AFB2010

Getting the Job DONE RIGHT

Alternative Federal Budget 2010

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INTRODUCTION

Alternative Federal Budget 2010: Getting the Job Done Right

Introduction

As the worst of the global recession begins to wind down, there is renewed pressure on governments everywhere to keep a steady hand on the wheel and steer their countries into a smooth economic recovery.

Canada wasn't hit as hard as others, but the country is suffering from one of the worst job crises in its history. At the height of Canada's recession, 486,000 full-time jobs evaporated into thin air. Hundreds of thousands of Canadians were thrown out of work and many are still waiting for relief. It's time to get Canadians working again.

The task before Canada is daunting, but not impossible.

There is the political problem of government deficits. A year ago, Canadians ignored the prospect of deficits, knowing the full weight of a global recession was upon us and agreeing it was up to our governments to shield us from the worst of the storm. But as the green shoots of recovery begin to sprout, right-wing pundits are now fuelling deficit hysteria. Their response is to return to the failed policies of the 1990s, urging our governments to sell off Crown assets and slash public spending. Thankfully, as this year's Alternative Federal Budget — AFB 2010 — demonstrates, there is more than one way for a country to dig itself out of a deficit.

There is also the problem of not enough revenue to pay for the programs and services Canadians cherish most; but that, too, is a political problem rooted in years of tax cuts for corporations and the wealthy. AFB 2010 offers a way forward that strengthens our public coffers, improves public services, and keeps Canada competitive.

Most pressing, there is the social problem of too many unemployed prime-aged working Canadians who discovered their Employment Insurance (EI) system isn't recession-proof. As many as 500,000 Canadians who initiated an EI claim in 2009 will exhaust their benefits before finding a new job. Today, only half the country's unemployed receive jobless benefits, and that's with the modest — and temporary — loosening of EI rules last year.

In the coming months, 810,000 more EI beneficiaries could be joining those scrambling for any kind of work, any amount of income. The jobs they used to hold — jobs that once paid mortgages, fed children, and contributed taxes — are not likely to bounce back any time soon without a plan to make it happen. AFB 2010 puts forward that plan.

Canada's economic recovery is fragile. What our governments do in the coming months will deeply affect whether the recovery works only for those invested in stock markets or whether it works for every Canadian household: rich, poor or middle-class.

The challenge before our federal government is not deficit slaying, but creating widely shared and sustainable economic growth. AFB 2010 demonstrates that the task of diminishing deficits will be much more achievable once we get Canadians who've lost their jobs working — contributing — again.

The worst thing Canada's federal, provincial, territorial, and municipal governments could do is to repeat the mistakes of the 1990s. In the 1990s, a series of federal and provincial governments implemented massive cuts that reduced Canada's spending on public services to 1960s levels.

The act of cutting when governments should have been investing to create jobs meant Canada's economic recovery in the 1990s was a jobless one. It took Canada seven long years to gain back the full-time jobs that were lost in the 1990–91 recession.

In what turned out to be a lost decade, much of Canada's economic recovery efforts were eclipsed by a hyper-charged political focus on wiping out deficits through massive cuts to public services, attacks on public sector workers, on the poor, and on the vulnerable. The quality of services as varied as health care, child care, clean water, good roads, and public transit suffered as a result. The cure was far worse than the ailment. Adopting the same approach now would be a backwards step, and would act as a drag on Canada's economic recovery efforts.

Canadians are looking for solutions that will put Canada back to work. AFB 2010 acknowledges that Canada is likely entering into a period of slow economic growth and stubborn unemployment. Unlike the Harper government, which plans to cut off stimulus spending, AFB 2010 implements an assertive job creation strategy designed to help turn a fragile recovery into a robust recovery.

AFB 2010 takes a realistic approach to the federal fiscal shortfall. The federal government's relentless drive to lower corporate income taxes, the GST, and taxes on the wealthy have dangerously eroded its revenue generating capacity. Maintaining the status quo comes at too heavy a price for Canadians to pay.

Instead of re-investing in social and physical infrastructure, the Harper government is expected to begin a round of spending cuts in order to maintain its tax cut agenda. With both government revenues and expenditures near historic lows, there is little left to cut without further eroding the quality of the services Canadians rely on.

Rather than cut public spending, which could plunge Canada back into recession, AFB 2010 puts Canadians back to work and turns recession-hit communities into thriving, prosperous hubs. It takes seriously warnings by the International Monetary Fund (IMF) and the World Bank that the fragile global economic recovery could wilt if governments pull back on their stimulus efforts too quickly. AFB 2010 re-focuses the stimulus and builds investments in public infrastructure and services that will create jobs and improve communities across Canada.

Whether it is a newly hired early learning professional easing the load of a hard-working mother or a construction worker restoring Canada's aging bridges and roads, federal money spent employing Canadians is an investment in our collective future. Physical and social infrastructure investments are key levers to create jobs and reduce unemployment in AFB 2010. Investing $15 billion over three years to improve physical infrastructure in cities across Canada, as well as expanding social infrastructure such as health care ($12 billion) and child care ($8 billion), will create jobs and improve access to these cherished public services for all Canadians. AFB 2010 also invests $5 billion over three years in arts, culture, and communications to allow Canadians to stay connected with one another, with their history, and with their culture.

By making these stimulus investments and job creation efforts top priorities for Canada's economic recovery, AFB 2010 lays out a strategic plan to power up our GDP and deflate our federal deficit without creating unnecessary pain for Canadians. Within a single year, AFB 2010 creates or sustains 330,000 full-time jobs at a time when the sluggish private sector is offering mostly part-time and occasional work. With this plan in place, unemployment will drop to 6.7% in two years.

At its core, AFB 2010's job creation strategy achieves three main goals:

1. Protection for the unemployed: It improves support for the over one-and-a-half million still unemployed by fixing EI qualification requirements, by increasing the length of time EI beneficiaries can remain protected, and by improving benefit levels.

2. Creation of new full-time jobs: It follows the advice of the OECD and the World Bank for governments to keep stimulus spending flowing during the fragile days of the world's economic recovery or risk dipping back into recession. It also unleashes a long overdue industrial and multi-sectoral jobs strategy to win back good paying middle-class jobs and improve Canada's competitiveness in the world economy.

3. Leadership on green jobs: It makes Canada a leader in creating green jobs — jobs that improve the country's energy efficiency and accepts our responsibility to tackle climate change. It invests in sustainable production, green manufacturing, and green skills development.

This hands-on approach to economic recovery is good for the economy, it's good for communities, and it's good for Canadians. By putting the federal government's hands firmly on the steering wheel, AFB 2010 takes Canada safely into economic recovery — and it does so much more.

AFB 2010 recognizes that, especially in times of social and economic upheaval, a government's first duty is to protect the vulnerable. But when it comes to supporting unemployed and poor Canadians, our federal government has lost its way. Canada has the ninth largest economy on the planet, yet its poverty rates rank among the worst of 17 leading developed countries. More than 12% of working-age Canadians live in poverty, and more than one in seven children are poor in Canada, despite its many years of economic growth and affluence. Without a national plan to reduce, and eventually eliminate poverty, recession will only swell the ranks of the poor in this country.

Six provinces — Quebec, Newfoundland and Labrador, Nova Scotia, Ontario, Manitoba and New Brunswick — have poverty reduction plans in place or in development. The remaining provinces have given notice of their intent to tackle poverty, especially since the recession took root in Canada a year ago. The provincial governments have taken the lead, but the job can't be completed without the active partnership of the federal government. In fact, it is the Government of Canada's responsibility to lead the poverty reduction charge with respect to Aboriginal poverty, seniors' poverty, child poverty, and poverty among recent immigrants and people with disabilities. The economic security of these, and all, citizens should not depend on what part of Canada they live in.

AFB 2010 invests in a plan to reduce Canada's poverty rate by 25% within the next five years, and by 75% by 2020. It commits to a National Housing Strategy that ensures no Canadian has to sleep outside within two years. It invests in affordable housing to help end homelessness by 2018. It reduces the share of Canadians facing "core housing need" by half within the next five years. AFB 2010 improves income supports to Canadians, addresses poverty among the elderly by increasing the Guaranteed Income Supplement for low-income seniors by 15%. It doubles the refundable GST credit for low-income Canadians, and it increases the Canada Child Tax Benefit to pull families with children out of the clutches of poverty. The AFB 2010 poverty reduction plan also doubles its efforts on those groups with higher poverty rates, such as Aboriginal people, people with disabilities and mental illness, recent immigrants and refugees, single mothers, and single senior women.

Tackling the fiscal deficit: Less pain, more gain

In order to close the structural deficit as well as engineer a job recovery for Canadians, AFB 2010 redresses the federal government's revenue-generating shortfall through several strategic steps. It assumes environmental leadership by introducing carbon pricing at $50 a tonne in 2010, raising significant revenue over three years. It attempts to restore the formerly progressive nature of Canada's tax system by returning corporate tax rates to the 2006 level and by ensuring that wealthy Canadians who are the primary beneficiaries of much lower taxes on capital gains are taxed at the same rate as working Canadians. That measure alone will generate $13 billion in revenues over three years, significantly contributing to Canada's economic recovery and deficit reduction efforts. And it asks those who are best placed to contribute to Canada's future by establishing a new 31.5% tax bracket for the 0.8% of Canadians who have incomes over $250,000.

These revenue-generating strategies are transformed into powerful investments in Canadian jobs, in the health and vibrancy of our communities, in the stability of our middle and working class, in the support of the unemployed, the poor and the vulnerable, and in the sustainability of our economy and our environment. AFB 2010 accomplishes all this, and puts Canada on a healthy economic footing, by recognizing that there is more than one way for a nation to dig itself out of a deficit and by assuming the leadership required to get the job done. Canada will emerge more prosperous, healthier, and more equal as a result.

Macroeconomic and Fiscal Framework

Introduction

Last year's federal budget was introduced at a time of historic economic upheaval. Stock markets around the world were crashing. Massive international banks once considered masters of the financial world were reduced to wards of the state. International trade that had been the lifeblood of globalization evaporated. And here in Canada, hundreds of thousands of full-time middle class jobs disappeared practically overnight.

A year later, Bay Street predicts a return to economic normalcy by 2011. The Bank of Canada predicts faster economic growth than originally expected, and the federal government is already musing about shutting down the flow of stimulus dollars that came too late last year to be spent. Finance Minister Jim Flaherty has downplayed suggestions of major spending cuts this year, but suggests deep cuts may be in the cards in 2011–12. If a deficit still remains, holding program spending to 3.3% annual growth while maintaining the tax cuts will be the preferred remedial action.[1]

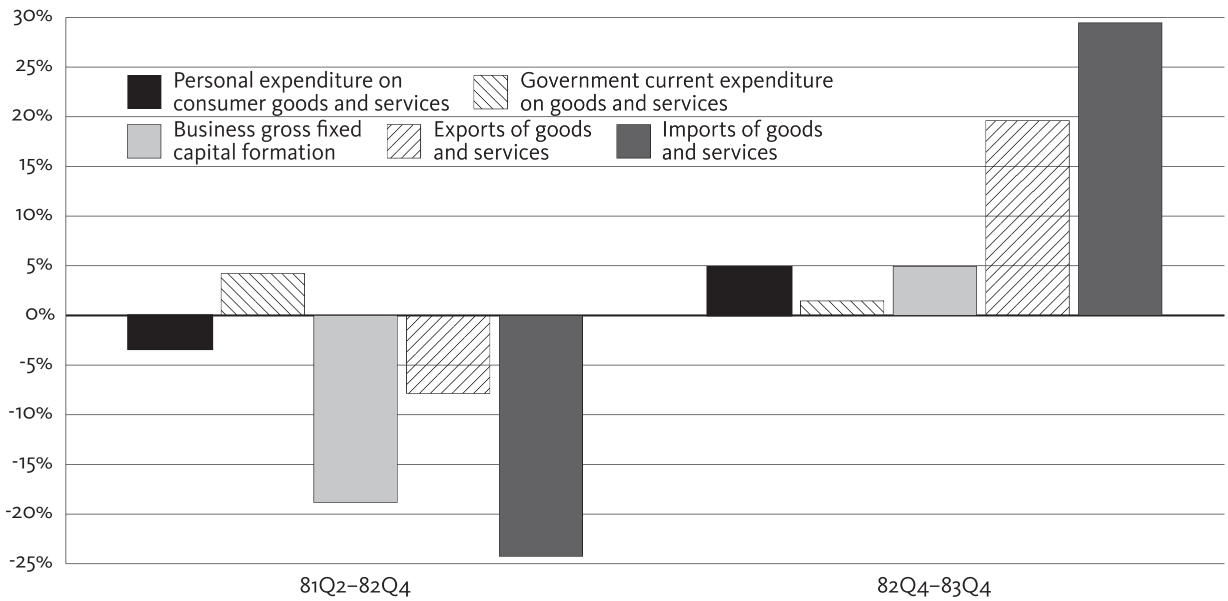
Last year's Alternative Federal Budget (AFB) laid out a stimulus plan that was bolder than the one adopted by the federal government — a plan that would have created more jobs in the worst months of recession and left communities with a stronger system of social and physical infrastructure after years of government neglect. This year's AFB acknowledges that Canada is likely entering into a period of slow economic growth and stubborn unemployment. It offers a plan to implement a well-designed stimulus plan in 2010 to turn a fragile recovery into a robust recovery. Rather than cut public spending, which could plunge Canada back into recession, this year's AFB puts Canadians back to work and turns recession-hit communities into thriving, prosperous hubs.

