

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Third Quarterly Update of a Monitoring Framework for Measures Contained in the Economic Action Plan

Ottawa, October 9, 2009

www.parl.gc.ca/pbo-dpb

The *Parliament of Canada Act* mandates the Parliamentary Budget Officer to provide independent analysis to Parliament on the state of the nation's finances, trends in the national economy and spending estimates.

Key Points of this Note:

- This note assesses the format and content of the Government of Canada's (GC's) Third Report to Canadians, based on international practices and the Government's own reporting standards.
- Given that more data are now available to provide evidence of the economic stimulus impacts, it is to be expected that the quality of reporting would progressively improve. However, the format and content of the Third Report is largely unchanged from previous iterations. As highlighted in the PBO's note, the GC's Report continues to:
 - have uneven information regarding the implementation progress, relevant benchmark outputs and expected outcomes of measures in the stimulus package.
 - be inconsistent in its presentation – some measures have been dropped or renamed.
 - lack appropriate disclosures regarding major components of the stimulus package, including infrastructure spending.
- Overall, these weaknesses could hinder the Report's usefulness as an oversight tool for parliamentarians.

Prepared by: David Pinet and Jason Jacques*

*Comments are welcome. Please contact David Pinet (e-mail: pinetd@parl.gc.ca) or Jason Jacques (e-mail: jacqui@parl.gc.ca) for further information. The authors would like to thank Stephen Tapp and Peter Weltman for their contributions to this note.

I. Background

A requirement for legislative approval of Budget 2009 was that quarterly progress reports on budget implementation be provided to Parliament. The Parliamentary Budget Officer (PBO) released a discussion paper in February 2009 outlining information that would be required to provide Parliament with **accurate, timely, and easily understood information** on three key issues:

- 1) recent economic and fiscal developments and prospects;
- 2) the implementation and progress of budget measures; and,
- 3) the budget results in light of its guiding principles and its effective impact on the economy.

The PBO also published a budget monitoring framework designed to enumerate stages of implementation for each stimulus measure¹. The framework was designed to highlight the key data regarding stimulus implementation that would be readily available to the Government of Canada (GC) and also directly relevant to the needs of parliamentarians.

The GC released its First and Second Reports to Canadians in March and June, respectively. Over this six month period, the GC's reports demonstrated some improvement in the quality and depth of reporting on the inputs and processes of stimulus measures. At the same time, there was increasing evidence that while the size of the report was increasing; the relevance to parliamentarians was not, owing to:

- renaming and reclassification of stimulus measures, making it difficult to effectively track progress; and,
- a lack of disclosure regarding some of the larger and higher risk aspects of the stimulus package, in particular, infrastructure spending.

To address these issues, the PBO undertook consultations with 11 jurisdictions in the Organization for Economic Cooperation and Development (OECD) regarding reporting on economic stimulus packages. Staff of the PBO also attempted to undertake a detailed research project regarding infrastructure spending, but were unable to access to administrative data currently collected by the Government (a copy of the request and response are attached as Annex A.1 and A.2 respectively).

II. The Third Report

The GC released its Third Report to Canadians on September 28, 2009. The PBO's monitoring framework has been updated to reflect additional data presented regarding implementation indicators and output-progress benchmarks, as well as expected outcomes or impact indicators (see Annex B). In addition, the draft reporting templates prepared by the PBO for significant measures have also been updated and are attached as Annexes C and D. As noted in previous reports, these templates draw on PBO research regarding good reporting practices for stimulus spending among OECD jurisdictions.

¹ Budget 2009 Documents from the PBO are available at: <http://www2.parl.gc.ca/Sites/PBO-DPB/BudgetInformation.aspx>.

PBO Assessment

Content remains uneven in the GC's Third Report, notwithstanding the additional data that have become available over the past three months and the additional time available to address previously noted shortcomings.

