reduce taxes in any of the three previous years or seven subsequent years. This credit was also extended to include heavy equipment used in the construction industry. (Budget Speech-P. 24660)

Reason: Changes were made in the investment tax credit to increase the ability of the firms to use the existing credit and enhance its effectiveness and was introduced as a part of enhancing the recovery of firms so that new jobs could be created. Therefore, we take it a demand management measure rather than long run. The main reason the emphasis on the current economy which leads us to the conclusion that this was an endogenous change rather than exogenous.

Size: -$280 million (Budget Papers-P. 25)

Classification: Corporate Income Tax

Date implemented: April 20, 1983 (Budget Papers-P. 25)

Intended to be: Permanent

Category: Endogenous-Demand Management

Type: Unanticipated

2). Two temporary changes were also proposed for the federal investment tax credit. A portion of tax credit earned between then and April 30, 1986 would be regarded as a Special Recovery Refundable Investment Tax Credit and refunded directly for businesses. This refunded portion would be 40 percent of credits for small businesses, and for other businesses the refunded portion would be 20 percent. A special recovery share-purchase tax credit was also established. Those firms which issued new equity would be able to transfer their investments tax credits to new purchasers of new equity issued by them. (Budget Speech-P. 24661)

Reason: The purpose was to benefit small and medium-sized businesses and those firms that needed to improve their financial position by issuing new equity issues. Since it aimed to help firms that were struggling financially, we label it as endogenous supply stimulus. Again, the emphasis on the current economy of 1983 leads us to believe it was endogenous rather than exogenous and therefore it could not be ideological.

Size: (Budget Papers-P. 26)

	1984
Special Recovery Refundable Investment Tax Credit	-$120 million
Special Recovery Share-Purchase Tax Credit	-$70 million

Classification: Corporate Income tax

Date implemented: April 19, 1983 for Special Recovery Refundable Investment Tax Credit

June 30, 1983 for Special Recovery Share-Purchase Tax Credit (Budget Papers-P. 26)

Intended to be: Temporary

Category: Endogenous- supply stimulus

Type: Unanticipated

3). A Special recovery tax was proposed which included a one percentage point increase in the general rate of manufacturer's sales tax, from 9 percent to 10 percent, and a one percentage point increase in the sales tax levied on construction materials, alcoholic beverages and tobacco. (Budget Speech-P. 24661)

Reason: This tax was proposed to cover the costs (direct outlays and revenue forgone) of the Special Recovery Program over time, which was established to spur recovery and restore economy's capacity to create employment for Canadians.

Size: $900 million (Budget Papers-P. 25)

Classification: Sales tax

Date implemented: October 1, 1984 (Budget Papers-P. 25)

Intended to be: Temporary, till December 31, 1988

Category: Endogenous-Spending Driven

Type: Anticipated

4). The carryover period for business losses was extended; they were allowed to be carried back for three years and forward for seven years. (Budget Speech-P. 24662)

Reason: The is no mention in the budget speech of endogenous factors so we consider this to be exogenous in nature. This was one of the measures to improve the cash flow position of the private sector. Since such situations would lead to better performance over the years, we call it long run.

Size: -$225 million (Budget Papers-P. 25)

Classification: Corporate tax

Date Implemented: 1983 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

5). Deferred reintroduction of the Incremental Oil Revenue Tax on conventional oil for one year, from June 1, 1983 to June 1, 1984. (Budget Speech-P. 24662)

Reason: This measure was enacted to assist the recovery of oil sector in Canada from the volatile international market repercussions of the oil shock. Hence, we call it as endogenous supply stimulus.

Size: -$190 million (Budget Speech-P. 24662)

Classification: Corporate

Date implemented: Deferral for the period June 1, 1983 to June 1, 1984 (Budget Speech-P. 24662)

Intended to be: Temporary

Category: Endogenous-Supply stimulus

Type: Unanticipated

6).For mining exploration, the 33 ½ percent depletion allowances were allowed to be deducted against the non-resource income for tax purposes. (Budget Speech-P. 24663)

Reason: It was clearly stated that the mining industry had been hit hard by the worldwide recession and so the government decided to provide incentives to investors who were involved in mining ventures. Tus, we label it as another endogenous supply stimulus measure.

Size: -$20 million (Budget Papers-P. 26)

Classification: Corporate tax

Date Implemented: April 20, 1984 (Budget Papers-P. 26)

Intended to be: Permanent

Category: Endogenous-Supply stimulus

Type: Unanticipated

7).The employment deduction was increased from 3 to 20 percent of employment income, with the maximum deduction of $500. (Budget Speech-P. 24665)

Reason: The idea was to assist working Canadians with modest incomes who were having difficult time fulfilling their needs due to the worldwide recession. The mentioning of the world wide recession leads us to the conclusion that it could not be an ideological change because it was endogenous in its nature.

Size: -$135 million (Budget Papers-P. 25)

Classification: Personal Income tax

Date implemented: 1983 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Endogenous-Demand management

Type: Unanticipated

8). Changes made in the tax components of the federal child benefit system. (Budget Speech-P. 24665-24666)

a). The child-care expense deduction was doubled $1,000 to $2,000 per child and $4,000 to $8,000 per family.

Reason: The motivation behind this change was to support lower income Canadians with children and those who had to work in order to incur child-care expenses. Despite the recessionary effects present in the economy, we take it as an exogenous measure since it was implemented as a concern for the welfare of the people and not as a direct stimulant for economic activity.

Size: -$55 million (Budget Papers-P. 25)

Classification: Personal Income

Date implemented: 1983 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

b).The child tax credit introduced in the last budget was extended for the 1983 taxation year. Full indexation of this credit was also proposed to protect its value against increase in inflation for the years ahead.

Reason: The motivation behind this change was to support lower income Canadians with children and those who had to work in order to incur child-care expenses. Despite the recessionary effects present in the economy, we take it as an exogenous measure since it was implemented as a concern for the welfare of the people and not as a direct stimulant for economic activity. Size: -$90 million (Budget Papers-P. 25)

Size: -$90 million

Classification: Personal Income

Date implemented: 1983 taxation year (Budget Papers-P. 25)

Intended to be: Temporary

Category: Exogenous- Ideological

Type: Unanticipated

c). The family income threshold above which the child tax credit begins to phase out was maintained at its current level of $26,330. The credit below this level would be at its maximum level, and above the threshold, the credit would decline as family income rose.

Reason: In the same fashion as the two changes put forwards above, the motivation behind this change was to support lower income Canadians with children and those who had to work in order to incur child-care expenses. Despite the recessionary effects present in the economy, we take it as an exogenous measure since it was implemented as a concern for the welfare of the people and not as a direct stimulant for economic activity.

Size: $235 million (Budget Papers-P. 25)

Classification: Personal Income

Date implemented: 1983 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

d). The tax exemption for children and other dependents less than 18 years of age was maintained at its ongoing level of $710 million.

Reason: The motivation behind this change was to support lower income Canadians with children and those who had to work in order to incur child care expenses. Despite the recessionary effects present in the economy, we take it as an exogenous measure since it was implemented as a concern for the welfare of the people and not as a direct stimulant for economic activity.

Size: $35 million (Budget Papers-P. 25)

Classification: Personal Income

Date implemented: 1984 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

9). New provisions were proposed for tax incentives for R&D activities in the private sector. (Budget Speech-P. 24667)

Reason: The idea was to benefit small businesses that needed help in financing R&D activities, and we label it as long run since R&D activities provide benefit in the long run.

Size: -$150 million (Budget Papers-P. 26)

Classification: Corporate tax

Date implemented: September 1, 1983 (Budget Papers-P. 26)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

10). A tax of 6 percent imposed on subscribers on basic cable rental, paid TV and other programming services provided by means of communication. (Budget Speech-P. 24668)

Reason: This tax was announced to finance the expenditures associated with the new broadcasting strategy for Canada introduced by the Minister of Communications. Because its aim was to help stimulate a specific market within the economy, we feel that Endogenous-Spending driven is the most appropriate category for this measure.

Size: $50 million (Budget Papers-P. 25)

Classification: Sales and Excise taxes

Date implemented: July 1, 1983 (Budget Papers-P. 25)

Intended to be: Permanent

Category: Endogenous-Spending driven

Type: Unanticipated

11). All deductions for charitable and medical expenses be receipted to replace the standard deduction of $100. (Budget Speech-P. 24668)

Reason: This was proposed to address the concern of voluntary organizations that the standard deduction of $100 reduced tax incentives as this deduction was not directly related to the actual amounts given.

Size: $80 million (Budget Papers-P. 25)

Classification: Personal Income

Date Implemented: 1984 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

12). A federal tax reduction was introduced in 1973 at the rate of 5 percent of federal income tax otherwise payable with a minimum of $100 and a maximum of $500 dollars. This tax component was not an integral part of the personal income tax system and thus had been modified from time to time. This budget also proposed changes in this federal tax reduction which were scheduled to take effect in the later years. It would remain at its current level of $200 for 1983 and 1984, but would be reduced to $100 in 1985 and to $50 for 1986 and subsequent years. Moreover, some changes were also proposed for higher income taxpayers and married taxpayers. (Budget Papers-P. 30)

Reason: These changes were proposed as part of the deficit reduction plan in the medium term as clearly stated in the budget papers. (Budget Papers-P. 30)

Size: $265 million (Budget Papers-P. 25)

Classification: Personal income tax

Date implemented: 1984 taxation year (Budget Papers-P. 25)

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Anticipated

13) Elimination of the extra income tax on aviation turbine fuel and special levy on exported marine bunker fuel (Budget Brief-P. 13).

Reason: This measure was in response to the declining difference between world and domestic oil prices. We classify these measures as long-run.

Size: -$90 million (Budget Papers-P.26)

Classification: Other Taxes

Date Implemented: May 1, 1983 (Budget Brief-P.13)

Intended to be: Permanent

Category: Exogenous-Long Run

February 15, 1984:

Context:

The Canadian economy was successful in reducing the rate of inflation from almost 12 percent in June, 1982 to 4.5 percent at the end of 1983, as a result of the government's 6 and 5 Program implemented in 1982 that was focused to reduce significantly the inflation that was destroying the economy at that time. For the year 1984, the rate of inflation was forecasted to average about 5 percent, whereas further reductions were expected through the mid-1980s. (Budget Speech-P.1424)

Public investment was likely to increase over the course of 1984 and it would provide a boost to the economic recovery. Business investment was expected to increase by 2 ½ percent in 1984, and was projected to be a major source of economic growth in Canada from 1985 onwards. The economic recovery had been much stronger during the year 1983 than was forecasted during the April budget. The real growth achieved in 1983 was 3 percent instead of the predicted 2.3 percent and employment also increased significantly by the creation of 400,000 more jobs (Budget Speech-P. 1425). For the year 1984, real growth was expected to increase further to 5 percent with a continued strong employment growth of about 3.5 percent. It was argued in the budget that these forecasts were not the goals for the economy, when they could in fact achieve much more than this by working together. The measures introduced in this budget were thus, directed towards this end, and with the ultimate objective of creating more jobs and keeping Canadians satisfied (Budget Speech-P. 1426). With this view, the government's actions can be classified as exogenous changes since they were either ideological or directed towards long term growth.

Tax Measures:

1). Measures proposed to simplify taxation for small businesses. For example, cumulative deduction account, which was originally proposed to limit the low tax rate for small business to companies having $1 million of cumulative business income, was eliminated. As a result of this proposal, 300,000 small Canadian companies would get rid of record keeping and paperwork. Similar other proposals were introduced that intended to ease administrative burden on small businesses and provide tax incentives. (Budget Speech-P. 1428)

Reason: Tax simplification can assist businesses to grow by providing valuable resources for critical tasks. The elimination would also streamline the process of completing taxes by small businesses which often devote the a proportionally higher amount of resources to filing their taxes than larger firms. As a result, these businesses could devote their time to more worthwhile, entrepreneurial investments. The process of tax simplification was started with small businesses as they are an important source of entrepreneurship, risk-taking and job creation. While this may seem ideological, there is more evidence to indicate the plan was to assist in growth for this particular segment of the economy. As such we feel the best category for this measure is that of exogenous-long run.

Size: -$150 million (Budget Papers-P. 31)

Classification: Corporate tax

Date implemented: 1985 taxation year (Budget Papers-P. 31)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Anticipated

2).The manufacturer's sales tax on highway motor vehicles was shifted to the wholesale level. (Budget Speech-P. 1429)

Reason: To ensure a uniform application of tax to all makes of vehicle and end the unfair advantage for imported overseas automobiles. The emphasis of equality leads us to label this as an ideological change rather than a long run growth one. Previously motor vehicles manufactured outside of Canada were taxed at a different level than those which we made domestically. The Canadian government felt that it was unfair to Canadian producers to pay a higher tax price than foreign makers.

Size: -$10 million (Budget Papers-P. 31)

Classification: Federal Sales tax

Date implemented: March 1, 1984 (Budget Papers-P. 31)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3). A deduction limit of 18 per cent of pensionable earnings to a maximum of $15,500 per year was proposed to apply to all contributions to registered pension and retirement savings plans. (Budget Speech-P. 1430-31)

Reason: The tax treatment for pension savings was regarded as unfair and inflexible for self-employed and those without employer sponsored registered pension plans (Budget Papers-P. 18). Again, the emphasis on fairness seems to be paramount here. Thus, this measure aimed to rectify this discrimination and provide and even field for every citizen involved and so we label it as ideological.

Size: calculated according to figures available in the budget papers (Budget Papers-P. 31)[8]

-$160 million in January 1, 1985

-$65 million in January 1, 1986

Classification: Personal Income

Date implemented: January 1, 1985(Budget Papers-P. 31)

January 1, 1986

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

[8] The budget papers gave the revenue effects of taxation years rather than fiscal years which made it easy to calculate the size of each step. The revenue effect in the 1985 taxation year was given as -$160 million which we assign to the first step and the revenue change in the 1986 taxation year was given as -$225 million which implies a size of -$65 million for the second step.

4). A special provision will be introduced to allow farmers to contribute up to $120,000 of taxable capital gains from the sale of a farm to an RRSP. (Budget Speech-P. 1431) As the Finance Minister said the aim was to "give comparable access to tax-assisted retirement savings" to those who find it "impractical to contribute to retirement savings plans in early years while they are building up their farms or businesses vehicles."

Reason: To provide a better retirement plan for farmers as well. As the Finance Minister said the aim was to "give comparable access to tax-assisted retirement savings" to those who find it "impractical to contribute to retirement savings plans in early years while they are building up their farms or businesses vehicles." (Budget Speech-P. 1430)

Size: -$70 million (Budget Papers-P. 31)

Classification: Personal Income

Date implemented: 1984 taxation year (Budget Papers-P. 31)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

5). Deduction of one-half of qualifying employee stock option benefits. (Budget Papers-P. 7)

Reason: This was yet another measure to encourage more employee productivity and so we once more categorize it as long run. Increasing the amount of stock benefits to employees was a seen as a direct way to benefit the average worker. While this may seem like an ideological move, the aim was to increase workers productivity not merely to look out for their welfare. As such we consider this to be an exogenous-ideological tax change.

Size: -$10 million (Budget Papers-P. 31)

Classification: Personal Income

Date implemented: February 15, 1984 (Budget Papers-P. 31)

Intended to be: Permanent

Category: Exogenous-LR Performance

6). Incremental Oil Revenue Tax that had been introduced in 1982 was extended for yet another year to May 1985. (Budget Papers-P. 28)

Reason: This was a measure that was introduced to help the energy sector and since it was benefiting a specific industry and the original purpose of the measure had been to stimulate the oil manufactures when the economy was in desperate need of it, we will also consider this to be endogenous. It was felt that the benefits of the original plan would need more time to come about. This is not long run since these benefits were meant for the short and medium term. To be consistent with its previous categorization, we use supply stimulus here too.

Size: -$150 million (Budget Papers-P. 31)

Classification: Others

Date implemented: June 1, 1984 (Budget Papers-P. 31)

Intended to be: Temporary

Category: Endogenous-Supply Stimulus

7) Introduction of tax credit for Employee Profit-Participation Plans (Budget Papers-P.6)

Reason: The budget papers stated that a profit sharing between employers and employees lead to better labor-management relations and improve productivity growth (Budget Paper-P.6). We classify this as a long-run change.

Size: -$40 million (Budget Papers-P.31)

Classification: Corporate Tax

Date Implemented: January 1, 1985 (Budget Paper-P.31)

Intended to be: Permanent

Category: Exogenous-Long Run

November 8, 1984: (Economic and Fiscal Statement)

Context:

The aftermaths of the recession were still been felt by the economy. Although, there was recovery, it was not at the scale that matched with the United States. Even after two years of recovery, business and consumer confidence was weak. Thus, investment was more than 20 percent lower prior to recession and employment had hardly caught up with its pre-recession figures. In addition, deficit was growing. Based on a number of assumptions the Canadian economy was expected to decline from about 4.2 percent in 1984 to about 2.4 percent in 1985. In the second half, growth was predicted to increase to about 3.4 per cent per year. While inflation was expected to stay at or below 4 percent for the rest of the decade, unemployment would remain unacceptably high-11 percent through 1985 and then would slowly decline to about 7 per cent by 1990 (Budget Speech-P. 97). However, in case the assumptions did not fall through, the Finance Minister was expecting an even worse situation.

Thus, the government was focused towards dealing with the deficit problem as well as looking for long term measures to sustain the economy in the future. The tax changes enacted were with this agenda in view and so were exogenous in nature.

Tax Measures:

1). Farmers, Fishermen, loggers and mine operators would be able to apply for a fuel tax rebate of 3 cents per liter on motor fuels used off highways. This would apply to gasoline and diesel fuel purchased from December 1, 1984 to the beginning of 1987. (Budget Speech-P.101)

Reason: This measure was designed to help businesses cut down cost and remain competitive in the tough world marketplace so that productivity would continue to rise. Since the US was in the process of a stronger and faster recovery than Canada at the time this can be considered an endogenous tax change. Because it was hoped that the measure would keep the agriculture, fishing, and logging industries competitive against the US industries we have label this measure as supple stimulus.

Size: -$160 million (Budget Speech-P.101)

Classification: Fuel Sales tax

Date Implemented: December 1, 1984 (Budget Speech-P.101)

Intended to be: Temporary (till the beginning of 1987)

Category: Endogenous: Supply Stimulus

Type: Unanticipated

2). Farmers, Fishermen, loggers and mine operators were allowed rebates equal to the increase in the Petroleum Compensation Charge to a total of 1.8 cents per liter. However, the petroleum industry was not to be burdened with the increase in charge. (Budget Speech-P.102) Since the change was taken in direct response to the contemporary state of the Canadian economy, we consider this to be an endogenous change, and in a similar fashion to the previous tax rebate which was designed to help specific industries this change can also be labeled as supply stimulus.

Reason: To provide relief till the oil price were to be decontrolled so that

Size: -$95 million (Budget Speech-P.102)

Classification: Fuel Sales tax

Date Implemented: November 8, 1984

Intended to be: Temporary

Category: Endogenous: Supply Stimulus

Type: Unanticipated

3). Changes proposed to the Petroleum and Gas Revenue Tax: (Budget Speech-P.102)

a) The lower rate of the tax that applied to the integrated oil sands projects was extended for one year

b) The threshold level of the small producer's credit was doubled from $250,000 to $500,000.

Reason: These changes were undertaken in order to lead to increased production and expansion of the existing integrated plants, therefore we call it long run. At the same time, it is important to note that while the petroleum and natural gas industries were in need of assistance during that time, the nature of these changes would not see results for some time. The previous lower rate for integrated oil sands was extended explicitly because those benefits had not been realized yet (Budget Speech-P.102)

Size: -$64 million (Budget Speech-P.102)

Classification: Corporate tax

Date Implemented: January 1, 1985 (Budget Speech-P.102)

Intended to be: Permanent

Category: Exogenous: LR performance

Type: Unanticipated

May 23, 1985:

Context:

The Canadian economy grew strongly during 1984; real growth was highest since 1976 - 4.7 percent- and inflation averaged 4.4 percent, which was the lowest since 1971. Interest rates were also falling, and investment was expected to increase strongly during the year. Real activity for the economy was likely to expand by about 3 percent which was almost the same as for major industrial nations. The recent performance of the economy led to encouraging prospects. Employment increased significantly, more than 200,000 jobs were created for Canadians during this time. Nevertheless this was still not good enough as unemployment rate was just below 11 percent. There were about 1.4 million people who did not have work in Canada. The other major issue faced by economy was the rising deficits. The budget for this year was designed to deal with these two problems: high unemployment and high deficits. High deficits limit the ability of the economy to promote growth and create jobs, and high unemployment produces higher deficits in turn. So, this budget introduced a range of measures to address the vicious circle of unemployment and deficit and bring the economy towards economic renewal (Budget Speech-P. 5013).

According to the Finance Minister: "we are working to free up the entrepreneurial spirit of our citizens, to remove obstacles to productive growth, to lower barriers to international trade, to control and reduce high deficits, and to let the dynamism of our renewed economies produce jobs and opportunities for all" (Budget Speech-P. 5012). The changes brought about this year were once more exogenous in nature.

Tax Measures:

1). Refund of the tax credit of 100 percent earned on the first $2 million of qualifying R and D each year. (Budget Speech-P. 5015)

Reason: The idea was to assist small companies and start-ups in attracting investment capital. There is no mention of the contemporary economy of 1985 and so we take this to be an exogenous measure. Given this, the most appropriate category for a change of this is long run because there is always a lag between initial R&D investment and tangible benefits.

Size: -$125 million (Budget Papers-P. 91)

Classification: Corporate tax

Date implemented: After May 23, 1985 (Budget Papers-P. 91)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

2). Termination of the scientific research tax credit for investors. (Budget Speech-P. 5015)

Reason: This measure was proposed as a result of the tax credit refund on qualifying R and D, and the change in the definition of qualifying R and D "that will respond directly to the real needs and requests of the R and D community." Because this change was meant to repeal an obsolete measure, we call it ideological since there would be no addition benefit to the economy. The measure was meant to prevent the Canadian government from losing out on additional revenue from double counting a credit for the same purpose.

Size: $100 million (Budget Papers-P. 91)

Classification: Corporate tax

Date Implemented: May 23, 1985 (Budget Papers-P. 91)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

3). Exemption of federal sales tax on a number of items including, candy and confectionary, soft drinks, pet foods, certain goods related to energy efficiency, and beauty and health goods. (Budget Speech-P. 5016)

Reason: A study was conducted by the Ministerial Task Force to identify and eliminate unnecessary activities and increase efficiency in government activities to improve public service. The study highlighted that many of the items that were exempt should be included in the tax base. Also, the items that were excluded were not properly defined and were leading to competitive distortions among manufacturers producing similar products. The motivation was to increase efficiency and competitiveness and therefore, we use long run here.

Size: (Budget Papers-P. 93)

Items	**1986**
Candy and confectionery	$110 million
Soft drinks	$145 million
Pet food	$30 million
Health goods and surgical/ dental instruments	$75 million
Insulation, wood stoves and similar goods	$60 million

Classification: Commodity Taxes

Date implemented: July 1, 1985 for all items (Budget Papers-P. 93)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

4). The differential between the tax for off-site and on-site construction materials was removed. (Budget Speech-P. 5016)

Reason: The differential was deemed inappropriate under current construction practices.

Size: $90 million (Budget Papers-P. 93)

Classification: Commodity tax

Date implemented: July 1, 1985 (Budget Papers-P. 93)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

5). A restructuring was made to the benefits provided through the tax system to families with children. The child tax credit was increased in the year 1986, which reached a level of $524 per child in 1988. The level of income was also lowered at which the child tax credit began to phase out. The tax exemptions for children were also to be reduced over a three-year period, starting in 1987. This was done so that the exemption for children under the age of 18 became equal to the family allowances. (Budget Speech-P. 5017)

Reason: the motivation was to support lower income families, and to make child benefit system more effective. As a result, we feel that this is a textbook example of an exogenous-ideological change and have labeled it as such.

Size: -$150 million (Budget Papers-P. 90)

Classification: Personal Income

Date Implemented: 1986 tax year (Budget Papers-P. 90)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

6). The system of tax assistance for contributions to private pension plans was reformed. The discrimination among people in different types of pension plans was removed. The limits on RRSP contributions was to increase each year until 1990, at which time equity would be achieved between RRSP and other types of pension plans. (Budget Speech-P. 5018)

Reason: To enable Canadians to build decent pensions in a fair and flexible way.

Size: -$80 million (Budget Papers-P. 90)

Classification: Personal income tax

Date Implemented: 1986 taxation year (Budget Papers-P. 90)

Intended to be: Temporary

Category: Exogenous-Ideological

Type: Anticipated

7). The definition of disability was broadened for tax purposes. (Budget Speech-P. 5018)

Reason: The tax definition of disability was deemed too narrow. This measure intended to benefit a great number of individuals. Like the earlier measure, we feel that this is a textbook example of an exogenous-ideological change and have labeled it as such.

Size: -$40 million (Budget Papers-P. 90)

Classification: Personal income

Date implemented: 1986 tax year (Budget Papers-P. 90)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

8). Termination of the automatic indexation of excise levies on alcoholic beverages and tobacco products. (Budget Speech-P. 5020) a). The excise levy on alcoholic beverages was increased by 2 percent.

b). The excise levy on tobacco products was increased by 25 cents on a pack of 25 cigarettes

Reason: The motivation was to increase taxes to restore healthy fiscal balance. Moreover, this increase was substantial keeping in view the health hazards and high public costs of smoking. However, we use the first motive as our choice as the Finance Minister talked about raising taxes to achieve a "healthy fiscal balance" (Budget Speech-P. 5020) as his first reason for introducing the measure.

Size: $320 million (Budget Papers-P. 92)

Classification: Excise taxes

Date of implementation: May 23, 1985 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous-deficit consolidation

Type: Unanticipated

9). The excise tax on transportation fuels was increased by 2 cents per liter. This change was to be delayed till Labor Day to avoid any impact on the tourist season and on Canadians planning holiday travel in the summer. (Budget Speech-P. 5020-5021)

Reason: The motivation was to increase taxes to restore healthy fiscal balance but since this was a replacement for the Canadian ownership measure, we do not categorize it as an exogenous but rather an endogenous deficit consolidation measure. "The Canadian Ownership Special Charge of 0.7 cents per litre on transportation fuels will be removed June 1, in its place, the excise tax on transportation fuels will increase by 2 cents per liter" (Budget Speech-P. 5021).

Size: $930 million (Budget Papers-P. 92)

Classification: Excise taxes

Date implemented: September 3, 1985 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Anticipated

10). Federal sales tax rates increased by one percentage point. (Budget Speech-P. 5021)

Reason: The motivation was to increase taxes to restore healthy fiscal balance. Since the government was actively pursuing a goal of balancing their budgets independently of economic fluctuations, we have chosen to label this as an exogenous-deficit consolidation, since the measure was in meant to be in line with the aforementioned goal.

Size: $825 million (Budget Papers-P. 92)

Classification: Sales taxes

Date implemented: January 1, 1986 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous-deficit consolidation

Type: Anticipated

11). Income tax changes. (Budget Speech-P. 5021)

a). The modified indexation factor was to be applied to the tax system. The indexation of personal exemptions and tax brackets would only reflect the annual increase in the consumer price index greater than 3 percent.

Reason: The motivation was to increase taxes to restore healthy fiscal balance. In the same vain as the last measure, this measure was designed to raise revenue in order to achieve a balance fiscal budget and so we have labeled it as exogenous-deficit consolidation.

Size: $635 million (Budget Papers-P. 90)

Classification: Personal tax

Date of implementation: 1986 taxation year (Budget Papers-P. 90)

Intended to be: Permanent

Category: Exogenous-deficit consolidation

Type: Anticipated

b). The $50 federal personal tax reduction was to be eliminated.

Reason: The motivation was to increase taxes to restore healthy fiscal balance. In the same vain as the last measure, this measure was designed to raise revenue in order to achieve a balance fiscal budget and so we have labeled it as exogenous-deficit consolidation.