Anatomy of a recession

Each recession has its own particular precursors and drivers of recovery once the worst is over. By looking at Canada's previous recessions, there may be clues as to how best to manage the fallout of the current one and where to look for future growth.

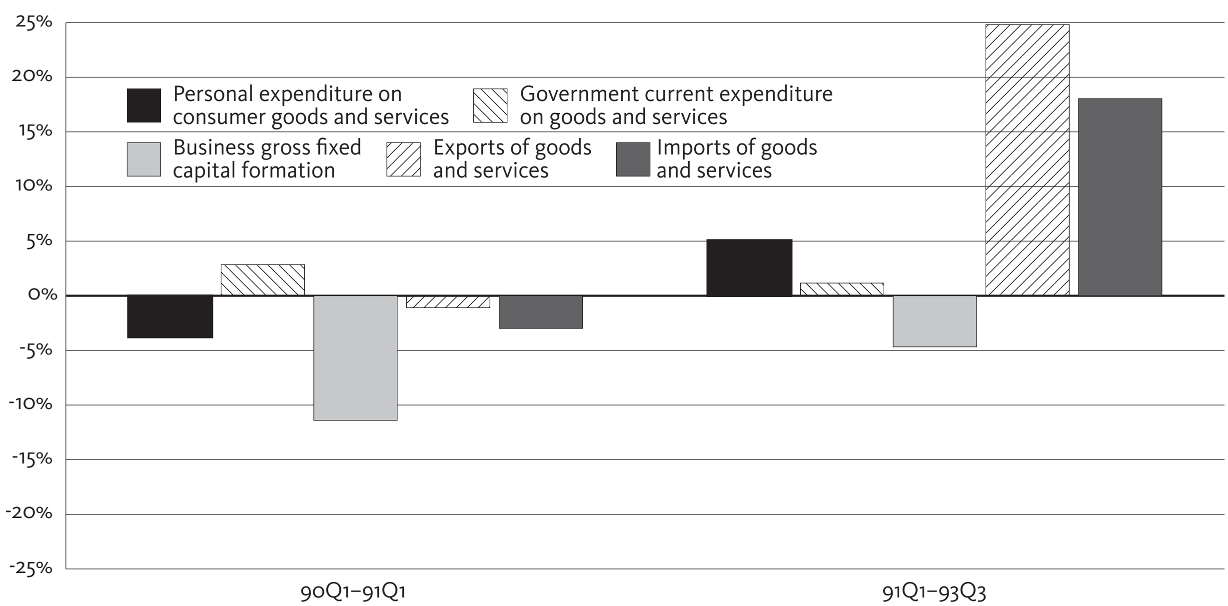
The first of the three most recent recessions in Canada (shown in Chart 1, which occurred in 1981–82, was characterized by a 19% drop in over-

CHART 1 **Peak to Trough Change in Real GDP (Chained 2002) by Component (1981–82)**



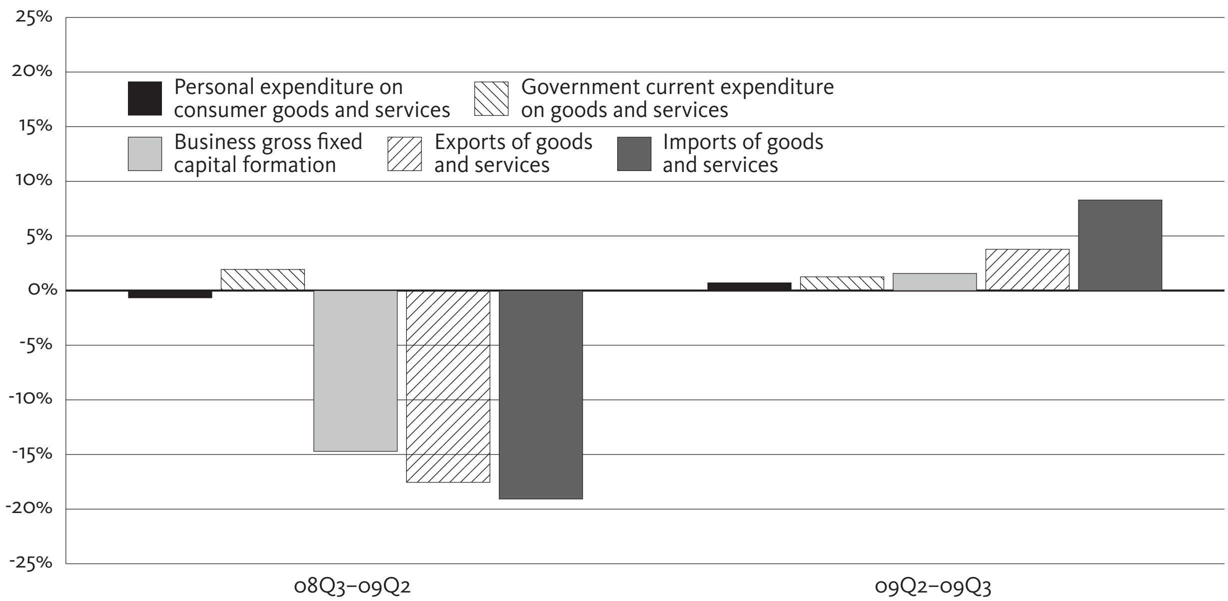
SOURCE Statistics Canada: 13-019-X

CHART 2 **Peak to Trough Change in Real GDP (Chained 2002) by Component (1990–93)**



SOURCE Statistics Canada: 13-019-X

CHART 3 **Peak to Trough Change in Real GDP (Chained 2002) by Component (2008–09)**



SOURCE Statistics Canada: 13-019-X

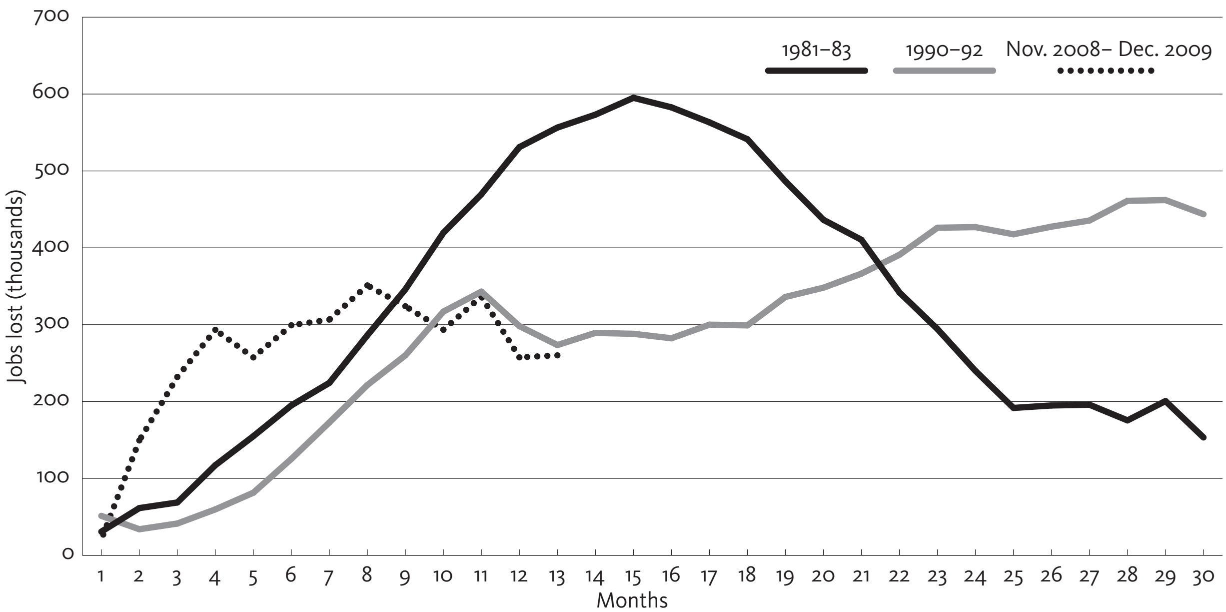
all business investment led by drops in housing construction and investments in equipment. The 1981–82 recession also saw a substantial drop in consumer spending, although government expenditures stayed positive. A massive cutback in imports offset a drop in exports, somewhat buffering the Canadian economy from a rougher recession. The 1981–82 recovery was based largely on a boom in the residential housing sector, which grew by 12%. Exports played an important role as their value rose by 20% at the end of the recession. As the largest component of GDP, the 5% growth in consumer spending had an important underpinning effect.

Canada's 1990–91 recession, shown in Chart 2, was a made-in-Canada recession shaped by domestic factors, including sky-high interest rates. The effect was a crushing blow to home construction, dragging business investment down 11%. The biggest portion of GDP, consumer spending, also suffered significantly, dropping 4%. Within the post-recession recovery, exports jumped by 25%. Consumer spending enjoyed a 5% boost, pushing up real GDP. In the two years it took for GDP to recover from the 1990–91 recession, business investment continued to shrink by an additional 5%, although cushioned somewhat by new home construction.

The prospects for recovery

So far in the 2008–10 recession (as shown in Chart 3), consumer spending has fared relatively well compared to past recessions, falling by only 1%. The same cannot be said for exports, which have dropped by 18% since the third quarter of 2008. Imports also shrank by 19%. None of the previous recessions featured this level of collapse of international trade. The 15% drop in business investment is worse now than in the 1990–91 recession. Similar to the 1981–82 recession, business investments in machinery and equipment took a drubbing, with a drop of 22%. This time around, though, residential construction was not as badly damaged as it was in either 1981–82 or 1990–91, seeing a drop of only 10%.

CHART 4 **Jobs Lost in the Past Three Recessions**



SOURCE Statistics Canada Labour Force Survey

In both of the last two recessions, explosive export growth of at least 20% in the post-recession period played a major role in recovery. Even in the 1990–91 recession, when business investment continued to fall in the recovery period, exports pushed Canada back to pre-recession real GDP levels. Unlike previous recessions, a rapid decline in exports has fuelled the current recession. Canada's export recovery is tightly linked to the American recovery. Although the 30% freefall in exports to the U.S. has stopped, they remain stagnant.[2] Historically high unemployment south of the border, combined with a historically timid U.S. recovery, will further blunt an export-driven recovery in Canada.[3] Recent increases in trade with the E.U. are encouraging, although, representing only 14% of overall exports, they have a long way to go to make up for American declines.

The dramatic fall in exports is linked to massive de-industrialization in Ontario and Quebec. If real GDP growth is examined by industry, we find that one single industry, manufacturing, is responsible for more than half of the real GDP decline since September 2008. Successive federal governments have presided over the dismantling of Canada's manufacturing base, and the cracks are clearly showing. Full-time workers in this industry have been disproportionately affected by the current recession. Moreover, the hollowing out of Canada's industrial base will contribute to continued low labour productivity growth, leading to lower GDP growth in the medium- to long-term, particularly if lower value added sectors fill in for manufacturing in the recovery.

