Reality Check:

An Alternative Economic Update

(A pre-budget statement from the folks who bring you the Alternative Federal Budget!)

Canadian Centre for Policy Alternatives and CHO!CES: A Coalition for Social Justice

Each year the CCPA and CHO!CES—along with labour, women's, anti-poverty, health, peace, farming, cultural, environmental, aboriginal, students' faith, youth, seniors' and pensioners' groups—produce the Alternative Federal Budget. The next Alternative Federal Budget will be released in February 2001.

Canada at the Crossroads

As election fever heats up among federal political parties, Finance Minister Paul Martin is preparing to present a mini-budget. The federal government is headed for a $20 billion budget surplus in the current fiscal year. After years of belt-tightening, it seems that we are awash in money. For three years, the government has been promising to give back to Canadians what they sacrificed in the war on the deficit.

Yet the current Liberal government has not done so, as the following pages will show. Instead, its policies have led to a deepening of the **social deficit** that plagues the country. As for the official opposition, its policies would greatly deepen that deficit, permanently damaging government's capacity to correct economic, social, cultural and regional inequalities.

Since 1995, the **Alternative Federal Budget** (AFB) has highlighted the **real choices** that lie before the Canadian people and government. The alternative policies presented in the AFB are not the figment of a few economists' imaginations, but the fruit of consultations among many national, regional and community-based organizations across Canada.

The Canadian Women's March Committee, a coalition of twenty-four national women's organizations coordinating World March of Women events in Canada, has also engaged in a broad consultation process, and will, in the coming days, present the federal government with a set of 68 long-term, and 13 immediate, demands. These demands propose legislative and policy changes which would work towards the eradication of poverty and violence against women in Canada. These demands are consistent with the results of the AFB's own consultations and fiscal outlook. These demands are viable and urgent.

This document is divided into two parts. The first assesses Canada's fiscal situation and evaluates the fiscal performance of the Liberal government during its second term in office. It concludes that the government did not keep its promise to split the fiscal dividend 50 / 50 between social investments on the one hand, and tax cuts and debt repayment on the other. **Rather, of the discretionary fiscal dividend that was available to the government between its reelection in 1997 and fiscal 2001, the Liberal government has allocated only 2 percent to social investments, and the other 98 percent to tax cuts and debt repayment.** The Alternative Federal Budget challenges the federal government to live up to its original commitment by investing today's massive federal surplus in the public services and social programs Canadians urgently need.

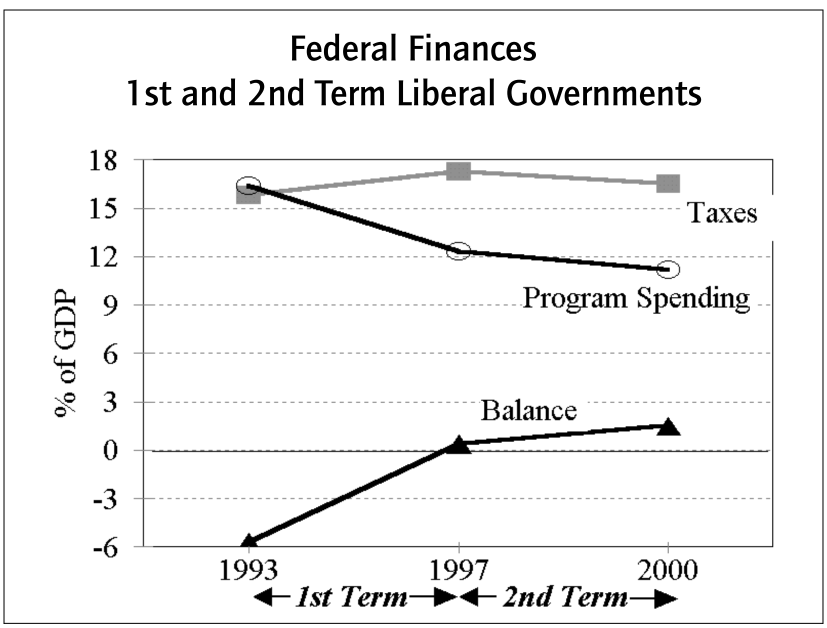
The second part of the document highlights some of the most pressing social deficits the country faces, and points to the real policy choices the government must make if these deficits are to be overcome. The Alternative Federal Budget shows that effective government policies to address the social deficit are both affordable and necessary.