Size: $650 million (Budget Papers-P. 90)

Classification: Personal tax

Date of implementation: 1986 taxation year (Budget Papers-P. 90)

Intended to be: Permanent

Category: Exogenous-deficit consolidation

Type: Anticipated

c). Temporary deficit-reduction surtax imposed on higher-income individuals and large corporations.

Reason: The motivation was to increase taxes to restore healthy fiscal balance. In the same vain as the last measure, this measure was designed to raise revenue in order to achieve a balance fiscal budget and so we have labeled it as exogenous-deficit consolidation.

Size: $500 million for individuals and $295 for corporations (Budget Paper-P.90-91)

Classification: Personal and Corporate tax (half of the size assigned to changes in personal taxes and other half to changes in corporate taxes).

Date of implementation: July 1, 1985 (Budget Papers-P. 90)

Intended to be: Temporary, till December 31, 1986 for Individuals and till June 30, 1986 for Corporations

Category: Exogenous-deficit consolidation

Type: Unanticipated

13). Contributions to a registered homeowner- ship savings plan will no longer qualify for preferential tax treatment. (Budget Speech-P. 5021)

Reason: The idea was to generate more revenue and the fact that there were enough funds already for such plans that could be utilized for growth. Previous measures had achieved or were in the process of achieving the aforementioned goals so eliminating this plan would merely increase revenue that would go towards balancing the fiscal budget.

Size: $105 million (Budget Papers-P. 90)

Classification: Personal Income Tax

Date implemented: May 23, 1985 (Budget Papers-P. 90)

Intended to be: Permanent

Category: Exogenous- Deficit Consolidation

Type: Anticipated

14). A two year 1 per cent capital tax on chartered banks and trust companies was proposed. (Budget Speech-P. 5021)

Reason: To generate more revenue once more.

Size: $85 million (Budget Papers-P. 91)

Classification: Corporate Income Tax

Date implemented: January 1, 1986 (Budget Papers-P. 91)

Intended to be: Temporary

Category: Exogenous- Deficit Consolidation

Type: Anticipated

15). Phase out of the Petroleum and Gas Revenue Tax (PGRT). (Budget Papers-P. 12)

Reason: This measure was a part of a private investment initiative strategy of the government and so we do not take it as a supply stimulus for the energy sector but rather an attempt by the government to attract private investment, therefore, allowing us to label it as long run. The economic situation of the country as well as the quote of the Finance Minister mentioned in the context part above also validates this choice of ours.

Size: -$515 million (Budget Papers-P. 92)

Classification: Corporate Income Tax

Date implemented: January 1, 1986 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

16). Exemption from PGRT for new production revenues in order to simplify tax compliance was proposed. This measure was to allow the first $10,000 of an individual Canadian resident's annual resource income on production after December 31, 1985 to be exempt from the PGRT. This exemption would apply to all forms of resource income including royalty income (Budget Papers-P. 13-14).

Reason: The selection of the motivation here is the same as mentioned above for the same reasons as well.

Size: -$250million (Budget Papers-P. 92)

Classification: Corporate Income Tax

Date implemented: May 23, 1985

April 1, 1985- retroactive measure (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

17). Offset of unused exploration (CEE) and development (CDE) income tax deductions against PGRT. The provision will allow unused corporate income tax deductions associated with certain eligible exploration and development expenditures to be used to reduce a corporation's PGRT for taxation years ending after March 31, 1985. (Budget Papers-P. 13)

Reason: The same reasons apply here as mentioned for the two previous measures.

Size: -$225million (Budget Papers-P. 92)

Classification: Corporate Income Tax

Date implemented: May 23, 1985

April 1, 1985- retroactive measure (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

18). Elimination of the automatic indexation of the taxes on alcoholic beverages and tobacco products. (Budget Papers-P. 77)

Reason: The government considered it as inappropriate and so we take this measure as ideological. Because of societal views on alcoholic beverages and tobacco products, almost all of the measures hitherto mentioned in this narrative fall under the category of ideological. This one is no different.

Size: -$95million (Budget Papers-P. 92)

Classification: Others

Date implemented: September 1, 1985 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous- Ideological

19). Removal of Canadian Ownership Special Charge (Budget Papers-P. 14)

Reason: This measure was part of the Western Accord plan that allowed market forces to determine the price of oil for better growth opportunities. Therefore, we place it under long term here.

Size: -$920million (Budget Papers-P. 92)

Classification: Corporate Income Tax

Date implemented: June 1, 1985 (Budget Papers-P. 92)

Intended to be: Permanent

Category: Exogenous- LR-Performance

20) Restriction of investment tax credit to expenditures net of grants and other assistance payments (Budget Papers-P.60).

Reason: This measure restricted the investment tax credit to eligible expenditures net of any government assistance received. The aim was to "avoid the undesirable stacking of benefits from grants and tax incentives that can result under the (then) existing system" (Budget Papers-P.60). We label this measure as ideological because the aim was to remove inefficiencies from the taxation system.

Size: $50 million (Budget Papers-P. 91)

Classification: Corporate Income Tax

Date Implemented: May 23, 1985 (Budget Papers-P.91)

Intended to be: Permanent

Category: Exogenous-Ideological

February 26, 1986:

Context:

The economic performance of Canada was better than expected during the past 18 months. In 1985, the economy grew far stronger than major European countries; the growth was twice as great as United States and equal to that of Japan. The factors which generated this growth were: higher business investment, more housing projects and strong consumer spending. A great number of jobs were created during this time, leading to a significant reduction in unemployment rate i.e. from 11.7 percent in September 1984 to 9.8 percent in February 26 1986; which was the lowest since 1982. The performance was remarkable in this regard; the rate of job creation was 50 percent higher than United States and in absolute terms, more jobs were created in Canada than all the Western European countries combined.

Despite the strong growth inflation was stable. The cost performance was similar to the major competitors, and the competitiveness of the economy improved as a result of strong productivity growth and moderate wage increases. However, with these positive signs one major obstacle remained as a challenge for the economy. They encountered a debt problem of massive proportions. The government had been borrowing millions of dollars mainly to pay the interest on past debt which produced more debt and interest payments. Breaking this vicious cycle presented itself as a challenge for the economy (Budget Speech-P. 10980-10981). To deal with this problem the government had to resort to some exogenous and some endogenous tax changes that would not only help control but reduce the deficit as well.

Tax Measures:

1). Measures proposed to improve tax system. (Budget Speech-P. 10984)

a). The 3 percent inventory allowance was eliminated, effective February 26, 1986.

Reason: These measures were undertaken to "enhance economic performance, provide incentives and contribute to deficit reduction" (Budget Speech-P. 10984). Given this statement by the Finance Minister in his speech for the budget, we attribute all these changes to the long run category. Typically, we may say that this change as endogenous deficit reduction given the situation that the Canadian government found itself in. However, there is far more evidence given in the context to suggest that this measure had the intention of increasing the efficiency of the overall economy. In this case, the only real label we feel is appropriate is that of Exogenous-LR performance.

Size: $460 million (Budget Papers-P. 52)[9]

Classification: Corporate taxes

Date Implemented: February 26, 1986 (Budget Paper-P.52)

Intended to be: Permanent

Category: Exogenous-LR performance

b).The general investment tax credit was to be phased out in the next three years starting next year (Budget Papers-P. 29)

Size: $240 million in 1987 (Budget Papers-P. 52)[10]

$295 million in 1988

$445 million in 1989

Classification: Corporate taxes

Date Implemented: January 1, 1987 (Budget Papers-P. 52)

January 1, 1988

January 1, 1989

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

c). The special investment tax credit was to be extended at a reduced rate of 40 percent for manufacturing investments in designated areas.

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[9] The budget papers also give a separate revenue effect of $30 million for unincorporated businesses which we enter in the data as a personal income tax measure.

[10] The budget papers provided the yearly revenue impacts for 1987, 1988, and 1989. Since the measure was to be implemented in three steps – one step implemented in each year – the revenue effect for each step simply is the difference in the annual revenue change for the year in which it was implemented and the annual revenue effect of the previous year.

Size: -$175 million (Budget Papers-P. 52)

Classification: Corporate taxes

Date Implemented: May 1, 1986 (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

d). Corporate tax rates were to be reduced over a three-year period. By 1989, the basic federal corporate rate would be reduced from 36 percent to 33 percent.

Size: -$560 million (Budget Papers-P. 52)[11]

-$480 million

-$590 million

Classification: Corporate taxes

Date Implemented: July 1, 1987 (Budget Papers-P. 28)

July 1, 1988

July 1, 1989 taxation year

Intended to be: Permanent

Category: Exogenous-LR performance

2). Changes made in the tax treatment for dividends. (Budget Speech-P. 10985)

[11] The full year revenue estimates were given as 1988: -$800 million, 1989: -$1335 million, and 1990: -$1630 million. Let x be the monthly revenue impact of the first step, y be the monthly revenue impact of the second step, and z be the monthly revenue impact of the third step. It follows that for the first full year (1988) the following holds: $12x + 6y = -800$. Similarly, we get $12x + 12y + 6z = -1335$, and $12x + 12y + 12z = -1630$. Solving these we get a monthly revenue impact of -$46.67 million for the first step, -$40 million for the second, and -$49.17 for the final step. We then multiply these with 12 to arrive at the annual revenue effects.

a). The dividend tax credit was reduced from one-half to one-third of the cash dividends received by Canadians from tax paying Canadian companies. At the same time, it was announced that the taxation of dividends from taxable Canadian corporations under the minimum tax will be based on cash dividend received by individuals and on the grossed-up amount (Budget Papers-P.37).

Reason: The finance minister said that this measure was to ensure that more high-income individuals will pay regular tax on dividend income (Budget Speech-P.15). We classify this change as long-run because this was announced in conjunction with the elimination of dividend distribution tax on small businesses which was clearly to improve performance of small businesses.

Size: Calculated from figures give in the budget papers (Budget Papers-P.51, P.37)[12]

-$150 million in February 26, 1986

$250 million in January 1987.

Classification: Personal Income taxes

Date implemented: February 26, 1986 and January 1, 1987 (Budget Papers-P. 51)

Intended to be: Permanent (the first step was temporary)

Category: Exogenous-Long-run

b) The 12 ½ percent dividend distribution tax for small business was to be repealed (Budget Paper-P. 36)

Reason: This measure would simplify the tax system for small businesses. The Finance Minister added that it would also "preserve the integration of the corporate and personal taxes on income earned by small business corporations" (Budget Speech-P. 15). Streamlining the tax code has the effect of reducing the time and effort required of small business to devote to filing their taxes and as such they can use those resources more productively in their business dealings. The finance minister also stated that this measure would result in higher investment in Canadian dividend-paying companies (Budget Speech-P.15). As such we can comfortably label this as exogenous-long run performance.

[12] It was stated that the two parts of the measure would result in a revenue loss of $150 million in 1986 and revenue gain for the government of $250 million annually from 1987 and subsequent years. We thus treat this measure as being implemented in two steps – the first assumed to be implemented on budget date and reversed at the end of the year and the second implemented on January 1, 1987. We assign -$150 million to the revenue effect of the first step. The revenue effect of the second step would be the difference between the revenue effects of 1987 and 1986 which comes out to be $400 million

Size: -$250 million (Budget Papers-P. 52)

Classification: Corporate taxes

Date implemented: January 1, 1987 (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Anticipated

3). Measures to reduce deficit. (Budget Speech-P. 10985)

a). The existing personal surtax expired as scheduled, and a new 3-percent surtax was imposed on federal personal income taxes.

Reasons: The government believed that despite the spending cuts that had been planned, tax increases were essential to reduce the "interest burden built up over past years" (Budget Speech-P. 10985). While it may seem to have been devised to respond to the contemporary economic conditions, the interest burden was not an immediate threat to the economy. Since the current economic situation was rather strong, it was felt that now would be a good time to attempt to stem the deficit in order to bring down the government's debt obligations and the high interest rates associated with it. Because it was not linked directly to the economic cycle but chosen intentionally for its own sake, we consider this as an exogenous deficit consolidation measure. These measures were seen as ways curbing the deficit without stymieing economic expansion.

Size: $1200 million (Budget Papers-P. 51)

Classification: Personal Income

Date implemented: July 1, 1986 (Budget Papers-P. 51)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Anticipated

b).The current surtax on large corporations was replaced with 3-percent surtax for all corporations.

Reasons: The same reason as mentioned above.

Size: $390 million (Budget Papers-P. 52)

Classification: Corporate taxes

Date implemented: January 1, 1987 (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Anticipated

c). The federal sales tax rate was increased by 1 percentage point.

Reasons: Once more the same reason as mentioned above.

Size: $1050 million (Budget Papers-P. 53)

Classification: Sales and Excise taxes

Date implemented: April 1, 1986 (Budget Papers-P. 53)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

d). Excise taxes and duties on alcohol and tobacco were raised by 4 percent and 6 percent respectively.

Reasons: The same reason as mentioned above.

Size: $150 million (Budget Papers-P. 53)

Classification: Sales and Excise taxes

Date implemented: February 26, 1986 (Budget Papers-P. 53)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

4). A refundable sales tax credit was provided which included $50 for each adult and $25 per child, for families and individuals with incomes below $15,000. (Budget Speech-P. 10986)

Reason: To provide benefit to individuals with low income and they were of great concern for the government. The specific emphasis on families and poverty gives a strong indication of a moral motivation of the tax refund. The social nature of the measure allows us to call it ideological.

Size: -$335 million (Budget Papers-P. 52)

Classification: Personal Income

Date implemented: February 26, 1986

1986 taxation year- retroactive measure (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

5). The disability deduction was increased by $250. (Budget Speech-P. 10986)

Reason: To provide increased support to disabled individuals and so once more we choose ideological motivation here.

Size: -$10 million (Budget Papers-P. 52)

Classification: Personal income

Date implemented: 1986 taxation year (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

6). Reduction of the investment tax credit for unincorporated businesses. (Budget Speech-P. 10984)

Reason: Any simplification to simplify tax system would allow businesses to devote their time and effort to more profit-oriented endeavors and should therefore increase productivity. These gains from productivity are not immediate and the lag can be considerable. This leads us to categorize this reduced tax credit as being a long run motivated measure.

Size: $35 million in 1987 (Budget Papers-P. 51)

$35 million in 1988

$75 million in 1989

Classification: Personal income

Date implemented: 1987 taxation year (Budget Papers-P. 51)

1988 taxation year

1989 taxation year

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Anticipated

7). One-year extension of fuel tax rebate for primary producers. (Budget Speech-P. 10987)

Reason: This measure was designed to support primary producers who needed to reduce their costs to meet the economic pressure. The idea being that the lowered costs would allow these firms to better handle the economic situation looming before them. As such, this can safely be called an endogenous change. It was felt that the previous measures to help primary producers were not enough to meet the challenges now facing them. Since it targeted a specific area of the economy, we think that labeling this measure as supply stimulus is the most appropriate.

Size: -$120 million (Budget Papers-P. 53)

Classification: Other

Date implemented: January 1, 1987 (Budget Papers-P. 53)

Intended to be: Temporary

Category: Endogenous-Supply Stimulus

Type: Anticipated

8). A new, permanent system of tax benefits for housing and travel was to apply to residents of the north and isolated posts effective January 1, 1987. This would achieve equity between employees and the self-employed.

Reason: There was a general feeling that the isolated areas in Canada's northern territories were not benefiting from the economy in the same way that the more populated southern ones were. As such, these measures sought to rectify those injustices and bring them more actively into the economy. Since there seemed to be a large element of fairness and the social nature of the measure once more helps us to categorize it as ideological.

Size: -$120 million (Budget Papers-P. 52)

Classification: Others

Date implemented: January 1, 1987 (Budget Papers-P. 52)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

February 18, 1987:

Context:

The Canadian economy performed well in a challenging world environment despite facing difficult problems. The real growth for the economy averaged about 3.5 percent per year, which was much stronger than the growth in the United States. Employment growth in Canada was greater than any major industrial country; 675,000 new jobs were created during last year.

The economy grew by 3.3 percent during the year 1986, which outpaced all other major industrial countries. This strong performance was achieved as a result of the economic renewal program launched in November 1984. It helped to build confidence at home, and attract foreign investment by changing the image of the country abroad. The program of economic renewal was regarded important for all Canadians and the key to future prosperity (Budget Speech-P. 3574). The budget introduced a number of management initiatives and revenue measures to achieve further substantial reductions in the deficit during 1987-88 (Budget Speech-P. 3576) and we see a mixture of endogenous and exogenous policies to deal with it.

Tax Measures:

1).The air transportation tax was increased by $4 per ticket. The existing ceiling of $50 on the tax was to continue. (Budget Speech-P. 3576)

Reason: This change was imposed to recover a greater proportion of costs from those who benefited from these services, and also to provide enhanced levels of security at the airports. It was felt that these programs for security were necessary and therefore needed to be funded. Many in the government felt that those who directly benefited from those programs and who frequently used airlines should pay directly for those benefits instead of shelling those costs onto those who would not see benefits from such services. The focus on fairness is why we have chosen to label this as exogenous-Ideological.

Size: $45 million (Budget Papers-P. 67)

Classification: Other taxes

Date implemented: May 1, 1987 for tickets purchased in Canada

August 1, 1987 for tickets purchased outside Canada (Budget Papers-P. 67)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2).The excise tax on motor gasoline and diesel fuel was increased by one percent per liter. However, the rebate to farm producers was to be increased accordingly to continue to provide them with tax relief on their fuels for farm use. (Budget Speech-P. 3576)

Reason: Since the economy was doing well, there was a general feeling that the economy could handle new costs from tax increases which could be used to manage the government's ballooning debt. The budget introduced revenue measures to substantially reduce the deficit during 1987-88 which would reduce any additions to such debt. As such, we categorize this measure as endogenous deficit reduction.

Size: $450 million (Budget Papers-P. 67)

Classification: Sales and Excise tax

Date implemented: February 19, 1987 (Budget Papers-P. 67)

Intended to be: Permanent

Category: Endogenous-deficit reduction

Type: Unanticipated

3). Equalize the federal sales and excise tax burden on leaded and unleaded gasoline. (Budget Speech-P. 3577)

Reason: This was enacted in order to "eliminate lead emissions from gasoline by the end of 1992" (Budget Speech-P. 3577) since lead was a well-known public health hazard by 1987. Any measures that might lead to a decrease in excess exposure to lead would be a positive externality.

The focus on public health and not on contemporary economic pressures forces us to see this as more of an exogenous-ideological change than any form of endogenous one.

Size: $30 million (Budget Papers-P. 67)

Classification: Sales and Excise tax

Date implemented: April 1, 1987 (Budget Papers-P. 67)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

4).The excise tax on cigarettes and other tobacco products was increased by 4 percent. (Budget Speech-P. 3577)

Reason: This was yet another measure to reduce the deficit for the year 1987-88. This time, however, the burden of such initiatives would fall onto tobacco and cigarette consumers. This would have the dual effects of lowering consumption of harmful products and generating needed funds to decrease the fiscal deficit. We feel that there is more evidence suggesting that the motivation for such a measure was primarily economic and endogenous, and the public health aspects were merely added benefits to such ends. As a result, we are categorizing this as an endogenous deficit reduction initiative.

Size: $70 million (Budget Papers-P. 67)

Classification: Sales and Excise tax

Date implemented: February 19, 1987 (Budget Papers-P. 67)

Intended to be: Permanent

Category: Endogenous-deficit reduction

Type: Unanticipated

5). The federal sales tax was extended to a limited range of snack foods that competed with similar products that were already been taxed. (Budget Speech-P. 3577) While there is a good argument to be made for considering the fairness aspects as the primary motivation, the budget speech mentions this measure under the same section as that whose goal was deficit reduction. While there certainly are reasons for thinking that this is ideological in nature, it was to equalize the costs for firm for substitute products would not see an unfair advantage after all, the placing of the measure suggests otherwise. All things considered; it would be best to label the move as one of endogenous deficit reduction.

Reason: Once more a deficit reduction measure.

Size: $60 million (Budget Papers-P. 67)

Classification: Sales tax

Date implemented: July 1, 1987 (Budget Papers-P. 67)

Intended to be: Permanent

Category: Endogenous-deficit reduction

Type: Anticipated

6). Restore duty-free entry on books, computer parts, Christmas trees and tea in tea bags. (Budget Speech-P. 3577)

Reason: Export control was needed in order to maintain the competitiveness of Canadian goods. It was no longer felt that these goods need such protection and so the tax benefits were removed. We consider it as ideological as it seemed fair to allow people to purchase imported goods as per their demand, even if Canadian producers may see a decrease in immediate sales. The change was therefore meant to be fair to consumers and not producers. It was still focused on fairness, nonetheless.

Size: -$80million (Budget Papers-P. 67)

Classification: Other Taxes

Date implemented: February 19, 1987 (Budget Papers-P. 67)

Intended to be: Permanent

Category: Exogenous- Ideological

7) Move sales tax on selected items to wholesale level (Budget Papers-P.59, P.60)

Reason: It was stated that imposition of the federal sales tax on manufacturers was being shifted to the wholesale level. This was done to "correct serious disparities and anomalies in the application of tax and bias in favor of imports" Budget Papers-P.60. We classify this measure as ideological.

Size: $40 million (Budget Papers-P.67)[13]

Classification: Other Taxes

Date Implemented: July 1, 1987 (Budget Paper-P.67)

Category: Exogenous-Ideological

February 10, 1988:

Context:

The Canadian economy grew stronger, more dynamic, and more competitive. During the previous three and a half years, Canada's economic performance improved dramatically. It was better than any of the other major industrialized countries. The economic growth of Canada ranked number one since 1984. With more than 1,150,000 jobs created since 1985, it also became number one in employment growth. Also the majority of the newly created jobs were full time. The unemployment rate fell appreciably; lowest since the last six years. Economic and employment growth were more balanced among regions for the year 1987; unemployment dropped in all provinces during that time. Business and consumers' confidence rose sharply which gave rise to a sharp increase in the pace of investment and consumer spending. (Budget Speech-P. 12839)

The finance minister suggested that the Canadian economy needed a fairer tax system for individual Canadians in order to build a firm foundation for success in the 1990s. A system that was effective in supporting growth and job creation. Major reforms were made in the personal and corporate tax systems on January 1, 1988. These reforms were based on the belief that the best possible tax incentive for productive activity was lower tax rates. As a result of these reforms, 8 out of 10 households would find reduction in their income taxes. About 850,000 lower-income Canadians would get rid of the income taxes completely. Moreover, the tax reforms included similar tax incentives for old aged Canadians and children. Taxes were lowered for the corporate sector as well by reducing or eliminating many special tax breaks, making the corporate tax system more competitive in comparison to systems in other countries. These income tax reforms were to be covered in the House legislation in the near future (Budget Speech-P. 12840).

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[13] This measure was to be implemented in two steps. For pet food, the effective date was May 1, 1987 and for other commodities the effective date was July 1, 1987. Budget Papers give revenue impact of $15 million for the tax year 1987 and $30 million for the fiscal year 1987-88. However, we were unable to use our usual method to compute the monthly revenue effects for the two steps because the implied monthly revenue effect for the first step comes out to be negative, Hence, we ignore the first step and take July 1, 1987 as the effective date and assign the revenue effect to this date. Since the impact during 1987-88 is given as $30 million and the measure was going to be in effect for 9 months during this fiscal year, the full year impact comes out to be $40 million.

Given such a promising situation, the government could afford to look at long term planning and so the reforms introduced were exogenous.

Major Tax Changes:

1). Child Benefits: **(**Budget Papers-P. 9)

a). The maximum child care expense deduction was increased from $2,000 to $4,000 for each eligible child who was under seven years of age at the end of the year or who had a severe and prolonged mental or physical impairment. Moreover, the maximum overall limit of $8,000 for each individual taxpayer for child care expense deduction was also abolished.

Reason: Although these measures seem ideological at first glance, the budget speech points to a long run motivation for these tax changes as they were implemented with the belief that lower tax rates would lead to greater productivity; "On January 1, 1988 major reforms to the personal and corporate tax systems went into effect. The key to these reforms is our belief that the best possible tax incentive for productive activity is lower tax rates" (Budget Speech-P. 12840) As such, even though there are plenty of ideological elements to the measure the primary motivation was that of increased productivity for the economy. Since productivity gains are not immediately realized, the nature of the tax change can be placed under the exogenous-long run category.

Size: -$40 million (Budget Papers-P. 27)

Classification: Personal Income tax

Date of Implementation: February 10, 1988

1988 tax year- retroactive measure (Budget Papers-P. 27)

Intended to be: Permanent

Category: Exogenous- Long Run

Type: Unanticipated

b).The maximum amount of refundable child tax credit was proposed to increase to $559 in the tax reforms during 1988.

Size: -$340 million (Budget Papers-P. 27)

Classification: Personal Income tax

Date of Implementation: February 10, 1988

1988 tax year- retroactive measure (Budget Papers-P. 27)

Intended to be: Permanent

Category: Exogenous- Long Run

Type: Unanticipated

2). The excise tax on gasoline and aviation gasoline was raised by one cent per liter. However, the excise tax on diesel fuel was not increased. The existing fuel tax rebate for farmers, fishermen and other primary producers was to be increased concurrently by one cent to save them from the effects of increases in taxes. (Budget Papers-P. 22)

Reason: This measure was also the part of the tax reforms made on January 1, 1988 that aimed to generate more revenue; "To raise revenues, the tax on gasoline will be increased by one cent per liter effective April 1" (Budget Papers-P. 7) The government made sure that the key industries of agriculture, fishing and the like were protected from such measures which were seen as necessary in order to protect the Canada's economic output. This was a much-needed caveat since such industries would suffer significantly should the new tax apply to them. The overall motivation seems to be on of raising revenue. Since the economy was doing astoundingly well, there was a general feeling that steps could safely be taken to reduce the deficit without doing significant damage to the economy.

Size: $300 million (Budget Papers-P. 27)

Classification: Sales and Excise taxes

Date of implementation: April 1, 1988 (Budget Papers-P. 27)

Intended to be: Permanent

Category: Exogenous- Deficit Consolidation

Type: Unanticipated

April 27, 1989:

Context:

This budget was designed to deal with the national problem of large and growing public debt which became a hindrance for the better future of the Canadians. The current figure for the public debt was $320 billion, which was 20 times greater than it was during the mid-1970s when it became to grow faster than the national economy. This huge debt required interest payments more than one-third of all government revenues for the year 1989. The government launched a broad agenda of action in 1984 to strengthen the foundations of Canadian economy, which contributed to slow the growth of public debt by reducing the annual deficit. The growth of the budget reduced to less than 10 percent last year as compared to almost 24 percent during 1984. The economy depicted strong growth during that time, created new jobs and expanded faster than most other industrial nations. The current most important fiscal policy objective of the government was to continue getting the public debt under control through deficit reduction, and to reinforce the policies that helped to achieve strong economic progress: “But we will not achieve this if we do not deal with the threat posed by the growing burden of the public debt. A healthy economy is essential to control the debt. But it is not enough. We must take further action to achieve our economic and fiscal goals. We will, therefore, cut spending and increase taxes.” (Budget Speech-P.5)

The measures introduced in this budget included a wide range of reductions in government spending and initiatives that increased revenues. Since most of these changes dealt with improving the inherited budget deficit, they can be put under the exogenous category.

Tax Measures:

1). Corporate Tax Measures: (Budget Papers-P. 40)

a). A new large corporations’ tax was levied on corporate capital employed in Canada in excess of $10 million. This new tax would be creditable against the existing 3 percent surtax and would ensure that all corporations pay at least a minimum amount of tax each year.

Reason: This tax measure was intended to make all corporations pay their share and contribute towards controlling public debt. The economy was doing reasonably well and it was felt that large corporations were an area of potential tax revenue that would not limit the overall growth of the 1989 economy. The budget papers stated “The budget proposes to levy additional taxes on the corporate sector to help reduce federal deficit” (Budget Papers-P. 40)

b) For small businesses, the effective federal tax rate, including surtax was increased from 12.4 percent to 12.8 percent. (Budget Speech P-11)

Reason: Both can be considered measures that were meant to reduce the deficit. However, it is important to note that the relative increase in taxes was much smaller for small business as opposed to large ones. This would suggest a hint of ideological motivation behind the tax application. Even though the manner in which the taxes were imposed could be considered ideological, that by no means negates the fact that the taxes were conceived to lower the deficit. As such will categorize as exogenous deficit consolidation.