Canada's recession initially caused the dollar to fall below 80 cents U.S. for the first time since 2005 and alleviated pressure on Canadian exporters. The respite was short-lived, however, as the Canadian dollar rebounded to approximately 95 cents U.S. by July 2009 and has stayed there ever since. The Canadian dollar's status as a petro-currency is resurfacing as the price of oil recovers. Confronted by continuing economic weakness in the U.S. and a non-interventionist policy at the Bank of Canada, Canadian exporters are unlikely to see the exchange rate fall to more manageable levels any time soon.

Relatively stable consumer spending may be an important bulwark in this recession, since it has held up much better than in previous recessions. The third-quarter 2009 GDP data shows consumer spending has already recovered to pre-recession levels. However, historically high debt levels for Canadians — 145% of household income — suggest that consumer spending cannot be counted on to lead the recovery.[4] Higher debt in a high unemployment environment has pushed more Canadians into bankruptcy, up 43% since the same time last year.[5]

Government spending during this recession has been the central pillar. Growth in government expenditures has remained positive, unlike all other GDP components. Even here, however, growth rates slowed to 1.9% in the last year compared to 3.8% in the previous year.[6] Dithering in getting stimulus money out the door has meant that the full amount of stimulus spending did not happen in time for the 2009 building season. Much of the planned 2009 building will actually not start until this year.

The prospects for employment

The dramatic drop in exports was accompanied by an equally dramatic drop in employment: Within the first eight months of the recession, Canadians had lost 351,000 jobs. The 1990–91 recession lost that many jobs, too, but only after 21 months. The 1981–83 recession also hit the 351,000 figure after nine months, although the initial months of job losses were not as severe as the present circumstances.

Chart 4 shows the number of jobs lost in each of the past three recessions. It is clear, in terms of the number of Canadians affected, that last year's recession hit harder and faster than either the 1990–91 or the 1981–83 recession.

There are, however, disconcerting similarities to the 1990s recession. In both cases, the plateau of job losses was reached relatively quickly, then job growth stagnation set in. The 1990 job losses took five years to recover. Without concerted action on the job front, jobless Canadians may face a similar dilemma now. Government action is needed to push the unemployment rate back down before the current recession mirrors the previous jobless recovery.

Compared to previous recessions, many more Canadians are working today. The number of jobs lost produces eye-popping numbers, but an examination of the unemployment rates suggests a more muted job loss picture, as presented in Chart 5.

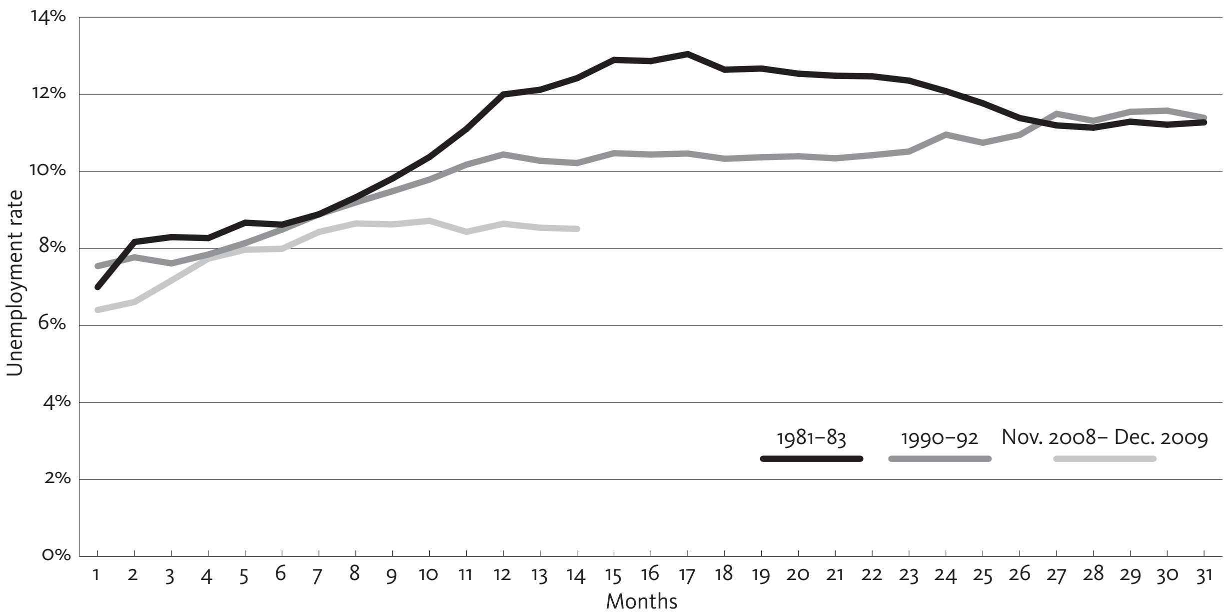
For the second half of the 2000s, Canadians enjoyed a record low unemployment rate of between 6% and 7%. It is from this lowered base that Canadians began the current recession. In the 1981–82 recession, unemployment peaked at a disturbing 13%, but no similarly high figures have yet been observed in this recession.

There does not appear to be an obvious peak for unemployment during this recession. Unemployment seems to have levelled off. In that sense, the present circumstances appear to more closely mirror the jobless recovery of the early-1990s. If little is done to focus attention on the jobs crisis, GDP may well recover, but that will have little effect on the hundreds of thousands of Canadians still searching for work.

The "recovery" so far

On July 23, 2009, Mark Carney, Governor of the Bank of Canada, declared that the recession was over. Unfortunately, the Canadian economy disagreed. GDP growth for the third quarter of 2009 was the smallest possible — only 0.1% adjusted to 0.4% to annualize the growth. The Bank of Canada had previously predicted 2% growth. When it does start to grow in earnest again, the Canadian economy will be climbing out from a very deep hole.

CHART 5 **Unemployment in the Past Three Recessions**



SOURCE Statistics Canada Labour Force Survey

When we look under the hood of the Canadian economy, the situation is far more disturbing. Canada's performance would have been much worse without provincial governments covering for the collapse of business investment and exports. The third quarter 0.1% real GDP growth was made possible by provincial spending in health, education, and social assistance. Without it, larger GDP declines would have been unavoidable.[7] The financial industry actually grew throughout the recession by 2.9%, thanks to government intervention. At the same time, the manufacturing sector, the main casualty of this recession, contracted by 14%. The pronouncements that the Canadian recession is over are clearly premature. Business investment and growth in exports are simply not in place to take up the slack.

In the meantime, federal government revenues have been engineered to fall to their lowest level, as a proportion of GDP, in 50 years. Neither the 1981–82 recession nor the 1990–91 recession reduced federal government revenues to anywhere near their current level of 14.4% of GDP in 2009–10. The relentless drive to lower corporate income tax rates (as well as lower taxes on the wealthy and cuts to the GST) have dangerously eroded the federal government's revenue generating capacity.

Macroeconomic base case

To consider possible future paths for Canada's economy, two scenarios are presented in this section. The first scenario is the status quo case estimated by the Parliamentary Budget Office (PBO) with GDP growth forecasts from Bay Street economists. The second scenario is what the Alternative Federal Budget proposes, which includes smart investments in badly needed community infrastructure and improvements in energy efficiency, which create jobs and generate revenues while building a more robust foundation for private sector expansion in the medium term.

The Nominal GDP lines in Table 1 illustrate the consensus view of Bay Street. The consen-

TABLE 1 Scenario 1: Status Quo Base Case

Macroeconomic Indicators	2009	2010	2011	2012	2013	2014
Nominal GDP ($millions)	1,527,512	1,588,612	1,675,986	1,774,869	1,868,937	1,960,515
Nominal GDP Growth	-4.6%	4.0%	5.5%	5.9%	5.3%	4.9%
Unemployment Rate	8.4%	8.9%	8.5%	7.7%	7.1%	6.8%
Unemployed (000s)	1,542	1,654	1,598	1,468	1,367	1,330
Budgetary Transactions ($millions)	**2009–10**	**2010–11**	**2011–12**	**2012–13**	**2013–14**	**2014–15**
Revenues	219,798	234,118	250,634	265,135	280,731	294,077
Program Spending	242,800	245,000	241,500	247,700	257,100	265,279
Debt Service	31,100	32,200	36,900	40,600	42,600	43,878
Budget Balance	(54,129)	(43,082)	(27,766)	(23,165)	(18,969)	(15,079)
Closing Debt (Accumulated Deficit)	517,829	560,911	588,676	611,841	630,810	645,890
Budgetary Indicators as Percentage of GDP	**2009–10**	**2010–11**	**2011–12**	**2012–13**	**2013–14**	**2014–15**
Revenue/GDP	14.4%	14.7%	15.0%	14.9%	15.0%	15.0%
Expenditures/GDP	15.9%	15.4%	14.4%	14.0%	13.8%	13.5%
Budgetary Balance/GDP	-3.5%	-2.7%	-1.7%	-1.3%	-1.0%	-0.8%
Debt/GDP	33.9%	35.3%	35.1%	34.5%	33.8%	32.9%
Effective Interest Rate	6.3%	6.0%	6.4%	6.8%	6.9%	6.9%

SOURCE PBO estimates[8], CCPA Estimates[9]

sus view as compiled by the PBO is somewhat misleading, as it represents merely an average of divergent forecasts from banks and forecasting firms. Particularly in 2010, there is significant disagreement between forecasters.

The PBO predicts an average real GDP growth rate of 2.3% in 2010. However, there are no forecasters who make a growth projection between 2% and 2.6%. Of the 10 forecasts incorporated into the PBO average, four sit at or below 2% growth. The other six forecasters estimate growth at or above 2.6%. If we separate out the pessimists, on average they see 1.8% growth, while the optimists, on average, see 2.7% growth. The PBO average is dead in the middle at 2.3%.

Ten forecasters are being used in 2010, but by 2012 only five are left, and by 2014 only two forecasters' opinions are being used to generate a GDP growth figure. Given the broad divergence of opinion in 2010, the dearth of forecasters even two years out may seriously hamper the credibility of the GDP growth estimates.

The PBO method of averaging forecasts is the same used by the Department of Finance, and it papers over large divergences of opinion between forecasters. Digging a little deeper shows that there isn't a "right answer" for growth that most economists cluster around. Instead, forecasters can be split right down the middle, as is the case in 2010.

It should be noted that the PBO estimates of government revenues and expenditures differ from the Department of Finance[10] in two important ways. First, on the expenditure side, the Department of Finance framework incorporates approximately $2 billion a year in unidentified spending cuts that the PBO removes. Second, on the revenue side, the PBO estimates 10% lower corporate income tax revenues by 2013–14, given the recent trends in corporate income tax rev-

TABLE 2 Cost of Tax Cuts Since Budget 2006 ($billions)

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	Total
GST	11.6	11.5	12.2	13.1	13.8	14.6	**76.8**
Personal Tax	12.0	15.3	13.1	13.6	14.2	14.9	**83.1**
Business Tax	5.3	7.1	8.6	10.4	13.8	14.9	**80.2**
Total	28.9	33.9	33.9	37.1	41.8	44.4	**220.0**

SOURCE Federal Budget 2009 Pg 255

enue growth. The AFB concurs with both those adjustments.

The forecasters' average GDP growth slowly whittles down the deficit to just over $15 billion in five years, leaving the debt-to-GDP ratio largely unchanged at 33%. For its part, unemployment also slowly comes back to below 7% by 2014–15 and settles in at 6.8%.

The deficit lingers despite four years of 5% to 6% nominal GDP growth. The projections above, combined with additional PBO analysis, exposes the structural deficit that the Harper government has created within government finances.[11] Continued corporate tax cuts and a two percentage point cut in the GST wiped out Canada's federal fiscal surplus and created a long-term structural gap in government finances.

Table 2 illustrates the size of the revenue hole created by the Harper government since 2006. If tax rates had been maintained at 2006 levels, the deficit would have disappeared by 2011–12 instead of continuing indefinitely into the future. By 2011–12, there would have been a massive $10 billion surplus that could have extended the stimulus package or been invested in social infrastructure to continue to create jobs.

