

**Pre-Budget Advice to Flaherty:
Less Worry about Deflation and Less Support for Spending,
Top Spending Recommendations—
Pensions/RSPs and National Debt Paydown;
Top Cut Recommendation—the Environment
BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
For Publication February 22, 2010**



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1.0 Overview

In the leadup to the budget, CEOs and business leaders on the COMPAS business panel were asked for their counsel. They report less worry about the risks of deflation than six months ago.

On balance, panelists favour less government spending than they did two years ago. They are middling or ambivalent when asked a general question about prioritizing economic stimulation vs. controlling the debt. But when asked about a series of specific spending options, respondents are much less favourable to increased spending than they were two years ago, in February, 2008.

Panelists nonetheless do favour some increases. In their view, the top priorities for increased spending ought to be for infrastructure, health transfers, and transfer to the provinces for post-secondary education. Their top priority for cuts is the environment.

Panelists' support for cuts to spending on the environment is a sea-change in attitudes. The decline in support for environmental spending may reflect reactions to several weeks of media reports on doctored data and misleading analyses supplied by supporters of the view that greenhouse gases are causing global climate changes.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

2.0 Details

Table 2a provides evidence that panelists estimate that the risks of deflation may have dropped while table 2b shows that panelists are ambivalent about



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choosing stimulus spending or controlling the deficit. Table 2c compares their spending priorities today with their pre-budget priorities two years ago.

Table 2a: (Q1) Western governments launched high spending, stimulus-oriented budgets partly to prevent deflation. Deflation is hard to stop once it starts because people postpone spending in the hope that prices will keep getting lower. On a 7 point scale where 7 means the risk of deflation is much higher than six months ago and 1, much lower, what is your estimate of the risk of deflation today?

Mean	7	6	5	4	3	2	1	DNK
3.4	1	3	16	20	27	22	5	7

Table 2b: (Q2) In a choice between controlling deficits and stimulus-style budgets, which would you prioritize? Please use a 7 point scale where 1 means definitely controlling deficits and 7, definitely stimulus-style budgets.

Mean	7	6	5	4	3	2	1	DNK
4.0	7	8	30	15	17	16	7	0



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Table 2c: (Q3) As you may know, the federal government will announce a budget next week. Please indicate whether federal spending should rise, fall or remain unchanged in respect of each of the following... RANDOMIZE

	YEAR	RISE	REMAIN UNCHANGED	FALL	NET (RISE – FALL)	DNK
Retirement planning through the Old Age Security, RRSP rules, or other programs	Feb 2010	40	55	5	35	0
	Feb 2008	-	-	-	-	-
Paying down the national debt	Feb 2010	44	42	14	30	0
	Feb 2008	45	42	13	32	0
Post-secondary education	Feb 2010	29	61	10	19	0
	Feb 2008	29	63	8	21	1
Infrastructure	Feb 2010	36	42	22	14	0
	Feb 2008	63	33	4	59	0
Health transfer payments to the provinces	Feb 2010	25	64	11	14	0
	Feb 2008	43	50	8	35	0
Support for manufacturing	Feb 2010	29	46	25	4	0
	Feb 2008	26	57	15	11	2
Military preparedness	Feb 2010	18	56	26	-8	0
	Feb 2008	42	47	11	31	0
Home security including border and immigration controls and domestic preparedness against potential terror	Feb 2010	17	58	26	-9	0
	Feb 2008	21	59	20	1	0
Aid for farmers	Feb 2010	17	57	26	-9	0
	Feb 2008	16	52	31	-15	2
Environmental protection	Feb 2010	16	55	29	-13	1
	Feb 2008	36	54	9	27	0



The following verbatims provide a nuanced sense of panel opinion:

By deficit spending we are placing a heavy burden on ourselves in the future; Trudeau should have taught us that. We may need a quick burst of capital in the short term but continued stimulus spending will hurt us long after the benefits are gone.

Cutting government program spending is also major.

Health care spending transfers to the Provinces is not a controllable cost for at least a couple more years due to deal signed by PM Martin with the provinces.

I am concerned that the federal government is not properly supporting the temporary foreign worker program where we have the TFW train Canadians to do more complex jobs.

Now is not the time to save - when people have lost jobs and businesses have gone under. We need to focus on maintaining economic growth, employment and stability.

Reduce the banks ability to lend easy money. Reduce bank charges and split merchant banking from High Street banking.

There are so many priorities, with less and less to draw on to pay for them.

Part of the deficit problem was the short sightedness of the government in implementing programs to encourage businesses to keep employees working. That would have been a self financing program, whereby taxes, spending and general confidence would have continued.

Businesses needed to survive on lower revenue bases and had to lay off staff. But the governments have not done so and their overhead eats into funds we need for programs.

The one big unknown that is not talked about is the possibility of interest rates rising. As and when that happens,



there will be less money to pay for any programs governments want to implement.

I see that the only way out of their problem is to raise taxes, which would be most unfortunate. Ontario is already doing so, but in a most indirect way, hoping that taxpayers (and voters) will not see through their smoke and mirror methods.

While I'm hoping it doesn't happen, I am still worried about our economy taking another dive. My concern stems from how the increased government debt is going to be funded. The options to do this include issuing more government bonds and printing money. Printing money will cause inflation which in turn could spark an increase in mortgage rates and issuing more bonds could also trigger rate increases. The problem is both way, we may be facing higher loan rates and many Canadians may not be able to handle the higher mortgage payments.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted February 16-17, 2010. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=109 are deemed accurate to within approximate 9.4 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