Size: $965 million (Budget Papers-P. 59)

Classification: Corporate Tax

Date implemented: July 1, 1989 (Budget Papers-P. 59)

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Unanticipated

2). Personal Income tax: (Budget Papers-P. 36)

Two changes were made in the existing personal income surtax:

a). The surtax on all individuals was increased by 2 percentage points.

b). A new federal surtax of 3 percent was imposed on individuals with incomes over $70,000. The current rate of surtax for these individuals was to become 8 percent.

Reason: Once more the objective was reduction of inherited budget deficit. This time it was focused on individuals and not on corporations. Essentially the Canadian government was finding revenue wherever it could. That meant taxing whatever it deemed to be a source of income that would not stymie the economic growth that the country was experience at that time.

Size: $1240 million (Budget Papers-P. 59)

Classification: Personal Income taxes

Date implemented: July 1, 1989 (Budget Papers-P. 59)

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Unanticipated

3). Excise Levies (Budget Papers-P. 56-57)

a). The excise levies on cigarettes increased by $4 a carton and the taxes on cigars were increased proportionately, effective April 28, 1989. (Budget Papers-P. 56)

Reason: While this one could be argued be ideological in nature since it would conceivably reduce the amount of cigarettes consumed, the manner in which the tax was implemented does not trump the initial reason the tax was conceived. In this case the aim was to gain revenue for controlling the national debt.

Size: $770 million in a full year (Budget Papers-P. 61)

Classification: Excise and Sales tax

Date Implemented: April 28, 1989 (Budget Papers-P. 61)

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Unanticipated

b). The excise tax on gasoline was increased by 1 cent per liter effective April 28, 1989, and would increase further by 1 cent January 1, 1990. For leaded gasoline, the excise tax was to be increased by an additional 1 cent per liter. (Budget Papers-P. 57)

Reason: In the same manner as the measures taken above, this tax was motivated by an end goal of controlling the debt. As such we are labeling it as exogenous-debt consolidation.

Size: $320 million on April 28, 1989 for gasoline (Budget Papers-P. 61)

$320 million on January 1, 1990 for gasoline

$20 million on April 28, 1989 for leaded gasoline

Classification: Excise and Sales tax

Date Implemented: April 28, 1989 (Budget Papers-P. 61)

January 1, 1990

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Unanticipated

c). Excise levies for manufactured tobacco was to be increased first by $4 per 200 grams on April 28, 1989 and then again by $1.30 per 200 grams on October 1, 1989. (Budget Papers-P. 56)

Reason: This measure mirrors the previous tax change which was meant to controlling debt. The aim of reducing the deficit was the primary goal and the reduction of tobacco was as secondary, so this is a debt consolidation measure.

Size: $160 million on April 28, 1989 (Budget Papers-P. 61)

$45 million on October 1, 1989

Classification: Excise and Sales tax

Date Implemented: April 28, 1989 (Budget Papers-P. 61)

October 1, 1989

Intended to be: Permanent

Category: Exogenous-Deficit consolidation

Type: Unanticipated

4). Federal Sales tax increases (Budget Papers-P. 54)

a). The rate of federal sales tax was increased by one percentage point on construction materials and equipment for buildings.

Reason: All four measures mentioned below were meant to generate revenue for the government which would help the deficit. However, here we categorize them as endogenous deficit reduction since they were enacted to ensure that the sales tax reform planned for the future would not adversely affect revenue thereby causing an increased deficit; whereas the tax measures adopted previously dealt with raising revenue for inherited deficit. As such, instead of merely attempting to lower the already established debt, these measures would aim to not create any new debt in the process. As such, they are endogenous, and not exogenous since they were specific to the contemporary Canadian economy of 1989.

Size: $250 million in first full year (Budget Papers-P. 60)

Classification: Federal Sales tax

Date of implementation: January 1, 1990 (Budget Papers-P. 60)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Anticipated

b) The rate of federal sales tax was increased by one percentage point on alcoholic beverages and tobacco products.

Size: $70 million in first full year (Budget Papers-P. 60)

Classification: Federal Sales tax

Date of implementation: April 28, 1990 (Budget Papers-P. 60)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Unanticipated

c) The rate of federal sales tax was increased by one percentage point on telecommunication services and telecommunication programming services.

Size: $110 million in first full year (Budget Papers-P. 60)

Classification: Federal Sales tax

Date of implementation: June 1, 1989 (Budget Papers-P. 60)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Unanticipated

d) The federal sales tax for all other taxable goods was increased by one-and-a-half percentage point.

Size: $1600 million (Budget Papers-P. 60)

Classification: Federal Sales tax

Date of implementation: June 1, 1989 (Budget Papers-P. 60)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Unanticipated

5) The existing refundable federal sales tax credits for adults and children was to be doubled. The sales tax credit was increased from $70 to $100 per adult in 1989 and to $140 in 1990. (Budget Papers-P. 54)

Reason: The government's goal is to assure that families earning less than $30,000 per year will be better off as a result of the implementation of sales tax reform. Unlike the aforementioned revenue generating tax measures, this one seems to be primarily ideological in nature. This would help poor families and increase their after-tax income. This emphasis on social welfare leads us to label this measure as exogenous-ideological.

Size: Calculated based on figures available in the budget (Budget Papers-P. 59)[14]

-$540 million for July 1, 1989

-$115 million for taxation year 1990

Classification: Sales tax

Date implemented: July 1, 1989 (Budget Papers-P. 59)

January 1, 1990 (Budget Papers-P. 54)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated and Anticipated

6). Higher-income individuals will repay old age security pension and family allowance benefits at a rate of 15 per cent of individual net income exceeding $50,000 (Budget Papers-P. 9)

Reason: This measure certainly seems ideological since it specifically targeted the high income individuals. However, the initial motivation for this tax was to have high income people help contribute towards deficit consolidation. Therefore this measure can be comfortably considered exogenous-deficit reduction.

Size: Calculated based on figures available in the budget (Budget Papers-P. 59)

-$140 million for 1989

-$180 million for 1990

Classification: Personal Tax

Date implemented: Taxation year 1989 (Budget Papers-P. 59)

Taxation year 1990

[14] The first step was to be implemented on July 1, 1989 and the revenue effect for 1989 was given as -$270 million. That implies a monthly revenue effect of -$45 million or a yearly revenue effect of -$540 million for the first step. The revenue effect for 1990 is given as -$655 million. Out of this, -$540 million is due to the first step which implies a yearly revenue effect of the second step as -$115 million.

Intended to be: Permanent

Category: Exogenous- Deficit Consolidation

February 20, 1990:

Context:

The Canadian government initiated a five-year deficit reduction plan to gain greater control of the nation's finances during 1989. As a result of the implementation of this plan, the deficit for this year was on track at $30.5 billion. But the future performance of the economy was facing a challenge of inflationary pressures. The finance minister suggested continuing with the efforts to control government spending. This program would keep the economy on a track and would assist in achieving the goals set out in the last budget: reducing the deficit to $28.5 billion for this fiscal year; cut it in half to $14 billion in three more years; and reduce it further to $10 billion in the year after that. (Budget Speech-P. 8593)

Reducing federal deficit would help ease inflationary pressures, which in turn would lead to reduction in interest rates. It would also reduce Canada's reliance on foreign lenders and strengthen the sovereignty of the nation (Budget Speech-P. 8594). The measures were both endogenous and exogenous in nature.

1). Replacement of the existing manufacturers sales tax with the Goods and Services Tax. (Budget Speech-P. 8596)

Reason: According to the budget papers (Budget Plan-P. 134), the GST was going to help the government by minimizing tax evasion practices. The manufactures sales tax was difficult to measure and by extension, difficult to enforce. It was subject to a significant amount of tax avoidance. As such, the GST was seen as a more efficient way of acquiring the same levels of revenue. It was not without its own controversy however; the GST was a visible tax that could be seen and have an impression on the public whereas the manufactures sales tax was not. However, in the end, the Finance Minister stated that the GST would "strengthen economic competitiveness, contribute to deficit reduction and lead to a fairer sales tax system." (Budget Plan-P. 134). While there are aspects of exogenous ideological motivations, overall, we think the most appropriate label as exogenous long run.

Size: $20755 million (Budget Plan-P. 135)

Classification: Sales tax

Date of implementation: January 1, 1991 (Budget Plan-P. 134)

Intended to be: Permanent

Category: Exogenous-LR- Performance

2). Elimination of existing FST and miscellaneous excise taxes. (Budget Speech-P. 8596)

Reason: The reason mentioned above also applies to this tax change and so once more we use the long run category.

Size: -$18970 million (Budget Plan-P. 135)

Classification: Sales tax

Date of implementation: January 1, 1991 (Budget Plan-P. 134)

Intended to be: Permanent

Category: Exogenous-LR- Performance

3) The existing refundable FST credit was to be replaced by the new GST credit. (Budget Speech-P. 8596)

Reason: "To ensure that lower- and modest-income Canadians are better off under the new system, the existing refundable FST credit will be replaced by the new GST credit" (Budget Plan-P. 134). The original tax credit was implemented with an ideological intent under the FST system. Now that the FST was to be replaced with the GST, it was seen as necessary to extend the benefits to lower- and modest-income Canadians under the previous system into the next. Therefore, we label it as ideological.

Size: -$1270 million (Budget Plan-P. 135)

Classification: Others

Date of implementation: January 1, 1991 (Budget Plan-P. 134)

Intended to be: Permanent

Category: Exogenous-Ideological

4). Prepayment of GST credit. (Budget Speech-P. 8600)

Reason: One-time prepayment measure for GST in the main scheme of long run changes that would be brought about by the new GST. The prepayment of the GST credit was to "the transitional grant to small business and the rebate of federal sales tax on inventories." (Budget Speech-P. 8600) These areas of the economy would see this change as a stimulant to themselves and yet this would take time to happen. As such, we have chosen to label this tax measure as exogenous-long run.

Size: -$600 million (Budget Plan-P. 135)

Classification: Others

Date of implementation: December 31, 1990 (Budget Plan-P. 136)

Intended to be: Temporary[15]

Category: Exogenous-LR- Performance

5). Federal sales tax inventory rebates. (Budget Speech-P. 8600)

Reason: One-time prepayment measure for GST in the main scheme of long run changes that would be brought about by the new GST.

Size: -$1200 million (Budget Plan-P. 135)

Classification: Others

Date of implementation: December 31, 1990 (Budget Plan-P. 136)

Intended to be: Temporary[16]

Category: Exogenous-LR- Performance

6). Increase in high-income surtax. (Budget Plan-P. 136)

Reason: No reason is specifically given but this measure was found under the "consequential impacts/related fiscal actions" in the budget plan (Budget Plan-P. 136), and therefore, we take it as deficit reduction since this increase in tax would lead to more revenue that can help the deficit of the country that might arise due to the tac reform changes mentioned above. In the grander context of the whole budget for the year it would make the most sense to label this as endogenous-deficit reduction. The Canadian government was still in the middle of their 5 years deficit reduction program and so it seems plausible that such a measure would fit into the explicitly stated and aggressively pursued long term plan.

Size: $160 million (Budget Plan-P. 135)

Classification: Personal tax

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[15] The budget plan did not give any revenue impact of this measure for the 1991-92 fiscal year so we assume that this measure was only going to last for the remainder of the 1990-91 fiscal year.

[16] The budget plan gave revenue impacts for the 1990-91 and 1991-92 fiscal years. The revenue impact for the second year was smaller than the first and that is why we assume that this measure was going to be in place for the 1991 taxation year.

Date of implementation: February 20, 1990

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Unanticipated

7). Increase in the large corporations tax. (Budget Plan-P. 136)

Reason: No reason is specifically given but this measure was found under the "consequential impacts/related fiscal actions" in the budget plan (Budget Plan-P. 136), and therefore, we take it as deficit reduction since this increase in tax would lead to more revenue that can help the deficit of the country that might arise due to the tac reform changes mentioned above. Large corporations are often a go too source of revenue since they are relatively few and have comparatively large reserves of wealth. From a fairness standpoint it is often felt that these corporations are able to take the hit from these taxes more than individual households and small businesses.

Size: $155 million (Budget Plan-P. 135)

Classification: Corporate tax

Date of implementation: February 20, 1990

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Unanticipated

February 26, 1991:

Context:

The world economy continued to become more competitive; a wave of economic change affected people, industries and countries. As the opportunities increased, so did the risks. Since the last budget, uncertainty had increased which affected both economic confidence and performance in Canada as well as around the world. At that time, international stability was shaken by military hostilities in the Persian Gulf and by political disturbance in Eastern Europe and the Soviet Union. There were serious problems faced in the opening up of world trade, posing large risks to Canada's trade-oriented economy. All these factors led to a world-wide recession which affected Canada as well as United States and a number of other countries. Many Canadians lost their jobs; and many others lost confidence in future performance of the economy. However, for Canadian economy, the prospects for economic recovery were positive because of the encouraging progress in reducing both inflationary pressures and interest rates (Budget Speech-P. 17685).

During the last quarter of 1990, the economic performance of the country declined. However, the economy was expected to stabilize by mid of the same year, after facing a decline in output of almost 2.5 percent. The unemployment rate was also forecasted to rise above 10 percent during the first half of the year, which would fall after the recovery in the economy (Budget Speech-P. 17687). The priority of this budget was to take actions essential for the recovery. The idea was not to increase spending, rather to lower interest rates. Lowering interest rates would bring about economic recovery. Inflation was targeted to reduce to 2 percent by mid of the year which would result in lowering interest rates. (Budget Speech-P. 17686)

The measures in this budget intended to continue the expenditure restraint program for the restoration of fiscal stability. There were no new taxes in the 1990 budget. In this budget, there were two specifically targeted revenue-raising measures (Budget Speech-P. 17693) which since they were ideological, have been categorized under exogenous changes.

Tax measures:

1). The excise tax on cigarettes was increased by three cents per cigarettes. There was a proportionate increase proposed for other tobacco products as well, and was also to apply to existing inventories. (Budget Speech-P. 17693)

Reason: This measure was intended to discourage young Canadians from smoking. Smoking has been seen as a negative activity for significant amount of time and both region and national governments have sought to use taxes as a way of incentivizing behavior. While there certainly is an aspect of revenue raising motivation to this measure, the overall nature of the tax change was motivated as exogenous ideological so that is what we have chosen to label it as.

Size: $1,140 million (Budget Plan-P. 149)

Classification: Sales and Excise taxes

Date implemented: February 27, 1991 (Budget Plan-P. 149)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2). Measures proposed for disabled Canadians: (Budget Speech-P. 17694) a).The disability tax credit increased from $575 to $700.

b).The definition of the expenses eligible for medical tax credit was broadened to include the cost of part time attendants at home.

c).The costs incurred by employers in providing modified services to the disabled employees were to be fully deductible for tax purposes.

d).The costs incurred by employers in providing benefits to disabled persons to help them work were to be fully deductible.

Reason: The motivation behind these steps was to provide more opportunities to disabled Canadians and to enable them to participate more fully in the economy and more fairly in the workplace. There is an aspect of a long run motivation but by and large there was an emphasis on fairness behind this change and it focus on taking care of those who ordinarily may not be able to take care of themselves otherwise. As such, we will label this change as exogenous ideological.

Size: -$70 million (Budget Plan-P. 144,145,147)

Classification: Personal and Corporate taxes

Date implemented: 1991 taxation year (Budget Plan-P. 144,145,147)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

February 25, 1992:

Context:

This budget intended to reinforce economic recovery in the year and strengthen growth and job creation in the years ahead. The economic recovery started with great enthusiasm during the second quarter of 1991 but it weakened significantly with the disturbances in the economic conditions of Canada's major trading partners, particularly the United States. During the fourth quarter of 1991, real output for the economy was flat or rather declined. This decline in output carried over into early 1992. The economy was facing serious problems which required sound policies. However, the situation was expected to improve as the United States and other trading partners revitalized their economies (Budget Speech-P. 7597). The budget speech made it clear that the government wanted to bolster the recovery of the economy and at the same time, implement measures to accelerate the long-run growth of the economy.

This budget intended to bring better fiscal balance, lower deficits, greater spending restraint and control of the tax burden (Budget Speech-P. 7599).

Tax Measures:

1).The personal income surtax decreased from 5 percent of basic tax to 4 percent, and then a further reduction of 1 percentage point was proposed. (Budget Speech-P. 7599)

Reason: The idea behind the change was to reduce the tax burden for Canadians which would increase their disposable income and thus the aggregate demand. The language of the budget speech offers a hint of an exogenous ideological motivation but when looking at the overall context of the change, it becomes clear that this is merely a selling point used by the Finance Minister to get parliament on board with the budget. The real motivation behind the change was to increase consumption by boosting demand. The end goal was to continue to stimulate the economy during the recovery from the last contraction. The measure was listed under the heading "Actions to bolster recovery". As such we have decided to categorize this change as Endogenous-demand management**.**

Size: Calculated based on figures available in Budget Papers (Budget Papers-P. 135)[17]

-$375 million in July 1, 1992

-$875 million in January 1, 1993

Classification: Personal Income

Date implemented: (Budget Papers-P. 135)

Reduction from 5 percent to 4 percent…………. July 1, 1992

Reduction from 4 percent to 3 percent…………. January 1, 1993

Intended to be: Permanent

Category: Endogenous-demand management

[17] The revenue effect for 1992-93 was given as -$500 million and -$1250 million for 1993-94. The first step was in place for 9 months during the 1992-93 year and second step was in place for 3 months during that year. If we denote x as the monthly revenue effect of the first step and y as the monthly revenue effect for the second step then we end up with $9x + 3y = -500$. Similarly, we get $12x + 12y = -1250$ for 1993-94. Solving these yield -$31.25 million and -$72.92 million as the monthly revenue effects of the first and second steps respectively. Finally, we multiply these by 12 to arrive at the annual revenue effects.

Type: Anticipated

2). Measures proposed for the manufacturing and processing industries: (Budget Speech-P. 7600)

a) The tax rate for the manufacturing and processing industries decreased from 23 percent to 22 percent, and then further to 21 percent.

Reason: It was one of the measures enacted to "to encourage initiative and productive investment" (Budget Speech-P. 7600). It would help Canadian manufacturing and processing industries to meet the challenges of globalization. The geopolitical landscape had change significantly from the late 1980s and it was felt that certain Canadian business needed protecting during this trying time. While that might suggest an ideological motivation, that was nearly the deciding factor in where the government would target in order to help the economy grow. Unlike the change listed above, it was not meant to stimulate demand since investment by manufacturing companies takes time to seem spillovers into the rest of the economy. This measure was listed under the heading "Action for investment, initiative and jobs" which were aimed at creating jobs in the country over the next several years. Hence, we label if exogenous-long run.

Size: Calculated based on figures available in Budget Papers (Budget Papers-P. 151) [18]

-$100 million in January 1993

-$300 million in January 1994

Classification: Corporate Tax

Date implemented: (Budget Papers-P. 151)

Reduction from 23 to 22 percent…. Jan 1, 1993

Reduction from 22 to 21 percent….Jan 1, 1994

Category: Exogenous-LR performance

Type: Anticipated

b).The capital cost allowance rate for manufacturing and processing machinery increased from 25 to 30 percent.

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[18] Let x be the monthly revenue effect of the first step and y be the monthly revenue effect of the second step. The revenue effects for 1993-94 and 1994-95 were given as -$150 million and -$400 million respectively. That implies $9x + 3y = -150$ and $12x + 12y = -400$. Solving these yield -$8.33 million and -$25 million as the monthly revenue effects of the first and second steps respectively. We then multiply these with 12 to arrive at annual revenue effects.

Reason: This was yet another measure aimed to support the manufacturing and processing industry which was an important sector for Canada; “It accounts for almost one-fifth of Canada's economy and its job” (Budget Speech-P. 7600). As we did for the previous measure, we call it long run as well.

Size: -$110 million (Budget Papers-P. 150)

Classification: Corporate Tax

Date implemented: February 25, 1992 (Budget Papers-P. 150)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

c) The withholding tax rate on direct dividends was reduced to 5 percent.

Reason: This measure was enacted more as a way to ensure that the sector could compete internationally as it was facing global competition and so we take it as endogenous and supply stimulus rather than long term, because it was endogenous in nature and in response to the landscape of the contemporary economy of 1992.

Size: -$55 million (Budget Papers-P. 152)

Classification: Corporate taxes

Date implemented: January 1, 1993 (Budget Papers-P. 152)

Intended to be: Permanent

Category: Endogenous-Supply Stimulus/Exogenous – Long Run

Type: Anticipated

3). The excise tax was eliminated on the ethanol and methanol portions of blended fuels that were mainly gasoline. (Budget Speech-P. 7600)

Reason: The motivation behind this measure was to encourage the development and use of ethanol and methanol fuels made from renewable feedstocks. This was a part of the general fear of an over reliance on gasoline in the wake of the First Gulf War. While there were environmental concerns as well, back in 1990 it was felt that diversification of energy would be a general good idea. Since this change seems to deal less with stimulating the economy as a whole and merely developing a certain area, it could be considered under both long run and ideological. Since the primary purpose was because the Canadian government felt it was a good idea, we will consider it an ideological change.

Size: -$2.6 million (Budget Papers-P. 165)

Classification: Excise taxes

Date implemented: April 1, 1992 (Budget Papers-P. 165)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

4). The maximum childcare expense deduction was increased to $5,000 for each child under age seven and to $3,000 for other eligible children. (Budget Speech-P. 7601)

Reason: This measure was based on the government's commitment regarding the wellbeing of children and family. The motivation behind this change was simple. It was merely an updating of a previously existing measure to continue the original goal of extending benefits to those who were deserving. As such we have chosen to label this as ideological.

Size: -$10 million (Budget Papers-P. 137)

Classification: Personal Income

Date implemented: 1993 taxation year (Budget Papers-P. 136)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

5). Measures for disabled children. (Budget Speech-P. 7601)

a). The definition of expenses eligible for the medical expenses tax credit was expanded.

b). The education tax credit was made available for disabled individuals who attended a post-secondary educational institution on a part-time basis.

Reason: To provide assistance to the disabled Canadians, primarily children. The motivation is rather simple in this case since this change was adopted to help a specific group and so we have labeling it as exogenous-ideological.

Size: -$15 million (Budget Papers-P.142)

Classification: Personal Income

Date implemented: February 25, 1992

1992 taxation year- retroactive measure (Budget Papers-P.141)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

6). Measures increasing assistance for education: (Budget Speech-P. 7602)

The budget provided tax relief for full-time post-secondary students. The amount on which the education credit was calculated was increased from $60 to $80 per month of full-time study. Moreover, the limit on the total amount of transferrable tuition fee and education credits was increased from $600 to $680.

Reason: To provide benefit to the students who did not have enough income to take advantage of the tax credit and so this measure rectified that problem. Therefore, we label it as ideological.

Size: -$25 million (Budget Papers- P. 140)

Classification: Personal Income

Date implemented: February 25, 1992

1992 taxation year- retroactive measure (Budget Papers- P. 140)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

7). A new child tax benefit was introduced in replacement of the existing patchwork of child benefits, which was normally paid to the mother beginning in January 1993. The basic child tax benefit of $1,020 was increased by $75 for the third and each subsequent child in a family, and $213 per child under age seven where no childcare expenses were claimed. Moreover, the Child Tax Benefit also included a new earned-income supplement of up to $500 per family for low-income working families with children. (Budget Papers-P. 136)

Reason: The new system for child tax benefit intended to be simpler, fairer and more responsive to the needs of Canadians. It would result in a significant tax reduction for many families. It aimed specifically to help families with children who were low income earners. The benefits amounted to reducing their tax burden to hopefully give them a larger amount of disposable income. Due to the nature of the measure, we have labeled it as exogenous-ideological.

Size: -$645 million (Budget Papers-P. 136)

Classification: Personal Income

Date Implemented: 1993 taxation year (Budget Papers-P. 136)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

8). Changes were made to treat common-law couples the same as married couples under the tax system for 1993 and subsequent taxation years. (Budget Papers-P. 139)

Reason: The measured aimed to ensure consistent tax treatment of all family types and therefore, falls under the ideological category. It was primarily a product of its time. Up until this point, there was a general consessus that common law couples were not equal to those who were formally married in the eyes of the law. As such, the extension of the existing taxation laws was meant to foster a level of inequality. Due to the nature and context of the change, we have chosen to label it as ideological.

Size: $180 million (Budget Papers-P. 139)

Classification: Personal Income

Date Implemented: 1993 taxation year (Budget Papers-P. 139)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

9). A measure was introduced to target the lifetime capital gains exemption (LCGE) toward equity investment. It would accomplish this by no longer providing the $100,000 lifetime capital gains exemption on real estate purchased after February 1992 and restricting it on real estate purchased before March 1992. (Budget Papers-P. 156)

Reason: Since this measure was enacted to "direct resources towards productive investments which enhance Canada's ability to compete in international markets" we take it as endogenous deficit reduction.

Size: $80 million (Budget Papers-P. 157)

Classification: Corporate Tax

Date Implemented: 1993 taxation year (Budget Papers-P. 156)

Intended to be: Permanent

Category: Endogenous-Deficit Reduction

Type: Anticipated

April 26, 1993:

Context:

During 1992, as a result of the slowed world economy, the Canadian economy showed lower than expected economic growth, lower revenues and higher deficits. Revenues, for the year 1992-93, were about $9 billion lower than what was forecasted in February 1992, which gave rise to the deficit of $1.1 billion- which was higher than what had been predicted in December. This was a matter of concern for the economy for which an immediate action was needed. This budget introduced a five-year plan to eliminate new borrowing by reducing spending and by making government more efficient. The key to the plan was that the federal government expenditures would be held at zero real growth i.e. growth no greater than the inflation. The measures in this budget reinforced the actions in the December budget, and would yield savings of almost $30.7 billion over the five-year period.

The point of emphasis here was that the budget did not include any tax increases. There were only two ways to reduce the deficit; higher revenues and lower spending. The right way to get the deficit down was by cutting spending, and to get the revenues up was to encourage economic growth, which in itself could not be done by raising taxes (Budget Speech-P. 18473). It was also highlighted that: "The goal of this budget is to free the economy for more job creating growth by steadily reducing the burden of deficits and debt." Hence, they were exogenous in nature.

Tax Measures:

1).Measure was proposed to improve the tax treatment of rapidly depreciating new equipment. Deductions for depreciation of capital property work in accordance with the capital cost allowance (CCA) system. This budget proposed to make amendment to enable taxpayers to place eligible property in a separate class for CCA purposes, which would otherwise be placed in Class 8 of Schedule II to the income tax regulations where the cost of such eligible property was $1,000 or more. This action would ensure that on the disposition of all property in the class, any remaining undepreciated cost of the equipment may be fully deductible as a terminal loss. (Budget Plan-P. 75-76)

Reason: To benefit taxpayers who acquired eligible equipment that depreciated more rapidly than that implicit in the CCA rate for property of that class. Equipment depreciation is by its very nature a long term concept as very few types of capital depreciate significantly within a short period of time. When they do, it is often not enough to warrant replacement. This is a long term measure since it was meant to help stimulate investment and incentives to investment take time to be realized.

Size: -$3 million (Budget Plan-P. 82)

Classification: Corporate taxes

Date implemented: April 26, 1993 (Budget Plan-P. 76)

Intended to be: Permanent

Category: Exogenous-Long Run

2) Changes in Capital Cost Allowance (CCA) rates and withholding taxes on uses of payments (Budget Plan-P.77, P.78)

Reason: These measures were designed to remove impediments to Canadian firms' ability to acquire new technologies. We classify these measures as long-run.

Size: (Budget Plan-P.82)

New CCA Rates: -$5 million

Changes to withholding taxes: -$25 million

Classification: Corporate Taxes

Date Implemented:

New CCA Rates: April 26, 1993 (Budget Plan-P.77)

Change to withholding taxes: January 1, 1994[19]

Intended to be: Permanent

Category: Exogenous-Long Run

3) Elimination of annual limits on claiming investment tax credits (ITC) (Budget Plan-P.81).