Instead of reinvesting in social and physical infrastructure, the Harper government is expected to refocus its attention on cutting back support for that infrastructure through spending cuts. With both government revenues and expenditures at or below their historic lows, there is little left to cut without affecting services. Nonetheless, the structural deficit created by growing corporate tax cuts will be used as ammunition to pare back an already emaciated public service that had nothing to do with the structural deficit in the first place. Without recognition that it is tax cuts and not program spending that is causing the federal structural deficit, stimulus investments may paradoxically result in much lower government infrastructure spending than when the recession hit.

In the status quo base case, the government is not using historically low interest rates to build a Canada that is better prepared for the future. After 2010–11, it will be a do-it-yourself recovery, prolonging the agony for many unemployed Canadians.

AFB fiscal framework

This year's AFB puts the levers of government to work to improve Canadians' lives. Its focus is on helping Canadians get back to work by providing them with better education, better working opportunities, better child care, and sustained economic growth that preserves, instead of degrades, our environment.

A focus on people and responsible fiscal policy are not mutually exclusive. By themselves, governments cannot boost Canada out of economic stagnation; both consumers and businesses must join in. But with consumers at record high debt loads and businesses having difficulty exporting their products, governments must take a leadership role in creating and maintaining the momentum of recovery. This year's AFB expands government spending, but does so with a focus on job creation. More Canadians working means

TABLE 3 **AFB Fiscal Framework**

Revenues ($milions)	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Base Case	219,798	234,118	250,634	265,135	280,731	294,077
Net AFB Revenue Measures		4,605	29,798	48,965	55,077	58,365
Multiplier Effect		5,602	3,927	2,270	3,653	6,100
Total	219,798	244,326	284,359	316,370	339,461	358,542
Expenditures ($millions)						
Base Case	242,800	245,000	241,500	247,700	257,100	265,279
Net AFB Program Measures		30,944	45,028	47,913	50,221	50,907
Total	242,800	275,944	286,528	295,613	307,321	316,186
Debt Service	31,100	32,831	38,679	42,879	44,647	45,491
Budget Balance (Deficit)	(54,102)	(64,450)	(40,847)	(21,122)	(12,507)	(3,135)
Closing Debt (Accumulated Deficit)	517,802	582,252	623,099	645,222	657,729	660,864
Budgetary Indicators as Percentage of GDP						
Revenue/GDP	14.4%	15.0%	16.6%	17.7%	18.1%	18.2%
Expenditures/GDP	15.9%	16.9%	16.7%	16.5%	16.4%	16.1%
Budgetary Balance/GDP	-3.5%	-3.9%	-2.4%	-1.2%	-0.7%	-0.2%
Debt/GDP	33.9%	35.6%	36.4%	36.1%	35.0%	33.6%
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
AFB Jobs Created (000s)		324	328	180	88	6
Unemployed (000s)	1,542	1,330	1,270	1,289	1,280	1,324
Unemployment Rate	8.4%	7.2%	6.7%	6.7%	6.6%	6.7%

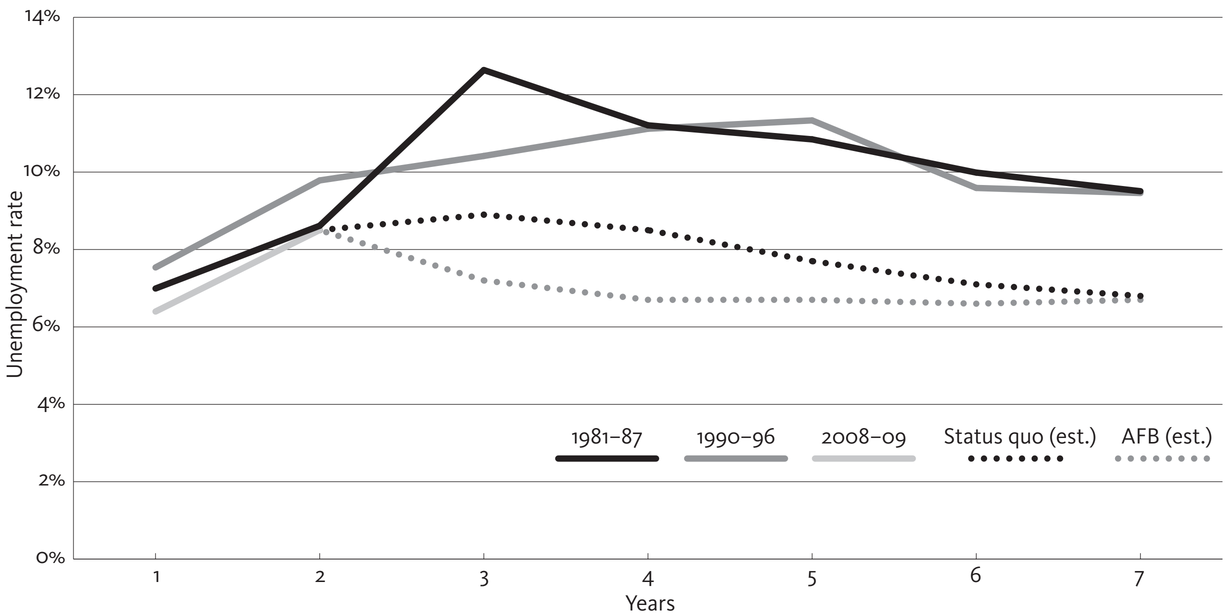
more Canadians contributing taxes, and more spending means more GDP growth.

Hiring Canadians to do work in Canada has the biggest job-creating potential.[12] Whether it is a newly hired child care professional easing the load of a hard-working mother or a construction worker restoring Canada's aging bridges and roads, money spent employing Canadians directly creates jobs. In the coming low growth, high unemployment environment, the federal government needs to get assertive about adopting a jobs growth strategy.

The AFB fiscal framework assumes that much of the automotive sector loans will be paid back over the coming years. The U.S. Government Accountability Office reported that approximately 5/8th of the automotive investments are likely to be paid back.[13] Canadian loans to the automotive industry were directly proportional to the U.S. effort, so, while no similar Canadian studies exist, it is likely Ottawa will see a similar return. The Harper government assumed that 0% of the loans would be paid back. Current federal government auto investments should total approximately $8 billion by year's end (they currently stand at $7.6 billion).[14]

The AFB's job creation figures come from Informetrica Limited's employment multipliers. By spending money in areas with strong job creating potential like infrastructure and avoiding weak job creation measures like tax cuts, the AFB maximizes the total number of jobs that can be created in 2010. The AFB manages to create more jobs with a lower deficit by focusing new spending in job-creating areas and by raising new revenue. Several new revenue programs

CHART 6 **Unemployment in Previous Recessions & Future Projections**



SOURCE Labour Force Survey, Table 1, Table 3

are introduced that specifically tax sectors like the financial and oil and gas industries so they contribute to Canada's deficit reduction effort. At the same time, spending is focused on sectors that create the most jobs per dollar spent. The shift allows for a net increase in jobs and net GDP growth while restoring the federal government's finances.

By focusing on job creating economic recovery instead of on balanced budgets, the AFB manages what the Harper government has not: higher growth with a smaller deficit and a comparable debt to GDP ratio of 34%. Most importantly as Chart 6 illustrates, the AFB package will create more jobs sooner — driving down Canada's unemployment rate more quickly. By 2011, the AFB package will have created or sustained 330,000 jobs. With this boost, unemployment will be back to pre-recession levels at 6.7%. However, the Harper government's "job strategy" would leave unemployment at 8.5%.

As the economy recovers, the AFB will slowly hand off job creation responsibilities to the private sector. The five-year projection shows the gap between the AFB and the status quo narrowing. In the meantime, the AFB jobs strategy has managed to significantly shorten the recessionary effects on Canadians. The jobless recovery has been transformed by the AFB plan into a strong labour market with better infrastructure, stronger social programs and a smaller deficit.

AFB programs

This year's AFB covers 17 separate, fully costed priority areas to improve the lives of Canadians. They are detailed in Table 6. While there are many new priorities, several stand out. Tables 4 and 5 outline the top 10 spending priorities and top 5 revenue/savings priorities for AFB 2010.

Table 4 shows how focused the AFB is on poverty reduction with more than $25 billion going towards this goal over three years. In a time of anaemic economic growth, Canadians hardest hit by recession still need support. Employment Insurance, specifically, supports those most di-

TABLE 4 Top 10 AFB Spending Priorities (First 3 years)

	3 Year Cost ($millions)	Percentage of Total AFB Expenditure Changes
Poverty Reduction	$25,096	20%
Cities and Communities	$14,867	12%
Health Care	$12,310	10%
Provincial Harmonization of Carbon Tax	$11,835	10%
Employment Insurance	$10,100	8%
Child Care	$8,300	7%
Green Energy Carbon Tax Refund	$7,480	6%
Affordable Housing	$5,889	5%
Arts, Culture and Communications	$5,251	4%
Sectoral Development	$4,886	4%

TABLE 5 Top 5 AFB Revenue or Savings Priorities (First 3 years)

	3 Year Revenue/Savings ($millions)	Percent of Total AFB Revenue Changes
Carbon Tax	$23,670	30%
22.12% Corporate Tax rate	$22,046	28%
Fully Tax Capital Gains	$12,920	16%
Defence Spending	$7,200	9%
Increase GST to 6%	$5,175	7%

rectly affected by the last year of job losses but current EI benefits aren't up to the challenges of this recession. The AFB would devote $10 billion over three years to EI improvements.

Physical and social infrastructure are key levers in this year's AFB to create jobs and reduce unemployment. Investing in $15 billion to improve physical infrastructure in cities across Canada as well as expanding social infrastructure such as health care ($12 billion) and child care ($8 billion) will create jobs and ranks high on the AFB's list of priorities. Much of the additional spending on cities would be financed by a one percentage point increase in the GST as outlined in Table 5.

Maintaining economic growth should not come at the expense of the environment, such as through increased greenhouse gas emissions. The AFB supports a strong carbon pricing system. Much of the revenue will be recycled through a harmonization with the provinces ($12 billion) and a Green Energy Carbon Tax Refund for low-income Canadians ($7 billion).

Sufficient funding for social housing has been lacking in Canada for some years. The AFB will rectify this with $6 bilion in new investments over three years, amounting to 5% of all AFB expenditures.

Arts, Culture and Communications allow Canadians to stay connected with each other, with their history and with their culture. An investment in Canadian broadband connectivity makes up the majority of the $5 billion investment over three years in this area.

The 10th priority for the 2010 AFB is a change in how economic management happens in Canada. Instead of allowing Canadians to be buffeted by the shifting winds of the market, the AFB would more consciously steer sectoral development through a $5 billion investment over three years.

In order to close the structural deficit as well as finance the investments in Table 4, the AFB rebalances taxation to reduce inequalities. The introduction of carbon pricing at $50/tonne in 2010 raises significant revenue over three years. Most of this revenue is dedicated to investments in low-income Canadians and the provinces, as shown in Table 4.

The AFB would also raise the corporate tax rate back to its 2006 level. At the same time as deficits are increasing, the corporate income tax rate is still dropping. Corporations should contribute their fair share. Wealthy Canadians who are the primary beneficiaries of much lower taxes on capital gains should also contribute their fair share and be taxed at the same rate as working Canadians. Such a measure would raise $12 billion over three years.

Defence spending has exploded since 2001. Instead of investing in child care and our cities, the federal government has been investing in combat operations in Afghanistan. The AFB would pare back defence expenditures to 2001 levels, saving $7 billion over three years.

Conclusion

It is a false dichotomy to claim that a responsible debt/deficit management policy cannot go hand in hand with strong job creation. By closing its eyes to the investments that need to be made, the Harper government is condemning Canadians to slower GDP growth and higher unemployment for years to come. In contrast, through focused tax reforms and targeted spending, Canadians can come out ahead on jobs, GDP and deficits. The 2010 AFB shows us how.

Notes

1 The introduction of the 3.3% growth in program spending can be tracked to a November 20, 2009 speech by the minister of finance. http://www.fin.gc.ca/n08/09–110_1-eng.asp

2 Statistics Canada, Canadian International Merchandise Trade, November 13th, 2009.

3 For an analysis of the weakness of this recovery in the US see TD Economics, How will the Great Recession and Its Recovery Compare to the Past, November 6th, 2009.