Many missing data correspond to implementation and outcome indicators that the GC collects as part of its standard due diligence process and should be readily available (*e.g.* risks, mitigation plans, uncertainties). Failing to include these data could hinder Parliament's ability to provide meaningful oversight of the economic stimulus package.

Of greater concern than the absence of readily available information is the regular shifting of titles and categories of stimulus measures. Some measures have been re-categorized or renamed between the GC's Reports. In particular:

- certain measures re-categorized under new titles and grouping names, such as environment-related initiatives (four discrete measures were presented in the First Report, but then aggregated under a new title in the Second Report).
- other measures seem to have been dropped from the Reports altogether, such as Maternity and Parental Benefits for the Self-Employed (included in Budget 2009, but not included in subsequent updates).

These changes to the titles and categories of initiatives render it challenging to track implementation progress through the three Reports (further examples are presented in Annex E). It could also hinder Parliament's ability to use these documents as budgetary oversight tools.

Finally, the GC's Third Report continues to place uneven emphasis across the stimulus package, failing to link the level of reporting with the risk and materiality of the initiatives. In general, smaller items in the federal stimulus plan (*e.g.* support for shipbuilding, enhanced work-sharing flexibility) tend to have adequate coverage, while larger items could benefit from additional disclosure (*e.g.* infrastructure).

As a result, parliamentarians are in a good position to provide oversight of many items contained in the stimulus package, but these represent only a small portion of the total stimulus funding and tend to be lower-risk (and less complex) projects.

To address these issues, PBO staff will continue to advance a project to assess the stimulus impact of infrastructure spending, pending the Government's release of administrative data regarding federally funded projects.

Other Observations

In its analysis of OECD stimulus reporting regime, the PBO determined that the United States (U.S.) has implemented several leading practices, many of which could be relevant to the Canadian federal context.

Table 1 compares the Canadian stimulus oversight practices to those of the U.S. and identifies areas where Canada might be able to improve its existing framework, most notably in the periodic posting of administrative data regarding grant recipients and progress on federally-funded projects.

In discussions with the Office of Management and Budget (OMB), it was noted that the U.S. stimulus reporting framework has been an effective tool to boost transparency and augment financial controls in the short-term, and is expected to enhance the quality of information for decision-making over the longer-term.

Table 1: A Comparison of U.S. and Canadian Stimulus Oversight Practices

	U.S.	CANADA
Website	- www.Recovery.gov	- www.ActionPlan.gc.ca
Board or Committee	- Recovery Accountability and Transparency Board*	- N/A
Government-wide reporting	- Quarterly Report on Oversight - Quarterly Report on Economic Impact by Council of Economic Advisors (CEA)	- Quarterly Report from Finance Canada
Department/Agency level reporting	- Agency Recovery websites - Agency-wide Recovery Act Plans - Agency IG Recovery Work Plans - Weekly Financial and Activity Reports - Funding Notification Reports	- No standard reports
Program/Activity level reporting	- Program-specific Recovery Act Plans - Other activity reporting tied into Agency level reports	- No standard reports (Minimal program reporting tied into GC's Quarterly Report)
Other	- Recipient Reporting (quarterly) ** - Risk Management reporting - Award-level Reporting - Designation of a Senior Accountability Official for Recovery Act per Agency - State level Recovery websites	- N/A

Notes:* The *Recovery Accountability and Transparency Board* (the "Board") is situated in the Office of Management and Budget (Executive Office of the President) and is composed of 12 federal Inspectors General (IG) and one Presidential-appointed chairman. The Board takes on the role of oversight regulator for funds under the American Recovery and Reinvestment Act and its main objectives are "to prevent and detect waste, fraud and mismanagement, and to provide the American people with extraordinary transparency on how Recovery Act funds are being used by states, local governments and private recipients." In addition, the Board is responsible for the broad management of www.Recovery.gov and it is expected to release quarterly/annual reports on its oversight findings.