Reason: It was stated that consultations had shown that "the existing annual limitations on ITC claims significantly reduces the effectiveness of these investment incentives for rapidly growing firms" (Budget Plan-P.81). This measure was designed to enhance the incentives to invest in regional projects (Budget Plan-P.81). We classify this measure as long-run.

Size: -$40 million (Budget Plan-P.82)

Classification: Corporate Taxes

Date Implemented: April 26, 1993 (Budget Plan-P.81)

Intended to be: Permanent

Category: Exogenous-Long Run

4) Extension of the Scientific Research and Experimental Development (SR&ED) tax benefits program (Budget Plan-P.79). The limit on taxable income below which the tax benefits in form of enhanced investment tax credit applied was increased from $200,000 to $400,000 (Budget Plan-P.80).

Reason: The current limit was an impediment to a firm's growth when it reached the taxable income threshold. The new rules would make it easier for firms to "transition between the start-up phase and the period of expansion that small businesses typically experience, thereby providing more certainty to their business planning" (Budget Plan-P.78-80). We classify this measure as long-run.

Size: -$11 million (Budget Plan-P.82)

Classification: Corporate Taxes

Date Implemented: Tax year 1993 – retroactive measure (Budget Plan-P.80)

[19] No explicit implementation date was given for the change in withholding taxes. The revenue effect for 1993-94 was given as only -$5 million whereas for the following years it was -$25 million or slightly more. Thus we assume that the measure would have been implemented for the 1994 taxation year.

Intended to be: Permanent

Category: Exogenous-Long Run

Reason:

February 22, 1994:

Context:

This budget brought the most comprehensive reform of government policy in decades. The Finance Minister aimed to set an agenda for innovation in the new economy. The budget intended to respond to the needs of the small business, build a responsible social security system that was fair, compassionate and affordable, and make fundamental changes to the unemployment insurance system. To succeed, the government needed right monetary and fiscal policy. The Finance Minister added that the first part of this objective had already been achieved; making Canada a low inflation country and he intended to maintain that position.

The measures introduced in this budget were likely to reduce the deficit from $45.7 billion in the current year to $39.7 billion in 1994-95 and $32.7 billion for the next fiscal year (Budget Speech-P. 1708). The government planned to reduce spending to achieve the reduction in the deficit. For every $1 raised in new revenues, the government was cutting expenditures by $5 over the course of the next three years (Budget Speech-P. 1709). The objective was to get the deficit down so that taxes could be reduced in the future, but the economy was not there as yet (Budget Speech-P. 1713). All measures proposed were exogenous.

Tax Measures:

1). Large private corporations with capital of $15 million or above were no longer entitled to pay taxes at a low small business tax rate. (Budget speech-P. 1713)

Reason: This measure was intended to reduce the budget deficits as is seen to be the main focus of the budget from the budget speech. The previous policy was seen as more of a privilege to larger business in order to stimulate investment. Now that the intentions and goals of these Finance Minister had changed from one of stimulating investment to bringing down the deficit, this privilege was seen as an easy change to make. The elimination of this privilege would effectively be a tax increase in all but name and would therefore raise revenue to reduce the fiscal deficit. As such, we have chosen to label this as exogenous-deficit consolidation.

Size: $40 million (Budget Plan-P. 43)

Classification: Corporate taxes

Date implemented: February 22, 1994

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Unanticipated

2). Deductions and credits were to be reduced from 80 to 50 percent for meal and entertainment expenses. (Budget speech-P. 1713)

Reason: This measure was intended to eliminate a number of tax breaks which did not meet the standard of fairness for the tax system. While food and entertainment are typically regressive taxes in nature, since meal and entertainment take up a relatively larger portion of the budgets by lower income earners, this was not the type of fairness implied by the Finance Minister. The fairness they were referring to was the fairness in the tax system between Provinces rather than between high and low income earners. As the Finance Minister said, “This will bring federal treatment into line with that already in place in Ontario and Quebec, as well as in the United States.” (Budget speech-P. 1713) As such, it was seen as a way of standardizing the tax code so that citizens living in one state were not given an undo burden relative to citizens in another. As such we have labeled this tax change as exogenous ideological.

Size: $245 million (Budget Plan-P. 43)

Classification: Corporate taxes

Date implemented: February 22, 1994

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3). The $100,000 capital gains tax exemption was eliminated while allowing individuals to use their unused exemption for gains accrued up till that date. (Budget speech-P. 1713)

Reason: As explicitly stated in the budget speech, “We believe, however, that as circumstances permit, a general lowering of the capital gains tax rate for small business and farmers could provide a greater incentive to entrepreneurship” (Budget speech-P. 1713). While it was targeted at small businesses and farmers which would suggest an ideological motivation, the overall driving idea was a promotion of investment. Therefore, we can say that it is clearly long run in nature.

Size: $415 million (Budget Plan-P. 43)

Classification: Personal income taxes

Date implemented: February 22, 1994

Intended to be: Permanent

Category: LR-Performance

Type: Unanticipated

4). Elimination of the tax exemption provided for premiums related to the first $25,000 of coverage under employer provided life insurance plans. (Budget speech-P. 1713)

Reason: No specific reason was provided in the budget speech but the budget papers talked about it being unfair for those who purchased these policies on their own and so this tax was enacted to gain revenue in the fairest possible way. Because of the government's intent of gaining enough revenue that deficit was reduced, we choose deficit consolidation here as being the main motive.

Size: $200 million (Budget Plan-P. 43)

Classification: Personal income taxes

Date implemented: June 1994 (Budget Plan-P. 42)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Anticipated

5). Elimination of Regional Investment Tax Credits. (Budget Plan-P. 44)

Reason: They were not bringing in expected investment and so their elimination would help bring in more tax revenue. This tax seems to have no other motivation beyond that of raising revenue in order to bring down the deficit and so we have labeled it as such.

Size: $80 million (Budget Plan-P. 43)

Classification: Corporate taxes

Date implemented: December 31, 1994 (Budget Plan-P. 44)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

Type: Anticipated

6). For Private Corporations Dividends, the rate of the tax was to be increased to 33% on each cent beginning on January 1, 1995. This was in order to bring it more into line with the personal income tax imposed on dividends. (Budget Plan-P. 44)

Reason: The tax increase was meant as a means of providing better integration between the personal and corporate income tax systems. A refundable tax was imposed on certain dividends received by private corporations and to a lesser extent on certain closely-held public corporations. The plan was that the increase and standardization would eventually bring about higher levels of efficiency and so it has been categorized as long run.

Size: $40 million (Budget Plan-P. 43)

Classification: Corporate taxes

Date implemented: January 1, 1995 (Budget Plan-P. 44)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Anticipated

February 27, 1995:

Context:

The Canadian economy during the year 1995 was found to be stronger than it had been for years. Economic growth in Canada was the highest among G-7 countries, and maintained the same position in this year as well. Employment increased by the creation of 433,000 new jobs during 1994. Exports for the country were highest during that year, leading to a dramatic improvement in the balance of payments. Canada remained one of the lowest inflation countries with cost competitiveness at its highest level in more than 40 years. These statistics portrayed Canadian economy to be in a bloom; an economy of growth which created new jobs. However, the economy was still facing the challenge of debt and deficit which was the target of this budget. (Budget Speech-P. 10094)

The deficit for the year 1995-96 was projected to be around $32.7 billion, and for the year 1996-97 it was expected to be reduced to $24.3 billion. These deficit targets could not be met unless direct actions were taken. The actions proposed in this budget provided almost seven dollars of spending cut for every one dollar of new tax revenue. The cumulative savings of $29 billion would be provided over the course of next three years (Budget Speech-P. 10095). The budget focused almost entirely on reducing the spending of government and not increasing taxes for Canadians. The spending cuts brought the economy very close to the target; however, there was a small gap which needed to be closed making it necessary to propose tax changes (Budget Speech-P. 10101). The changes were all exogenous as they were directed towards reducing the inherited deficit that plagued the economy.

Tax Measures:

1) The existing large corporations tax was increased by 12.5 percent. (Budget Speech-P. 10101)

Reason: The tax was imposed as the first of the four measures that were enacted mainly to achieve the target deficit gap that was left even after all spending cuts by the government, as stated in the budget speech. This made the big companies contribute more in bringing the deficit down. Since the deficit itself was not playing a substantial role in the 1995 Canadian economy but it was planned on being brought down for independent reasons we consider this in the exogenous deficit consolidation categorization.

Size: $155 million (Budget Plan-P. 147)

Classification: Corporate taxes

Date implemented: February 27, 1995 (Budget Plan-P. 172)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

2).The existing corporate surtax was increased from 3 percent to 4 percent. (Budget Speech-P. 10101)

Reason: This tax measure also followed the declaration of the Finance Minister to bridge the deficit gap as mentioned above, and so we again use exogenous deficit consolidation as our motive once again.

Size: $115 million (Budget Plan-P. 147)

Classification: Corporate taxes

Date implemented: February 27, 1995 (Budget Plan-P. 172)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

3). The federal excise tax on gasoline was increased by 1.5 cents per liter. The excise tax on tobacco was also increased. (Budget Speech-P. 10101)

Reason: This measure would restore total revenue from all federal excise taxes to approximately the level they were in 1993-94. (Budget Speech-P. 10101) This was the third measure aimed at reducing deficit gap, and as such we have chosen to label it as Exogenous-Deficit Consolidation.

Size: $500 million for gasoline (Budget Plan-P. 147)

$65 million for tobacco

Classification: Excise and Sales taxes

Date implemented: February 28, 1995 (Budget Plan-P. 174)

Intended to be: Permanent

Category: Exogenous-Deficit Consolidation

4). A temporary tax was imposed on the capital of large, deposit-taking institutions, including the banks. (Budget Speech-P. 10101)

Reason: This was a very short-term tax aimed specifically at reaching the target deficit. This was the last of the four measures of the government's plan that would help in reducing budget deficit so we have categorized it as exogenous-Deficit Consolidation.

Size: $60 million (Budget Plan-P. 147)

Classification: Corporate Income tax

Date implemented: February 27, 1995 (Budget Plan-P. 173)

Intended to be: Temporary, till October 31, 1996

Category: Exogenous-Deficit Consolidation

5). Three measures relating to the limits on saving in registered pension plans (RPPs), deferred profit sharing plans (DPSPs), and registered retirement savings plans (RRSPs) were introduced. These were: a reduction in the contribution limits for RRSPs and money purchase RPPs, a reduction in the $8,000 allowance for over contributions to RRSPs and the phase-out of tax-free rollovers of retiring allowances to RRSPs (Budget Plan-P. 149). The limits on RPPs and RRSPs were to be reduced in 1996 but were going to be increased in 1997 and by 1998 they were to return to their 1995 levels (Budget Plan-P.149).

Reason: As the measure itself points out, it is reduction in limits for saving plans. The aim was a form of incentivizing further retirement savings. Since this is purely a welfare related issue with no real times to the contemporary economy of 1995. By extension since it was involved with looking after its citizens, we can further label it as ideological.

Size: $70 million (Budget Plan-P. 147)

Classification: Personal Tax

Date implemented: January 1, 1996 (Budget Plan-P. 149)

Intended to be: Temporary, till 1997 taxation year.

Category: Exogenous-Ideological

6). Introduction of an additional refundable tax of 62⁄3per cent on the investment income (other than deductible dividends) of Canadian-controlled private corporations. (Budget Plan-P. 156)

Reason: To increase fairness by taking away the unjust advantage of tax deferral enjoyed by private holding companies as compared to those who earned such income directly. Because of the emphasis on fairness by the government between private and publicly held companies, we have chosen to label it as exogenous-ideological. (Budget Plan-P. 156).

Size: $120 million (Budget Plan-P. 147)

Classification: Corporate Tax

Date implemented: July 1, 1995 (Budget Plan-P. 156)

Intended to be: Permanent

Category: Exogenous-Ideological

7). Beginning after 1994, all sole proprietorships, professional corporations and partnerships (where at least one member of the partnership is an individual, professional corporation or another affected partnership) were required to have their fiscal periods end on December 3. (Budget Plan-P. 159)

Reason: This system was enacted to improve the fairness of the tax system. Perviously these smaller businesses were essentially enjoying a tax deferral relative to other, larger businesses.

The emphasis on fairness given by the Finance minister leads us to conclude that this measure had not economic stimulating motivation and was purely ideological in nature and we have labeled it accordingly.

Size: $170 million (Budget Plan-P. 147)

Classification: Corporate Tax

Date implemented: January 1, 1995 (Budget Plan-P. 159)

Intended to be: Permanent

Category: Exogenous-Ideological

March 6, 1996:

Context:

This was the third consecutive budget targeted towards restoring fiscal health of the country. The deficit target for the year ending on March 31 was expected to be achieved and the economy was on track towards 3 percent deficit target for the fiscal year 1996-97. This budget intended to propose actions that would take the economy towards budget balance. The plan was to reduce spending by almost $2 billion by the end of 1998-99, which was over and above the substantial savings secured in the first two budgets. The focus was on spending cuts not tax increases over the last three budgets. Taking all these together seven dollars in spending will be cut for everyone dollar in new revenues. This budget did not include any tax raises for deficit reduction (Budget Speech-P. 372). The changes were exogenous as they touched both long term and ideological factors and could be discerned from the eloquent speech of the Finance Minister: "This budget is about consolidating the gains we have made. It is about addressing problems before they arise. It is about managing ahead, continuing to put in place new building blocks for security and prosperity. It will show how we will sustain the federal government's commitment to health care and our social programs into the 21st century. It will put forward a plan to restore confidence in the public pension system. It will enhance the protection of the most vulnerable in our society and it will reallocate spending to invest in the economic future of the country. In short, as all budgets must be, this is a budget about the present; however, it is also a budget for the future."

Tax Measures:

1). Measures proposed to improve the child support system. (Budget Speech-P. 377)

a. The first change concerns the tax treatment of child support payments. The budget proposed that for all new child support awards and all existing awards, support payments were neither to be included in the income of the custodial parent for tax purposes nor to be tax deductible for the payer.

Reason: By 1996, the number of single parent households had reached a record high. As such, Finance Minister Paul Edgar Philippe Martin felt that a greater amount of the money going to families for child support should be spend on child raising expenses and therefore excluded from a family's taxable income. The change was also intended to streamline the tax system regarding child support payments so more of that money could go to caring for the children and not eaten up in legal disputes. In addition, an extra effort was made to enforce existing and new child support system in order to curb fraudulent beneficiaries.

Size: -$10 million (Budget Plan-P. 143)

Classification: Personal income tax

Date implemented: May 1, 1997 (Budget Plan-P. 151)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

b**.** The value of the infirm dependent credit was increased from $270 to $400.

Reason: A larger number of Canadians were providing in home care for both relatives and specifically adult children with disabilities. As such, the Canadian government proposed to increase the value of the infirm dependent credit from $270 to $400 and to raise the income threshold for the reduction of this benefit from $2,690 to $4,103. This meant that individuals making less than $4,103 would now receive a credit of $400 instead of $270 for individuals making below $2,690, with reductions for every dollar above that threshold.

Size: -$35 million (Budget Plan-P. 143)

Classification: Personal income

Date implemented: March 6, 1996

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2). Measures proposed for future improvement (Budget Plan-P. 156-158)

a. The education credit was increased from $80 to $100 per month, keeping in view the non-tuition costs of schooling. (Budget Plan-P. 156)

Reason: These measures were based on the government's intention to help young people prepare for a rapidly changing economy through acquiring the right skills and the provision of opportunities to gain work experience, thereby generating a more efficient labor force. "Increasingly, achieving higher education and continuously updating skills is essential to securing a prosperous future for Canadians" (Budget Plan-P. 156). Thus, we categorize this measure into long run rather than ideological.

Size: -$10 million (Budget Plan-P. 143)

Classification: Personal Income

Date implemented: March 6, 1996 (Budget Plan-P. 156)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

b. The limit on transfer of tuition and education credit was raised from $680 to $850 per year. (Budget Plan-P. 157)

Reason: In addition to the increasing the education tax credit from $80 to $100 a month, the government simultaneously increased the limit on the transfer of tuition. This was [in order to support parents or spouses who helped underwrite the education costs for students.

Size: -$50 million (Budget Plan-P. 143)

Classification: Personal Income tax

Date of Implementation: March 6, 1996 (Budget Plan-P. 157)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

c. The annual limits on contributions to registered education savings plans were increased from$1,500 to $2,000, and the lifetime limit from $31,500 to $42,000. (Budget Plan-P. 157)

Reason: The change was adopted in order to encourage parents to save for their children's education over the long term. (Budget Speech 378). The Finance Minister made it clear that these changes were attempts to invest in human capital in order to increase worker productivity, and by extension increasing long term FDP. The programs had the added benefit of attempting to increase children's workforce opportunities, adding a welfare benefit to the possible economic benefit.

Size: -$10 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: March 6, 1996 (Budget Plan-P. 157)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

d. The eligibility for the childcare expense deduction was broadened to assist parents to undertake education or retraining. As per this measure, single parents would be eligible for the same deductions which at that time were available only to the couples. Moreover, these deductions were also to be applicable to the students completing high school instead of only to the post-secondary students. (Budget Plan-P. 158)

Reason: The current government felt that since the economy was in a stable position, it was free to pursue economic reform that would increase the welfare of its citizens. One of the main goals of these reform was to increase access to education for underprivileged children and their parents. This particular measure was meant to decrease the tax burden on parents who were single parents and those who were students in high school, instead of previously being open to merely 2 parent households and parents pursuing post-secondary education. As such we have decided to categorize the increased access to deductions as ideological and aimed at long term growth.

Size: -$10 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: March 6, 1996 (Budget Plan-P. 158)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

3). Reduction in the rate of the federal Labor-Sponsored Venture Capital Corporations (LSVCC) tax credit from 20 per cent of the cost of LSVCC shares to a maximum of 15 per cent for shares acquired after March 5, 1996. (Budget Plan-P. 144)

Reason: The LSVCC had greatly helped the SMEs over the years but the need was not felt now. In accordance with mainstream fiscal policy, the tax credits were seen as necessary when the government was pursuing expansionary policies. Now, however, they felt that fiscal responsibility of managing national debt was a more pertinent goal. As such, they reduced the tax credit in order to gain revenue. However, since nothing was mentioned with respect to the usage of the increase in revenue, we place this measure under the deficit consolidation category.

Size: $45 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: January 1, 1977 (Budget Plan-P. 144)

Intended to be: Permanent

Category: Deficit Consolidation

4) The maximum annual investment eligible for a federal LSVCC credit was to be reduced from $5,000 to $3,500 for acquisitions of shares after March 5, 1996. (Budget Plan-P. 145)

Reason: Since it was a part of the measure proposed above, the same reasoning applies here too.

Size: $15 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: March 6, 1996 (Budget Plan-P. 145)

Intended to be: Permanent

Category: Deficit Consolidation

5). Devote more resources to Revenue Canada's audit program for unincorporated businesses and self-employed individuals in order to increase the audit coverage rate for these groups and bring it more in line with the continued growth in this sector. (Budget Plan-P. 150)

Reason: "An important part of fairness in the tax system is ensuring that everyone pays their fair share of taxes" (Budget Plan-P. 150), thus the categorization as ideological.

Size: $60 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: March 6, 1996

Intended to be: Permanent

Category: Exogenous-Ideological

6). Restrict tax assistance to retirement saving: (Budget Plan-P. 145)

a) A freeze in the pension, RRSP and DPSP contribution limits

b) Elimination of the seven-year limit on the carry-forward of unused RRSP deduction room

c) A reduction in the age limit for maturing RPPs, RRSPs and DPSPs

Reason: The aim of this measure was to control tax deferral but at the same time ensure that middle- and modest-income people had tax assistance. There was also a motivation to make sure citizens who could not contribute the limit at a given time can make up for the lost time by contributing funds retroactively as if they were contributed at the original time. This was designed to give citizens who may have had more pressing or unforeseen cost which would have prevented contributing the full amount and therefore missing out on much needed interest. Due to this factor we categorize this as ideological as it had no mention of current pressures and only addresses the long-term welfare of its Canadians.

Size: $40 million (Budget Plan-P. 143)

Classification: Personal Income taxes

Date of Implementation: January 1, 1997 (Budget Plan-P.146)

Intended to be: Permanent

Category: Exogenous-Ideological

7) Extension of temporary surcharge on large deposit-taking institutions (Budget Plan-P.51).

Reason: Neither the budget plan nor the speech specifically mentioned any reason for this temporary extension. Since the overall goal of the budget was to reduce deficit, we classify this as deficit-consolidation which was also the classification of the original measure in 1995.

Size: $40 million (Budget Plan-P.161)

Classification: Corporate Taxes

Date of Implementation: October 31, 1996 (Budget Plan-P.178)

Intended to be: Temporary, till October 31, 1997

Category: Exogenous-Deficit Consolidation

February 18, 1997:

Context:

Canada's economic recovery was not as strong as desired since the deep recession of the early 1990s. The sign leading to this conclusion was the unacceptably high unemployment rate. However, the economy was growing and strengthening; short term interest rates were lower since the past 35 years, and inflation remained stable. The merchandise trade balance during 1996 depicted a record surplus. The renewed confidence in the economy was the result of the government's directed efforts towards dealing with chronic deficits and runaway debt which were an obstacle to creating jobs in the economy. The deficit during 1993-94 had risen to $42 billion, which was expected to reduce to $19 billion during 1996-97, even after including this budget's new spending. This was $9.5 billion below the previous year. This was the largest year over year decline in the Canadian history.

The budget for this year showed that the efforts to restore fiscal health were very clearly on the track and that the economy was on the course of deficit reduction. This was a budget that introduced no new taxes to reduce deficits, rather decreased them in selective targeted areas. Moreover, the budget did not include any further cuts in spending and introduced new investments in key priority areas for Canadians, post-secondary education, Medicare and health (Budget Speech-P. 8290). All reforms were ideological fulfillments of the government and long term, so came under the classification of exogenous changes.

Tax Measures:

1). The amount for the education credit was increased in two stages to $200 in order to reduce the taxes that students or their parents had to pay. Moreover, the additional fees apart from the tuition itself was continued to be covered by the tuition credit, and the education and tuition credits were to be carried forward for those who were unable to use them in the year of study. (Budget Plan-P. 179-180)

Reason: To help students or their parents with the living expenses while attending university, a community college or a vocational school. This measure was based on the motivation to encourage education. While this may seem to be an exogenous ideologically motivated measure, we feel that the more likely motivating reason was one of stimulating productivity. The reasoning being that increased education today would pay off later by increasing human capital which better jobs and better performance. These benefits would not accrue in the short term and so we have labeled this as an exogenous long run performance change.

Size: (Budget Plan-P.178)

Increase education credit	-$45 million
Make ancillary fees eligible for the tuition credit	-$30 million
Allow a carry forward of unused tuition and education credits	-$10 million

Classification: Personal Income

Date implemented: 1997 taxation year (Budget Plan-P. 180)

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

2). Disabled workers were entitled to deduct the full cost of attendant care from their earned income. (Budget Plan-P. 194)

Reason: To provide support to disabled Canadians to give them equal opportunities and equal citizenship. The emphasis on equality towards those who were deemed to need it the most, in this case it was Canadian citizens with disabilities. As such, we feel the best categorization is that of exogenous ideological.

Size: -$30 million (Budget Plan-P. 178)

Classification: Personal Income

Date implemented: February 18, 1997

Intended to be: Permanent

Category: Exogenous-ideological

Type: Unanticipated

3). A refundable tax credit was introduced for low income working Canadians to help cover medical expenses. (Budget Plan-P. 195)

Reason: The motivating factor for this tax change was to provide support to currently working, low income earning, Canadians with high medical expenses. From the nature of the change, and given that it was proposed and implemented independent of the 1997 economic environment, we have labeled this as an exogenous-ideological change.

Size: -$30 million (Budget Plan-P.178)

Classification: Personal Income taxes

Date implemented: 1997 taxation year (Budget Plan-P.195)

Intended to be: Permanent

Category: Exogenous-ideological

Type: Unanticipated

4).The amount of donations for which the charitable credit could be claimed in one year was increased to 75 percent, and this applied uniformly to all charities. (Budget Plan-P. 197)

Reason: The idea behind this change was to increase tax assistance for charitable giving. Essentially, the thinking was that by increasing the credit, individuals would donate more because less taxes would be collected, thereby increasing donations. Increases in donations should directly translated into helping those most in need. Because of the clear social welfare aspect of this change we consider it an ideological measure.

Size: -$5 million (Budget Plan-P. 178)

Classification: Personal Income Tax

Date implemented: (Budget Plan-P. 197)

Intended to be: Permanent

Category: Exogenous-ideological

Type: Unanticipated

5). Tax changes were also proposed for donations of publicly traded securities which would put Canadian charities on an equal footing with those in the United States. (Budget Plan-P. 197)

Reason: In the same line of reasoning as the change listed above, this measure was designed to enhance tax assistance for charitable giving and so we have labeled it as exogenous ideological.

Size: -$90 million (Budget Plan-P. 178)

Classification: Other taxes

Date implemented: February 18, 1977 to December 2001 (Budget Plan-P.197)

Intended to be: Permanent

Category: Exogenous-ideological

6). A measure was proposed allowing small employers with average monthly withholding amounts of less than $1000 for the second preceding calendar year and no compliance irregularities for the preceding 12 months, to remit only on a quarterly basis. (Budget Plan-P. 183)

Reason: This tax change was proposed so that "it will make compliance easier for small employers as well as reduce administration and processing costs for the government" (Budget Plan-P. 183). Streamlining the tax codes would help small business more compliant with the law and should both cut down on audits and allow business to devote more time to their businesses and not on maneuvering the tax system. Because these benefits would not happen overnight, we have considered this an exogenous-long run measure.

Size: -$180 million for 1997 (Temporary) (Budget Plan-P. 178)

-$5 million for 1998 (Permanent)

Classification: Other taxes

Date implemented: February 18, 1977 (Budget Plan-P. 184)

Intended to be: Temporary and Permanent

Category: Exogenous-LR- Performance

7). Extension of Temporary capital tax surcharge on large deposit-taking institutions expected to expire on October 31, 1997, was extended till October 31, 1998. (Budget Plan-P. 205)

Reason: This measure had the same motivation chosen before, as such, we have labeled it as exogenous deficit consolidation since it helps gain revenues.

Size: $45 million (Budget Plan-P. 178)

Classification: Corporate Tax

Date implemented: November 1, 1977 to October 31, 1998 (Budget Plan-P. 205)

Intended to be: Temporary

Category: Exogenous-Deficit Consolidation

8) Increase in Registered Education Savings Plan (RESP) limit from $2,000 to $4,000 (Budget Plan-P.180, P.181).

Reason: The aim of this measure was to encourage higher savings in light of rising tuitions costs of education (Budget Plan-P.181). We classify this measure as long-run.

Size: -$25 million (Budget Plan-P.178)

Classification: Personal Income Tax

Date Implemented: 1997 taxation year (Budget Plan-P.183)

Intended to be: Permanent

Category: Exogenous-Long Run

9) Extension of mining reclamation trust rules (deductibility of contributions to provincially or federally mandated trust funds that were set up for the purpose of restoring a mine site) to trust funds established for waste disposal sites and quarries for extraction of aggregates and other similar substances (Budget Plan-P.206, P.207)

Reason: This measure was part of the environmental initiatives announced by the government. We classify this as ideological.