4 Statistics Canada December 14, 2009 National Balance Sheet Accounts, Third Quarter 2009 http://www.statcan.gc.ca/daily-quotidien/091214/dq091214a-eng.htm

5 % change September 2009 compared to September 2008, Office of the Superintendent of Bankruptcy Canada, Insolvency Statistics in Canada — September 2009

6 Comparing real GDP (Chained 2002) 2008Q3 through 2009Q2 to 2007Q3 through 2008Q2

7 See http://www.statcan.gc.ca/daily-quotidien/091030/t091030a1-eng.htm

8 Office of the Parliamentary Budget Office, November 2, 2009, Economic and Fiscal Assessment Update, Ottawa.

9 CCPA Estimates include all figures for 2014–15 (excluding Nominal GDP & Nominal GDP Growth) as well as Labour Force and Unemployed estimates

10 Department of Finance Canada, September 2009, Updated of Economic and Fiscal Projections

11 Office of the Parliamentary Budget Officer, January 13, 2010, Estimating Potential GDP and the Government's Structural Budget Balance.

12 See Government of Canada, Federal Budget 2009:Annex 1, pg 240.

13 United States Government Accountability Office, Financial Audit: Office of Financial Stability (Troubled Asset Relieve Program Fiscal Year 2009 Financial Statements, December 2009.

14 See http://www.thespec.com/News/Local/article/575893 & http://www.thestar.com/business/article/632971

TABLE 6 **AFB Program List** ($millions)

Program Name	2010–11	2011–12	2012–13
Aboriginal			
Education in First Nations Communities	700	700	700
Education Infrastructure in First Nations Communities	150	150	150
Band Support Funding	65	65	65
Urban Aboriginals	122	122	122
Sisters in Spirit Initiative	5	5	5
Educational Seats for Aboriginal Women	30	30	30
Agriculture			
Just Agricultural Transition Income Program	333	333	333
Guaranteed Annual Farmer Income Program	500	500	500
Global Resilience Agricultural Support Program	200	200	200
Cut Biofuel Subsidies	(200)	(200)	(200)
Arts, Culture and Communications			
Arts & Culture "Third Pillar"	25	25	25
Investing in a Creative economy	189	272	354
Cultural Infrastructure	77	82	82
Broadband Consultation	1		
Create New National Public Access Points	40	40	40
Expand Canadian Broadband		2,000	2,000
Carbon Pricing & The Environment			
Carbon Tax	0	(9,593)	(14,078)
Provincial Harmonization	0	4,796	7,039
Green Energy Tax Refund	0	3,400	4,080
Renewable Energy	551	551	551
Ecosystems & Biodiversity	208	208	178
Safeguarding Freshwater and Watersheds	854	854	854
Child Care			
Create Provincial Social Transfer for Child Care	1,700	2,700	3,900
Cities and Communities			
Recession Relief for Non-Profits	1,000	0	0
Gas Tax Transfer Indexed to 3%	60	122	185
Green Community Transformation	1,500	6,000	6,000
Defence & International Development			
Spending Back to Pre-9–11 Levels	(1,200)	(2,400)	(3,600)
ODA to Increase to 0.7% of GNI	615	700	790

Program Name	2010–11	2011–12	2012–13
Employment Insurance			
Universal Entrance of 360 Hours	1,500	1,300	1,300
Benefits are 60% of Best 12 Weeks	1,000	900	800
26 Week Temporary Extension of Benefits	2,500	800	0
Health Care			
Extended Health Services	2,201	2,245	2,290
Groundwork for Pharmacare	900	1,200	2,300
Royal Commission on Pharmacare	10	10	0
Foreign Medical Credential Recognition	5	5	5
Aboriginal Medical Seats	50	50	50
Migrant Worker Health	20	20	20
Educational Support for Medical Students (debt, tuition)	100	100	100
EI Retraining for Health Care Workers	200	200	200
Health Human Resources Innovation Fund	10	10	10
Housing			
New Affordable Housing Supply	1,700	1,700	1,700
Homelessness Partnering Strategy	135	135	135
Residential Rehabilitation Assistance Program	128	128	128
Immigration			
Continue Foreign Credential Recognition Program	25	50	50
Extend Wage Earner Protection Program	40	30	30
Equity Seeking Group internships	50	50	50
Court Challenges Program	3	3	3
Post Secondary Education			
Post Secondary Education Transfer to the Provinces	300	600	900
Create New Income Tested Grants	2,073	2,174	2,276
Cancel Textbook Tax Credit	(83)	(84)	(85)
Cancel Scholarship Tax Credit	(39)	(39)	(40)
Cancel Tuition Fee and Education Tax Credit	(1,025)	(1,045)	(1,065)
Cancel RESP	(300)	(340)	(380)
Cancel Canada Education Savings Grant	(626)	(666)	(706)
Aboriginal Education Funding	240	240	240
Increased Merit Based Research Grants	250	250	250
Poverty Reduction			
Poverty Reduction Transfer to Provinces	2,000	2,000	2,000
CCTB Increase	1,537	3,105	3,136
Double Refundable GST Credit	3,720	3,772	3,825

Program Name	2010–11	2011–12	2012–13
Sectoral Development			
Sectoral Development Councils	50	50	50
Sustainable Forestry and Skills Programs	200	200	200
Producer Responsibility Motor Vehicle Program	300	300	300
Green Car Levy	(300)	(300)	(300)
Green Manufacturing Fund	500	500	500
Green Skills Development	100	100	100
Canadian Development Bank Startup	1,000	1,000	0
Youth Summer Employment Program	112	112	112
Seniors			
Increase Singles GIS benefits by 15%	847	880	922
Decrease Residency Requirements	40	40	40
The Tax System			
31.5% Top Personal Income Tax Bracket	(386)	(1,639)	(1,755)
Cap Tax Free Savings Accounts	(5)	(50)	(190)
Fully Tax Capital Gains	0	(4,920)	(8,000)
Fully Tax Stock Options	0	(705)	(1,050)
Increase GST to 6%	0	0	(5,175)
22.12% Corporate Tax rate	(661)	(8,086)	(13,300)
29.12% Corporate Income Tax for Oil & Gas	0	(925)	(1,308)
No Meal/Entertainment Deduction	0	(208)	(314)
Transaction Tax	(316)	(323)	(329)
Cap RRSP Contributions	(240)	(293)	(347)
Water			
Water Operator Training & Conservation	50	50	50
Research Into Watershed and Climate Change Impacts	20	30	40
Research Into Water Quality Monitoring & Increased Stations & Gems	100	100	125
Study of Water Contamination of the Tar Sands	30		
Total AFB Expenditure Changes	**30,944**	**45,028**	**47,913**
Total AFB Revenue Changes	**(3,355)**	**(28,548)**	**(47,715)**

Monetary Policy

Almost immediately following the worldwide financial meltdown, the Bank of Canada began lowering its key lending rate from 3% to 0.25% between September 2008 and April 2009. This near-zero rate is the lowest in Canadian history.

In an unprecedented move to jawbone down long-term interest rates, the Bank pledged — barring the return of inflation — to keep its main rate at that level until the middle of 2010. Even this date to begin raising interest rates is premature, since inflation is nowhere on the horizon. In fact, the greater threat at the moment is *de*flation. Moreover, in looking solely at factors that affect consumer prices (with its rigid 2% inflation target), the Bank is ignoring the inflation of asset prices and the severe effects of asset price bubbles on the real economy.

The Canadian dollar is now seriously overvalued, threatening economic recovery and causing a further slide in Canadian exports. The Bank of Canada should be giving top priority to measures designed to lower unemployment and mitigate speculative capital inflows that are driving up our dollar.

The AFB will instruct the Bank of Canada to maintain its key lending rate at 0.25%; increase its inflation target from 2% to 4% as recommended by the IMF; and broaden its policy goals to include asset bubbles, employment, and economic growth, along with inflation, as near-term objectives.

Financial sector regulation

Since October 2008, the Harper government has purchased $65.9 billion worth of residential mortgages from Canadian banks, and auctions are continuing to a promised potential maximum of $125 billion. The amount of funds marshalled to provide liquidity to the banks is staggering. By the New Year, the government had already purchased the equivalent of almost the entire value of the fiscal stimulus package for 2009, including provincial contributions.

The Bank of Canada also created several additional loan facilities to channel funds to financial firms, including Term Purchase and Resale Agreements, as well as a Term Loan Facility, which allowed firms to borrow from the Bank using a variety of financial assets as collateral.

The government's stated purpose in providing this massive financial assistance (and the easing of interest rates to near zero) was that it would make loans and mortgages more available and affordable to Canadian businesses and households. But, because it imposed no conditions or reporting requirements on the banks, it is difficult to know whether these measures did in fact have the desired result of increasing lending to businesses and households. On the contrary, there are signs that credit market conditions continued to be tight, despite these extraordinary measures. Short-term business credit has contracted severely since the financial rescue package was delivered. Consumer credit has continued to grow, although at a reduced rate.

This is unacceptable. If government, and ultimately the taxpayer, is going to provide this high level of support to financial institutions, it is incumbent on them to supply adequate credit for a real economic recovery. The AFB will ensure that such conditions and reporting requirements are applied to any future bailout.

Moreover, government action has enabled the Big Six banks to register very healthy profits throughout 2009 — a combined $4 billion in the quarter ending October — and to hand out bonuses that will reach a record $8.3-billion for fiscal 2009, an increase of 18% from 2008. Banks should pay their fair share of the cost of recovery, specifically the cost of the fiscal stimulus, in the form of additional taxes *(addressed in chapter on Taxation)*.

To further protect the Canadian financial system from instability and systemic risk down the road, the AFB initiates the following financial reform measures:

- Work with the provinces to create a single national Canadian securities regulator with responsibility for regulating all financial institutions, markets, and instruments.
- Authorize the Office of the Superintendent of Financial Institutions (OSFI) to approve all financial instruments that are available in Canada to Canadians, starting with all instruments handled by federally regulated financial institutions. When the Canadian securities regulator is set up, all financial instruments should be regulated, as well as finance companies, hedge funds, private capital funds, and trusts. They will be required to have appropriate capital reserves against all obligations.
- Ensure that the OSFI examines executive compensation schemes to make sure they do not encourage risk-taking that would put financial institutions, and indeed the whole system, in jeopardy.
- With all financial institutions under federal regulation, capital rules similar to the banks and federally regulated insurance companies will be applied across the board. A "countercyclical capital charge" will be a reasonable first step for Canada.
- The credit rating agencies operating in Canada will be put under close scrutiny. High ratings were given to ABC paper, which resulted in serious problems here. Credit rating agencies operate with clear conflicts of interest, as they are paid by the issuers of the securities being rated. The AFB will make credit ratings a public good provided by independent analysts who are free from conflicts of interest.
- Payment by credit card has become the principal method of consumer payment and a major part of retail operations. This business in now dominated by two independent and largely unregulated companies, Visa and Mastercard. For both prudential and consumer-interest reasons, the AFB will require these companies to have their Canadian operations operate as federally-regulated financial institutions.

The Tax System

Progressive taxation should be central to Canada's deficit debate. As a share of the economy, federal spending remains near historic lows. Even if one were inclined to cut expenditures, there is little room to do so. Deficit-fighters should instead focus on the revenue side of the ledger.

The government forecasts that an economic recovery will increase revenues. The Alternative Federal Budget notes that, in a context of high unemployment, job-creation programs would further increase tax revenues. As outlined in the preceding chapter, additional spending on such programs entails a somewhat larger deficit in the coming fiscal year, but smaller deficits in the future.

However, even with low official unemployment before the economic crisis, deep tax cuts had already pushed the federal budget to the brink of deficit. As the Parliamentary Budget Officer recently concluded, "statutory corporate income tax and GST rate reductions push the projected level of structural revenues relative to potential income close to their lowest level since 1976–77."[1] Sustainable federal finances require reversing these tax cuts and/or expanding other taxes.

