

## Lesson 2: Budget Breakdown and Key Issues

### OUTCOME:

Students will examine the current breakdown of the Government of Canada's revenues and expenditures, and explore and debate the public policy issues that are being discussed in relation to the upcoming federal budget.

### PERFORMANCE INDICATORS:

Upon completion of the lesson, students will be able to:

- Practice critical-thinking skills regarding federal government's financial priorities.
- Understand the concepts of fiscal policy, stimulus and austerity.
- Understand why it is important that citizens pay attention to their government's budgeting process.
- Identify the most important issues for the upcoming budget.
- Compare and analyze different viewpoints on the same issue.

### RESOURCES:

- Worksheet 2.1: My Version of the Federal Budget
- Worksheet 2.2: Examining the Issues
- PowerPoint D: 2016 Federal Budget Projections
- PowerPoint E: International Comparisons
- Key Issues videos: Jobs and Skills Training, Strategic Investments and Inclusive Growth (experts and pundits weigh in on the major themes of the 2017 Student Budget Consultation)

### ACTIVITIES:

#### Hook: 10-15 min

Using Worksheet 2.1, tell your students to imagine that they are the Minister of Finance and ask them how they would spend, and collect and earn, the \$300 billion needed to operate the government of Canada for the coming year. Allow students time to share their allocations and compare it with their peers.

#### Essential Learning: 10-15 min

1. Using PowerPoint D, examine the budget estimates for the Government of Canada's current fiscal year (April 1, 2016 to March 31, 2017) based on the March budget and November Fall Economic Statement. Follow up questions: Will the federal government have a surplus or a deficit? What is the amount of the surplus or deficit?
  - Expenditures = \$316.1 billion (money spent)
  - Revenues = \$291.1 billion (money received or earned)
  - Debt = \$642.0 billion (money borrowed but not yet repaid)
2. Using PowerPoint D, , review the actual breakdown and percentages of the federal government's main expenditures and revenue sources. How does it compare to the students' ideas from the Hook activity?
3. Introduce the terms: economy, fiscal policy, stimulus and austerity.
  - Economy: The wealth and resources of a country or region, specifically in relation to the production and consumption of goods and services.

- Fiscal policy: When a government adjusts its revenue and/or spending in order to influence the economy.
- Stimulus: The fiscal policy of ‘government spending’, typically investment in infrastructure, which creates jobs or supports employment, and aims to boost the economy. Governments around the world, including Canada, initiated stimulus programs to try to combat the Great Recession (the sharp decline in economic activity which began during the late 2000s).  
Examples include:
  - In 2008, the United States Congress passed the Economic Stimulus Act of 2008, a \$152 billion stimulus package designed to help protect against a recession. The bill primarily consisted of \$600 tax rebates to low and middle income Americans.
  - In 2009, Japan announced a third stimulus plan worth 15.4 trillion yen (\$153 billion). This plan included 1.6 trillion yen investment in low-carbon technology, 1.9 trillion yen on employment programs, and 370 billion yen for new car subsidies.
  - In 2009, Germany passed a 50 billion euro stimulus bill that focused on taxes, a child tax credit, and spending on transportation and education.
- Austerity: The fiscal policy of ‘government cost-cutting,’ which entails strict measures to limit spending and minimize the deficit. Due to the Great Recession, governments around the world are dealing with major debt and deficit problems. In order to avoid bankruptcy, some countries have had no choice but to implement strict cost-cutting measures to try to improve conditions (i.e., Greece, Spain).  
Examples include:
  - Greece cut the minimum wage by 22 per cent, cancelled holiday bonuses (two extra months of wages per year), reduced public sector jobs, cut pensions, made it easier to lay off workers, and made cuts to health care and national defence spending. Youth unemployment grew to nearly 50 per cent in 2012.
  - The Irish Republic reduced the hourly minimum wage, cut public sector wages by 5 per cent, cut social welfare child benefits and increased taxes on carbon and water.
  - Spain increased taxes for top earners, increased tobacco taxes by 30 per cent, cut the infrastructure budget by 30 per cent and froze public sector salaries.