Size: -$25 million (Budget Plan-P.178)

Classification: Corporate Tax

Date Implemented: February 18, 1997 (Budget Plan-P.208)

Intended to be: Permanent

Category: Exogenous-Ideological

February 24, 1998:

Context:

The Canadian economy was depicting strong economic performance. The unemployment rate was going down; 372,000 new full-time jobs were created during 1997 alone. The unemployment rate fell from 11.2 percent in1993 to about 9 percent. Consumer confidence had rebounded-enhancing business investment and overall domestic demand. Lower interest rates and renewed confidence contributed towards strong economic growth, which was about 3.5 percent during 1997, and continued strength was projected for the year as well (Budget Speech-P. 4382). Moreover, the debt-to-GDP ratio had decreased meaningfully for the first time in more than 20 years as a result of the budget balance achieved during the fiscal year. (Budget Speech-P. 4384)

This budget demonstrated that the economy was out of the era of chronic deficits and thus taxes could be reduced, starting with middle- and low-income Canadians (Budget Speech-P. 4382). In accordance with the need of the economy, the government believed that more ideological changes were required and so all changes made were of exogenous category. “This budget will demonstrate that we have left the era of chronic deficits behind and that we are now on an irrevocable course to reduce the debt. It is a budget that will expand opportunity for all Canadians by making access to knowledge and skills more affordable. It is a budget that begins to reduce taxes, starting with those who need it most, middle and low income Canadians.” (Finance Minister)

Tax Measures:

1). All students were to be given tax relief on their student loans through a tax credit which could be carried forward for five years. (Budget Speech-P. 4387)

Reason: This measure was designed to give tax relief to young Canadians who were repaying their student loans. This group included an estimated one million Canadians which would be affected by the measure. Given the economic situation of the country mentioned above, most of the measures were enacted with the intention of providing relief to people and therefore, we mostly see ideological changes. Furthermore, the Minister stated that: “Businesses are able to deduct the interest cost of buying equipment when investing in their future. We believe that individual Canadians should receive similar treatment when investing in their future” (Budget Speech-P. 4387). As a result, we have chosen to label this measure as Exogenous- Ideological because the nature of the tax change and it effect on a specific group whom it was deemed needed assistance.

Size: -$130 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: 1998 taxation year (Budget Plan-P. 179)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2). Part time students were made eligible for the education credit. Moreover, the childcare expense deduction, which was initially for full time students who were parents, was also provided to part time students in this budget. (Budget Speech-P. 4387-4388)

Reason: This tax change was meant to provide tax assistance to part time students in recognition of their efforts to improve their education despite family obligations. Hence, we can easily categorize this as ideological.

Size: -$90 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: 1998 taxation year (Budget Plan-P. 181)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

3). Canadians were given tax free withdrawals from their RRSPs to support full time education and training. (Budget Speech-P. 4388)

Reason: The tax-free withdrawals were meant to encourage Canadians who were already in workforce and wanted to upgrade their skills through full time study but did not have access to the required financial resources and whose efforts would then lead to better productivity. Even though this has overtones of an ideological motivation, since it would increase benefits to lower skilled Canadians in need and could help increase upward mobility, we think this is not the best choice. Because this measure should in theory increase the populations human capital and by extension, their productivity, we feel this is best categorized as an exogenous-LR measure.

Size: -$40 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: January 1, 1999 (Budget Plan-P. 181)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

4).The limit on the childcare expense deduction was increased from $5,000 to $7,000 for children under age 7, and from $3,000 to $4,000 for children aged 7 to 16. (Budget Speech-P. 4390)

Reason: This measure was based on the government's intention to support Canadian families in providing quality care for their children. Because of its intention to help support children and parents, we feel this can easily be categorized as an Exogenous-Ideological change.

Size: -$45 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: 1998 taxation year (Budget Plan-P. 193)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

5). Self-employed Canadians were entitled to receive deductions on the premiums they paid for their supplemental health and dentals plans. (Budget Speech-P. 4391)

Reason: In the late 1990s, the number of self-employed Canadians was increasing in Canada and they were unable to deduct these premiums from their income because many of them operated through unincorporated businesses. As a result, this measure was proposed to provide assistance to them and therefore we consider it an exogenous ideological change as a result.

Size: -$90 million (Budget Plan-P. 168)

Classification: Personal Income Tax

Date implemented: 1998 taxation year (Budget Plan-P. 192)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

6). A new federal tax credit of up to $400 was been introduced for caregivers. (Budget Speech-P. 4391)

Reason: There was an unprecedented number of Canadians, mostly women, who were providing care for their family members at home. As such, the government felt it had an obligation to assist this group and encourage such positive behaviors. Because this tax credit was meant to both help dependents and their caregivers, we have labeled this an exogenous ideological change.

Size: -$120 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: 1998 taxation year (Budget Plan-P. 197)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

7). The tax free allowance for volunteer firefighters was doubled from $500 to $1,000, and this allowance was also extended to all other emergency service volunteers. (Budget Speech-P. 4391)

Reason: This allowance was increased as a way of recognizing the extraordinary service of Canadians who volunteered to provide essential emergency services such as firefighting and first aid. These individuals were considered exemplary members Canadian communities and were therefore it was only fair to give back various tax benefits to them. The emphasis on fairness and the verbiage used by the finance Minister in the Budget Speech, leads us to believe that this was clearly an Exogenous- Ideological change.

Size: -$10 million (Budget Plan-P. 168)

Classification: Personal Income taxes

Date implemented: February 24, 1998

January 1, 1998- retroactive measure (Budget Plan-P. 198)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

8).The tax deductible income for low income Canadians was increased by $500 for a single Canadian and by $1,000 for a family. (Budget Speech-P. 4391)

Reason: This measure was meant to bring tax fairness; where the starting point was low and middle income Canadians who were least able to pay taxes. As such, it is very clearly an Exogenous-Ideological change and we have labeled it as such.

Size: -$270 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: July 1, 1998 (Budget Plan-P. 170)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

9). The 3 percent general surtax imposed on all Canadians in 1986 budget was eliminated. (Budget Speech-P. 4391)

Reason: This surtax was imposed to reduce deficit in 1986, and now since the deficit had been eliminated, the tax was seen as a relic and unnecessary. As a result, the tax was eliminated to give an extra boost to average Canadians and was thus an ideologically motivated move.

Size: -$ 1175 million (Budget Plan-P. 168)

Classification: Personal Income

Date implemented: July 1, 1998

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

10). Tax increases on cigarettes and tobacco sticks sold or imported: (Budget Plan-P. 229)

a) An increase in the federal excise tax on cigarettes by 60 cents per carton of 200 cigarettes for retail sale in Ontario, Quebec, Nova Scotia and Prince Edward Island; and 40 cents per carton for retail sale in New Brunswick

b) an increase in the federal excise tax on tobacco sticks by $1.52 per carton of 200 tobacco sticks for sale in Ontario and Quebec; 94 cents per 200 tobacco sticks for sale in Prince Edward Island; and 80 cents per 200 tobacco sticks for sale in other parts of Canada

Reason: As mentioned previously, smoking was seen as a less than desirable activity which in addition to harming smokers, also raised healthcare costs and had negative spillovers to those exposed to secondhand smoke, such as children or spouses. These measures were primarily instituted to make gradual changes to these taxes in order to avoid contraband activity. While there definingly would have been positive effects of such measures such as increased government revenue, the language of the budget speech clearly indicates that this was of a secondary concern and that the main motivation would have been to discourage smoking. As such this measure can confidently be considered an exogenous ideological change.

Size: $70 million (Budget Plan-P. 168)

Classification: Excise Tax

Date implemented: February 24, 1998

February 14, 1998- retroactive measure (Budget Plan-P. 229)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

11). Temporary extension of capital tax surcharge on large deposit-taking institutions. (Budget Plan-P. 204)

Reason: This surcharge was an extension of a previous measure and the aim of that measure was to raise revenue to bring down the Canadian national deficit. As such we once more use the same classification of exogenous deficit consolidation.

Size: $50 million (Budget Plan-P. 168)

Classification: Corporate Tax

Date implemented: November 1, 1998

Intended to be: Temporary, for one year (Budget Plan-P.204)

Category: Exogenous-Deficit Consolidation

Type: Anticipated

12). RRSP roll-overs and contributions, as well as contributions to registered pension plans, were to be exempted from the AMT. (Budget Plan-P. 193)

Reason: To provide assistance in retirement savings by ensuring that AMT was not in any way hindering people from setting aside income for their retirement. Therefore, we categorize it as ideological.

Size: -$70 million for 1998 (Temporary) (Budget Plan-P. 168)

-$20 million for January 1, 1999 (Permanent)

Classification: Personal Tax

Date implemented: February 24, 1998 and 1999 taxation year (Budget Plan-P. 193).

Intended to be: Temporary and Permanent

Category: Exogenous- Ideological

13) It was announced that earthquake premium reserve – based on percentage of net earthquake premiums written – will be tax deductible (Budget Plan-P.206, P.207).

Reason: This measure was aimed at ensuring the earthquake insurance companies had adequate reserves to be financially prepared in case of a major earthquake. We classify this measure as long-run.

Size: -$20 million (Budget Plan-P.168)

Classification: Corporate Tax

Date Implemented: 1998 taxation year (Budget Plan-P.207)

Intended to be: Permanent

Category: Exogenous-Long Run

February 16, 1999:

Context:

The past year had been one of extraordinary uncertainty in terms of global economic performance which affected all countries. However, the steps that Canada had taken during 1998 to strengthen its finances and economy, lead to positive results. Employment increased significantly with more than 450,000 new jobs created in the year preceding this, which was greater than all other G-7 countries, even United States. The strong growth in employment continued till 1999 which brought the unemployment rate down to 7.8% (Budget Speech-P. 11984). The Canadian economy was out of the era of deficit, and recorded its first budgetary surplus in 1998 in over 28 years. The debt to GDP ratio began to fall meaningfully as a result of the deficit elimination and economic growth (Budget Speech-P. 11985).

Since the books were in balance, taxes were to be reduced without affecting the soundness of the finances (Budget Speech-P. 11992). The measures proposed were long term and therefore, exogenous.

Tax Measures:

1).The amount of income that was earned without paying any tax was increased in the last budget both for singles and families. However, the full amount of the benefit started at about $8,000 of income and completely eliminated at $20,000. This budget provided tax relief for all Canadians. Moreover, the amount of tax free income was increased further by $175. (Budget Speech-P. 11992)

Reason: Because of the fact that this measure targeted all tax payers and not just one specific sector or group that was it was felt was in need of help, we labeled it as long term in nature since this reduction would lead to greater growth as now all citizens have more money to invest, save and spend.

Size: -$450 million (Budget Plan-P. 178)

Classification: Personal Income

Date implemented: July 1, 1999 (Budget Plan-P. 179)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

2). The 3 percent surtax imposed in 1986 budget was eliminated in 1998 for taxpayers earning less than $50,000, and it was reduced for taxpayers earning between $50,000 and $65,000. In this budget, this surtax was eliminated for each and every Canadian taxpayer. (Budget Speech-P. 11992)

Reason: This surtax was initially imposed to bring the national deficit down, and because the deficit was eliminated by 1998 it was felt that the tax was unnecessary. Since there was no connection with the contemporary economy of 1998 this was definingly not an endogenous change and because these new benefits would take time to affect the economy as a whole, we have chosen to label it as Long run. There was no mention of welfare or moral obligation suggest that there was no intention of this being an ideological change.

Size: -$995 million (Budget Plan-P. 178)

Classification: Personal Income

Date implemented: July 1, 1999 (Budget Plan-P. 179)

Intended to be: Permanent

Category: Exogenous- LR-performance

Type: Anticipated

3). Extension to all taxpayers the tax relief provided by the $500 supplementary amounts by increasing the personal credit amounts by $500 and eliminating the supplements. (Budget-Plan P. 179)

Reason: To make this available to all income brackets thereby creating the potential for the whole country to progress further. Because there is no specific group and no mention of fairness as well as no references to the contemporary economy of 1999 when presenting this tax change, we have ruled out this as being an endogenous change and an ideological one. The only category left that would make sense is Exogenous-LR performance then.

Size: -$1110 million (Budget Plan-P. 178)

Classification: Personal Tax

Date implemented: July 1, 1999 (Budget Plan-P. 179)

Intended to be: Permanent

Category: Exogenous- LR-Performance

4) Extension of temporary capital surcharge on large deposit-taking institutions (Budget Plan-P.210)

Reason: This measure was a continuation of the surcharge first imposed in 1995. We have classified this measure as deficit consolidation in the previous budgets. However, in this budget, it was stated as one of the measures aimed at improving tax fairness. Furthermore, the overall stance of the budget made it clear that deficit was no longer a concern of the government and hence we classify it as ideological.

Size: $50 million (Budget Plan-P.178)

Classification: Corporate Tax

Date Implemented: November 1, 1999 (Budget Plan-P.210)

Intended to be: Temporary, for one year (Budget Plan-P.210)

Category: Exoegnous-Ideological

February 28, 2000:

Context:

Canadian economy was depicting strong economic growth; more than 425,000 new jobs were created during 1999, bringing unemployment rate down to 6.8% which was the lowest since nearly a quarter of a century. Canada's economic growth was strongest among the G-7 countries. The deficit problem had been resolved, and the economy showed third, fourth and fifth balanced budget in a row. The debt burden was declining; debt-GDP ratio had declined by 10 percentage points during the five years preceding 2000 (Budget Speech-P. 4100). The following words of the Finance Minister provides ample support for the categorization of the tax reforms into the exogenous category (that also mainly ideological): "The success that we have achieved as a nation has come not only from strong growth but from an abiding commitment to strong values: caring, compassion and insistence that there be an equitable sharing of the benefits of economic growth. These are the bedrock of our nation and they must be the cornerstone of our plan."

Tax Measures:

1).The tax exemption for scholarships and bursaries was increased from its current level of $500 to $3,000. (Budget Speech-P. 4103)

Reason: Most of the measures adopted in the first half of the year 2000 were ideological in nature because of the strength of the economy at that time and this was no different. The purpose of this measure was to ensure that more students received the full value of scholarships since it was felt that they were an integral part of higher education. While typically investment in higher education can be seen as investments in human capital and thus by extension investments in long run productivity, we feel verbiage used by the Finance Minister suggests that the focus was on the students and not on the economy as a whole.

Size: -$30 million (Budget Plan-P. 204)

Classification: Personal Income taxes

Date implemented: 2000 taxation years (Budget Plan-P. 246)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2). The capital gains tax arising from the donation of ecologically sensitive land was cut by half in order to preserve national habitats and species. (Budget Speech-P. 4104)

Reason: This measure was based on the motivation of protecting the environment and thus a change enacted because of ideology. Environmental protection is typically enacted for its own sake.

Size: -$5 million (Budget Plan-P. 204)

Classification: Personal Income tax

Date implemented: February 28, 2000 (Budget Plan-P. 244)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3).The middle tax rate was to be lowered from 26% to 23% over the next five years. (Budget Speech-P. 4106)

Reason: The actual tax rates had not decreased since the past 12 years from now. This affected middle income Canadians the most, so this measure was intended to provide relief to them. Since the speech stated it as a tax reform to the income tax system, we consider it as long run rather than ideological.

Size: -$2145 million (Budget Plan-P. 203)

Revenue changes for reduction in rate from 26% to 24%:

Classification: Personal Income taxes

Date implemented: July 1, 2000 (Budget Plan-P. 218)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

4).The disability tax credit was increased by up to $500 per year. Moreover, the maximum annual child care expense deduction was increased from $7,000 to $10,000 for families with disabled children. (Budget Speech-P. 4107)

Reason: This change was meant to provide assistance to families with disabled children, as the costs of raising a child is compounded in such a situation, because full time home care by a parent becomes necessary.

Size: -$45 million (Budget Plan-P. 203)

Classification: Personal Income

Date implemented: Not mentioned

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

6). Raising the surtax threshold to $18,500 of basic federal tax as of July 1, 2000" and also reducing the surtax rate from 5 per cent to 4 per cent effective January 1, 2001. The 5-per-cent surtax was to be eliminated within the next five years. (Budget Speech-P. 4107)

Reason: This measure was enacted in order to help small businesses grow at faster rates and since the measure was not related to the economy of the year 2000 and such benefits would take time to manifest themselves, we have label it as long run.

Size: Calculated according to the figures available in the budget (Budget Plan-P. 203)[20]

-$200 on July 1, 2000

-$140 on January 1, 2001

Classification: Personal Income tax

Date implemented: July 1, 2000 (Budget Plan-P. 218)

January 1, 2001

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[20] The revenue impact for 2000-01 was given as -$185 million and -$305 million for 2001-02. If x is the monthly revenue effect of the first step (implemented on July 1, 2000) and y is the revenue effect of the second step then we get $9x + 3y = -185$ and $12x + 9y = -305$. Solving these yield monthly revenue effect of the first step as -$16.67 million and -$11.67 for the second step. Multiplying these with 12 yield the yearly effects.

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

7).The rate of tax for higher taxed industries was to be decreased from 28% to 21% over the following five years. (Budget Speech-P. 4107)

Reason: To assist industries bearing highest tax rates, such as high tech services, where most of the job creation occurred. This would lead to long term effects, hence the categorization into long run.

Size: -$375 million (Budget Plan-P. 203)

Classification: Corporate taxes

Date implemented: The decrease from 28% to 27% would take place on January 1, 2001 (Budget Plan-P. 203)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

8).The reduction in the corporate rate for large businesses to 21% was to be applied full to all small businesses on income between $200,000 and $300,000. (Budget Speech-P. 4107)

Reason: In the same line of thinking as the previous two measures, this one had a long-term perspective and so we have labeled it as such. The reasoning of the measure was that small but growing businesses that were an important source of innovation and job growth in the economy were being stymied by unnecessarily high taxes and so the economy as a whole would benefit from such a reduction.

Size: -$90 million (Budget Plan-P. 203)

Classification: Corporate taxes

Date implemented: January 1, 2001 (Budget Plan-P. 223)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated

9). Measures for international competitiveness that are as follows:

a). Reduce the capital gains inclusion rate from three quarters to two thirds. (Budget Plan-P. 228)

Size: -$135 million (Budget Plan-P. 204)

b). Postpone taxation of gains on qualifying stock options to when shares are sold rather than when options are exercised. (Budget Plan-P. 231)

Size: -$75 million (Budget Plan-P. 204)

c). Allow tax-free rollover of capital gains on qualified investments from one small business to another. (Budget Plan-P. 234)

Size: -$75 million (Budget Plan-P. 204)

Reason: To make Canadian market internationally competitive and since this improves their performance and brings future prosperity to the country, we label it as long run.

Classification: Corporate taxes

Date implemented: February 28, 2000 (Budget Plan-P. 228, 231, 234)

Intended to be: Permanent

Category: Exogenous- LR - performance

Type: Unanticipated

10). Treatment of provincial deductions for scientific research and experimental development (SR&ED) that exceed the actual amount of the expenditure as government assistance for taxation years ending after February 2000 (Budget Plan-P. 253)

Reason: This measure aimed at eradicating inefficiencies of the tax system by reducing "stacking of benefits and making tax system fairer" this would suggest either an ideological or long run motivations. However, while the Finance Minister mentioned fairness when putting the change forward the very nature of the change focuses far more on efficiency and so we feel the more appropriate label is that of long run performance.

Size: $60 million (Budget Plan-P. 204)

Classification: Corporate

Date implemented: March 1, 2000 (Budget Plan-P. 253)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

October 18, 2000:

Context:

The country had shown great economic performance. The Canadian economy created more than 360,000 new jobs during the 12 months preceding this month, reducing unemployment rate to 6.8% which was the lowest level in 24 years. It was still the best job creation performance among the G-7 countries. The current account depicted the largest surplus position in the history of the nation. Moreover, foreign indebtedness as a percentage of the economy was at its lowest level in more than 20 years. Real per capita disposable income was increasing, leaving more money in the hands of Canadians. This implied that more Canadians would be sharing in the national prosperity and the improvement in the nation's finances was beginning to make a real difference in the finances of Canadian families (Economic Statement Speech -P. 9225). The budget looked to enhance the social infrastructure within the country, allowing more reduced taxes for the people and strengthening the country by more investment and research growth. Exogenous measures were a part of this budget. The finance minister talked about the need for a "long-term plan" and the importance of recognizing "the changes we need to make for tomorrow" (Economic Statement Speech -P. 9225)

Tax Measures:

1).The amount of education credit was doubled to $400 a month. (Budget Speech-P. 9227)

Reason: This measure was to provide the best learning and research opportunities to Canadian students because they relied on the education tax credit to offset the cost of their books, lodging and other expenses. The idea was that this would encourage educational pursuits which are necessary for future growth of a national economy. We also use the speech to decide on our choice of motivation: "success in the new economy will not be determined by technology alone, but by creating an environment of excellence in which Canadians can take advantage of their talents, their skills and their ideas" (Budget Speech-P. 9227) Thus the motivation seem to be a story of increases in human capital rather than that of ideological, which would be the other sensible choice.

Size: -$225 million (Economic Statement-P. 129)

Classification: Personal Income

Date implemented: October 18, 2000

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

2). The capital gains inclusion rate was decreased to 50% and same tax relief was provided for employee stock option benefits as well. (Budget Speech-P. 9228)

Reason: The idea was to encourage entrepreneurship and the creation of new jobs in Canada. Since there is no mention of the contemporary economy which could be considered flourishing in the year 2000. We also feel there were benefits to this tax that surpassed those we typically see in ideological changes. As such we have decided to label this as an Exogenous-LR performance change.

Size: -$175 million (Economic Statement-P. 129)

Classification: Corporate taxes

Date implemented: October 18, 2000 (Economic Statement-P. 101)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

3). The five-year plan to lower the corporate tax rate from 28% to 21% was accelerated. In addition to the one-point reduction in the general corporate tax rate scheduled for the year, a two-point cut in each of the following years was legislated. (Budget Speech-P. 9228)

Reason: This measure was intended to make these companies internationally competitive. By accelerating and legislating this plan companies were encouraged to invest with certainty as they would know precisely by how much their taxes would fall. This would increase clarity and decrease risk which would lower the cost of such investments. As such it was expected that investment would increase. Investment increases take time to effect the larger economy as so we have labelled this as an exogenous long run performance measure.

Size: Calculated according to the figures available in the budget (Economic Statement-P. 129)[21]

-$640 million in 2002

-$500 million in 2003

Classification: Corporate taxes

Date implemented: Taxation year 2001 (Economic Statement-P. 101)

Taxation year 2002

Taxation year 2003

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated and Unanticipated

4). Tax Relief Measures for Canadians.

a). For Canadians earning between $60,000 and $100,000 a year, the current 29% of tax rate was reduced to 26%. Moreover, Conservative deficit reduction surtax for all Canadians was eliminated. (Budget Speech-P. 9229)

b). The middle tax rate was reduced to 22% as opposed to the original plan of reduction over three years from 26% to 23%. (Budget Speech-P. 9229)

c). The 17 percent rate of tax was lowered to 16 percent. Moreover, to assist families with children, the national child benefit supplement was increased by $100 per child. This was in

[21] The reduction in corporate tax rates were first announced in the February 2000 budget. The first step was to reduce the tax rate from 28% to 27% on January 1, 2001. The full year revenue effect of this change was given as -$375 million. The Economic Statement of October 2000 announced a further decrease to 25%, 23%, and 21% on January 1, 2002, January 1, 2003, and January 1, 2004. The Economic Statement did not include any information about the revenue effects in 2003-04 so we are unable to calculate the size of the final step. For the remaining two steps we proceed as follows: The February 2000 budget gave the revenue effect of the first step as -$375 million. The Economic Statement of October 2000 stated the acceleration of the tax reduction plan would result in a revenue effect of -$160 million in 2001-02. Since the second step was going to be in place for 3 months during this fiscal year, we assign this to the second step implying a monthly revenue effect of -$53.33 million or a yearly effect of -$640 million. The revenue change in 2002-03 was given as -$1140 million when both the first two steps were in place. Subtracting the full year revenue effects of the first two steps yields -$1140 million – (-$375 million) – (-$640 million) = -$125 million which we assign to the third step. Since the third step was going to be in place for three months during the 2002-03 year, this implies a monthly revenue impact of -$41.67 million or a yearly impact of -$500 million.

addition to $200 increase announced in budget 2000, making the total increase in supplement of $300 per child. (Budget Speech-P. 9229)

Reason: These tax reliefs were meant for all classes and would therefore result in overall welfare of the Canadians. Taken this way it would lead to more economic growth in the country and in accordance with this facet of the measure, we label it as long run rather than as ideological.

Size: -$5745 million (Economic Statement-P. 129)

Classification: Personal Income

Date implemented: January 1, 2001 (Economic Statement-P. 98)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Unanticipated

5). Measures for Disabled.

a). The amount for the infirm dependent tax credit was increased from $2,386 to $3,500. Similarly, the supplement amount for the disability tax credit for children with severe disabilities was increased from $2,900 to $3,500. Furthermore, the amount for disability tax credit was increased from $4,290 to $6,000. (Budget Speech-P. 9230)

b). The amount for the caregiver credit was increased from $2,386 to $3,500. (Budget Speech-P. 9230)

Reason: To provide tax relief to Canadians with disabilities which can be considered an open as shut case for an ideological categorization. Since there was no discernable benefit to anyone other that Canadians with disabilities we feel there is no other option that could be considered credible.

Size: -$100 million (Economic Statement-P. 129)

Classification: Personal Income

Date implemented: January 1, 2001 (Economic Statement-P. 100)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

December 10, 2001:

Context:

The major world economies had begun to slow down prior to the fierce attack of 9/11 on the twin towers in United States. In addition, these attacks increased uncertainty which then further slowed down the economic growth (Budget Speech-P. 3). The forecast of economic growth in US declined from 4.4% to 1.1% right after these attacks (Budget Speech-P. 5). Economists expected economic recovery in the United States in 2002 (Budget Speech-P. 4). More than 40% of the Canadian Economy depended on its export and the ongoing uncertainty in the world hit it very hard (Budget Speech-P. 5). A lot of sectors took the brunt of these developments. As a result the economy showed contraction in the third quarter. Keeping in view the decline in the full time employment as well, it was predicted that the economy would show even greater weaknesses. The government was also concerned about the security of the nation and the risks associated with fluctuations in the global scenario. In the aftermath of such a situation, the Canadian government looked towards a combination of endogenous and exogenous measures.

Tax Measures:

1. The education tax credit would be extended to the individuals receiving employment insurance assistance for their post-secondary education (Budget Speech-P. 11).

Reason: Government had made commitment to provide and upgrade skills and learning to every citizen of Canada regardless of his/her income level (Budget Speech-P. 11). The idea was to encourage the people who were receiving employment assistance to gain and upgrade their skills and educational level so that they could increase their own productivity. While typically changes that deal with increasing access to education tend to be ideological due to education being considered a good in itself, there appears to be a larger emphasis on productivity than in other measures we have looked at. In truth both the human capital and enrichment stories have merits but we feel that better of the two options is labeling this as an exogenous-LR performance rather than ideological change.

Size: -$10 million (Budget Plan-P. 218)

Classification: Personal Tax

Date Implemented: Taxation year 2002 (Budget Plan-P. 221)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

2. Deduction to be provided to people who were receiving employment assistance to obtain adult education (Budget Speech-P. 11).

Reason: Once more since the purpose was to enable people to improve their skills we list it as long run.

Size: -$5 million (Budget Plan-P. 218)

Classification: Personal Tax

Date Implemented: Unknown

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

3. The measure providing special tax assistance for donations of certain securities to charities was to be extended and made a permanent measure. This measure was originally scheduled to expire on December 31, 2001. (Budget Plan-P. 222)

Reason: This measure was made permanent to support the work of charities and help Canadians as during the past five years from 2001 it had helped significantly to increase donations of securities. Since donations to charities are widely considered a good thing, a measure taken in order to improve or continue that can confidently be considered an ideological one.

Size: -$70 million (Budget Plan-P. 218)

Classification: Personal

Date implemented: This measure was extended beyond December 31, 2001 which was originally implemented in 1997 budget. (Budget Plan-P. 222)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

(Measure announced prior to budget)

4. Deferral of corporate tax installments for the next three months (Budget Speech-P. 18).

Reason: To improve the cash flow of the business in the face of economic downturn (Budget Speech-P. 18 and therefore, we take it as endogenous supply stimulus.