Last year's AFB struck a balance between running stimulative deficits during the recession and avoiding structural deficits afterward. It proposed a package of tax increases effective July 1, 2011. Most of these increases apply to investment income, which is particularly sensitive to the business cycle and concentrated among the rich. Such tax reform would counter income inequality and generate significantly more revenue as corporate profits and financial markets recover. This year's AFB updates and continues that approach.

Provincial income taxes generally apply to income as defined by the federal government. Although the AFB projects only federal revenues, it is important to note that broadening the tax base to include more capital gains, other investment income and stock options would also substantially increase provincial revenues.

Tax high incomes

Beginning in the 2011 tax year, the AFB will establish a new 31.5% tax bracket for income over $250,000. This change will affect only the richest 0.8% of Canadian tax-filers and will coincide with the expiry of the Bush tax cuts for Americans making more than $250,000. It will raise $3.8 billion over three fiscal years.

The AFB will limit RRSP contributions to $20,000 per year, the maximum in effect for the 2008 tax year. Since RRSP contribution room equals 18% of earnings, only Canadians making more than $111,000 annually will be affected. By modestly reducing RRSP tax deductions at the top end, this limit will retain $0.9 billion of revenue over three fiscal years.

Cap Tax Free Savings Accounts

Although most Canadians do not have sufficient savings to maximize their RRSP contributions, the 2008 federal budget introduced another tax-assisted savings vehicle. Adults will be allowed to contribute up to $5,000 annually to Tax Free Savings Accounts.

Proponents contend that TFSAs will help low-income earners, who have little incentive to contribute to RRSPs because withdrawals during retirement are clawed back from the Guaranteed Income Supplement. In fact, most of the gains from TFSAs will flow to the affluent minority of Canadians who have significant annual savings in excess of the RRSP-contribution limit. Finance Canada estimates that, as TFSAs expand over the next two decades, their cost will balloon to $3 billion per year in lost federal revenues.[2]

The AFB maintains the $10,000 of contribution room given to each Canadian so far, but will not add to it in future years. This policy will enable low-income Canadians to save tax-free without losing GIS benefits, but will not permit the wealthy to accumulate huge additional pools of tax-free savings at public expense. Capping TFSAs will save $0.2 billion over the first three fiscal years and exponentially more in subsequent fiscal years.

Fully tax capital gains

Canadian income tax applies to the full value of employment earnings, but to only half the value of capital gains. In 2009, this inequity cost $3.2 billion in lost personal tax revenue and $3.2 billion in lost corporate tax revenue. It had been almost twice as expensive prior to the stock-market crash.[3] Half of taxable capital gains (49.6%) accrue to the richest 0.8% of tax-filers, who enjoy annual incomes over $250,000.[4]

The justifications are that light taxation of capital gains encourages investment and that the portion of capital gains that simply reflects inflation should not be taxed. But trading financial instruments or property often does not lead to genuinely productive investment, as the economic crisis painfully illustrated.

The AFB will tax the full value of capital gains — over and above inflation — that are realized after July 1, 2011. This approach will increase federal revenues by $12.9 billion over two fiscal years.

Fully tax stock options

The Canadian tax system treats employee stock options as capital gains rather than as employment earnings, and does not tax such options until they are exercised. The 2000 federal budget introduced some of these provisions in response to the supposed "brain drain" from Canada to the United States, a notion that has since been debunked. In 2009, the favourable tax treatment of stock options reduced tax revenue by $0.8 billion.[5]

The main beneficiaries are highly-paid corporate executives. Based on the value of options vested or exercised in 2008, this tax subsidy was worth an average of $700,000 to each of Canada's top 100 Chief Executive Officers.[6]

Starting on July 1, 2011, the AFB will tax the full value of employee stock options when they are given. Recipients will claim subsequent changes in the value of these options as capital gains or losses upon realization. This approach will collect an additional $1.8 billion over two fiscal years.

Tax financial transactions

The basic idea of a transactions tax is to raise money by levying a low rate of tax on financial sector activities which are seen to be of limited utility or even damaging to the real economy. Keynes called for a tax on equities trading to reduce the froth of short-term speculative behaviour which had nothing to do with real investment. James Tobin wanted to give greater weight to economic fundamentals and to central banks when it came to the setting of interest rates in the world of opportunity for speculation opened up by floating exchange rates. A low transactions tax, it is argued, has little or no impact upon useful, longer-term transactions, but limits "noise" trading and very short-term "in-and-out" speculation.

The economic crisis has created widespread support for a tax on securities transactions to recoup the cost of bailing out financial institutions. The tax rate would be a small fraction of one percent (0.3% to be exact), low enough to have essentially no effect on the financing of real economic activity. But it would be enough to deter purely speculative activity involving huge volumes of transactions that individually provide very low returns.

European leaders are proposing a financial transactions tax, and the G-20 has commissioned the International Monetary Fund to study the concept. Unfortunately, Canada's Finance Minister has been the most outspoken opponent. While the U.S. administration has not endorsed a tax on transactions, it is proposing a new tax on the liabilities of large financial institutions.

Various types of financial transactions are liable for taxation. A tax on currency exchanges is the most widely recognized method of this type of transaction. The AFB recognizes that Canada could not realistically tax currency transactions unless the United States and others also did so. However, in global forums, the Canadian government should be advocating for such a tax rather than against it.

In the absence of international agreement on the subject, the AFB will push forward with a tax on securities transactions in Canada. Every time a stock trades hands, for instance, a small 0.3% charge will be levied. This type of taxation is in line with a similar tax in the U.K. and does not require the same type of international coordination required of a currency exchange tax. Over its first three years, it is expected to raise just under a billion dollars.

Reinstate corporate taxes

The AFB will maintain the 2010 federal corporate income tax rate of 18% until July 1, 2011. It will then reinstate the 21% general rate and 1.12% corporate surtax that had been in effect from 2004 through 2007, the year before the recession started. Even when added to provincial corporate taxes, this rate is well below the U.S. average and lower than most G-7 countries.

The AFB's general corporate tax rate will increase revenues by $22 billion over three fiscal years. Also on July 1, 2011, the AFB will end the corporate tax deduction for meal and entertainment expenses, saving $0.5 billion over two years.

As discussed in the Sectoral Development chapter, the AFB will enact a 28% corporate tax rate for the oil and gas industry, raising $2.2 billion over two years. There are precedents for a special tax rate on oil and gas. While the federal government began cutting its general rate below 28% in 2001, it maintained a 28% rate for resource companies until 2003.[7] The United Kingdom currently levies a higher corporate tax rate for petroleum companies than for other companies.

Canada's current Conservative government has adopted and deepened corporate tax cuts announced by the previous Liberal government.

Specifically, it has legislated a 15% federal corporate tax rate by 2012.

However, according to Finance Canada's own numbers, corporate tax cuts are the least effective form of stimulus. It estimates that every dollar of annual corporate tax cuts adds only 10 cents to Gross Domestic Product (GDP) in the current year and 20 cents in the next year. By comparison, each dollar of annual infrastructure spending adds a dollar to current GDP and $1.50 to next year's GDP.[8]

Corporate tax cuts have also proven ineffective at promoting investment over the longer-term. As Statistics Canada observes, "Over much of the last decade, corporations as a whole have been posting record profits. Meanwhile, business fixed capital investment has been relatively sluggish in recent years." Before the financial crisis, TD Bank noted that the ratio of business investment to profits had fallen to an all-time low.[9]

The C.D. Howe Institute has built the case for corporate tax cuts around lowering Canada's marginal effective tax rate (METR) to compete with other countries. But marginal tax rates are not the appropriate measure of international competitiveness. An investor deciding where to locate a facility is concerned about the investment's total tax liability (i.e., the average tax rate), not the tax on the last dollar invested (i.e. the marginal rate).[10]

In any case, the Institute exaggerates Canada's METR. Specifically, its calculations exclude local business taxes, which are particularly low in Canada, and research and development tax incentives, which are particularly generous here. It includes inventories, which Canadian tax-accounting rules subject to an especially high METR. But the goal is surely to promote investment in fixed capital as opposed to inventories. Yet, even by the C.D. Howe Institute's overstated measure, Canada's METR is already in line with the global average, if countries are weighted according to economic size.

If reducing Canada's METR were an important priority, across-the-board CIT cuts are not a cost-effective way of doing so. The C.D. Howe Institute estimates that Canada's METR fell by 0.9% between 2008 and 2009. Only 0.3% of this reduction reflected the half-point cut in the statutory corporate tax rate between those years. The remaining 0.6% reflected the accelerated capital cost allowance for computers introduced in the 2009 federal Budget.[11]

Finance Canada estimates that accelerated depreciation for computers costs $350 million annually.[12] Cutting the corporate tax rate by half a percentage point cost more than twice this amount, but reduced Canada's METR by only half as much. In this case, the targeted measure was at least four times more cost-effective than across-the-board tax cuts.

About one-third of the revenue lost through corporate tax reductions will simply be transferred to the U.S. government, which taxes American corporations on a worldwide basis. When an American company repatriates profits from Canada to the United States, it pays the 35% American federal corporate tax rate minus taxes already paid in Canada. If our federal plus provincial rate is at least 35%, these corporations do not owe American tax on their Canadian profits.

Ongoing federal and provincial corporate tax cuts are reducing our combined rate from 36% in 2007 to 25% by 2013. American companies operating here will have to pay this rate difference back to Washington, shifting up to $6 billion annually from Canadian governments to the U.S. Treasury. If provincial governments also stopped cutting their corporate taxes, the AFB's federal corporate tax proposals would be sufficient to retain most of this revenue in Canada.[13]

Partially reverse the GST cut

The GST is a regressive tax, but an important source of needed public funds. The Conservative government cut it from 7% to 5%. The AFB

TABLE 7 AFB Tax Measures

	2010–11	2011–12	2012–13
31.5% Top Personal Income Tax Rate	($386)	($1,639)	($ 1,755)
Cap Annual RRSP Contributions	($240)	($ 293)	($ 347)
Cap Tax Free Savings Accounts	($ 5)	($ 50)	($ 190)
Fully Tax Capital Gains		($4,920)	($ 8,000)
Fully Tax Stock Options		($ 705)	($ 1,050)
Financial Transaction Tax	(316)	(323)	(329)
22.12% General Corporate Tax Rate*	($661)	($8,086)	($13,300)
29.12% Corporate Tax for Oil and Gas		($ 925)	($ 1,308)
No Meal and Entertainment Deduction		($ 208)	($ 314)
6% Goods and Services Tax			($ 5,175)

* Also includes maintaining 18% through June 30, 2011.

will ultimately restore a 6% rate to regain half of the lost fiscal capacity and more than compensate low-income Canadians by enhancing the refundable GST credit. More broadly, the progressive effect of higher public expenditures will more than offset the regressive effect of higher consumption taxes.

However, the recession proved worse than expected, so stimulating consumer demand to propel a recovery remains a high priority. Mid-2011 may still be the wrong time to increase consumption taxes. Therefore, this year's AFB leaves the GST rate at 5% until July 1, 2012. This delay will also give residents of Ontario and British Columbia longer to adjust to the Harmonized Sales Tax (which includes the GST) before increasing its rate by 1%. During the portion of the 2012–13 fiscal year that this additional point of GST will apply, it will generate an additional $5.2 billion of public revenue.

Notes

1 Office of the Parliamentary Budget Officer, Estimating Potential GDP and the Government's Structural Budget Balance, January 2010, page ii.

2 Finance Canada, Budget 2008, p. 82.

3 Finance Canada, Tax Expenditures and Evaluations 2009, pages 16 and 23.

4 Canada Revenue Agency, Income Statistics 2009, Basic Table 2 (data for the 2007 tax year).

5 Finance Canada, Tax Expenditures and Evaluations 2009, page 15.

6 Hugh Mackenzie, A Soft Landing: Recession and Canada's 100 Highest Paid CEOs, CCPA paper (January 2010), page 10.

7 Finance Canada, Budget 2003, p. 146.

8 Finance Canada, Budget 2009, p. 240 (Table A1.1).

9 References for this paragraph are available in Andrew Jackson and Erin Weir, "The Conservative Tax Record," in The Harper Record, edited by Teresa Healy (Ottawa: CCPA, 2008), pp. 58–60.