** The *Recipient Reporting*, pursuant to Section 1512 of the U.S. Recovery Act, is stimulus transparency at an unprecedented level. These reports are required by all recipients of public funding, including the "end-users" such as local governments, contractors, sub-contractors and private organizations. Recipient Reporting focuses on: the amount funding received; amount spent; project/activity descriptions and completion status; and estimated job retention or creation. The reporting is to be done on a quarterly basis and will be publicly available through www.Recovery.gov. Recipients are mandated by law to provide this information, and an exclusive website has been designed to receive this information electronically.

The oversight practices above are exclusive to implementation of a stimulus/recovery package. Any oversight practices by independent agencies or independent initiatives by government agencies are not captured; only standardized/mandated oversight practices are considered.

Sources: - www.recovery.gov/ & OMB (U.S.) guidance documents and memorandums for the *Recovery Act of 2009*
- www.actionplan.gc.ca/ & Canada's *Economic Action Plan: First, Second and Third Reports to Canadians*.

III. Next Steps

The GC's Third Report provides a broad overview of budget progress to date, with the majority of detail involving input information (*i.e.* funding commitments). However, given the data that are now available and the good practices of other jurisdictions (particularly the U.S.), there remains room for further improvements to increase the relevance of these reports for parliamentarians.

For the upcoming Fourth Report, parliamentarians may wish to ask the GC to further improve the quality and consistency of reported information. In the PBO's view, a key improvement would be to clearly distinguish actual cash outlays from "committed" funds, as has been done in comparable U.S. government reports (*e.g.* Weekly Financial and Activity Reports).

Additional improvements Parliament may wish to consider requesting include:

- reporting progress against measurable implementation indicators and output benchmarks;
- standardizing the format of reports and highlighting a consistent set of indicators for each stimulus initiative; and,
- analyzing the preliminary impact of economic stimulus, relative to the stated output and employment goals of increasing GDP by 1.9% and now creating or maintaining 220 thousand jobs. (Annex F summarizes the approaches used in the recent U.S. report, as well as Canadian analysis and reporting to date).

These improvements could advance parliamentarians' oversight of public monies and will allow for transparent communication with Canadians. The PBO will continue to update the proposed budget reporting practices for parliamentarians and remains committed to collaborating with the GC to further improve in-year reporting to parliamentarians.

Annex A.1: PBO Info Request to Infrastructure Canada (page 1)



September 2, 2009

Yaprak Baltacıoğlu
Deputy Minister
Infrastructure Canada
Transport Canada
Tower C, 29th Floor Place de Ville
330 Sparks Street
Ottawa, Ontario K1A 0N5

Re: PBO Information Request 013

Dear Ms. Baltacıoğlu:

We would like to request, from Infrastructure Canada, the quarterly progress reports submitted by recipients of funding under the Infrastructure Stimulus Fund, as outlined in section 10 of the Government of Canada's *Infrastructure Stimulus Fund Guidelines* (<http://www.buildingcanada-chantierscanada.gc.ca/creating-creation/isf-fsi-guide-eng.html#p10>). In addition to the above progress reports, we would like to request any database(s) content tracking infrastructure projects under the Infrastructure Stimulus Fund.

The Parliamentary Budget Officer (PBO) will use this information for an independent research project regarding the rollout of infrastructure stimulus dollars allocated in *Canada's Economic Action Plan, Budget 2009*.

As this is the first PBO request to your department, we would ask you to kindly refer to our *Information Protocol* for further information regarding basic procedure (<http://www2.parl.gc.ca/Sites/POB-DPB/documents/Information%20Protocol.pdf>). The protocol describes the process by which the PBO can obtain information from government departments, using the access to free and timely data pursuant to the *Parliament of Canada Act*.

Thank you for your attention to this matter. We appreciate your cooperation. Please let us know if any part of this request requires clarification.