Size: -$2000 million in year 2001 – 2002 (-$1000 in 2002Q1 and 2002Q2) (Budget Plan-P. 218)

+$2000 million in year 2002-2003 (+$1000 in 2002Q3 and 2002Q4)

Classification: Corporate

Date Implemented: 2002 (Budget Plan-P. 223)

Intended to be: Temporary

Category: Endogenous-supply stimulus

Type: Anticipated and Unanticipated

February 18, 2003:

Context:

More than 560,000 jobs had been created in 2002 alone which was the highest in any G-7 country with the additional point that they were full time jobs. It was the best yearly performance on record for the country. The interest rates were down at their lowest in forty years which benefited both individuals as well as corporations. The budget was in balance for the third time in row and was even lower than US, for the first time history. The overall growth rate of Canada was 3.3% - the highest in the G-7 countries and a similar expansion was expected (Budget Speech-P. 4). However, the uncertainty in the global front was a cause of caution for the country. Maintain the achievements listed above were a priority and a necessity. The Finance Minister in his speech pointed towards the exogenous nature of the proposed tax reforms: “In short, this budget is about the society that Canadians value, the economy that Canadians need, and the accountability that Canadians deserve.” (Budget Speech-P. 4)

Tax Measures:

1. The budget raised the level of tax assistance for the disabled person and the person with medical need (Budget Speech-P. 3731). In particular, tax measures for persons with disabilities were changed (Federal court rendered the definition of disabled person thereby expanding eligibility for the disability tax credit) (Budget Plan-P. 325)

Reason: Because the economy was doing so well, the government felt it could afford to focus on discretionary exogenous fiscal changes not determined by the larger economic landscape. One of these decisions was to assist individuals with disabilities in order to extend the current economic prosperity to this group. As the Finance Minister stated, "The government must provide tools so that disabled person can participate in economic activity" (Budget Speech-P. 8). As such we have chosen to consider this a straightforward exogenous-ideological change.

Size: -$80 million (Budget Plan-P. 320).

Classification: Personal tax

Date Implemented: January 1, 2003-Retroactive Measure (Budget Plan-P. 324)

Category: Exogenous-Ideological

Type: Unanticipated

2. The maximum limit on which the 12 percent rate of small business tax applied would be raised from $200,000 to $300,000 (Budget Speech-P. 11).

Reason: The tax system would promote and encourage job creation along with the investment in new technologies (Budget Speech-P. 11). As this would support entrepreneurs and small businesses and since investment expenditures take time to come to fruition, we label it as long run.

Size: Calculated from the figures given in the budget plan (Budget Plan-P. 320)[22]

-$55 million in year 2003

-$55 million in year 2004

-$55 million in year 2005

-$55 million in year 2006

Classification: Corporate Tax

Date Implemented: in phases from 2003 to 2005 (the limit would be increased as per following schedule)

for 2003, to $225,000

[22] The budget plan only gave the revenue effects for 2003-04 and 2004-05. Since the plan was to be implemented in 4 steps, we could not use our usual methodology to find the monthly revenue effects of the four steps. Therefore, we assumed that the monthly revenue effect of each step would be the same. Using this assumption together with the revenue effect of 2004-05 (-$110 million), we get a monthly revenue effect of -$4.58 million for each step or a yearly effect of -$55 million for each step.

for 2004, to $250,000

for 2005, to $275,000

after 2005, to $300,000.

Category: Exogenous- LR Performance

Type: Anticipated and Unanticipated

3. The general federal capital tax would be eliminated for the following five years (Budget Speech-P. 12). This tax was imposed on taxable capital employed by a corporation in excess of $10 million (Budget Plan-P. 335)

Reason: The government was committed to increase competitiveness and investment of businesses and federal capital tax was the main hurdle. Thus, its removal would help businesses grown and so the long run categorization (Budget Plan-P. 335).

Size: Calculated from the figures given in the budget plan (Budget Plan-P. 320)[23]

-$240 million in January 2004

-$620 million in January 2005

-$1,040 million in January 2005

-$1,300 million in January 2005

-$1,300 million in January 2005

Classification: Corporate Tax

Date Implemented: (Budget Plan-P. 335, P.336)

January 1, 2004

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[23] This measure was to be implemented in 5 steps. The first step, to be implemented in January 2004, was to increase the threshold for application of the tax from $10 million to $50 million and decrease the capital tax rate from 0.225% to 0.2%. The following years would further decrease in the tax rate to 0.175% in 2005, 0.125% in 2006, 0.0625% in 2007 and 0% in 2008. The budget plan only gave revenue effects for the years 2003-04 (-$60 million) and 2004-05 (-$395 million). These imply a monthly revenue effect of the first step as -$20 million and -$51.67 million for the second step. The annual revenue effects come out to be -$240 million and -$620 million. For the remaining steps, we assume a linear relationship between revenue effects and changes in tax rates. In the second step, tax rate decrease by 0.025% and the revenue effect was -$620 million. In the third step, tax rate decreased by twice the change in second step (0.05%) and hence we assume a revenue effect that is twice as much as well which comes out to be -$1040 million. Similarly we get -$1300 million for the remaining two steps.

January 1, 2005

January 1, 2006

January 1, 2007

January 1, 2008

Intended: Permanent

Category: Exogenous-LR performance

Type: Anticipated

4. Retirement savings measures: (Budget Plan-P. 327-329)

a) The money purchase RPP limit was increased to $15,500 for 2003, $16,500 for 2004 and $18,000 for 2005. The pension limit for defined benefit RPPs was also increased to $1,833 for 2004 and $2,000 for 2005.The DPSP limit was to remain at one-half of the money purchase RPP limit. Also the RRSP limit was to increase to $14,500 for 2003, $15,500 for 2004, $16,500 for 2005 and $18,000 for 2006. In addition the RPP and DPSP limits were to be indexed to average wage growth starting in 2006, and the RRSP limit starting in 2007.

b) Money purchase RPPs were allowed to pay pension benefits in the form of the same income stream currently permitted under a RRIF.

c). Increase the pension accrual rate to 2.33 per cent for fire fighters who were members of defined benefit RPPs that were integrated with the Canada or Quebec Pension Plan.

Reason: This measure was introduced to create new incentives for saving and investment as was clearly mentioned in the speech and thus we call it long run. While there is a good case to make for an ideological characterization, helping retirees, the nature of the tax change focuses on the investment that are necessary in preparation to retirement, not those currently retired.

Size: Calculated according to figures available in the budget. (Budget Plan-P. 320)[24]

-$100 million in year 2003

[24] The revenue effects for 2002-03, 2003-04, and 2004-05 were given as -$25 million, -$105 million, and -$165 million respectively. The first step was implemented (retroactively) on January 1, 2003 so the revenue effect of 2002-03 comes from the first step being in place for 3 months. This implies a yearly revenue effect of -$100 million for the first step. Letting x represent the monthly revenue effect of the first step, y for the second, and z for the third step, we get $12x + 3y = -105$ and $12x + 12y + 3z = -165$. Solving these yield monthly revenue effects of -$1.66 million and -$15 million for the second and third steps. We multiply them with 12 to arrive at annual figures.

-$20 million in year 2004

-$180 million in year 2005

Classification: Personal Income Tax

Date implemented: February 18, 2003

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Anticipated and Unanticipated

March 23, 2004:

Context:

The economic growth of Canadian in 2003 was about 1.7 percent – way below than expected but the economy was predicted to grow about 2.7 percent in 2004 and 3.3 percent in 2005, under very prudent assumptions (Budget Speech-P. 6-7). The effects of 2003 were still to be felt and the country had to formulate policies accordingly. Once more the government focused on exogenous changes like long term effects. However, one good news of that the country would achieve its 7th consecutive balanced budget which quite distinguishes it from the other G-7 countries. The uncertainty of the recent global events had plunged nations into high debts. Canada was the only one left standing (Budget Speech-P. 7). The agenda for the budget was to ensure that the country would advance on social, economic and international forums. Therefore, what we see are exogenous changes aimed at long term prosperity of the country.

Tax Measures:

1. People taking courses regarding their employment would also be eligible for education tax credit.

Reason: Previously, people who were taking courses to excel in their jobs were not eligible for the education tax credits which served as a discouragement to upgrade their workforce skills. This measure would encourage employed workers to pursue further education and improve their skills (Budget Speech-P. 11). Therefore, we categorize it as long run, because the returns to human capital do not manifest themselves in the short or medium terms.

Size: -$10 millions in year 2005-2006 (Budget Plan-P. 323)

Classification: Personal

Date Implemented: 2004 tax year (Budget Plan-P. 329)

Category: Exogenous-LR performance

Type: Unanticipated

2. The small business deduction limit was planned to increase up to $300,000 till 2006. Now it would be raised till 2005 (Budget Speech-P. 11).

Reason: This was done to encourage small business and entrepreneurs (Budget Speech-P. 11) which would then lead to greater economic growth and so we label it as long run.

Size: -$20 millions in year 2005-2006

Classification: Corporate

Date Implemented: 2004 tax year limit raised to $275,000

2005 tax year limit raised to $300,000

Category: Exogenous- LR Performance

Type: Unanticipated

3. The budget proposed changes in the Capital cost allowance rates for ICT assets: (Budget Plan-P.150)

a). The CCA rate applying to computer equipment was increased from 30 to 45 percent.

b). The CCA rate applying to broadband, internet and other data network infrastructure equipment was increased from 20 to 30 percent.

Reason: The last increase in CCA rates occurred in 1976, and a review of these rates pointed out that a higher rate should, theoretically, better reflect the useful life of these assets. These changes would enable firms to write-off these investments more quickly, thereby ensuring that the tax system provides an environment appropriate for investments (Budget Plan-P. 150). Thus, we call it long run.

Size: -$255 million (Budget Plan-P. 151)

Classification: Corporate Tax

Date implemented: March 22, 2004 (Budget Plan-P. 334)

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

Note: The parliament was dissolved for elections before the 2004 budget could be passed and hence we do not include its measures in the data set.

February 23, 2005:

Context:

People in Ukraine had launched a peaceful protest for democratic reforms at the end of 2004. On the same day, The Great Tsunami had affected the coasts of South Asia (Budget Speech 2005 3). Moreover, the current account deficit of US had grown enormously which could depreciate the dollar and raise the interest rates in Canada (Budget Speech-P. 7). Canada played an important role in both events of the world. Canada had achieved the best job creation record, debt to GDP ratio, fastest growth in the living standards and the forecast of real growth in 2005 was 2.9%. According to the Organization for Economic Co-operation and Development, they were the only G-7 nations who were predicted to show surplus in 2005 as well as 2006 (Budget Speech-P. 6-7). The focus of this budget was to present a five-year plan rather than two year plan as have been done previously. One major area of concern for the government was the rising Canadian dollar. Despite the fact that businesses had performed well in the face of this rise, the government realized the need to enact adjustment policies. This combined with the Finance Minister's speech: "Our goal is to use the fruits of our success to sow the seeds of future achievement—to employ the dividends of fiscal and economic strength to keep on building a world-leading society with an enviable quality of life for all" shows that their focus once more was on long term performance and ideological changes. (Budget Speech P-6)19, 1973

Tax Measures:

1. The amount of medical and disability related expense credit would be doubled for the care giver of disabled children (Budget Speech-P. 11).

Reason: This measure was meant to help families raising a disabled child because such families required extra efforts and money to raise a child as compared to other families and so this can quite clearly be seen as an ideologically motivated measure and we have labeled it as such.

Size: -$15 million (Budget Plan-P. 366)

Classification: Personal Income Tax

Date Implemented: 2005 tax year (Budget Plan-P. 390).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2. Response to recommendation of the technical advisory committee on tax measures for person with disabilities

Measures:

a. The eligibility criteria for claiming disability tax credit would be changed (Budget Plan-P. 372)

b. Person with disability would receive tax relief for the cost of disability support (Budget Plan-P. 378)

c. The child disability credit would be increased (Budget Plan-P. 382)

Reason: Once more the idea was to provide support for low- and modest-income families with disabled children. Unlike some of the other tax changes we have seen, this one increased both who was eligible, and the breath of the benefits provide to those families. Overall, we can clearly categorize this as being as an exogenous ideological change.

Size: -$107 million (Budget Plan-P. 366)

Classification: Personal Income Tax

Date Implemented: 2005 tax year (Budget Plan-P. 372,378, 382)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

3. The tax-free income level would be gradually raised to $10,000 by 2009 (Budget Speech-P. 15).

Reason: As the debt was gradually decreasing due to consecutive balanced budget, the government wanted to provide tax relief to the lowest income Canadians. Eliminating taxes for the poorest Canadians would increase their real disposable income and make them better off, and since this applied to all taxpayers, we label it as long run rather than ideological.

Size: Calculated according to figures available in the budget. (Budget Plan-P. 366)[25]

-$280 million in 2006

-$320 million in 2007

-$1160 million in 2008

-$1760 million in 2009

Classification: Personal income Tax

Date Implemented: (Budget Plan-P. 367)

January 1, 2006: Increase of $100

January 1, 2007: Increase of $100

January 1, 2008: Increase of $400

January 1, 2009: Increase of $600 or the amount required to bring the basic personal amount to $10,000 (greater of the two)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

4. The limit on registered pension plan and registered saving plan was to be increased to $22,000 by 2009 and 2010 (Budget Speech-P. 15).

Reason: As the debt was gradually decreasing due to consecutive balanced budgets, the government wanted to provide tax relief to low- and modest-income Canadians. They also hoped to help Canadians save more for retirement (Budget Speech-P. 15).

Size: Calculated according to figures available in the budget.[26] (Budget Plan-P. 366)

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[25] The budget plan gives revenue changes for 2005-06, 2006-07, 2007-08, and 2008-09 as -$70 million, -$360 million, -$890 million, and -$2200 million respectively. If we let x, y, z, and a stand for the monthly revenue effects of the four steps then we get the following equations $3x = -70$, $12x + 3y = -360$, $12x + 12y + 3z = -890$, and $12x + 12y + 12z + 3a = -2200$. Solving these yield monthly revenue effects of -$23.33 million, -$26.67 million, -$96.67 million, and -$146.67 million respectively. Multiplying these with 12 yield the annual revenue effects.

[26] It was not clear how to calculate the exact sizes for each step because the measures were scheduled to go into effect on the 1st of January of each of the years whereas the revenue effects were given for fiscal years. Further complications were introduced because the budget plan reported a revenue impact of -$15 million for the 2004-05 year as well. To calculate the sizes of each of the steps, we simply assign the change in annual revenue taking place

-$85 million in 2006

-$30 million in 2007

-$30 million in 2008

-$35 million in 2009

Classification: Personal income Tax

Date Implemented: (Budget Plan-P. 369)

Tax year	**Level of RPP**	**Level of RRSP**
2006	$19,000	$18,000
2007	$20,000	$19,000
2008	$21,000	$20,000
2009	$22,000	$21,000
2010	Indexed	$22,000
2011		Indexed

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

Type: Anticipated

6. Adjustment would be made for capital cost allowance for certain assets (Budget Speech-P. 16).

Reason: Canadian businesses asked government to adjust the capital cost allowance to accurately reflect the life of equipment and depreciation and the government's compliance with this demand resulted from their belief that "Appropriate depreciation will encourage companies to

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in the first full year after the step was undertaken. For example, for the 2006 change, we assign the revenue effect of -$85 million from the 2006-07 year. For the 2007 change, we assign the change in revenues between 2006-07 and 2007-08 which comes out to be -$30 million. Similarly, we get -$30 million and -$35 million for the next two steps.

invest more, helping the productivity and competitiveness of our economy" (Budget Speech-P. 16). Therefore, we categorize this measure as long run.

Size: -$30 million (Budget Plan-P. 366).

Classification: Corporate Tax

Date Implemented: February 23, 2005 (Budget Plan-P. 398-399).

Intended to be: Permanent

Category: Exogenous- LR performance

Type: Unanticipated

7. The capital cost allowance would be increased from 30 percent to 50 percent within following seven years for the environmental efficient technologies (Budget Speech-P. 16).

Reason: This measure took aim at reducing greenhouse gases and making Canada more environment friendly. Since this change in the budget speech makes no mention of the contemporary state of the country nor any economic benefits (Budget Speech-P. 16), other than environment, we see no other motivation but ideological.

Size: -$45 million (Budget Plan-P. 366).

Classification: Corporate

Date Implemented: Feb 23, 2005 (Budget Plan-P. 400- 403).

Category: Exogenous- Ideological

Type: Unanticipated

9). Removal of excise tax on jewelry. (Budget Plan-P. 405)

Reason: To ensure that there are no impediments to the growth of this industry, thereby, allowing us to call it a long run measure.

Size: -$20 million in year 2005 (Budget Plan-P. 405)

-$20 million in year 2006

-$20 million in year 2007

-$20 million in year 2008

-$20 million in year 2009

Classification: Others

Date Implemented: Feb 23, 2005 (Budget Plan-P. 405)

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated and Unanticipated

November 14, 2005:

Context:

The economy had experienced a surprisingly solid amount of growth, particularly in the labor market which had become stronger. There were over 200,000 new job creations in the year with most of them in the full-time category, and the unemployment rate had fallen to 6.6 per cent in October, its lowest level in the last 30 years. Low interest rates and string income growth was also witnessing. The corporate sector also showed marked improvements. Their profits were 14% of GDP, the highest in over three decades. Investment too was on the rise in different sectors of the economy. However, while inflation too had risen, sore inflation had stayed stable. Private sector economists expected real gross domestic product (GDP) to grow by 2.8 per cent in 2005 and to pick up to 2.9 per cent in 2006 and 3.1 per cent in 2007 (The Economic and Fiscal Update-P. 7). There was an increase in demand for goods both in exports as well as domestic level. Nevertheless, the government showed concerns for unexpected risks like increase in energy prices that could shake consumer confidence or the further depreciation of US dollar. The manufacturing industries especially for already in a tight position and would have to suffer greatly in that scenario.

Tax Measures:

The measures proposed were the same as seen in earlier 2005 and later 2006 budgets.

May 2, 2006:

Context:

The unemployment rate in Canada was at a 30 year lowest, the budget was balanced, and the spending was controlled. The inflation rate was also low, and the consumer confidence and corporate profits were at their peaks (Budget Speech-P. 15). The government was committed to making more tax reliefs for their people in order to show them their concern for the well-being of their people. Long term planning was the focus of the government so that greater prosperity could be achieved. Budget 2006 provided enormous tax relieves to the Canadians. The budget surplus in 2005 was larger than expected so government offered tax relieves (Budget Speech-P. 3-5). Therefore, the plan was to invest in families, education, industries, securities and infrastructure; in fact all sectors of the country. Following were the tax changes introduced in Budget Speech 2006 and they were all long term or ideological changes (Budget Speech-P. 22).

Tax Measures:

1. The goods & services tax would be reduced by 1% (Budget Speech-P. 3).

Reason: "Canadians pay too much in tax. It's holding families back. It makes it harder for small businesses to create jobs and opportunities. It discourages innovation and investment. It is limiting our productivity (Budget Speech-P. 5). While the focus on families might suggest an exogenous ideological motivation, the larger picture clearly give the gravity of the situation, the more appropriate category is that of long run.

Size: -$5170 million (Budget Plan-P. 202)

Classification: Sales Tax

Date Implemented: July 1st, 2006 (Budget Speech-P. 3).

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

2. A brand new employment credit of $1000 was given. This credit was meant to cover the cost that employees incurred for work (Budget Speech-P. 3). The maximum amount was set at $500 for the 2006 taxation year and was going to be increased to $1,000 in 2007 (Budget Plan-P. 219).

Reason: The Finance Minister stated, "to recognize employees' work expenses for things such as home computers, uniforms" (Budget Plan P-64) and "For some, particularly low-income Canadians, these additional costs may impose a barrier to joining the workforce. For others, work-related employment expenses are another factor that limits the rewards of their hard work. Supplies" (Budget Plan P-69) so once again see long run as the best label for this change.

Size: Calculated according to figures give in the budget plan (Budget Plan-P. 202)[27]

[27] The first stage of this measure was to be implemented on July 1, 2006 and the second one on January 1, 2007. The revenue effects for 2006-07 and 2007-08 were given as -$890 million and -$1,815 million. Letting x stand for monthly

-$872.5 million in July 2006

-$942.5 million in January 2007

Classification: Personal Tax

Date Implemented: July 1st, 2006 (Budget Plan-P. 219)

January 1, 2007

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

3. The lowest personal income tax was to be reduced by 0.5 percent (Budget Speech-P. 3).

Reason: Since once more this measure aimed to provide relief to people and the government's agenda, however, instead of merely to help its citizens directly, the cause was to encourage growth which was help the entire nations. As mentioned before with regard to this relief was space for more growth, we take the motivation as long run.

Size: -$1370 million in year 2007-08 (Budget Plan-P. 202)

Classification: Personal Income Tax

Date Implemented: July 1st, 2006 (Budget Speech-P. 3).

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

4. The limit for eligibility for the reduced federal tax rate for small businesses was raised from $300,000 to $400,000. Moreover, the tax rate for small businesses was reduced by 0.5% (Budget Speech-P. 4).

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revenue effect of the first stage and y for the second, we get the following equations: $9x + 3y = -890$ and $12x + 12y = -1815$. Solving these yield the monthly revenue figures of -$72.71 and -$78.54 million. Multiplying these with 12 yield the annual figures.

Reason: Approximately 97% of all Canadian businesses were small and they were most responsible for job creation. This measure was meant to help them grow and encourage them to create more jobs. So, we call this as long run (Budget Speech-P. 4).

Size: -$40 million (Budget Plan-P. 202)

Classification: Corporate Tax

Date Implemented: January 1st, 2007 (Budget Speech-P. 4).

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

5. 100% Canadian wine produced by small business was exempted from the duty. Moreover, the rate of excise duty on beer produced by small brewers was to be reduced (Budget Speech-P. 4).

Reason: The market in Canada was made up primarily of medium and small businesses. "These measures will help the competitiveness of small and medium-sized vintners and brewers." (Budget Plan P-77). This was yet another measure that targeted the small businesses and so the same motivation applies here as well.

Size: -$20 million (Budget Plan-P. 202)

Classification: Excise Tax

Date Implemented: July 1st, 2006 (Budget Speech-P. 4).

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

6. A new Apprenticeship Job Creation Tax credit of $2,000 per apprenticeship was to be introduced (Budget Speech-P. 6).

Reason: Canada was facing a furious shortage of tradespeople and government wanted to encourage apprenticeships to support apprentices in their trainings (Budget Speech-P. 6). This would lead to greater productivity and so the choice of long run as the motivation.

Size: -$200 million (Budget Plan-P. 202)

Classification: Corporate Tax

Date Implemented: May 2, 2006 (Budget Plan-P. 238)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

7. A new $500 deduction for the cost of tools was to be implemented (Budget Speech-P. 6).

Reason: Government believed that the cost of tools could be a barrier for a person to start a career in trades (Budget Speech-P. 6).

Size: -$15 million (Budget Plan-P. 202).

Classification: Personal Tax

Date Implemented: May 2, 2006 (Budget Plan-P. 224).

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

8. Federal Tax on all the scholarships was to be eliminated (Budget Speech-P. 6).

Reason: This measure would provide Canada with a workforce ready to work hard and get ahead and encourage students to receive post-secondary education (Budget Speech-P. 6). The end goal was to increase productivity which would take time to develop and spill over into the macroeconomy as a whole. So we call this long run.

Size: -$45 million in year 2007-08 (Budget Plan-P. 202)

Classification: Personal Tax

Date Implemented: 2006 tax year (Budget Plan-P. 226)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

9. A new textbooks tax credit was introduced (Budget Speech-P. 6).

Reason: When introducing this measure, the Finance Minister wanted to "provide better tax recognition for the cost of textbooks for students." (Budget Speech P-6) This measure was part of the earlier motivation for the introduction of educational tax reforms. We feel that since this change was introduced with a series of other long run changes and not ideological ones, that this label is the more appropriate one.

Size: -$125 million (Budget Plan-P. 202)

Classification: Personal Tax

Date Implemented: 2006 tax year (Budget Plan-P. 225)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

10. Fishers would also be able to claim $500,000 lifetime capital gains exemption as enjoyed by farmers and small business owners. (Budget Speech-P. 7)

Reason: The government was committed to supporting resource industry and bringing the fishing industry at par with tax treatment for other industries as well. Therefore, we take it as endogenous supply stimulus so that the fishing industry would also be able to perform as well.

Size: -$60 million (Budget Plan-P. 202)

Classification: Personal Income Tax

Date Implemented: May 2, 2006 (Budget Plan-P. 220)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

11. The maximum amount of refundable medical expense supplement was increased to $1,000 (Budget Speech-P. 9)

Reason: The idea was that this would be "work incentives for Canadians with disabilities by helping to offset the loss of coverage for medical and disability-related expenses under social assistance when recipients move into the labor force." (Budget Plan-P. 105). This measure seems to have both aspects of ideological and long run characteristics in almost equal parts. On the one hand, it supports the disable which would suggest an ideological motivation, but it was explicitly designed to help them move into the labor which would increase productivity. Overall, since both are exogenous changes, neither of these two change our analysis. In the end we feel that Exogenous- Ideological is the better of the two.

Size: -$10 million (Budget Plan-P. 202)

Classification: Personal Tax

Date Implemented: 2006 tax year (Budget Plan-P. 229)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

12. Physical fitness credit up to $5000 was introduced (Budget Speech-P. 10)

Reason: The ideas was to encourage children to be physically fit and cover the cost of registration fees for children sports, as such, we have chosen to label this as an ideological motivated measure.

Size: -$160 million (Budget Plan-P. 202)

Classification: Personal Tax

Date Implemented: 2007 tax year (Budget Plan-P. 226)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Anticipated

13. The eligible pension income tax credit was doubled (Budget Speech-P. 10)

Reason: to provide support to senior citizen who had led the war on recession

Size: -$405 million (Budget Plan-P. 202)

Classification: Personal Tax

Date Implemented: 2006 tax year (Budget Plan-P. 227)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

14. The capital gain tax on the donations of publicly listed securities was removed (Budget Speech-P. 11)

Reason: Since the Canadian government had been running balanced budgets for a number of years, it was felt that the government could afford to reduce certain taxes. The question then became a question of which one were expendable. The reasoning for this change was that it would help create a donation pool of about $300 million annually that could be used to support charitable causes. Because of its clear intention of increasing charity donations, we have chosen to label this as an Exogenous- Ideological change.

Size: -$50 million(Budget Plan-P. 202)

Classification: Personal Income tax

Date Implemented: effective immediately (May 2, 2006) (Budget Speech-P. 11).

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

15. 15.5 percent tax credit was to be given for the cost of transit pass to the person using environment friendly mode of transportation (Budget Speech-P. 12)

Reason: This change quite obviously was meant as an ideological change. The reasoning being that it would encourage environmentally friendly modes of transportation.

Size: -$220 million (Budget Plan-P. 202)

Classification: Personal Income tax

Date Implemented: July 1, 2006 (Budget Plan-P. 230)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

16. Elimination of Federal Capital Tax. (Budget Speech-P. 5)

Reason: This measure was part of the program of the government to set up a tax system that "encourages capital investment and innovation" (Budget Speech-P. 5) and so we classify it as long run.

Size: Calculated according to the figures given in budget plan 2005 (Budget Plan-P. 202)[28]

-$960 million in January 2006

-$300 million in January 2007.

Classification: Corporate Income tax

Date Implemented: May 2, 2006

January 1st, 2006- retroactive measure (Budget Speech-P. 5)

Intended to be: Temporary (This measure was only an acceleration of the plan already announced in the 2003 budget. Since we have already incorporated the effect of the phase-out in 2008, we regard the current acceleration measures as temporary which were to be reversed in January 2008).

Category: Exogenous- LR- Performance

Type: Unanticipated

17). Reduction of general corporate tax rate to 19 per cent from 21 per cent by 2010. This decrease was to be carried out in three steps. The corporate tax rate was to be reduced to 20.5 percent in 2008, to 20 percent in 2009, and 19 percent in 2010 (Budget Plan-P. 232).

Reason: The thinking was that cutting such rates would increase the amount of investible funds which should increase long run investment and lead to an increase in overall growth rates. As such we have chosen to label this as an Exogenous- LR- Performance change.