10 Robin Boadway, "National Tax Policy for an International Economy: Comments," in Room to Manoeuvre?, edited by Thomas Courchene (Montreal & Kingston: McGill-Queen's University Press, 1999).

11 Duanjie Chen and Jack Mintz, The Path to Prosperity: Internationally Competitive Rates and a Level Playing Field, C. D. Howe Institute Commentary No. 295 (September 2009), page 15 (Table 4).

12 Finance Canada, Budget 2009, p. 185 (Table 3.8).

13 Erin Weir, The Treasury Transfer Effect: Are Canada's Corporate Tax Cuts Shifting Billions to the U.S. Treasury?, CCPA paper (November 2009).

SECTION 1

Securing Our Common Wealth

Aboriginal Peoples

In a climate of fiscal constraint, strategic investments in First Nation governments and their peoples continue to make sense.

The costs of continuing the current way of doing business — of managing poverty, maintaining ineffective processes, and drawing out settlement and implementation of claims — are high. But moving forward, while incurring short-term costs, ultimately brings greater financial prosperity. For example, the government of British Columbia states that total benefits in that province alone from modern treaties and settlement of claims, including cash settlements and increased investment, could reach $50 billion, comprised of $1 billion to $2 billion each year for the next 20 to 25 years.

Federal approaches to First Nation funding must move from risk management and maintenance of the status quo, towards a system of fair and predictable fiscal transfers.

The 2010 Alternative Federal Budget selects two interdependent areas for investment and structural reform:

- First Nation education and human capital development, and
- support to First Nation governments.

Education

The Government of Canada's management of the education system for First Nations children and youth has been and continues to be a national tragedy. The historic legacy of the residential school system drew an apology from the Prime Minister in the House of Commons on June 11, 2008; the aftermath of this legacy need not be recounted here. However, the lingering effects of the residential school system must be acknowledged and addressed even in this post-apology era, as must the continuing negligence of the federal government with regard to First Nations education and skills training. The last residential school closed in 1996, but its failures have yet to be fully expunged from Canada's approach to First Nations education. It must be acknowledged that some of the attitudes that contributed to the residential school system continue to linger.

Canada needs a new approach to managing the education system, one that respects and supports the role of First Nation governments in both its design and operation, along with greater investment in meeting the needs of First Nations children and youth.[1]

As it stands, First Nations schools are not funded in a way that provides the full spectrum of learning that other students receive. Per capita, First Nations children are funded, on average, $2,000 less per year than are non-Aboriginal students in Canada under a funding formula developed in 1987.

In its May 2009 Report *The Funding Requirement for First Nations Schools in Canada,* Canada's Parliamentary Budget Officer (PBO) estimated for fiscal year 2009–10 that Indian and Northern Affairs Canada's (INAC) "plans for capital expenditure are underfunded by about $169 million in the best case, and $189 million in the worst-case scenario… Thus, the annual INAC Planned Capital Expenditures…*underestimates the likely gross expenditures compared to the PBO best case and worst case projections (by more than 58%)* [emphasis contained in the original text]."[2]

This lack of funding means, for example, that computers are not as commonplace in First Nations' school classrooms as they are in other schools. It means that special education for children with particular needs is not necessarily available, and that vocational training equipment is not widely on hand. It means that salaries for teachers are lower, making it that much more difficult to attract and retain quality instructors. And many of the unique circumstances of First Nations students are not being addressed, such as the fact that many students are learning English or French as a second language, but not their First Nations language. Funding for First Nations language instruction must be prioritized.

The provision of culturally grounded key education supports would build on the spirit and intent of what was expressed by the Prime Minister in the historic apology of June 2008. Residential schools, under the guise of education, removed children from family, land, culture, and language. A modern aim for the education system, in addition to developing human capital for a market economy, should be to reconnect First Nation learners with their land, languages, and cultures.

Budget 2009 committed $365 million over two years targeted to First Nation education infrastructure. While this represents a beginning, it does not address the tangible gaps in learner supports that continue in First Nation communities.

The effect on ongoing inadequacy in education funding is, as noted, higher drop-out rates and lower employment. More generally, the consequence is continued and deepening poverty. Canada needs First Nations to prosper. Specifically, Canada needs First Nations participation in labour force replacement.

Canada's labour force is aging. The baby boom generation is fast approaching retirement and there are significant gaps in skilled workers to replace those who will depart. Productivity and prosperity will suffer if this is not addressed. First Nations' potential share of the Canadian labour force is expected to triple over the next 20 years. If investments are not made to increase First Nations' skills and opportunities, the gap between First Nation citizens and Canadians will grow, leading to increases in Canada's rate of unemployment, downward pressure on productivity, upward pressure on social expenditures, and a large-scale migration to provincial social assistance programs, all of which will have a negative impact on Canada's prosperity.

The alternative is that, if adequate investments are made, a large percentage of new entrants into the labour market will be healthy, well-educated First Nation citizens who will be net contributors to the economy. A double benefit would be realized by the decreased costs associated with maintaining First Nations in poverty. The stresses on social service programs will be reduced, the social fabric and cultural diversity of Canadian society will become further enriched, and labour resources within the economy will be allocated more efficiently, leading to increased productivity and innovation, and, as a consequence, improved prosperity for Canada as a whole.

The economic benefits of improved First Nation education and employment outcomes are indisputable. In 2009, the Centre for the Study of Living Standards (CSLS)[3] estimated that, over the period from 2001 to 2026, if Aboriginal peoples had been able to increase their level of educational attainment to the level of non-Aboriginal Canadians, First Nation individuals would have contributed between $130 billion and $312 billion more to the economy.

In a recent study conducted for the Assembly of First Nations, Bert Waslander (2009) noted that, while parity is still not within sight, "if graduation rates [can reach] parity from 2011 on, part of the CSLS gains can be realized. We estimate that GDP in 2026 can increase by $4.7 billion to $8.8 billion as a result of improvement in the educational level of First Nation people, using the same assumption about the economy as CSLS."[4]

Waslander further notes: "Among the 481,000 First Nation people of 15 years and over in the year 2006, 25,000 have a university degree. Among the same number of other Canadians, 90,000 have a degree." He concludes that program targets and consequent investments must be set to close the attainment gap and truly realize the dividends available.

Consequently, the Alternative Federal Budget commits to increase Canada's annual ongoing commitment by $700 million to support education in First Nation communities, including indigenous language instruction and curriculum development. An additional $150 million per year for the next five years is recommended for education infrastructure, new school construction, and critical maintenance on a priority basis, to be identified in partnership with First Nation communities.

Support to First Nation governments

Strong, capable and appropriately supported First Nation governments are the foundation upon which all other programs are delivered, but chronic underfunding and the structural undermining of First Nation governments have served to erode their ability to effectively serve their citizens. In fact, First Nation governments deliver more comprehensive and varied levels of programs and services than a municipal, provincial, or federal government in Canada, but do so under extremely circumscribed and disadvantaged conditions.

Most Canadians enjoy the security of what has come to be known as the "social safety net"; the fundamental programs and services that prevent and protect Canadians from suffering the excesses of poverty. These are programs and services Canadians rely upon for their health, education and social assistance needs. The federal government provides funding to the provinces for these core services through non-discretionary transfer programs; notably the Canada Heath Transfer (CHT) and the Canada Social Transfer (CST) (which were combined in the Canada Health and Social Transfer (CHST) previous to 2004). Canada also provides tax transfers to support these areas to provinces and territories. The CHT and CST cash levels are set in legislation up to 2013–14 and have guaranteed annual escalators (of 6% and 3% respectively).

Guaranteed escalators (to reflect population growth and inflation), coupled with a legislative funding base, provide provincial and territorial governments with a predictable and secure foundation upon which to make strategic decisions.

First Nations, however, are forced to get by on diminishing or extremely limited growth in transfers. The federal government treats budgets for core services to First Nations as "discretionary" spending, meaning that budget allocations receive no legal protections. Since 1996, Finance Canada has maintained an arbitrary 2% cap on spending increases on core services[5] — about one-third of the increase that most Canadians will enjoy through the combined CHT and CST in each of the next five years.

Although the responsibilities and functions of First Nation governments and their associated costs have greatly increased over the past decades, funding has remained the same, or decreased due to inflation. As noted, First Nation governments provide a huge range of programs and services to their citizens — programs and services that are shared by multiple orders of governments for other Canadians, including primary and secondary education, roads, housing, and infrastructure. A study of cost drivers conducted by Indian and Northern Affairs in 2006 estimated that there was a minimum of $61 million shortfall in key governance support (most notably costs of audits and elections) at that time. Remarkably, there have been no increases for governance since the study was done, and none are foreseen.

The Blue Ribbon Panel on Grants and Contributions found fiscal arrangements with First Nations to be complex, fraught with problems, and leading to costly and often unnecessary reporting burdens on the First Nations.[6] This must be addressed for First Nations to adequately serve their citizens.

The AFB will increase Band Support Funding by $65 million to address identified shortfalls in financial and legal requirements on First Nation governments. Further, the AFB commits the federal government to work jointly with First Nation governments and their delegated political representatives to design a non-discretionary and secure system for fiscal transfers, with guaranteed escalators to ensure adequate, accountable, and sustainable funding to First Nation governments in their provision of quality services to their citizens wherever they reside.

First Nations are in a unique position to promote access to development opportunities, provide a pool of human resources in remote and resource-rich areas, and work with government and industry on innovative approaches to green energy. Adequately and appropriately supported First Nation governments are critical to making this a reality.

Urban Aboriginals

Canada's off-reserve Aboriginal population now encompasses a wide range of characteristics and circumstances. Some segments of the urban Aboriginal population are well-situated, with strong progress in key indicators of social and economic well-being. However, this population overall continues to experience socioeconomic conditions that fall well below the overall population average in key areas, including education, employment, income, and health status. Close to half of all urban Aboriginal children live in one-parent families, and the median age of the Aboriginal population is significantly younger than the median age of the non-Aboriginal population.

The long-term sustainability of Friendship Centres — which represent part of the social infrastructure that is uniquely focused on the needs and aspirations of urban Aboriginal peoples — requires enhancements to the funding levels that were established a decade ago. Even though the urban Aboriginal population over the past decade has more than doubled in some cities, funding from Canadian Heritage to support the core activities of Friendship Centres has not been increased. In order to protect the federal government's investment, and to ensure the long-term sustainability of these institutions, the AFB commits to review funding levels in the context of today's realities.

Urban Aboriginal peoples face different challenges, depending on (among other things) the particular communities in which they live. No single solution will be applicable to all urban Aboriginal peoples. The AFB will therefore ensure that funding by community organizations will be allocated in a manner that responds to the local concerns of urban Aboriginal peoples and builds on and develops the linkages between community development, cultural centres, and employment strategies. To specifically assist Friendship Centres and ensure that they continue their vital and cost- effective work, the AFB will invest an additional $32 million over three years for programs and infrastructure.

Aboriginal Women

Aboriginal women and girls in Canada continue to be socially and economically marginalized. Although billions of dollars are spent each year to fund Aboriginal programs and services, Aboriginal women are still afflicted with higher levels of poverty, lower educational attainment, higher unemployment, family violence, poorer physical and mental health, and lack of housing. These and other social and economic ills condemn many of them and their families to an ongoing cycle of distress.

Clearly the funding and programs aimed at helping Aboriginal peoples in general have failed to address women-specific issues or the very different experiences of Aboriginals based on identity, geographic location, or historical experience as they relate to colonization, residential schools, or systemic discrimination. A pan-Aboriginal, gender-neutral approach to programs, policies and funding fails to take these significant differences into account. What is needed is a coordinated approach to funding which recognizes both the problems faced by Aboriginal women and those faced by all Aboriginal peoples in general.

Aboriginal women are not equally represented in Canadian society. To improve their lives, community service groups and advocates are forced to apply through program- or project-specific funding that is neither coordinated nor representative of the disproportionate challenges faced by Aboriginal women. This situation needs to be rectified. It is critical that the unique needs of Aboriginal women are addressed by creating sustainable economic opportunities that benefit them, their families, and their communities.