#### Discussion: 5-10 min

What would happen if surgery wait times doubled or there were no government loans for post-secondary education? What would happen if youth unemployment was 50 per cent in Canada? Why is it important that citizens pay attention and participate in the government’s budgeting process?

#### Media Consumption and Discussion: 20-40 min

1. Using the videos from the *Key Issues* section of the Student Budget Consultation website (<http://budgetconsultation.ca/>), explore various policy ideas with respect to jobs and the economy, strategic investments and inclusive growth. Depending on the time available you could focus on one or all of the issues, or assign additional issues for homework.

2. Allow students to share their own opinions following each set of video. Guiding questions:

- What did you learn by listening to the commentators?
- Whose opinions did you agree with most and why?
- What questions do you have now?
- What do you think the most important issue is for the upcoming budget?

*Teacher Note: Alternatively, you could assign Worksheet 2.2 for homework.*

**EXTENSION ACTIVITIES:**

- A. In preparation for the Student Budget Consultation survey, conduct research into economic issues facing the country, and/or have students ask their family members how the government could improve the economy and support their family.

## Key questions:

- What is the most important step the government could take to deal with unemployment?
- What is the most important step the government could take to help families?
- Should the government put a price (tax or penalty) on carbon?

- B. Canada and the United States are geographic neighbours and share many similarities. However, the two countries approach government spending and social services very differently:

- Canada's taxes are higher on average than taxes in the United States. In Canada, most citizens pay about 42 per cent of their income in taxes. U.S. citizens pay about 30 per cent of their income in tax.
- The Canadian healthcare system is almost entirely funded by government. In the United States, health care is only partially funded. Citizens are required to have private health insurance or risk high medical bills if they become sick or injured. For example, open-heart surgery in the United States can cost as much as \$100,000 USD.
- Canada spends significantly more on social programs and benefits. For example, new parents can take up to a year of parental leave from their jobs and in most cases this includes Employment Insurance (EI) benefits from the government (as long as they were employed during the previous year). In the United States, employers are only required to provide up to 12 weeks of unpaid leave. Benefits are not mandatory, and largely depend on the employer.
- Post-secondary institutions in Canada receive partial government funding to keep tuition costs low. Colleges and universities do not receive funding in the United States, making tuition costs higher. The average cost for a year of post-secondary tuition in Canada is around \$6,000, while it can cost as much as \$30,000 per year in the United States.

## Follow-up discussion questions:

- Would you be less likely to go to the doctor if you had to pay for the visit?
- How would your personal budget change if you were responsible for your own health care costs?
- How would higher tuition costs impact your decision to go to university or college?
- Would you rather have lower taxes and fewer services, or more services and higher taxes?

- C. Using PowerPoint E, analyze Canada's fiscal position relative to that of other countries by comparing: current deficit amounts for the year, deficit amount per person, employment rate, youth unemployment rate, national debt, debt per person and debt-to-GDP ratio.

The **debt-to-GDP ratio** is a measure of a country's debt in relation to its gross domestic product (GDP). By comparing what a country owes to what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debt. Governments want to have low debt-to-GDP ratios. The Organization for Economic Cooperation and Development (OECD) encourages countries to aim for a debt-to-GDP ratio below 50.

Discussion questions:

- How does Canada compare to other countries considering its finances?
- Are there other countries with stronger economies and job prospects than Canada? If so, which ones?
- Economically-speaking, what is the most attractive country to live in long-term?
- What are the consequences for Canada when it comes to attracting new Canadians when other jurisdictions have a stronger economy and better job prospects?

**ADDITIONAL RESOURCES:**

- Student Budget Consultation website – <http://budgetconsultation.ca/>
- Department of Finance Canada – <http://www.fin.gc.ca/>
- Budget 2016, Government of Canada – <http://www.budget.gc.ca/2016/docs/plan/toc-tdm-en.html>
- The Organisation for Economic Co-operation and Development (OECD) website – <https://www.oecd.org/>