Evaluating the Liberals' Fiscal Performance

The first term of the Chrétien government was dominated by the epic effort to reduce and ultimately eliminate the federal deficit which it inherited from the Mulroney era. Launched forcefully with Paul Martin's historic 1995 budget, the Liberal government's deficit-reduction strategy was very successful in fiscal terms (although lastingly destructive in social terms).

The Chrétien government imposed moderate increases in taxes during its first term in office to help fund the deficit-reduction exercise, pushing up total federal taxes as a share of GDP from 15.8 percent in 1993 to a peak of 17.3 percent by fiscal 1997. The bulk of the deficit-reduction effort, however, was financed through steep reductions in federal program spending, which fell by one-quarter as a share of GDP during the Liberals' first term. This marked an unprecedented peacetime retrenchment of government spending, and left federal programs **smaller (as a share of GDP) than at any time since the 1930s–and smaller, indeed, than federal program spending in the U.S.**

When the Liberals ran for re-election in 1997, the budget was already balanced, more than two full years ahead of Paul Martin's "hell-or-high-water" timetable (although Martin did not officially announce this achievement until early in 1998). Economists and voters alike realized that the "pain" of deficit-reduction was essentially over; the election then focused on how Canadians should best enjoy the coming "gain" of large fiscal surpluses. The Liberal platform featured a crystal-clear pledge that they would allocate one-half of future fiscal dividends to re-investments in social programs (badly damaged by their cutbacks of the first term), and the other half to a combination of tax cuts and repayment of the federal debt.



Managing the federal books has been a considerably more pleasant task during the Liberal's second term in office. For the first time in a generation, the federal government could afford to loosen the purse strings—through tax cuts and / or through monies for new programs. And debt was being repaid, rather than piling up. Measured as a share of GDP, total federal taxes did indeed decline after the Liberal's reelection, by some 0.4 percent of GDP between 1997 and 1999. And federal surpluses also grew, reaching last year over $12 billion,[1] or 1.25 percent of GDP (more than four times as much as Paul Martin officially budgeted).

The most surprising aspect of the Liberals' second term, however, has been the continuing decline in federal program spending measured as a share of GDP—from a historically low 12.3 percent of GDP in 1997, to 11.4 percent of GDP in 1999. In fiscal 1999, despite a booming economy and a $12 billion surplus, the federal government increased its total program spending by a minuscule $400 million. And the relative importance of program spending is likely to fall even slightly further in coming years, according to Martin's official 2000 and 2001 budgetary projections. The second-term decline in program spending has been even larger than the corresponding decline in taxes, producing a widening federal surplus and a falling federal debt.[2]

From 50:50 to 98:2

The Liberals' 1997 promise to allocate one-half of future surpluses to social investments can be evaluated, in light of the government's recent 1999 year-end fiscal statement and its official budget projections for 2000 and 2001. It is clear that the Liberals plan to contest the coming election as the defenders of "social Canada" and the principle of interventionist government. Opinion polls consistently suggest that most Canadians regard social investments (like health care and education spending) as being far more important than tax cuts. But is this reputation as social activists, which the Liberals are constructing for themselves, really justified?

We can estimate how much of the latent federal surplus[3] was actually assigned to new social investments using the following simple methodology. We first define a 1997 "baseline," characterized by the following features:

- Net public debt of $583 billion, as of fiscal year-end 1996 (just before the 1997 election).
- Fiscal 1997 federal tax collections equal to 17.3 percent of GDP for the fiscal year.[4]
- Fiscal 1997 federal program spending of $108.8 billion, which delivered a total of some $3,375 (in inflation-adjusted 1992 dollar terms) worth of federally-financed services to each resident of the country.

Since tax revenues rise naturally with economic growth, it is most appropriate to measure tax levels as shares of GDP. And since government program spending is aimed at delivering concrete programs and services to Canadians,[5] it is appropriate to measure changes in program spending in terms of changes in the real per capita delivery of those programs. We can compare the Liberals' second-term taxation, spending, and debt repayment decisions against this 1997 baseline. How much of the latent surplus was used to pay off debt? How much to reduce taxes below their 1997 levels (as a share of GDP)? And how much to restore federal programs above and beyond their 1997 levels (in real per capita terms)?

