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Harper Likely to Signal Budget Deficit to Spur Canadian Economy

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Nov. 19 (Bloomberg) -- Canadian Prime Minister [Stephen Harper](#) will likely finish an about-face on economic policy today, outlining plans that may run up a budget deficit to stimulate growth after vowing to stay the course with surpluses.

A month after his Conservative Party strengthened its hand without winning a majority in Parliament, Harper's program will be outlined in a so-called Speech from the Throne, the ceremonial opening of a new legislative session.

Harper, who pledged in last month's campaign to maintain a balanced budget, now says he may turn to "deficit spending" to boost demand amid a global recession.

"What we're likely to see is a realization by Stephen Harper that the economy will probably be the defining issue of his period as prime minister," said [Nikita Nanos](#), an Ottawa-based pollster, in an interview.

Harper and other government leaders have indicated they may provide financial help to the country's ailing carmakers, and plan to accelerate spending on roads, rail links and ports to spark growth. Canadian officials told reporters this week Harper's throne speech won't mention specific measures, saving details for a budget update this month.

The stimulus package may provide a boost to carmakers such as [General Motors Corp.](#), in an industry that employs 181,000 workers in Ontario, and construction firms including Montreal-based SNC-Lavalin Group Inc.

Confidence Vote

By tradition, the throne speech will be read in the House of Commons at 2 p.m. by Governor General [Michelle Jean](#), while Harper and other lawmakers listen. Lawmakers likely will approve the plan outlined in the speech in a vote this month. Failure would force another election because it's considered a vote on Parliament's confidence in the government.

Harper's Conservatives went into the Oct. 14 election with 127 seats and now have [143](#), short of the 155 needed for a majority.

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Growth in the world's eighth-biggest economy will slow to 0.6 percent this year, the lowest level since 1991, the Bank of Canada said in its [latest forecast](#) last month. Canada is confronting weak demand from the U.S. and slumping prices for [commodities](#), which generate about half of its export revenue.

Leaders from the biggest developed and emerging nations Nov. 15 agreed at a meeting in Washington that more must be done to shore up a global economy sliding into recession. International Monetary Fund Managing Director [Dominique Strauss-Kahn](#) called for stimulus packages worth 2 percent of countries' gross domestic product. That would represent a stimulus of C\$30 billion for Canada.



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Balanced Books

Harper pledged as late as Oct. 13, the day before the election, that he'd maintain the country's record of 11 straight budget surpluses.

Since winning the election, his government has changed tact amid signs that slumping stocks and waning consumer confidence may push the economy into a recession. Harper said last week there was "recognition" at the Washington meeting that monetary policy moves by central banks to lower interest rates and inject liquidity in money markets weren't sufficient to lift the world economy out of its malaise.

"It's quite possible that our agreement to participate globally in the stimulus program could well result in us going into deficit" next year, Finance Minister [Jim Flaherty](#), 58, said in a Bloomberg interview Nov. 15. "We may have to do more in terms of stimulus in the next months."

The 2008 budget initially projected a C\$2.3 billion surplus for the fiscal year that ends in March, and C\$1.3 billion for the year after that. That compares with a C\$9.6 billion surplus the previous fiscal year.

Reducing Debt

After paying down C\$105 billion in debt over the past 11 years, Canada can afford to run deficits, said [Doug Porter](#), a senior economist for BMO Capital Markets in Toronto.

"Coming after more than a decade of surpluses and radically bringing the accumulated debt down sharply as a share of GDP gives Canada quite a bit of leeway to ramp up stimulus," Porter said.

A new stimulus package would be Canada's second over the past year. Harper's government announced C\$60 billion of tax cuts in October 2007 to spur growth, including a 1 percentage point reduction in the federal sales tax and lower income taxes for corporations and individuals.

Harper indicated at last week's summit in Washington that he may need to follow efforts by the U.S. government to aid the North American auto industry, telling reporters Canada can't "ignore what the Americans do."

Auto Slump

Auto manufacturers and parts suppliers in Canada are struggling as U.S. sales slump amid waning consumer confidence. October was the worst month for U.S. car sales since 1945, according to General Motors, hurting Canadian parts suppliers including [Magna International Inc.](#) The province of Ontario produces more cars than the U.S. state of Michigan.

Harper, meanwhile, has been in talks with provincial leaders on ways to speed up infrastructure spending. Quebec Premier [Jean Charest](#) has proposed the construction of a high-speed rail link between Quebec City and Windsor, Ontario.

Election pledges that provide stimulus to the economy will take precedence in the legislative session, while non-economic issues won't be given as much prominence, a Harper aide told reporters on condition he not be identified.

A C\$2.3 billion reduction in the federal diesel tax is the most expensive item in Harper's four-year campaign plan. Other pledges include C\$1.7 billion in new federal aid for automaker and aerospace companies, while tax cuts for seniors would total C\$1.1 billion.

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