Yours truly,

[Signature]

Kevin Page
Parliamentary Budget Officer
Email: PageK@parl.gc.ca

cc.: Timothy Sargent, Assistant Secretary, Liaison Secretariat for Macroeconomic Policy, Privy Council Office
Encl.

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Ottawa, Canada K1A 0A9 // www.parl.gc.ca/pbo-dpb

Annex A.1: PBO Info Request to Infrastructure Canada (page 2)



PBO Information Request

1) Request Number:	013
2) PBO Contact Name:	David Pinet (613-943-6730 or pinetd@parl.gc.ca), or Peter Weltman (613-996-1952 or weltmp@parl.gc.ca)
3) Type of Request:	One-time
4) PBO Objective:	To analyze recent developments in federal expenditures/expenses in relation to a material component of the Economic Action Plan: Infrastructure Stimulus Funding
5) Relation to Mandate:	To provide independent analysis to the Senate and House of Commons on trends in federal finances and trends in the Canadian economy
6) Information and Data Requested:	Progress reports submitted by recipients of funding under the Infrastructure Stimulus Fund and related tracking database(s). Formatting information: Windows operating system
7) Priority:	Normal
8) Date Request Sent:	September 2, 2009
9) Response Requested By:	September 16, 2009

Annex A.2: Response from Infrastructure Canada to PBO Info Request



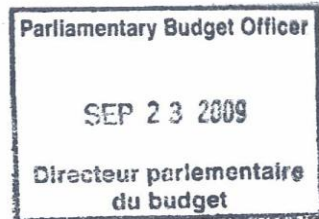
Transport,
Infrastructure
and Communities

Transports,
Infrastructure
et Collectivités

Deputy Minister

Sous-ministre

Place de Ville
Ottawa, Canada
K1A 0N5



SEP 16 2009

Mr. Kevin Page
Parliamentary Budget Officer
Library of Parliament
Parliament Buildings
Ottawa, Ontario
K1A 0A6

Dear Mr. ^{Kevin}Page:

Infrastructure Canada has received Parliamentary Budget Office (PBO) Information Request 013, seeking the quarterly progress reports submitted by recipients of Infrastructure Stimulus funding as well as database content tracking infrastructure projects under the Infrastructure Stimulus Fund.

While we noted that your office had requested receipt of the above information by September 16, 2009, unfortunately this is too short a timeframe in which to provide such a response.

Please be assured that we are aware of the need to provide timely access to information to the PBO in accordance with the *Parliament of Canada Act*. To that end, we are working diligently to provide a response to your request within a reasonable time frame such that it respects the intent of the *Act*.

Yours sincerely,

Yaprak Baltacıoğlu

c.c. Mr. Timothy Sargent, Assistant Secretary, PCO

Canada

03-0390 (0602-01)

Annex B: Budget Monitoring Spreadsheet

*Updated with the information provided in the Government of Canada's Third Report to Canadians - September 2009,
based on the proposed reporting requirement provided by the Parliamentary Budget Officer in March 2009.*

The spreadsheet is available separately on the PBO Website as .xls at <http://www2.parl.gc.ca/Sites/PBO-DPB/BudgetInformation.aspx>.

Annex C: Proposed Budget Initiative Reporting – EI Example (Updated)

An assessment of the information provided in the Government of Canada's Third Report to Canadians - September 2009, based on the proposed reporting requirement provided by the Parliamentary Budget Officer in June 2009.

Budget Initiative: Employment Insurance Training Program (www.hrsdc.gc.ca/eng/corporate/budget/2009/sttfj.shtml)
Department/Agency: Human Resources and Skills Development Canada (www.hrsdc.gc.ca) **Date:** September 2009