The results are surprising, as summarized in the preceding table. Real per capita federal program spending in 1999, and as budgeted for 2000, is actually *lower* than it would have been had real per capita spending levels remained at 1997 levels. In other words, despite enjoying significant fiscal comfort, ***the second-term Liberal government did not even increase its program spending budgets sufficiently to keep up with inflation and population growth***, producing a further real decline in the quality of federal programs. Even in fiscal 2001, as the new payments announced in the recent federal-provincial transfer funding agreement start to ramp up, federal program spending in 1992 dollars per capita will only slightly exceed its 1997 levels—marking just a 3 percent improvement in real per capita program delivery after 5 consecutive years of fiscal surpluses. Even in 2001, when the biggest planned program spending increases will take effect, new program spending will consume just 12 percent of the latent surplus available in that year (relative to the 1997 baseline). Over the cumulative five-year period, ***new real per capita program spending will account for just 2 percent of the latent surplus available***.

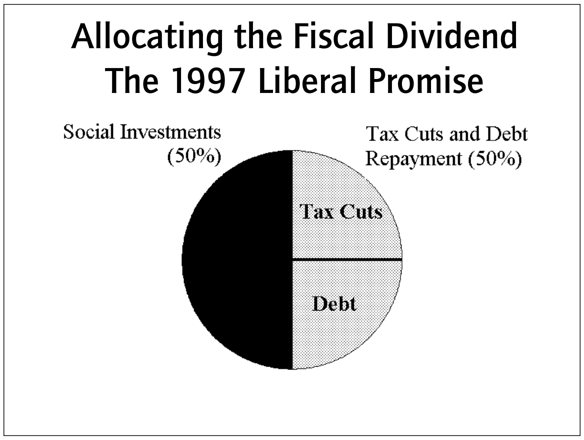
The notion that the Liberals are the ones who will invest heavily in social programs—a claim that is made by both the Liberals themselves, and by their more tight-fisted critics in the Alliance—is com-

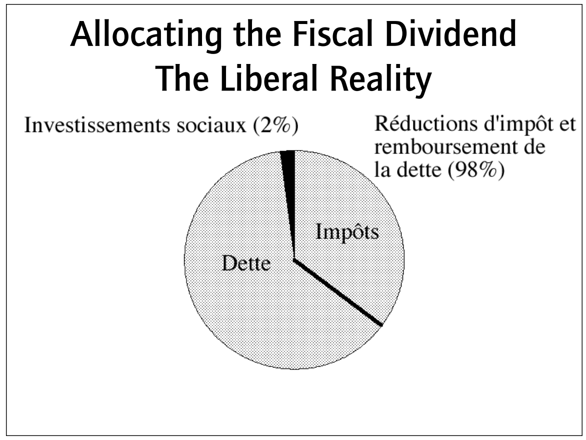
The Allocation of the Fiscal Dividend

Liberals' 2nd Term in Office, 1997-2001, $billions

Fiscal Years	1997	1998	1999	2000*	2001*	5-yr. Total
New Program Spending						
Spending at 1997 real per capita level	108.8	110.8	113.6	117.8	121.2	
Actual spending	108.8	111.4	111.8	117.0	125.0	
Additional investment	0	0.6	-1.8	-0.8	3.8	1.8
Tax Cuts						
Taxes at 1997 ratio of GDP	153.2	157.2	169.2	181.1	191.1	
Actual taxes	153.2	155.7	165.7	173.1	178.2	
Tax savings	0	1.5	3.5	8.0	12.8	25.8
Debt Repayment	3.5	2.9	12.3	15.5	13.8	47.9
TOTAL FISCAL DIVIDEND	**3.5**	**5.0**	**14.0**	**22.7**	**30.4**	**75.6**
Shares Going To (%):						
New Program Spending	0	13	-13	-3	12	2
Tax Cuts	0	29	25	35	42	35
Debt Repayment	100	58	88	68	45	63

** Estimated on the basis of the following assumptions, which reflect the current consensus opinions of private forecasters: real GDP growth of 4.5% in fiscal 2000, 3.5% in 2001; GDP inflation of 2.5% in fiscal 2000, 2% in 2001; CPI inflation of 2.75% in fiscal 2000, 2% in 2001; average effective federal interest rate of 7.3% (unchanged from 1999 actual); program spending as projected in 2000 budget plan, with addition of $1.0 billion in 2000 and $3.5 billion in 2001 to reflect the September federal-provincial transfers agreement; average tax ratio falls in 2000 and 2001 by 0.4 points of GDP each year.*





pletely contradicted by the experience of their second term in office. "Run from the left, govern from the right" is the old Liberal motto, and it seems to be as true today as it has ever been. Even as the party gears up for an election campaign that will once again portray the Liberals as representing the "caring, sharing" tradition in Canadian politics, the statistical evidence is accumulating of the incredibly conservative choices they continue to make in practice.