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[28] This measure was an acceleration of the phase-out plan of the federal capital tax rate introduced in in the 2003 budget for the first time. The budget plan of 2006 stated that the federal capital tax rate was to be eliminated for 2006 and following years. Information in the budget plan made it clear that the revenue effects were of the acceleration in the phase-out only (See table A3.19 on P. 236 of the Budget Plan). This measure would have reduced federal capital tax rate for 2006 and 2007. Therefore, we estimate the revenue effects for these two steps of the measure. The revenue effect for 2007-08 was given as -$225 million which was attributable to the second step which would have been place for 9 months (the federal capital tax rate was schedule to be reduced to 0 in January 2008 even before this measure was introduced). Thus, the annual revenue effect for the second step comes out to be -$300 million (monthly revenue effect of -$25 million). The first step would have been place for 9 months in 2006-07 and the second step would have been in place for 3 months. The budget plan gives the revenue effect for 2006-07 as -$795 million which implies a monthly revenue effect of -$80 million for the first step or an annual revenue effect of -$960 million.

Size: Calculated according to the figures given in budget plan 2005 (Budget Plan 2005-P. 366)[29]

-$352 million in year 2008

-$352 million in year 2009

-$864 million in year 2010

Classification: Corporate Income tax

Date Implemented: January 1, 2008 (Budget Plan-P. 232)

January 1, 2009

January 1, 2010

Intended to be: Permanent

Category: Exogenous- LR- Performance

Type: Anticipated

18). Large Corporations dividend measures which would enhance the gross-up and DTC for eligible dividends (Budget Plan-P. 232).

Reason: There was a hint of fairness to this measure, as the government felt that corporation dividends should not be taxed twice. However, the larger reason was to encourage savings, investment and growth. As such we will call this change an exogenous long run one.

Size: -$310 million (Budget Plan-P. 202).

Classification: Personal Income tax

Date Implemented: May 2, 2006

January 1st, 2006- retroactive measure (Budget Plan-P. 230)

Intended to be: Permanent

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[29] This measure was first announced in the 2005 budget and the revenue effects were given in the budget plan of 2005. Let x be the monthly revenue effect of the first step, y for the second, and z for the third. The 2005 budget plan gave revenue effects of -$440 million for 2008-09 and -$920 million for 2009-10. These yield the following equations: $12x + 3y = -440$, and $12x + 12y + 3z = -920$. Without further assumptions, it is not possible to find the sizes of revenue effects. Since the first two steps reduced corporate tax rate by the same magnitude, we assume that the monthly revenue effects of the first two steps are the same. Using this assumption yields monthly revenue effects of -$29.33 million for the first two steps and -$72 million for the third. Multiplying these with 12 yield the annual revenue effects.

Category: Exogenous- LR- Performance

Type: Unanticipated

5. The corporate surtax was to be eliminated effective January 1, 2008 (Budget Speech-P. 5). This measure was originally introduced in the 2005 budget. However, the measure introduced in 2005 was to gradually eliminate the corporate surtax by 2010 (Budget Plan 2005-P. 394). In 2006, it was announced that corporate surtax will be completely eliminated in 2008 (Budget Plan-P. 233).

Reason: The surtax was introduced in 1987 to target the budget deficit (Budget Speech 2005-P. 15). Since conditions had dramatically improved between 1987 and 2005, it was felt that the surtax could be effectively removed. It would make the tax system internationally competitive and also streamline the Canadian tax code which would help Canadian firms, so we label it as long run.

Size: -$1,675 million (Budget Plan 2005-P. 366).

Classification: Corporate Tax

Date Implemented: January 1, 2008 (Budget Plan-P. 394).

Intended to be: Permanent

Category: Exogenous- LR performance

November 23, 2006:

Context:

Despite the fact that the country was on the best economic footing of the G-7 countries, was going through the second largest expansion of their time, and had achieved the lowest unemployment rate in over 30 years and Canadians enjoyed higher incomes; there were challenges like higher Canadian dollar and increasing exports from overseas countries which was effecting their manufacturing sector (Economic and Fiscal Update Speech-P. 5). The challenges of a global market were also becoming a hindrance especially the expected further depreciation of the US dollar, their substantial housing market and the uncertainty of the prices of key Canadian commodities. The government was committed to meet head on with these difficulties. They planned on cutting on spending and keeping their books balanced (Economic and Fiscal Update Speech-P. 7). For the moment their focus was to ensure a fair tax regime for its people and so we see exogenous changes.

Tax Measures:

1). Increase in the age credit amount by $1,000. (Economic and Fiscal Update Speech-P. 15)

Reason: In terms of the population as a whole, the elderly was seen as a particularly vulnerable group. As such this measure was meant to assist this group financial and insure fairness with the rest of the Canadian population. As such we have chosen to label this as an ideological measure.

Size: -$345 million (Economic and Fiscal Update-P. 37)

Classification: Personal tax

Date Implemented: January 1, 2006 (Economic and Fiscal Update-P. 47)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2). Introduction of income splitting for pensions. (Economic and Fiscal Update Speech-P. 15)

Reason: The idea was to increase the rewards for retirement saving. While this would theoretically increase the amount of loanable funds on hand, which should increase investment, since the aim of this change was primarily to help a vulnerable group, we have chosen to label it as ideological rather than long run.

Size: -$675 million (Economic and Fiscal Update-P. 37)

Classification: Personal Income tax

Date Implemented: January 1, 2007 (Economic and Fiscal Update-P. 47)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

March 19, 2007:

Context:

Canadian Economy was doing very well. The unemployment rate was the lowest in 30 years, fiscal fundamentals was the strongest in all of the G-7 countries, taxes were lower, and the budget was balanced (Budget Speech-P. 3). Keeping this in view, the government was committed to their strategy of working on long term gains and fulfilling ideologies and creating stimulus for certain sectors of the economy. They aimed to make Canada even better than today. They wanted to achieve their potential. They resorted to measures that would provide relief to their tax payer for them to grow, ensure care of their environment, modernize their health system and make amendments for a fairer tax system that would take into account corporations that had been avoiding tax (Budget Speech-P. 3).

Tax Measures:

1. A brand new $2,000 per child, child tax credit was introduced (Budget Speech-P. 13)

Reason: The budget 2007 introduced some of the tax benefits to lessen the burden of working class so this measure was introduced to help families get ahead and this emphasis on growing ahead makes us allocate this measure to the long run category.

Size: -$1,475 million (Budget Plan-P. 374)

Classification: Personal Income Tax

Date Implemented: 2007 tax year (Budget Plan-P. 392)

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

2. The Spousal credit was increased to basic personal amount (Budget Speech-P. 13)

Reason: Government believed that it should not penalize commitments/marriages, so this measure was introduced to encourage commitments and marriage. We take it as long run since this would encourage more family settlements that would be an impetus for the growth of economy.

Size: -$270 million Budget Plan-P. 374)

Classification: Personal Income Tax

Date Implemented: 2008 tax year (Budget Plan-P. 392)

Intended to be: Permanent

Category: Exogenous- LR Performance

Type: Unanticipated

3. The age limit to become eligible for RPP and RRSP was reduced to 69 (Budget Speech-P. 14)

Reason: This measure was introduced to encourage seniors to invest in RPP and RRSP so that they would be able to afford better living standards. In addition, this would give seniors access to their money sooner and allow them to start using that money earlier, giving them more freedom over their own finances. As such the overall best category for this measure is that of exogenous- ideological.

Size: -$135 million (Budget Plan-P. 374)

Classification: Personal Income Tax

Date Implemented: 2007 tax year (Budget Plan-P. 400)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

4. Accelerated Capital Cost Allowance was implemented for the useful life of equipment (Budget Speech-P. 14)

Reason: The idea was that such as measure would encourage economic investment and create jobs. Because investment supplements are not overnight effect and the jobs associated with them take even longer, we feel that the most appropriate label for this measure would be Exogenous-LR performance.

Size: -$10 million (Budget Plan-P. 374)

Classification: Corporate

Date Implemented: March 19, 2007 (Budget Plan-P. 406)

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

5. The manufacturers were allowed to write off their new investment completely in two years (Budget Speech-P. 14)

Reason: The plan was to support the manufacturing industry so that they would invest more and create jobs. Since it did not focus on any industry specifically and only to manufacturing in general and makes no mention of the contemporary economy, we say it is long run.

Size: -$565 million (Budget Plan-P. 374)

Classification: Corporate tax

Date Implemented: Immediate to end of 2008 (Budget Plan-P. 417)

Intended to be: Temporary

Category: Exogenous- LR performance

Type: Unanticipated

6. The life time tax exemption for farmer, fisherman and small businesses was increased to $750,000 (Budget Speech-P. 17)

Reason: The idea was to help small businesses that needed the most help, and consistent with the motivation applied for this measure previously, we call it endogenous supply stimulus.

Size: -$90 million (Budget Plan-P. 374)

Classification: Personal income tax measure

Date Implemented: March 19, 2007 (Budget Plan-P. 396)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

7. A refundable tax credit equal to 20 percent of each dollar of earned income was to be provided in excess of $3,000 with a maximum credit of $500 for single individuals and $1,000 for families. (Budget Plan-P. 375)

Reason: Working Income Tax Benefit was introduced to provide incentives to work for low-income Canadians. While there certainly is an aspect of ideological motivation associated in this change, given that it would primarily benefit low income making Canadians, since the change focused on economic opportunity instead of direct assistance and such benefits would take time to be realized, have labeled it as Exogenous-LR performance.

Size: -$555 million (Budget Plan-P. 374)

Classification: Personal Income

Date implemented: March 19, 2007

Intended to be: Permanent

Category: Exogenous-LR performance

Type: Unanticipated

8. International Taxation: (Budget Plan-P. 417)

a) Cross-border interest payments would no longer be subject to taxation by the source country

b) International Tax Fairness Initiative was proposed that would update and improve the system of foreign affiliate taxation.

Reason: While there is certainly an aspect of long run motivation to these changes, given that they would lead to an increase in US-Canadian trade. The overall emphasis of developing a fairer international taxation system leads us to call it ideological.

Size: -$340 million (Budget Plan-P. 374)

Classification: Others

Date implemented: March 19, 2007

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

9. A Green Levy was to be applied on new automobiles designed primarily to carry passengers, including station wagons, vans and sport utility vehicles, but not pickup trucks, in accordance with the vehicle's fuel-efficiency rating. This rating would be calculated on the basis of weighted average fuel consumption. (Budget Plan-P. 436)

Reason: The objective was to increase the use of environmentally cleaner transportation. In a similar fashion to a number of the measures introduced this year, we feel this is a clear case of an ideological change.

Size: $110 million (Budget Plan-P. 374)

Classification: Others

Date implemented: March 19, 2007 (Budget Plan-P. 437)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

10. Registered Disability Savings Plan with a Canada Disability Savings Grant (CDSG) program and Canada Disability Savings Bond (CDSB) program. (Budget Plan-P. 379)

Reason: "Parents of children with severe disabilities face emotional strains and financial hardships that can, at times, be overwhelming. They worry, Mr. Speaker, about how they will take care of their children in the future." (Budget Plan-P. 379) The plan was to help parents save for their children when they would otherwise not be able to help them. Since providing for the disabled and specifically disabled children is an absolute good we have labeled it as ideological.

Size: -$115 million (Budget Plan-P. 374)

Classification: Personal tax

Date implemented: January 1, 2008 (Budget Plan-P. 379)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

11. Elimination of taxation of capital gains arising from donations of publicly-listed securities. (Budget Plan-P. 383)

Reason: This measure was designed to more charitable donations off of returns to capital. Since charitable donation are typically seen as an absolute good, we have labeled this change as ideological.

Size: -$75 million (Budget Plan-P. 374)

Classification: Personal tax

Date implemented: March 19, 2007 (Budget Plan-P. 383)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

12. Aligning Capital Cost Allowance Rates with Useful Life. (Budget Plan-P. 404)

Reason: Processing businesses were facing a number of problems given the landscape of the current economy. The Canadian government felt that this sector need assistance to alleviate these problems through encouraging investment. This realignment of the Capital Cost Allowance rates was designed to do just that. Because the measure was taken to help a subset of the economy and it was in response to conditions present in the 2007 economy, we can confidently put this in the category of Endogenous-Supply Stimulus.

Size: -$145 million (Budget Plan-P. 374)

Classification: Corporate Tax

Date implemented: March 19, 2007

Intended to be: Permanent

Category: Endogenous-Supply Stimulus

Type: Unanticipated

13. Extension of the eligibility for the mineral exploration tax credit to flow-through share agreements entered into on or before March 31, 2008. (Budget Plan-P. 403)

Reason: The tax credit was designed to encourage more investment in exploration for potential sources of natural resources. Given the high costs associated with exploration, the measure would increase investment in this specific industry so that they could grow, so we have labeled it as an Endogenous-Supply Stimulus change.

Size: -$105 million (Budget Plan-P. 374)

Classification: Corporate Tax

Date implemented: March 19, 2007 (Budget Plan-P. 403)

Intended to be: Temporary

Category: Endogenous-Supply Stimulus

Type: Unanticipated

October 30, 2007:

Context:

The Canadian economy was in a much better fiscal position than any other G-7 countries. They were experiencing the second longest period of economic expansion in Canada's history. They had a balanced budget; in fact they were the only G-7 countries that had a surplus budget and falling debt burden, business investment was expanding for the 12th consecutive year, and unemployment rate was the lowest in 33 years with employment up in every province. In addition to this the country was becoming an emerging energy superpower with the second largest petroleum reserves. However, the government did realize the global as well as domestic challenges that they were facing (Economic Statement Speech-P. 4). The people in certain sectors of the economy were suffering. The high Canadian dollar was acting as a deterrent for others. Too much growth witnessed in some parts of the country had driven up the cost of living and caused skilled worker shortage. There were weak export areas and increased competition from abroad. With this in mind the government outlined a plan that would help them encounter these challenges where the main aim was to provide relief to the Canadians, stimulus to the economy, and generating more jobs (Economic Statement Speech-P. 5). Given this economic situation, the measures enacted were endogenous in nature.

Tax Measures:

1). Reducing the GST from 6 per cent to 5 per cent. (Economic Statement Speech-P. 6)

Reason: The ideas that a cut in the initial GST would provide further relief to ordinary Canadians. This would act to increase aggregate demand which should increase GDP. This would be a much-needed stimulus to the economy. Because of the current necessity for such measures given the economic landscape of late 2007 we feel that Endogenous-Demand Management is the best category for this change.

Size: -$6020 million (Economic Statement-P. 95)

Classification: Sales Tax

Date implemented: January 1, 2008 (Economic Statement Speech-P. 6)

Intended to be: Permanent

Category: Endogenous-Demand Management

Type: Unanticipated

2) An increase in the basic personal amount to $9,600 retroactively to January 1, 2007 was proposed. The basic personal amount was to be increased to $10,100 on January 1, 2009. (Economic Statement Speech-P. 7)

Reason: It aimed to provide further relief to people with the same motivation of increasing demand.

Size: Calculated according to figures available in the budget (Economic Statement-P. 95)[30]

-$2262.21 million on January 1, 2007

-$753.3 million on January1, 2008

Classification: Personal Tax

Date implemented: October 30, 2007 (Economic Statement Speech-P. 7)

January 1, 2008

January 1, 2009

Intended to be: Permanent

Category: Endogenous-Demand Management

Type: Anticipated and Unanticipated

3) The lowest personal income tax rate was also to be reduced to 15 per cent from 15.5 per cent retroactively to January 1, 2007. (Economic Statement Speech-P. 7)

Reason: This was yet another effort for inducing stimulus to the economy. It was thought that such a measure would increase the purchasing power of the ordinary Canadians and so we have labeled it as Endogenous-Demand Management.

Size: -$1285 million (Economic Statement-P. 95)

Classification: Personal Tax

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[30] The budget plan provided revenue effects of this measure as -$1,885 million in 2007-08 and -$565 million in 2008-09. The details on P-111 of the budget plan shows that the increase in basic personal amount in 2009 was only $6 more than what it would have been without this measure. Thus we ignore the final step and assign the entire revenue change amount of -$565 million to the second step. Since the second step was in place for 9 months during 2008-09, this implies a monthly revenue effect of -$62.78 million or an annual revenue effect of -$753.3 million. For 2007-08, the first step was in place for 9 months and the second step was in place for 3 months. That implies a monthly revenue effect for the first step as -$188.52 million or a yearly effect of -$2,262.21 million.

Date implemented: January 1, 2007 (Economic Statement Speech-P. 7)

Intended to be: Permanent

Category: Endogenous-Demand Management

Type: Unanticipated

4). An immediate 1-percentage-point reduction in corporate income tax rate in 2008, followed by ongoing reductions in each of the following 4 years that would bring the tax rate down to 15 per cent by 2012. (Economic Statement Speech-P. 7, P-96)

Reason: US business have always enjoyed certain advantages over Canadian firms. Given the contemporary economy of 2007, this measure was intended to even the playing field and make these corporates competitive with American companies and so that they would not succumb to the worldwide pressures. Because of this, we have chosen to label this as an Endogenous-Supply Stimulus change.

Size: Calculated according to figures available in the budget (Economic Statement-P. 95)[31]

-$1152.1 million in 2008

-$511.6 million in January 2009

0 million in January 2010

-$944.4 million in January 2011

-$3683.7 million in January 2012

Classification: Corporate Tax

Date implemented: January 1, 2008 (Economic Statement Speech-P. 8)

January 1, 2009

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[31] The revenue effects for 2008-09, 2009-10, 2010-11, 2011-12, and 2012-13 were given as -$1,280 million, -$1,620 million, -$1,725 million, -$3,355 million, and -6,120 million respectively. Letting x, y, z, a, and b stand for monthly revenue effects of the 5 steps of this measure we get the following equations: $12x + 3y = -1280$, $12x + 12y + 3z = -1620$, $12x + 12y + 12z + 3a = -1725$, $12x + 12y + 12z + 12a + 3b = -3355$, $12x + 12y + 12z + 12a + 12b = -6120$. Solving these yield monthly revenue effects of -$96.01 million, -$42.63 million, $14.57 million, -$78.7 million, and -$307.22 million for the five steps. The positive revenue effect for the third step is puzzling since the corporate tax rate was decreasing from 19 percent to 18 percent in 2010. We, therefore, assign a value of 0 to the size of the third step instead of the counter-intuitive positive value.

January 1, 2010

January 1, 2011

January 1, 2012

Intended to be: Permanent

Category: Endogenous-Supply Stimulus

Type: Anticipated and Unanticipated

5). Acceleration of the small business income tax rate reduction to11 per cent by 2008, one year earlier than scheduled. (Economic Statement Speech-P. 8)

Reason: This measure was to help provide help small businesses to compete as well in the highly competitive environment. Since the target of the change was small businesses, we feel that Endogenous-Supply Stimulus is the most appropriate measure.

Size: -$215 million (Economic Statement-P. 95)

Classification: Corporate Tax

Date implemented: January 1, 2008 (Economic Statement Speech-P. 8)

Intended to be: Permanent

Category: Endogenous-Supply Stimulus

Type: Unanticipated

February 26, 2008:

Context:

The biggest trading partner of Canada, United States, had been slowing down economically due to 2007-08 recession. Volatility in the financial market had skyrocketed (Budget Speech-P. 3). The inflation rate and interest rate were low and stable. The unemployment was at its lowest in 33 years. The country was running surpluses and paying down their debts. The tax burden was also been continuously reduced. However, due to global recession Canadian Economy was expected to be slower in the two years following 2008 (Budget Speech-P. 3). The government strongly negated the need for higher spending, higher interest rates and higher taxes. They believed in more long-term policy action that would lead to greater prosperity. In accordance with that the budget proposed a plan: “Advantage Canada” that not only provided tax relief for people but also supported businesses. The measures enacted in the budget were both exogenous and endogenous in nature since they dealt with the current economic situation but did not forget the long term and ideological actions which were equally important in bolstering the economy and providing support to their people.

Tax Measures:

1. A new tax free saving account was introduced to encourage savings and investment in the country (Budget Speech-P. 6)

Reason: The previous policy meant that Canadians had to pay taxes for not consuming and saving their portion of income. This directly discouraged them to save money. This measure would remove this disincentive and hopefully increase savings. The increase in savings would translate to an increase in loanable funds which should increase investment and by extension GDP. Because of the time lag that would occur between implementation and growth in GDP, we feel that exogenous Long Run is the most appropriate category for this policy.

Size: -$50 million (Budget Plan-P. 272)

Classification: Person Income Tax

Date Implemented: 2009 tax year (Budget Plan-P. 273).

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Anticipated

2. The daily deduction amount of the northern resident was increased by 10% (Budget Speech-P. 7)

Reason: The cost of living in northern areas of the country were very high compared to the overall country. This measure would help Northern residents fight the high cost of living. The emphasis on fairness with no mention of the economy as a whole leads us to the conclusion that the motivation for the increased deduction was ideological in nature.

Size: -$10 million (Budget Plan-P. 272)

Classification: Personal Income Tax

Date Implemented: 2008 tax year (Budget Plan-P. 281)

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

3. The temporary accelerated cost allowance treatment for manufacturing industry was to be extended for three years on declining basis (Budget Speech-P. 9)

Reason: The measure introduced in the last budget from this was a success. It made the manufacturing industry more competitive internationally. Since it was just an extension of a previous measure and no new motivation was suggested in the Budget Speech, we will use the previous label of exogenous-long run.

Size: -$155 million (Budget Plan-P. 272)

Classification: Corporate

Date Implemented: 2009 tax year (Budget Plan-P. 295)

Intended to be: temporary

Category: Exogenous-LR performance

Type: Anticipated

4. The tax credits on clean energy generation were further to be improved (Budget Speech-P. 14)

Reason: This measure had a very straightforward motivation which was that of expanding clean energy. Since making energy consumption more environment friendly is considered an absolute good, we are categorizing this as an ideological change.

Size: -$5 million (Budget Plan-P. 272)

Classification: Corporate

Date Implemented: Feb 26, 2008 (Budget Plan-P. 299)

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

5. The eligible dividend gross-up was reduced from its current level of 45 percent to 44 percent, then 41 percent and then finally 38 percent. The enhanced Dividend Tax Credit rate was also to

change following the same schedule, moving from 11/18 of the gross-up amount to 10/17, 13/23 and 6/11. (Budget Plan-P. 291)

Reason: We take this measure as endogenous since it increased revenue for the government. In addition, the projections about where the economy might be headed increased fears that the balanced budget that the country had been running for the past few years was in jeopardy. Given the economic situation that showed signs of slowing down, it can be categorized as deficit reduction.

Size: Calculated according to figures available in the budget (Budget Plan-P. 272)[32]

$100 million on January 1, 2010

$300 million on January 1, 2011

$300 million on January 1, 2012

Classification: Corporate taxes

Date Implemented: (Budget Plan-P. 291)

1st change—January 1, 2010

2nd Change—January 1, 2011

3rd Change—January 1, 2012

Intended to be: Permanent

Category: Endogenous- Deficit Reduction

Type: Anticipated

January 27, 2009:

Context:

The Global Economic situation had worsened in 2008 and Canada had also been on the receiving end of it (Budget Speech-P. 3). Canadian economy was experiencing the effects of global

[32] The budget plan gave the revenue effect of $25 million for 2009-10 only. During this time, only the first step of the measure would have been active for 3 months implying a full-year impact of $100 million. Without further information about the revenue effects of the remaining two steps, we assume that the effect would be proportionate to the size of the change in tax rate. Since the first step reduced the dividend tax credit by 1 percentage point and the remaining two steps reduced by 3 percentage points, we assume that the revenue effect of the remaining two steps would be 3 times larger as well.

recession. It was expected to contract by 0.8% in 2010. The government was aware of the concerns of public with respect to their jobs, savings and businesses. To deal with it the government came up with "Canada's Economic action Plan". They aimed to keep their economy moving and protecting their people at the same time. The budget 2009 focused on combating recession by providing tax reliefs and injecting money in the economy (Budget Speech-P. 3-6). In accordance with this objective, the changes proposed were centered towards creating more demand in the country and so were endogenous in nature but also had the exogenous element since the long term gains were also kept in mind.

Tax Measures:

1. An increase in the basic personal amount and the two lowest personal income tax brackets by 7.5 per cent above their 2008 levels was proposed. (Budget Plan-P. 307)

Reason: In difficult times, tax relief is often considered more important in combating recessions, thus helping families and keeping the economy on the path of growth can be achieved at the same time. Thus, the tax reliefs introduced in the budget was expected to help low- and middle-income families and stimulate consumer spending which would then stimulate the entire economy.

Size: -$1,950 million (Budget Plan-P. 306)

Classification: Personal Income tax

Date Implemented: January 1, 2009 (Budget Speech-P. 8)

Intended to be: Permanent

Category: Endogenous-demand management

Type: Unanticipated

2. The working income tax benefit (WITB) was increased by an additional $580 million for the 2009 and subsequent taxation years, which is expected to double the total tax relief (Budget Plan-P. 312)

Reason: "The WITB supplements the earnings of low-income workers to help ensure they are better off by taking a job" (Budget Speech-P. 9). This was the reason as stated by the Finance Minister the speech and so we categorize it as long run since this would incentivize people to take jobs which would then improve the economic performance of the country. We feel that this is more appropriate than merely saying it was ideological because while low-income workers were directly helped, the goal was not to assist them but to stimulate the entire economy through helping them.

Size: -$580 million (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: 2009 tax year (Budget Plan-P. 312)

Intended to be: Permanent

Category: Exogenous-LR- Performance

Type: Unanticipated

4. The age credit amount for seniors was also increased by $1,000 (Budget Speech-P. 9)

Reason: This measure was specifically enacted to help seniors increase their savings and so we categorize it as long run. We think this is also a better label than ideological for the same reasons stated above. The goal was to help the entire economy though incentivizing seniors to increase their savings. A rise in saving by a group with higher than average wealth would increase loanable funds which would translate into a rise in overall investment.

Size: -$340 million (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: 2009 tax year (Budget Plan-P. 313)

Intended to be: Permanent

Category: Exogenous-LR-Performance

Type: Unanticipated

5. A first time Homebuyers' tax credit was introduced to cover the cost of new homes (Budget Speech-P. 10)

Reason: The housing industry was the largest market effected by the global financial crisis. Because of this, there was a feeling of urgency to manage this sector and prevent further damage from being done. As a result, a number of measures were adopted in order to achieve this end. The home construction and home renovation industries were also major sources of jobs and growth. "These measures to support home construction and renovation will help stimulate our construction and building-supplies industries" (Budget Speech-P. 10). Given the context of the measure, we call it an endogenous and supply stimulus measure.

Size: -$180 million (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: January 27, 2009 (Budget Plan-P. 316)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

6. The amount first time homebuyers could withdraw from RRSP to purchase home was increased by $5,000 (Budget Speech-P. 10)

Reason: The tax change also dealt with the same agenda mentioned above and so have the same categorization.

Size: -$15 million (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: January 27, 2009 (Budget Plan-P. 316)

Intended to be: Permanent

Category: Endogenous- Supply Stimulus

Type: Unanticipated

7. A tax credit was provided for Home Renovation. Individuals would be able to claim a 15-per-cent non-refundable tax credit for eligible expenditures made in respect of eligible dwellings (Budget Plan-P. 313-314)

Reason: This impetus to the sector in the wake of the depressed economy was yet another part of the tax change motivation mentioned for the two measures above.

Size: -$2,500 million (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: Only for 2009 tax year (Budget Plan-P. 313-314)

Intended to be: Temporary

Category: Endogenous- Supply Stimulus

Type: Unanticipated

8. The mineral exploration tax credit was extended (Budget Speech-P. 13)

Reason: As the recession continued to swallow up more and more industries, the Canadian government chose important sector to target stimulus. Some sectors of the economy were facing special difficulties due to global recession, one of which was natural resource extraction. This measure would help those sectors combat their specific difficulties. As a result, we have chosen to label this as an endogenous supply stimulus measure.