	Plans and Expectations		Actual Performance	
PROGRAM DESCRIPTION				
Objective	<ul style="list-style-type: none">To expand the availability of training delivered through the EI program by provinces and territories			
Stakeholders	<ul style="list-style-type: none">Provinces, territories, unemployed workers - contributors to EI			
Funding Amounts	<ul style="list-style-type: none">\$500 million available in 2009-10		<ul style="list-style-type: none">\$500 million committed (Sept. 2009)Not Reported: \$ used/claimed by EI clients?	
Delivery Partners	<ul style="list-style-type: none">Provincial governments; funding to flow through existing Labour Market Development Agreements			
IMPLEMENTATION PLAN				
Legislative Approval	Pre-existing statutory authority through the Employment Insurance Act			
Key Milestones	<ul style="list-style-type: none">i. Program terms and conditions announced (2009Q2)ii. Funding transferred to each of the provinces and territories (2009Q2)iii. Applications can be submitted (2009Q2)iv. First participants enrolled (2009Q3)		<ul style="list-style-type: none">i. Achieved: Agreements signed with all provinces and territories (Sept. 2009)ii. Achieved: Funding starting to flow to all provinces and territories (Sept. 2009)iii. Achieved (Sept. 2009)iv. Achieved: Assistance provided to 44,000 people (Sept. 2009)	
Risks & Uncertainties	<ul style="list-style-type: none">i. Actual demand by eligible clients may differ from forecast rangeii. Actual costs of program may differ from forecast range		<ul style="list-style-type: none">i. Demand expected to exceed or fall short of forecasted range? Nothing reportedii. Costs expected to exceed or fall short of forecasted range? Nothing reported	
EXPECTED RESULTS				
Outputs	<ul style="list-style-type: none">Increase in the number of participants in training programs by province/territory and subject of studyImproved labour market outcomes for program participants (e.g. employment, wages)		<ul style="list-style-type: none"># Participants in 2009-10 vs. previous year? Estimated: 100 000 over 2 years (June 2009) Nothing reported (Sept. 2009)Success Rate in 2009-10 vs. previous year? Nothing reported	
Outcomes	<ul style="list-style-type: none">Expanded availability of training delivered through the EI program by provinces and territories ... especially those in industries hardest hit by the global economic turmoil		<ul style="list-style-type: none">Achieved economic impact/outcome? Nothing reported	

Notes:

Data fields for template are taken from GC requirements for Treasury Board submissions (http://www.tbs-sct.gc.ca/pubs_pol/opepubs/tbm_162/gptbs-gppct-eng.asp), which were outlined in earlier reports by the Parliamentary Budget Officer regarding Implementation and Oversight of Budget 2009, located at <http://www2.parl.gc.ca/sites/pbo-dpb/Reports.aspx?Language=E>. Content is derived from the GC's first three quarterly reports, as well as developed from public evaluations of similar measures in Canada (http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/index.shtml) and content from the U.S. Government's www.recovery.gov website (text from the last two sources is *italicized*).

Annex D: Proposed Budget Initiative Reporting – Infrastructure Example (Updated)

An assessment of the information provided in the Government of Canada's Third Report to Canadians - September 2009, based on the proposed reporting requirement provided by the Parliamentary Budget Officer in June 2009.

Budget Initiative: Infrastructure Stimulus Plan (www.buildingcanada-chantierscanada.gc.ca/creating-creation/isf-fsi-eng.html)
Department/Agency: Transport, Infrastructure and Communities Portfolio (www.tc.gc.ca) **Date:** September 2009