It turns out that debt repayment has been the quiet winner in the Liberals' second-term allocation of fiscal relief. So far almost $20 billion in debt has been repaid, with close to another $30 billion likely in the next two years (assuming that tax and program spending decisions reflect the 2000 budget plan and subsequent announcements). Debt repayment thus accounts for over 60 percent of the cumulative latent surplus between 1997 and 2001. Last year's booking of a record $12.3 billion surplus consumed 88 percent of the latent 1999 surplus. This figure falls to 45 percent by fiscal 2001.

Tax cuts constitute a secondary but growing destination of the fiscal dividend. Announced tax cuts so far have consumed about one-quarter of the latent surplus available. This figure will increase in coming years, with the major tax cuts announced in Paul Martin's 2000 budget–and his subsequent confirmation that that tax cut timetable will be accelerated.[6] By fiscal 2001, tax cuts will consume over 40 percent of the latent surplus (relative to the 1997 baseline). Over the five-year period as a whole, tax cuts account for 35 percent of the fiscal dividend.

As indicated in the accompanying figures, the contrast between the Liberals' 1997 election promise to rebuild the institutions of "social" Canada, and the reality of their continuing conservative direction in fiscal policy, could hardly be any sharper. Instead of devoting half of the huge dividend to rebuilding public programs, the Liberals have not even kept pace with population growth and inflation. The real quality of federally-funded public programs has continued, incredibly, to decline, despite the fact that this "caring" federal government is awash with money like no other government in a generation.

What a Truly "Liberal" Government Could Do

Imagine a federal government that was truly concerned with the problems of insecurity, poverty, and inequality which continue to weigh down millions of Canadians despite the preponderance of recent good news on the macroeconomic and fiscal fronts. Imagine a federal government which was prepared to put genuinely significant resources into arresting the emerging crisis in Canada's health care and education systems–let alone into building badly-needed new programs in areas such as early child education, pharmacare, and home care. How "Liberal" could such a government afford to be, without raising taxes and without pushing the federal government back into a deficit situation?

A simple fiscal simulation can indicate the immense resources which are now available to the federal government to start a genuine rebuilding of the institutions of "social" Canada—on the assumption, of course, that the government were to make such an effort its priority. A new government could freeze federal taxes at their expected 2000 level: some 16.5 percent of Canada's GDP. That new government might also cease the existing practice of booking large fiscal surpluses each year; the real federal debt burden is already declining rapidly thanks to growth in Canada's nominal GDP, and this decline will continue even if future governments only balanced their budgets (instead of targeting surpluses). All available resources would be allocated to rebuilding public programs.

In fiscal 2001, the government would have an estimated $187.1 billion in total revenues (maintaining the 2000 average tax ratio, and adopting consensus forecasts of economic growth). It would spend $40.4 billion in debt servicing charges (assuming a continuation of recent interest rate trends). That would leave over $142 billion available for program spending initiatives, entirely consistent with a balanced budget and continued debt reduction (indeed, the debt burden would decline by another 3 points, to just 51 percent of GDP, purely on the strength of continued economic growth). ***The federal government could thus increase its program spending by $25 billion in the first year of its new mandate*** to rebuild "social" Canada, compared to budgeted program spending in fiscal 2000, without raising taxes and without falling into deficit.

This analysis provides Canadians with a yardstick against which to evaluate the coming claims of the federal Liberals that they will protect and rebuild the programs and policies which are purported to make Canada a kinder, gentler society. Given the sea change in federal finances, the only constraint on the ability of a federal government to build a healthier, more inclusive and secure society is the imagination and political will of its leaders. A government which was genuinely committed to repairing the social damage that was done to this country over the past decade, could allocate $25 billion to the task in just the first year of its mandate–with more in subsequent years, thanks to continuing economic growth and the ongoing erosion of the debt burden. The Liberals will use the memory of Pierre Trudeau to paint themselves as the party of "social" Canada in the coming election. But the extent to which their real spending commitments fall short of this $25 billion benchmark, will serve as a useful indicator of the extent to which they are likely to continue their long tradition of running from the left, and governing from the right.