Size: -$70 million from 31st March 2009 to 31st March 2010 (Budget Plan-P. 306)

Classification: Personal Income Tax

Date Implemented: March 2009 to March 2010 (Budget Plan-P. 318)

Intended to be: Temporary

Category: Endogenous-Supply Stimulus

Type: Unanticipated

9. A temporary 100 percent CCA depreciation rate was applied for certain computer hardware and software (Budget Speech-P. 14)

Reason: The idea was "To continue growing and creating jobs in face of global recession, Canadian business must be free to reinvest" (Budget Speech-P. 14). Since this was the motivation given for the introduction of the tax measure, we label it as long run.

Size: -$340 million (Budget Plan-P. 306)

Classification: Corporate Tax

Date Implemented: January 27, 2009 (Budget Plan-P. 321)

Intended to be: Temporary

Category: Exogenous-LR –Performance

Type: Unanticipated

10. The amount eligible for small business tax rate was increased further by $100,000. (Budget Speech-P. 14)

Reason: Provide additional tax relief to small businesses to help small business grow and combat global recession.

Size: -$80 million (Budget Plan-P. 306)

Classification: Corporate Tax

Date Implemented: 2009 tax year (Budget Plan-P. 320)

Intended to be: Permanent

Category: Exogenous-LR- Performance

Type: Unanticipated

11. Tariff Reductions on Machinery and Equipment. The reductions apply to 214 tariff items as currently listed in the Schedule to the Customs Tariff. (Budget Plan-P. 330)

Reason: Part of the aim here was to reduce the cost of importing machinery from outside North America, thereby, facilitating businesses to grow. The other part was to "to offers an opportunity to simplify the existing structure of the Customs Tariff with respect to the affected tariff items." (Budget Plan-P. 331) The reason we believe that exogenous, long run is a more appropriate label than either endogenous supply stimulus or demand management due to the stark lack of mention of the global financial recession as well as the nature of the change. Given the verbiage used and two reason given for the change, the measure seems to focus more on the long-term effects that are independent of the immediate economic situation.

Size: -$81 million (Budget Plan-P. 306)

Classification: Excise Tax

Date Implemented: January 28, 2009 (Budget Plan-P. 331)

Intended to be: Permanent

Category: Exogenous-LR –Performance

Type: Unanticipated

March 4, 2010:

Context:

The crisis had emerged quicker and with greater force than anyone could have predicted (Budget Speech-P. 4). Canada had faced global recession from a position of strength. On all the key indicators Canada was performing better than the United States and other major economies (Budget Speech-P. 5). Canada still had the lowest debt to GDP ratio in all the G-7 countries. 135,000 new jobs had been created since July 2009 in the time where people were losing their jobs in United States (Budget Speech-P. 6). The unemployment rate in Canada was one and half percent lower than in US. The government was aware of the recessionary impacts and in order to counteract, presented a Jobs and Growth Budget. They were of the opinion that it was continuous job creation that would help the Canadians most. The government believed they could meet their current needs without bringing their long-term plans to a halt and so the measures that are observed for the year are exogenous in nature.

Tax measures:

1). Expenses incurred for purely cosmetic procedures (including related services and other expenses such as travel) was to be made ineligible to be claimed under the Medical Expense Tax Credit. (Budget Plan-P. 341).

Reason: The medical expense tax credit was originally designed for more serious procedures and so the use of it for cosmetic procedures went against the spirit of the measure. To ensure that this credit was not used for enhancing appearances like hair transplant, liposuction etc., the METC would gain back some of it legitimacy, raise some revenue and underline the importance of the tax credit towards those face more serious procedures. It would also put cosmetic procedure tax treatment at par with international standards. As such, we have labeled this as an exogenous-ideological change.

Size: $40 million (Budget Plan-P. 338).

Classification: Personal Tax

Date Implemented: March 5, 2010 (Budget Plan-P. 341).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

2). Preventing both the stock option deduction and a deduction by the employer from being claimed for the same employment benefit (Budget Plan-P. 354).

Reason: The idea was to prevent double counting of the same benefit twice, which was costing the Canadian government more than it would have otherwise. This would ensure that this measure is used consistent with its objective. As such, we have chosen to label this as an ideological change.

Size: $300 million (Budget Plan-P. 338).

Classification: Personal Tax

Date Implemented: March 4, 2010 (Budget Plan-P. 355).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

3). Definition of taxable Canadian property in the Income Tax Act was to be amended to exclude shares of corporations, and certain other interests, that do not derive their value principally from real or immovable property situated in Canada, Canadian resource property, or timber resource property (Budget Plan-P. 367).

Reason: The inception of this move was to bring Canada's domestic tax laws more in line with their major trading partners.

Size: $25 million (Budget Plan-P. 338).

Classification: Personal Tax

Date Implemented: March 4, 2010 (Budget Plan-P. 368).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

March 22, 2011:

Context:

The global economy was fragile, and the United States and other major trading partners of Canada were still facing problem regarding their economies (Budget Speech-P. 4). Although Canada had a setback due to global recession, it was emerging as one of the world's top performing economies (Budget Speech-P. 4). More than 480,000 new jobs had been created in Canada since July 2009 at times where majority of people were losing jobs in other similar countries (Budget Speech-P. 5). Canada had emerged from the global recession with the lowest debt to GDP ratio for any G7 Country (Budget Speech-P. 12). Given the situation, the government was focused on economic recovery as well as ensuring financial security of Canadian workers, seniors and families. The main aim was to have a low tax plan, targeted investments that would help job creation, controlling government spending to eliminate deficit without making any cuts in important services like education and health (Budget Speech-P. 4). Therefore, what we see as exogenous changes in line with this theme.

Tax Measures:

1. The 50 percent straight line accelerated Capital Cost Allowance was extended for manufacturing industry (Budget Speech-P. 6). Machinery and equipment acquired by a taxpayer, after March 18, 2007 and before 2012, primarily for use in Canada for the manufacturing or processing of goods for sale or lease was eligible for a temporary accelerated capital cost allowance (CCA) rate of 50 per cent on a straight line basis. Budget 2011 proposed to extend this temporary incentive, for two years, to eligible machinery and equipment acquired before 2014 (Budget Plan-P. 282).

Reason: In the face of global recession, many businesses were hesitant in investing in new projects and hiring new employees. The Canadian government wanted to encourage the business sector to grow, reinvest and start hiring new employees (Budget Speech-P. 6). Hence, to help the manufacturing industry to grow this measure was extended and we do not take it as endogenous since it was not in response to declining performance of the industry but simply a measure to ensure that growth would not halt. In addition the increase in this type of investment would take longer to come to fruition than helping the recovering economy.

Size: -$235 million (Budget Plan-P. 241).

Classification: Corporate tax

Date Implemented: 2012 tax year (Budget Plan-P. 282).

Intended to be: Temporary

Category: Exogenous- LR-Performance

Type: Anticipated

2. A new family Caregiver tax credit was established. It was a 15-per-cent non-refundable credit based on an amount of $2,000 (Budget Speech-P. 8).

Reason: The caregiver had made special sacrifices by forgoing the employment income to nourish their children more effectively. This measure was introduced to recognize and support Canadian care givers, and so we feel this is a cut and dry example of an ideologically motivated tax change.

Size: -$160 million (Budget Plan-P. 240).

Classification: Personal Income Tax

Date Implemented: 2012 tax year (Budget Plan-P. 245-246).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Anticipated

3. A new Children's Art Tax Credit was established (Budget Speech-P. 8). This allowed parents to claim a 15-per-cent non-refundable tax credit based on an amount of up to $500 in eligible expenses per child paid in a year for a child of under 16 years. For a child who was under 18 years of age at the beginning of the year and was eligible for the Disability Tax Credit, the 15-per-cent non-refundable tax credit could be claimed on an additional $500 disability supplement amount when a minimum of $100 was paid in eligible expenses (Budget Plan-P. 242).

Reason: For most of the Canadians, involvement in arts was a vital part for growing up – "a great way to make friends and develop creativity." However, for some families participating in art activities was not feasible. To support such families this measure was introduced (Budget Speech-P. 8). Because of its direct aim of benefiting low income Canadian families by noneconomic means we feel this is a clear example of an exogenous-ideological change.

Size: -$100 million (Budget Plan-P. 241).

Classification: Personal Income Tax

Date Implemented: 2011 tax year (Budget Plan-P. 244).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

4. The exam fee was made eligible for the Tuition Tax Credit (Budget Speech-P. 11).

Reason: Government wanted to support higher education by incentivizing the Canadians through tax incentives. Many poorer Canadian students found it discouraging paying fees for entrance examinations before even beginning the process of working towards higher education. This measure was also introduced to help and encourage students to get higher education. As such, we have chosen to label this as an example of an ideological change rather than a long run one because the verbiage used when introducing this measure focused on pathos arguments rather than a human capital story.

Size: -$5 million in year 2011-12 (Budget Plan-P. 241).

Classification: Personal Income Tax

Date Implemented: 2011 tax year (Budget Plan-P. 249).

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

5. The limit of $10,000 on the medical expense credit was removed in respect of a dependent relative (Budget Speech-P. 6).

Reason: Once more this measure was enacted to recognize that people who had to incur these extra medical expenses had lesser income to pay for taxes and so should be given relief. The measure aimed at helping families and individuals taking care of relatives unable to take care of themselves such as children and elderly parents. Therefore, we label it as ideological.

Size: -$3 million (Budget Plan-P. 247).

Classification: Personal Income Tax

Date Implemented: 2011 Tax Year (Budget Plan-P. 247).

Intended to be: Permanent

Category: Exogenous-Ideological

Type: Unanticipated

6. The deduction rates for intangible costs in the oil sands sector were reduced to 10%. (Budget Plan-P.288, P.289).

Reason: The measure was aimed at aligning the deduction rates for intangible costs in the oil sands sector with those in the conventional oil and gas sector. In the conventional oil and gas sector, such expenses were treated as Canadian oil and gas property expense (COGPE) and were deductible at 10 percent per year. However, in the oil sands sector, such expenses were treated as Canadian development expense (CDE) which were deductible at 30 percent. This measure aligned the two measures by treating intangible costs as COGPE in the oil sands sector (Budget Plan-P.288, P.289). No explicit reason was given for this measure but earlier in the budget, this measure was included among those aimed at improving the quality of environment (Budget Plan-P.65). Therefore, we label it as ideological.

Size: $30 million.

Classification: Corporate Tax

Date Implemented: March 22, 2011 (Budget Plan June 2011-P. 311)

Intended to be: Permanent

Category: Exogenous-Ideological

7) The dividend stop-loss rule was to be extended to dividends deemed to be received on redemption of shares held by corporations (Budget Plan-P. 170)

Reason: The Income Tax Act contained a number of rules intended to avoid dividends to be taxed multiple times when they were paid between corporations. These rules were accompanied by "stop-loss" rules that reduced the "amount of loss otherwise realized by a corporation on a disposition of shares by the amount of tax-free dividends received" on those shares on or before disposition (Budget Plan-P.291). The stop-loss rules were subject to certain exceptions which some corporations were using to avoid paying taxes. Thus the budget extended the application of these stop-loss rules to minimize the tax avoidance (Budget Plan-P.291, P.292). We label this measure as ideological because the measure was designed to improve tax fairness and remove loopholes from the system.

Size: $95 million (Budget Plan-P.241)

Classification: Corporate Tax

Date Implemented: March 22, 2011 (Budget Plan June 2011-P. 314)

Intended to be: Permanent

Category: Exogenous-Ideological

8) New limits on deferral of corporate taxes were imposed. Specifically, this measure "limit(ed) the deferral of tax by a corporation that has a significant interest in a partnership having a fiscal period different from the corporation's taxation year." (Budget Plan-P.292, P.293)

Reason: This measure was also designed to remove loopholes from the taxation system and improve fairness. (Budget Plan-P.170).

Size: $470 million (Budget Plan-P.241)

Classification: Corporate Tax

Date Implemented: March 22, 2011 (Budget Plan June 2011-P. 315)

Intended to be: Permanent

Category: Exogenous-Ideological

March 29, 2012:

Context:

The World was facing the risk of long term decline due to economic recession of 2007 (Budget Speech-P. 3). Global Economy remained fragile and traditional treading partners of Canada were facing serious long-term challenges since 2008 (Budget Speech-P. 4). Canada was one of the two countries who had recouped all the jobs lost during global recession. 610,000 new jobs had been created since 2009. According to the world economic forum, Canada's banks were the soundest in the world. In fact, Canadian economy was predicted to be a leader of the industrialized world over the next two years. The government believed that they needed to keep creating more quality jobs, innovate and ensure the well-being of their aging population (Budget Speech-P. 4). Thus, the tax changes made were exogenous as is also clear from the intention of the government: "In this budget our government is looking ahead not only over the next few years but also over the next generation…… we are focused on enabling and sustaining Canada's long-term economic growth." (Budget Speech-P. 3)

Tax Measure:

1). Implementing a measure that would curtail foreign affiliate dumping in that where certain conditions are met, a dividend will be deemed to be paid by a Canadian subsidiary to its foreign parent to the extent of any non-share consideration given by the Canadian subsidiary for the acquisition of the shares of a foreign affiliate. (Budget Plan-P. 424)

Reason: The idea was to ensure that cross border investment does not erode corporate tax base. This had been a group fear in recent years and so this measure was adopted to curtail that. Because there is no mention of the economic landscape of 2012, as well as the context given in the speech, it seems that the main motivation was to protect Canadian firms rather than any form of long run stimulus. As such, we consider this an ideological measure.

Size: $225 million (Budget Plan-P. 381)

Classification: Corporate tax

Date Implemented: March 29, 2012 (Budget Plan-P. 425)

Intended to be: Permanent

Category: Ideological

Type: Unanticipated

2). Reduction of the debt-to-equity ratio in the thin capitalization rules from 2-to -1 to 1.5-to -1. (Budget Plan-P. 419)

Reason: As the Finance Minister stated in the 2012 Budget Plan, “The thin capitalization rules protect the Canadian tax base from erosion through excessive interest deductions in respect of debt owing to these non-residents.” (Budget Plan-P. 418) Unlike most changes in in debt-to-equity which act as an aspect of monetary policy, the language used indicates the motivation here was to protect Canadian citizens and so we have chosen to label is as exogenous ideological.

Size: $60 million (Budget Plan-P. 381)

Classification: Corporate tax

Date Implemented: January1, 2013 (Budget Plan-P. 420)

Intended to be: Permanent

Category: Ideological

Type: Anticipated

3). Inclusion of the amount of an employer’s contributions to a group sickness or accident insurance plan in an employee’s income for the year in which the contributions are made to the extent that the contributions are not in respect of a wage-loss replacement benefit payable on a periodic basis. (Budget Plan-P. 319)

Reason: The change was meant to create a neutral and fair tax treatment for beneficiaries. Because the focus here was fairness, we consider this to be an exogenous ideological change.

Size: $85 million (Budget Plan-P. 380)

Classification: Personal tax

Date Implemented: March 29, 2012 (Budget Plan-P. 420)

Intended to be: Permanent

Category: Ideological

Type: Unanticipated

4) Introduction of limits to employer contributions made to the Employee Profit Sharing Plans (EPSPs) (Budget Plan-P. 399).

Reason: EPSPs enabled employers to share profits with employees through tax-deductible contributions to trusts. The budget plan stated that some businesses were using the EPSPs to direct profits to family members in order to avoid paying taxes (Budget Plan-P. 399). This measure was designed to remove a loophole in the taxation system and hence we classify as ideological.

Size: $35 million (Budget Plan-P. 380)

Classification: Corporate Tax

Date Implemented: March 29, 2012 (Budget Plan-P. 400)

Intended to be: Permanent

Category: Ideological

5) Changes to the Scientific Research and Experimental Development (SR&ED) tax incentive program. This program provides support for SR&ED in every industrial sector in Canada. (Budget Plan-P.411)

i) Reduction in the SR&ED investment tax credit rate from 20% to 15%. (Budget Plan-P.411)

Size: $285 million (Budget Plan-P. 380)

Classification: Corporate Tax

Date Implemented: January 1, 2014 (Budget Plan-P. 411)

Intended to be: Permanent

Category: Ideological

ii) Exclusion of capital expenditures from eligibility of SR&ED deductions. (Budget Plan-P.412)

Size: $40 million (Budget Plan-P. 380)

Classification: Corporate Tax

Date Implemented: January 1, 2014 (Budget Plan-P. 412)

Intended to be: Permanent

Category: Ideological

iii) Change in SR&ED contract payment structure. In the previous system, businesses were allowed to earn investment tax credit on the entire amount paid to arm's length contractor. This measure disallowed the inclusion of profit of the arm's length contractor in the expenditure base for investment tax credit. This was done through a proxy method: only 80% of cost paid to arm's length contractor would be eligible for investment tax credit (Budget Plan-P. 413)

Size: $55 million (Budget Plan-P. 380)

Classification: Corporate Tax

Date Implemented: January 1, 2013 (Budget Plan-P. 413)

Intended to be: Permanent

Category: Ideological

Reason: These measures were designed to make the SR&ED program more cost effective and to provide greater predictability through improved administration (Budget Plan-P.60). Removal of capital expenditures from list of eligible items was to simplify the program (Budget Plan-P.69). Reduction in investment tax credit rate was designed to reduce unused investment tax credits (Budget Plan-P.70). Overall, these measures were designed to improve the tax incentive program and hence we label them ideological.

March 21, 2013:

Context:

The global economy was still fragile. The biggest trading partner of Canada had been badly affected by the recession (Budget Speech-P. 2). The Canadian economy was performing better than its trading partners. They were ahead not only in creating jobs and economic growth, but the country also stayed at top on income growth and debt-to-GDP ratio (Budget Speech-P. 1). However, there was a shortage of skills in the economy as highlighted by The Canadian Chamber of Commerce (Budget Speech-P. 7) and the global recession played its part in making things difficult. Nevertheless, the government was confident that they had chosen the right path and would be able to defeat the negative influences. The idea was "A

Responsible plan for jobs, growth and long-term prosperity" (Budget Speech-P. 2) which included introducing Canada Job Grant that was directed to ensuring that the Canadians were provided with skill training that would enable them to get available jobs. It also included Building Canada Plan that focused on federal investment in building roads, bridges and public transits. Another part of this three fold plan was assisting manufacturers and other businesses to make innovations in order to compete in the global market (Budget Speech-P. 2)

Tax Measures:

1. The accelerated capital cost allowance rate of 50 per cent calculated on a straight-line basis was extended for another two years. (Budget Speech-P. 15)

Reason: There is not mention of the sluggish economy of 2013 when this measure was put forth in the budget plan which suggests that this was not an endogenous measure. In addition, since the idea was to provide relief to the manufacturing industry and to provide support to reinvest, we feel that the most appropriate category is that of exogenous-long run performance.

Size: -$555 Million (Budget Plan-P. 331).

Classification: Corporate Income Tax Measure

Date Implemented: 2014 tax year (Budget Plan-P. 349). We assigned the implementation date to April 1, 2014.

Intended to be: Temporary

Category: Exogenous- LR performance

Type: Unanticipated

2). Raised the Lifetime Capital Gains Exemption to $800,000 and indexed the new limit to inflation, at a cost of $110 million over five years. (Budget Brief-P.7)

Reason: To increase support for small businessmen, farmers and fishermen so that they could confront the competitive challenges of the world market. Therefore, we take this measure as an exogenous one since it would lead to greater growth of these industries as well as the economy and not in response to other economic factors. The reason we have chosen to call it a long run change rather than an ideological is because it was not only meant to assist a specific industry but stimulate in such a way that it would remain competitive now and into the future.

Size: -$15 million (Budget Plan-P. 331).

Classification: Personal Tax

Date Implemented: 2014 taxation year (Budget Plan-P. 334).We assign the implementation date to April 1, 2014.

Intended to be: Permanent

Category: Exogenous- LR-Performance

Type: Unanticipated

3). Adjustment of the gross-up factor applicable to non-eligible dividends from 25 per cent to 18 per cent and the corresponding DTC from 2/3 of the gross-up amount to 13/18 (Budget Plan-P. 336).

Reason: This was made to ensure appropriate tax treatment of dividends and so we label it as ideological. There was clear emphasis on fairness here by attempting to look out for stockholders rather than anything having to deal with economic stimulus.

Size: $505 million (Budget Plan-P. 331).

Classification: Personal Tax

Date Implemented: January 1, 2014 (Budget Plan-P. 336).

Intended to be: Permanent

Category: Exogenous- Ideological

4). Increased the rate of excise duty on manufactured tobacco to $5.3125 per 50 grams (Budget Plan-P. 381).

Reason: The reason was to eliminate preferential tax treatment of tobacco products. Tobacco products are seen as a detrimental good to society and so increasing the costs should decrease the amount consumed. As such, this is an obvious exogenous-ideological change.

Size: $65 million (Budget Plan-P. 332).

Classification: Sales Tax

Date Implemented: March 22, 2013 (Budget Plan-P. 381).

Intended to be: Permanent

Category: Exogenous- Ideological

5). To apply to trading trusts the loss-streaming and related rules that currently apply on the acquisition or control of a corporation, including the limited exception allowing the ongoing use of non-capital losses from a business (Budget Plan-P. 345).

Reason: There was no specific reason mentioned in the budget plan however, we take it as ideological since it aimed to bring tax treatment for trusts to the same footing as other businesses.

Size: $65 million (Budget Plan-P. 331).

Classification: Personal Tax

Date Implemented: March 21, 2013 (Budget Plan-P. 346).

Intended to be: Permanent

Category: Exogenous- Ideological

6) Introduction of the First-Time Donor's Super Credit (FDSC). The FDSC was introduced to complement the Charitable Donations Tax Credit (CDTC) which provided individuals with a tax-credit of 15 percent on the first $200 of charitable donations. The FDSC was to provide an additional 25% tax credit for a first-time donor on up to $1,000 donations (Budget Plan-P.333, P.334).

Reason: The aim of this measure was to encourage charitable giving and thus we classify it as ideological (Budget Plan-P. 334).

Size: -$25 million (Budget Plan-P. 331).

Classification: Personal Tax

Date Implemented: March 21, 2013 (Budget Plan-P. 334).

Intended to be: Temporary

Category: Exogenous- Ideological

7) Exclusion of safety deposit boxes' rents from deductible expenses for income tax purposes (Budget Plan-P.335).

Reason: The budget plan stated that improvements in electronic record keeping had made keeping paper records redundant. We classify this measure as ideological (Budget Plan-P.335).

Size: $30 million (Budget Plan-P. 331).

Classification: Personal Tax

Date Implemented: March 21, 2013 (Budget Plan-P. 335).

Intended to be: Permanent

Category: Exogenous- Ideological

8) Federal tax credit on investment in shares of Labor-Sponsored Venture Capital Corporations (LSVCCs) was to be phased out. The current tax credit rate was 15% which was to be reduced to 10% in 2015, 5% in 2016, and 0% in 2017 and following years (Budget Plan-P.339, P.340).

Reason: The budget plan stated that the tax credit program for the LSVCCs was "criticized by academic, international organizations, and venture capital industry stakeholders as being ineffective means of stimulating a healthy venture capital sector" (Budget Plan-P.208). Therefore, the budget called for phased elimination of the program. We classify this measure as ideological.

Size: Calculated according to figures given in the budget plan (Budget Plan-P. 331)[33]

$53.33 million in January 2015

$46.67 million in January 2016

$60 million in January 2017

Classification: Personal Tax

Date Implemented: January 1, 2015 (Budget Plan-P. 340)

January 1, 2016

January 1, 2017

Intended to be: Permanent

Category: Exogenous- Ideological

9) Phasing out of the additional deduction available to credit unions (Budget Plan-P.357, P.358). This measure was to be implemented in 5 steps. In 2013, credit unions could only deduct 80% of additional deduction and this number was to decrease to 60%, 40%, 20%, and 0% in the next 4 years (Budget Plan-P.358).

Reason: Credit unions were allowed additional deduction to allow them access to preferential income tax rate that was not eligible for small business deduction. This was implemented in the 1970's to allow credit unions with access to the same deductions that were available to small businesses. Since then, changes in small businesses' deduction meant that these businesses no

[33] The revenue effects for 2015-16, 2016-17, and 2017-18 were given as $65 million, $115 million, and $160 million, respectively. Letting x stand for the monthly revenue effect of the first step (to be implemented on January 1, 2015), y for second step (to be implemented on January 1, 2016), and z for the third step (to be implemented on January 1, 2017), we get the following equations: $12x + 3y = 65$, $12x + 12y + 3z = 115$, $12x + 12y + 12z = 160$. Solving them yield month revenue effects for the three steps as $4.44 million, $3.89 million, and $5 million, respectively. Multiplying them with 12 yield the annual revenue effects.

longer had access to the preferential tax rate whereas credit unions still had that through the additional deductions. In interest of fairness and neutrality, this measure phased out the additional deduction and hence we classify it as ideological (Budget Plan-P. 358).

Size: Calculated according to figures given in the budget plan (Budget Plan-P. 331)[34]

$6.36 million in January 2013

$14.57 million in January 2014

$16.30 million in January 2015

$11.11 million in January 2016

$26.67 million in January 2017

Classification: Corporate Tax

Date Implemented: January 1, 2013-retroactive measure (Budget Plan-P. 358)

January 1, 2014

January 1, 2015

January 1, 2016

January 1, 2017

Intended to be: Permanent

Category: Exogenous- Ideological

February 11, 2014:

Context:

There were signs of recovery for major trading partners of Canada but still the effects of recession persisted (Budget Speech-P. 2). Canada had a triple A rating and the best net debt to GDP ratio which was unmatched among its pears (Budget Speech-P. 2). Although, Canada had the best record in job creation among the G-7 nations, there were still too many Canadians looking for

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[34] The revenue effects for 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18 were given as $10 million, $25 million, $40 million, $55 million, and $75 million respectively. Letting x, y, z, a, and b stand for the monthly effects of the 5 steps, we get the following equations: $12x + 3y = 10$, $12x + 12y + 3z = 25$, $12x + 12y + 12z + 3a = 40$, $12x + 12y + 12z + 12a + 3b = 55$, and $12x + 12y + 12z + 12a + 12b = 75$. Solving them yield monthly revenue effects for the 5 steps as $0.53 million, $1.21 million, $1.36 million, $0.93 million, and $2.22 million. Multiplying these with 12 yield the annual effects.

work and too many employers looking for workers (Budget Speech-P. 2-5). However, the government was committed to not let the troubled times have any impact on the welfare of the Canadians. Their plan for the year relied on making more spending cuts rather than any tax changes that would cause more hardship for the citizens. Even the program cutting was to be done in such a manner that people would not have to give up on specific transfers- money used for education and health for example. The Minister asserted on keeping the taxes low, creating more job opportunities and balancing their budget to meet the challenges of the economic situation (Budget Speech-P. 3-5). Hence, despite the slight recessionary impacts, we see exogenous tax actions by the government that entails to ensure that the people of Canada have a fair tax regime that is also conducive to their well-being overall.

Tax Measures:

1). Restoring the effectiveness of the excise duty on tobacco products. It was done to adjust the rate of excise duty on cigarettes to account for inflation since 2002. The excise duty rates for other tobacco products were also to be adjusted. Excise duty was imposed on all Canadian made cigarettes, tobacco sticks and manufactured tobacco for sale in domestic and foreign duty-free shops, as well as on imports of these tobacco products for sale in Canadian duty-free shops or brought into Canada by returning travelers. (Budget Brief-P.16)

Reason: This measure was brought about “To reduce the availability of low-cost tobacco products and to help support health goals” (Budget Plan-P. 366) as well as to adjust for inflation rates. Therefore, we take it as ideological.

Size: $650 million (Budget Plan-P. 319).

Classification: Sales Tax

Date Implemented: February 11, 2014 (Budget Plan-P. 366).

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

2). Amending the existing anti-avoidance rule in the FAPI regime relating to the insurance of Canadian risks (Budget Plan-P. 342).

Reason: To stop some taxpayers from going around the anti-avoidance rule of FAPI, thereby ensuring that a fair tax regime existed for all taxpayers.

Size: $250 million (Budget Plan-P. 318).

Classification: Others

Date Implemented: February 12, 2014 (Budget Plan-P. 343).

Intended to be: Permanent

Category: Exogenous- Ideological

Type: Unanticipated

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