	Plans and Expectations		Actual Performance	
PROGRAM DESCRIPTION				
Objective	▪ Support provincial, territorial and municipal infrastructure rehabilitation projects			
Stakeholders	▪ <i>Provinces, territories, municipalities involved in infrastructure contribution and planning</i>			
Funding Amounts	▪ \$2 billion available in 2009-10 (\$4 billion available as two-year value)		▪ \$3.27 billion committed (of \$4 billion two-year value - Sept. 2009) ▪ Unknown \$ used/consumed by projects?	
Delivery Partners	▪ Partners: Provincial, territorial and municipal governments (50% cost basis)			
IMPLEMENTATION PLAN				
Legislative Approval	▪ <i>Budget Implementation Act</i>			
Key Milestones	i. <i>Initial Projects announced (2009Q2)</i> ii. <i>Funding transferred to each of the provinces and territories (July)</i> iii. <i>Projects underway (2009-10 construction)</i> iv. <i>Quarterly Progress Reports (every project)***</i>		i. <i>Achieved: 2900 projects announced (Sept 2009)</i> ii. <i>Unknown: Transfers / Cash-outlays (Sept 2009)</i> iii. <i>Some examples of projects underway (Sept. 2009)</i> iv. <i>Unknown / Unachieved (Sept. 2009)</i> * Database of ISF projects not provided upon an Info Request from PBO to the government.	
Risks & Uncertainties	i. <i>Potential delay in actual cash outlays</i> ii. <i>Limited capacity of construction or other sectors to absorb new projects</i>		i. <i>Expected delay? Nothing reported</i> ii. <i>Study capacity of sectors? Nothing reported</i>	
EXPECTED RESULTS				
*** Outputs	▪ <i>Number of infrastructure projects - by class of asset, by province/territory/municipality, and by project status (approved, in progress, completed)</i> ▪ <i>Value of infrastructure projects - by class of asset, by province/territory/municipality, and by project status (approved, in progress, completed) -including provincial/municipal contributions</i>		▪ <i>2009-10: Announced total of 2900 projects (Sept. 2009)</i> ▪ <i>2009-10: Announced projects total of \$7.4 billion stimulus value (Sept. 2009)</i> ▪ <i>Not Reported: project database by region, class of asset and project completion status (in progress, % completion, completed) *</i>	
Outcomes	▪ Increase / maintain employment and income in construction and related industries		▪ Achieved economic impact/outcome? Nothing reported	

Notes:

Data fields for template are taken from GC requirements for Treasury Board submissions (http://www.tbs-sct.gc.ca/pubs_pol/opepubs/tbm_162/gptbs-gppct-eng.asp), which were outlined in earlier reports by the Parliamentary Budget Officer regarding Implementation and Oversight of Budget 2009, located at <http://www2.parl.gc.ca/sites/pbo-dpb/Reports.aspx?Language=E>. Content is derived from the GC's first three quarterly reports, as well as developed from public evaluations of similar measures in Canada (<http://www.buildingcanada-chantierscanada.gc.ca/creating-creation/isf-fsi-guide-eng.html>) and content from the U.S. Government's www.recovery.gov website (text from the last two sources is italicized).

Annex E: Examples of Changes in Stimulus Reporting¹

I. Dropped Content

- i. *Maternity and Parental Benefits for the Self-Employed* (consultations) was included in Budget 2009, but was absent in subsequent reports.
- ii. *Registered Retirement Savings Plan / Registered Retirement Income Fund Losses After Death* was included in the first quarterly report, but was absent from subsequent reports.
- iii. *Simplified Goods and Service Tax / Harmonized Sales Tax Application for Direct Sellers* was included in the first quarterly report, but absent from subsequent reports.²
- iv. *Aboriginal Tax Policy* was included in the first quarterly report, but absent from subsequent reports.

II. Renamed Measures

- i. *Communities Component of the Building Canada Fund* was renamed *Bonus for Community Projects*.
- ii. *Loans to Auto Industry*, initially categorized under “Improved Access to Financing”, was renamed to *Support for the Auto Industry* and subsequently re-categorized to “Support for Industries and Communities”.
- iii. Category “Action to Help Canadians and Stimulate Spending” and subcategory “The Canada Skills and Transition Strategy” were renamed to “Helping the Unemployed” and “Strengthening Benefits for Canadian Workers”, respectively.