The Ballooning Social Debt

Some would have us believe that the federal surplus would be better spent by individuals than by government. In their view, the millions of daily decisions individuals make in the marketplace produce a better outcome than democratically-debated public policy. If this were really true, the solution would be obvious: cut taxes, give the money back to the people to spend. Indeed, according to the Canadian Alliance, the government has been dragging its feet on the issue.

However, this argument does not hold. In many ways, the market just does not deliver "the goods." On the contrary, although the market economy produces jobs and raises average incomes during its periods of growth, it does not distribute the benefits equitably, nor provide economic security for many or even most of its citizens. We need government to ensure social justice, protect the environment, regulate the economy, and create physical and social infrastructures (such as health care and education).

The federal government's fiscal strategy has caused it to abandon much of its responsibility on this score. It only overcame its budget deficit at the cost of **an accumulation of social deficits, i.e. a ballooning social debt.** While unemployment is down and average earnings are up, these formal labour-market indicators have really only returned to their levels of ten years ago. In the meantime, poverty has spread and deepened. The number of the homeless has skyrocketed. The gap between the rich and the poor has grown. Medicare has been undermined. Student debt loads have reached unprecedented heights. For more and more people, post-secondary education is out of reach. The environment is deteriorating at an alarming rate. In one of the world's richest countries, many communities face a drinking-water crisis.

Instead of correcting market-driven inequalities and ensuring the security of individuals and families, recent government policy has done the opposite. This has created conditions in which systemic oppressions can thrive. The greatest price has been paid by women and historically disadvantaged communities—Aboriginal people, people of colour, people with disabilities, gays and lesbians, francophones outside of Quebec.

Governments must assess the impact of their new policies on women, before they make changes. Unfortunately, they have often failed to do so adequately, or to do so at all. Recent examples include changes to unemployment insurance which have had a much more negative impact on women than on men. The changes to Old Age Security proposed in 1996 would also have had a much more negative effect on women's incomes and security than on men's.

Women's participation in the paid workforce has been much lower than men's. Women are also much more likely to hold temporary and part-time jobs. As a result, their average employment earnings are much lower than men's. Canada has the second highest incidence of low income for women in the OECD.

Women's average incomes are still less than two-thirds of men's. The wage gap has narrowed for women employed full-time, especially those 40 to 54 years of age. However, this is in large part because men's earnings have stagnated. The earnings gap between all men and all women has in fact increased over the last three years. Historically, much of the rise in women's earnings was fuelled by employment gains in areas such as health care, education and the caring professions. But as the public sector was cut back in the fight against the deficit during the 1990s, these advances have been threatened or lost.

In addition to a wage, paid work is the entry ticket to private benefits (e.g., dental care plans, private pensions) and public social-insurance programs (e.g., unemployment insurance, CPP / QPP). As a result of their lower participation rate in paid employment, and their disproportionate share of non-standard employment, women have less access to these private and public benefits. They benefit much less from programs such as the Canada Pension Plan and often cannot qualify for unemployment insurance. This is particularly true since the 1994 and 1996 federal budgets, which made it much harder for workers to qualify for UI. These changes had a much worse impact on women than on men. In 1997, only 32 percent of unemployed women received regular UI benefits.

Excluded from the UI program, many women in times of need are compelled to resort to less adequate public programs, such as social assistance. Yet this too has been drastically affected by government cuts and repressive policies, such as workfare. Lower social assistance rates and workfare have both been precipitated by the federal government's decision to abolish the Canada Assistance Plan in 1996 and replace it with the Canada Health and Social Transfer (CHST). In one stroke, the federal government abolished all but one of the few national standards governing social assistance, in particular the stipulation that the latter must be available to all on the basis of need, rather than being tied to forced labour. Moreover, with the CHST the federal government ceased sharing half the cost of social assistance and social services with the provinces, giving them instead a block grant rolled into a single package earmarked for health and post-secondary education as well.

Women do the lion's share of unpaid work in Canadian society—work that would be worth many hundreds of billions of dollars if given a monetary value. In particular, women perform a much greater proportion than men of the work of caring for the young, the elderly and the sick. Because of the lack of adequate, affordable, and accessible child care, home care and health services—a lack exacerbated by government cuts—women are very often prevented from taking up paid jobs, especially full-time ones.

The consequence very often is poverty. There is a direct link between poverty and low participation in the paid workforce. Thus, almost 50 percent of single women over the age of 65 live in poverty. Among poor couples in 1997, the female spouse had no paid employment in 59 percent of cases, and full-time / full-year employment in only 10 percent of cases. Among non-poor couples in 1997, the female spouse was employed full-time / full-year in 47 percent of cases, and had no paid employment in only 19 percent of cases. Forty percent of families headed by women live in poverty, while female lone-parent families with children under 18 have a poverty rate of 56 percent.

Systemic discrimination against Aboriginal people, members of visible minorities and people with disabilities is compounded with these factors, resulting in much higher rates of unemployment, under-employment and poverty. The 1995 poverty rate among Aboriginal people was 43.4 percent, among visible minorities 35.9 percent, and among people with disabilities 30.8 percent. By contrast, the poverty rate for the Canadian population as a whole was 17.5 percent in 1997.

A Real Choice for Women

The Canadian Women's March Committee, a coalition of twenty-four national women's organizations coordinating World March of Women events in Canada, will, in the coming days, present the federal government a real choice for women. This will take the form of 68 long-term, and 13 immediate, demands, which propose legislative and policy changes which would work towards the eradication of poverty and violence against women in Canada. These demands are consistent with the results of the AFB's own consultations and fiscal outlook.

The current crisis facing so many women and children in Canada today shows that these demands are urgent. The Alternative Federal Budget's fiscal analysis shows that these demands are easily viable. Most pressing are the following thirteen demands for immediate action by the federal government:

1. Restore federal funding to health care and enforce the rules against the privatization of our health care system.
2. Spend an additional 1 percent of the budget on social housing.
3. Set up the promised national child-care fund, starting with an immediate contribution of $2 billion.
4. Increase Old Age Security payments to provide older women with a decent standard of living.
5. Use the surplus from the Employment Insurance Fund to increase benefits, provide longer payments periods and improve access, as well as improve maternity and family benefits.
6. Support women's organizing for equality and democracy by:

- allocating $50 million to front-line, independent, feminist, women- controlled groups committed to ending violence against women, such as women's centres, rape crisis centres and women's shelters;
- recognizing and funding the three autonomous national Aboriginal women's organizations to ensure full participation in all significant public policy decisions, as well as provide adequate funding to Aboriginal women's services, including shelters, in all rural, remote and urban Aboriginal communities;
- funding a national meeting of lesbians to discuss and prioritize areas for legislative and public policy reform;
- providing $30 million in core funding for equality-seeking women's organiza-

tions, which represents $2.00 for every woman and girl child in Canada—our Fair Share.

7. Fund consultations with a wide range of women's equality-seeking organizations prior to all legislative reform of relevance to women's security and equality rights, beginning with the Criminal Code, and ensure access for women from marginalized communities.
8. Implement progressive immigration reform.
9. Contribute to the elimination of poverty around the world by supporting the cancellation of the debts of the 53 poorest countries; increasing Canada's international development aid to 0.7 percent of the Gross National Product.
10. Adopt national standards which guarantee the right to welfare for anyone in need and ban workfare.
11. Recognize the ongoing exclusion of women with disabilities from economic, political and social life and take the essential first step of ensuring and funding full access for women with disabilities to all consultations on issues of relevance to women.
12. Establish a national system of grants based on need to enable access to post-secondary education and reduce student debt.
13. Adopt pro-active pay equity legislation.

Would the fulfilment of these demands throw the federal government back into budget deficits? Not at all. The **2000 Alternative Federal Budget** (2000 AFB)[7] shows that all of these policy options were feasible within the framework of a balanced budget and without increasing the overall level of taxation as a percentage of GDP. The 2000 AFB proposed an ambitious program of new public investment in 2000 and 2001 to attack the social deficit. New spending under this plan would have included:

- $2 billion for National Child Care and Early Education Services;
- $3 billion for health care (including $2 billion for community and home care and $0.5 billion for a National Drug Plan);
- $5.5 billion to bolster family income security through the Child Tax Credit;
- $2 billion for a national Housing Investment Fund;
- $1.4 billion to support post-secondary education;
- $6.0 billion to restore eligibility for Unemployment Insurance benefits;
- $2.9 billion to restore funds cut from income support programs;
- $1.5 billion for investments in infrastructure, with a particular emphasis on environmental infrastructure.