III. Re-categorized Measures

- i. *Improving Infrastructure at Colleges and Universities*, *Canada Foundation for Innovation*, *Institute for Quantum Computing* and *Arctic Research Infrastructure* were re-categorized from “Immediate Action to Build Infrastructure – Investments in Knowledge Infrastructure” to “Creating the Economy of Tomorrow – Action to Invest in Colleges, Universities and Research”.
- ii. *Transformation to a Green Energy Economy* (also referred to as the *Clean Energy Fund*), *Canadian Environmental Sustainability Indicators* and *Strengthening Canada’s Nuclear Advantage* were re-categorized from “Action to Support Businesses and Communities – A More Sustainable Environment” to “Creating the Economy of Tomorrow – Investing in Science and Technology”.

IV. Measures Removed from Summary Tables

- i. *Canada Health Infoway*: The first report summary table had complete disclosure of the nature and implementation of this initiative; second report summary table included the title with no disclosure of information on the initiative; the initiative was not included in summary tables of the third report (minor notation).
- ii. *Canada Graduate Scholarships Program* and *Industrial Research and Development Internship Program*: Initiatives were reported on in summary tables of first report; initiatives were absent from summary tables of second report; initiatives were reintroduced in summary tables of third report.
- iii. *Public-Private Partnerships* (Agency and Fund): Initiatives were introduced in Budget 2009, but were not included in summary tables of subsequent reports.

¹ These examples were identified through a manual mapping exercise undertaken by staff of the PBO, which relied on matching similar initiative descriptions and funding amounts from one report to the next.

² Second quarterly report had a minor note regarding the Province of Ontario’s plan for tax harmonization.

Annex F: Assessing the Economic Impacts of the Stimulus Measures

The Recent U.S. Report

The U.S. government recently released its first quarterly progress report, prepared by the Council of Economic Advisors³. The report analyzed the economic impacts of the U.S. stimulus package (the *American Recovery and Reinvestment Act – AARRA*) in its first six months of implementation. The analysis, which was acknowledged to be preliminary and subject to considerable uncertainty, used several alternative methodologies in an attempt to demonstrate that the AARRA was having a positive impact on U.S. output and employment in the second and third quarters of 2009.

These approaches included:

1. A table that clearly distinguished actual outlays to-date from money that had been approved but not yet dispensed⁴;
2. An analysis of recent aggregate economic data on output and employment, and more disaggregated industrial and state-level data;
3. Forecasts from simple reduced-form statistical models (Vector AutoRegressions) for plausible benchmarks for U.S. output and jobs without the stimulus. A comparison of these levels to actual results to date (and current consensus forecasts) attributed the difference to stimulus impacts.
4. Impact analysis using large-scale macroeconomic models and assumed multipliers by stimulus category; and
5. A correlation comparison using recent economic results relative to previous expectations for several countries, relative to the size of their stimulus packages.

Canada's Approach

In Budget 2009, the Canadian government used the fourth approach (described above) based on the Department of Finance's economic model and reported multipliers for seven categories of stimulus measures. Those results stated that the stimulus (including provincial and municipal leverage) would increase real GDP by 1.9% and employment by 189 thousand, relative to a no-stimulus baseline by the end of 2010. The Government's third progress report increased this employment stimulus impact estimate to 220 thousand jobs created or maintained, though updated, detailed results from the Budget 2009 approach were not presented.

What Can Be Known at the Current Time

Separating out stimulus impacts is always difficult because one does not observe what would have happened without the stimulus. As a result, the analysis in this area is typically subject to significant uncertainty. Furthermore, at this early stage of implementation, it is too early to be conclusive about

³ *The Economic Impact of the American Recovery and Reinvestment Act of 2009, First Quarterly Report*, released September 10, 2009 is available at: http://www.whitehouse.gov/assets/documents/CEA_ARRA_Report_Final.pdf

⁴ See Table 1 of the report. In addition, recipients' reported impacts on job retention and creation is expected to begin October 2009.

stimulus impacts. This means that at the current time, it remains unclear as to whether the domestic fiscal stimulus enacted thus far has been a major causal factor in the recent stabilization of some indicators of economic activity in Canada. Similarly, it cannot be conclusively ruled out that the stimulus has mattered to-date (or will matter in the future) in the aggregate, or for specific sectors, such as financial markets. More time and alternative approaches, such as those noted above for the U.S., are needed before a richer assessment can be provided for the Canadian economy.