Since the 2000 AFB was published on February 1, economic growth has further swelled federal government revenues. In September 2000, the federal Department of Finance revealed that the growth of its revenues had so exceeded expectations that it had been able to devote $9 billion more to debt repayment than it had budgeted. Clearly, this money could have been spent on paying down the social debt the government owes its poorest citizens. In 2001, the federal government could allocate $25 billion to additional program spending, without raising taxes or incurring a deficit.

A Real Choice for the Federal Government

In the coming months, we shall constantly hear the tax-cut mantra: just cut taxes and everyone will be better off. **But nobody ever built a country on tax cuts!** Such a strategy can only have two outcomes:

- the ongoing degradation of public services already devastated in the name of the war on the deficit—and consequently the impoverishment of Canada's less wealthy citizens, who rely most on those services;

- the redistribution of wealth from the poor to the rich—as a result of which those who have already paid the price for beating the deficit will be called upon to do so all over again, while those who sacrificed nothing will be lining their pockets.

  In this new century, Canadians face a fundamental choice, a choice in which out collective destiny is at stake:

- **either** keep going in the current direction, at the rate suggested by the Liberals or at the swifter pace advocated by the Canadian Alliance—which will mean undermining the fiscal capacity of the state, and will therefore lead to the degradation, privatization or end of the social programs and public services that have turned Canada into a prosperous and relatively egalitarian country;

- **or** change direction, set collective goals worthy of ourselves, and pursue them with all the energy of renewed hope.

To choose the first option would mean placing the market above the public interest, allowing individualism to triumph at the expense of the common good, maximizing the wealth and power of corporations to the detriment of working Canadians, gutting environmental protection, social programs, labour laws, minimum wages.

The second option is a democratic project in the public interest. In choosing sustainable and equitable forms of economic development, this strategy relies on the revitalization of key public institutions: fair taxation, the redistribution of wealth from the rich to the poor, the reconstruction of public services, sound management of the environment.

The Alternative Federal Budget challenges the federal government to rebuild and protect social Canada, by investing the billions of dollars in anticipated surpluses in the rebuilding of public health care, education, social services and income support.

Endnotes

[1] The government's market debt, the amount that it actually owes to lenders (as distinct from public accounts debt which it owes itself for future public service pensions and other obligations) has fallen even faster.

[2] The net federal debt ratio has declined from a peak of over 70 percent of GDP in 1995, to about 55 percent at present. Eighty percent of this decline, however, has been the result of expanding GDP (rather than explicit debt repayment, which has cumulatively reduced the debt burden by less than 3 points).

[3] We use the term "latent surplus" to refer to the surplus that would have obtained in the absence of changes in tax and spending policies. Of course, if a surplus is allocated to tax cuts or increased spending, then it is no longer a surplus.

[4] By measuring the baseline in terms of taxes as a share of GDP, we therefore imply that indexation of the tax system (which only stops the tax ratio from increasing with inflation) does *not* constitute a tax cut. The revenue cost of Martin's 2000 indexation plan is thus excluded from our estimates of the cost of already-announced federal tax cuts, provided below.

[5] Including the value of services (like health care and education) which are partly funded by the federal government, although delivered by lower levels of government.

[6] We have estimated future federal tax revenues by assuming that federal taxes decline by 0.4 points of GDP in both 2000 and again in 2001. This represents a pace of tax cuts, in the wake of the 2000 tax-cut budget, approximately twice as fast as was experienced in actuality between 1997 and 1999. For 2000, this assumption is equivalent to estimating the tax revenue that would have been received had there been no change in the overall tax-to-GDP ratio, and then explicitly subtracting the estimated dollar value of tax cuts announced by Martin for the 2000 fiscal year (which totaled $3.6 billion, not counting the $1.0 billion value that fiscal year of tax indexing– which is not really a tax cut). For 2001, the *official* tax cut timetable would reduce the tax-to-GDP ratio by only another 0.2 points; but since Martin has already confirmed the acceleration of his tax cut timetable, we make the assumption that the 2000 pace of tax cuts is maintained.

[7] *Healthy Families: First Things First. The 2000 Alternative Federal Budget*, Ottawa, Canadian Centre for Policy Alternatives / CHO!CES, 2000 (available on-line at www.policyalternatives.ca).

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