What Canada's Fourth Progress Report Could Include

If the government were to report data that clearly distinguished government outlays to-date from government commitments (U.S. approach 1), one could then re-estimate the economic impacts using a macroeconomic model (U.S. approach 4 and Budget 2009).

Tables 1 and 2 present an illustrative example of how U.S. approach 3 could be applied to the Canadian economy, where Row 1 represents the Budget 2009 projection including the stimulus impacts;⁵ Row 2 represents the Budget 2009 projection without stimulus impacts;⁶ and Row 3 is the results to-date. The tables show that both output and employment are significantly weaker than expected last January when Budget 2009 was announced.⁷ In fact, both series have been lower than what was expected, even if no stimulus was enacted.

Table 1: Real Economic Growth To-Date, Relative to Budget 2009 Projections

	08Q4	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4
Real GDP (index, Budget 2009 2008Q4 = 100)									
Budget 2009 projection with stimulus	100.0	100.9	100.6	101.1	101.7	102.4	103.2	104.1	105.1
Budget 2009 projection without stimulus	100.0	99.3	99.0	99.5	100.0	100.7	101.4	102.2	103.1
National Accounts Data to-date	99.1	97.5	96.7						
Percent Difference	-0.9	-3.4	-3.9						

⁵ The PBO inferred these data on a quarterly basis using information reported in Budget 2009 Annex 1, Table A1.3.

⁶ As taken from the Department of Finance January 2009 private sector survey, which was assumed to exclude any stimulus measures subsequently announced in Budget 2009. Recall that this so-called 'counterfactual' is the outcome without the discretionary fiscal stimulus policy response, which is unobservable and subject to considerable uncertainty.

⁷ These calculations take the observed economic data to-date (Row 3 of the tables) and subtract the expected outcomes including Budget 2009 stimulus (Row 1 of the tables).

Table 2: Employment To-Date, Relative to Budget 2009 Projections

	08Q4	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4
Employment (thousands)									
Budget 2009 projection with stimulus	17,157	17,073	17,088	17,126	17,169	17,237	17,304	17,382	17,470
Budget 2009 projection without stimulus	17,157	17,018	17,014	17,033	17,057	17,106	17,154	17,213	17,281
Labour Force Survey Data to-date	17,146	16,907	16,844						
Level Difference	-11	-167	-244						
Percent Difference	-0.1	-1.0	-1.4						

Because of several confounding factors, these tables on their own do not provide evidence that the fiscal stimulus has thus far been ineffective for the aggregate Canadian economy. For example, it appears that in January 2009, the average of the private sector forecasts did not fully anticipate the depth of the recession that was underway; similarly the economic situation continued to deteriorate after January 2009 (notwithstanding the stimulus). In addition, the forecast errors for output and employment should move in the same direction⁸. Finally, it is possible that the output and employment losses that occurred (though larger than expected at the time of the budget) are smaller than what would have occurred without the stimulus, or that the stimulus has increased consumer and business confidence and activity in key financial markets, which could in turn, have positive economic impacts.

In an attempt to address some of these confounding factors, the government's fourth progress report could include an updated estimate of a plausible statistical baseline for the Canadian economy without the stimulus. This would permit a comparison of this (unobserved) no-stimulus baseline to the output and employment data as time unfolds, so that one could attempt to infer the overall economic impacts of the stimulus. At this point all that can be stated is that if one wanted to argue that the stimulus has had a significant impact on the Canadian economy, this would require a no-stimulus baseline of economic activity significantly below the current data.

⁸ For instance, because output was much lower than expected, labour demand was also weaker than expected, so it is not surprising that employment was also less than its original forecast.