What is often ignored, as well, is that Aboriginal women are already making a vital contribution to the economy and community, but that this contribution is both unrecognized and tends to be hampered by the serious economic and social gaps between Aboriginal women and men. Thus there need to be federal initiatives that focus on building a more positive image for Aboriginal women and girls, and fostering their role as significant economic actors in their own right so as to build a foundation for their economic prosperity.

Funding agreements also need to go beyond temporary solutions. A formalized structure of adequate, predictable funding should provide basic social welfare support for those in need. Culturally relevant, gender-specific programs and services for Aboriginal women are required to enable them to truly become equal members of society. True "investment" in the Aboriginal community must begin with women, because this is where the foundation of stable families and community begins. Over time, this investment will be a much more effective way to address the negative outcomes that have plagued First Nations, Métis, and Inuit peoples for generations.

Federal investment

Considering the disproportionate level of socio-economic stress faced by Aboriginal women, targeted spending is needed to provide safe, appropriate and affordable housing, child care, health and wellness programs, mental health supports, violence prevention education and awareness programs, access to justice, unbiased policing, alternative or adult education and training, and stable, positive social supports within the community. Such funding can go a long way to address the needs of Aboriginal communities as a whole, as women (and families) are at present being left behind.

The AFB therefore makes the following funding allocations:

- $5 million a year funding for Sisters In Spirit, a research, education and policy initiative with the Native Women's Association of Canada to identify the root causes and trends associated with the more than 520 missing and murdered Aboriginal women and girls in Canada;
- equal funding targeted for Aboriginal women to access economic development opportunities, including equal access to small business loans and entrepreneurship; and
- $30 million to create fully funded educational training programs for Aboriginal women in the areas of health services, education, and skilled trades.

Funding agreements also need to go beyond Band-aid solutions. The AFB's formalized structure of adequate, predictable funding will provide basic social welfare support and gender-specific programs and services for Aboriginal women to truly become equal members of society. Over time, this investment will be a much more effective way to address the negative outcomes that have plagued our communities for generations.

Perhaps more important in the decision-making process is the need for a more holistic approach to policy development. Economic recovery and a post-recession economy must come from the sum of all its parts. The AFB will therefore focus on social and community development which specifically requires investment in the status of Aboriginal women. The failure of current programs and services to meet Aboriginal women's and family needs is reflected in the growing gap between Aboriginal and non-Aboriginal outcomes, and for this reason it is time to re-think some of the mechanisms of funding. This needs to take into account that evaluation measures must go beyond the accountability and transparency of programs, to evaluate the system of funding and how it works — or fails to work.

Conclusion

The 2010 Alternative Federal Budget will focus on tangible action that will lead to better outcomes for Aboriginal women and girls. The goal of building opportunities, strength and leadership for Aboriginal women will begin to strengthen families, communities, nations, and Canada as a whole.

The impact of such investment will be like throwing a pebble into a pond: the immediate impact is on the individual, increasing opportunities and safety for women and girls, but this focus will also create stronger families, and stronger families will build stronger communities, and stronger communities will lead to better outcomes for Aboriginal people as a whole, strengthening Canada as a nation, and reinforcing the importance of Canada as a world leader.

From the outset, however, it must be recognized at the federal level that Aboriginal women and girls need to have choices that will lead to better life outcomes based on strength and vision for the future. The path towards change and the factors that will lead to success are rooted in the strength of women, and the AFB is committed to implementing federal policies and funding that will foster this strength.

Canada needs to take this opportunity to change the way we have been working together, to move forward in real partnership, to nourish First Nation families and communities, and restore young people's hope in the future. A new relationship can give full effect to treaties, titles, and rights and move forward with a sustainable economic vision that includes indigenous leadership in environmental stewardship, and opens the door to First Nation prosperity.

A federal agenda focused on First Nation issues will promote prosperity, while giving First Nations and all Canadians faith in a better future. This year's AFB focuses on key areas to move forward, but sustained and continued focus is necessary to turn the page and move forward with First Nations. Moving forward should include providing the tools needed to support the full and equal participation of First Nation governments in the economy, such as access to equity and capital, increased connectivity and technological infrastructure, and support for resource revenue sharing and stewardship of traditional territories.

Notes

1 Census figures from 2001 and 2006 show that, of First Nations people between the age of 15–24, only 31% had a high school diploma or certificate, while the figures increased from 58% to 60% over the same period for the non-Aboriginal population.

2 Office of the Parliamentary Budget Officer (May 2009). The Funding Requirement for First Nations Schools in Canada. Ottawa: Library of Parliament, p. 51.

3 Centre for the Study of Living Standards (2009). The Effect of Increasing Aboriginal Educational Attainment on the Labour Force, Output and the Fiscal Balance. Paper prepared for the Educational Branch of Indian and Northern Affairs Canada, Draft, January 22, 2009.

4 Waslander, Bert. (June 2009). Focusing INAC's PSE Program: Targets and Impacts. A paper prepared for the Assembly of First Nations.

5 It should be noted that while INAC's budget has grown at an overall rate in excess of 2%, this is due largely to meeting lawful obligations stemming from specific and comprehensive claims, treaties, and litigation.

6 Blue Ribbon Panel on Grants and Contributions, The Report of the Independent Blue Ribbon Panel on Grant and Contribute Programs, (Ottawa: Treasury Board of Canada Secretariat, 2006) p. 8, online: Independent Blue Ribbon Panel, <http://www.brp-gde.ca/pdf/Report_on_Grant_and_Contribution_Programs.pdf.>

Child Care and Early Learning

This recession's missed opportunity: The stimulus effect of building a publicly-funded Child Care System[1]

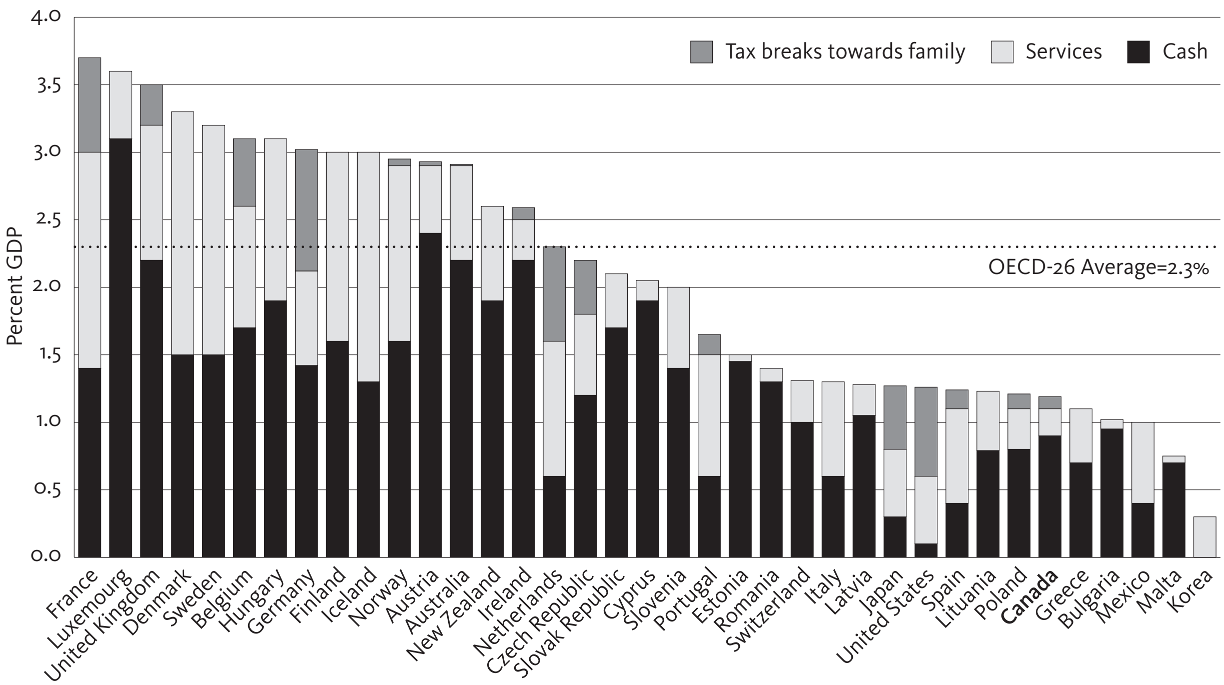
A recent Canadian study[2] confirms that public investment in child care programs is not just the *right* thing to do for parents and children, but the *smart* thing to do for Canada's economy. To date, however, the federal government has failed to take advantage of one of the largest — if not *the* largest — economic boosters available: a publicly-funded child care system. The extensive analysis conducted for the Child Care Human Resources Sector Council (CCHRSC) by leading economist Robert Fairholm of the Centre for Spatial Economics highlights this recession's missed opportunity, finding that:

- *Child care grows the economy*: Every dollar invested in child care programs increases GDP by $2.30 — one of the strongest levels of short-term economic stimulus of all sectors and far ahead of construction and manufacturing.
- *Child care creates jobs*: Investing $1 million in the child care sector generates almost 40 jobs — at least 40% higher than the next closest industry, and four times the jobs generated by investing $1 million in construction activity.
- *Child care more than pays for itself*: Even in the short term, more than 90% of the cost of hiring child care workers goes back to governments as increased revenue, and the federal government gains the most. Over the long term, every dollar invested in quality child care programs returns $2.54 in benefits to society.

Fairholm's study adds to a longstanding body of evidence that should not be ignored: the public benefits of quality child care programs outweigh the required public investment. However, the federal government and most provincial governments continue to resist making the fundamental shift away from the long-standing and ineffective targeted, market-based approach to child care to a universal, publicly-funded system.

In fact, child care in Canada demonstrates triple market failure. We have the lowest child care access rates in the industrialized world, with regulated spaces for fewer than 20% of young children.[3] Fees for child care are among the highest

CHART 7 Public Spending on Family Benefits in Cash, Service and Tax Measures in per cent of GDP, 2005



NOTES Data on tax support for families is not available for Greece, Hungary, Luxembourg, Mexico, Switzerland, Turkey, and the non-OECD countries. Data for Portugal concerns 2003.

anywhere, often exceeding annual tuition fees for university. And quality is constantly undermined by low wages and poor retention rates for early childhood educators.

Outside of Quebec, Canadian governments at all levels have twisted themselves into pretzels trying to explain how they could continue to sign numerous international human rights treaties and federal/provincial/territorial (FPT) agreements committing to child care improvements, yet fail to deliver them. "We would but we can't afford it" was the simplistic excuse prior to 2000. Then, as federal and provincial surpluses began to mount annually — reaching a dizzying $30 billion combined in 2007[4] — a small but increasing federal commitment to child care funding finally emerged. However, at the height of Canada's economic success, the current federal government terminated the most significant child care agreement and reduced dedicated child care transfers to the provinces and territories. Specifically, as illustrated in Table 8, federal transfers in 2007–08 were reduced by 37% from 2006 ($950 million) and by 61% from the previous government's commitment for 2009 ($1.55 billion).

And, since the economic downturn, the federal government's silence on child care and other issues of particular interest to women causes even greater concern. Having squandered the opportunity to share the economic good times with children, women and families, Canada entered the current recession with deep poverty and inequality, exacerbating the problem by ignoring the opportunity to reap the social and economic benefits of stimulus spending on child care.

In the meantime, other developed countries continue to sprint down the child care track, leaving Canada far behind. The legacy of Canada's

TABLE 8 **Dedicated Federal Child Care Transfers to Provinces and Territories** ($millions)

	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
2003 Agreement on Early Learning and Child Care (ELCC)	25	150	225	300	350	350
2005 Agreement on Early Learning and Child Care (ELCC)	0	200	500	650	1,200	1,200
Total Committed, Dedicated Child Care Transfers/Funding, 2005	25	350	725	950	1,550	1,550
Less: 2005 ELCC Agreement Terminated Effective April 2007					-1,200	-1,200
Add: 2007 Federal Child Care Space Transfer					250	250
Total Actual, Dedicated Child Care Transfers/Funding, 2007	25	350	725	950	600	600

For details by province and territory, see Federal Support for Children at http://www.fin.gc.ca/fedprov/fsc-eng.asp

continued reliance on a market-based approach is reflected in international comparisons of family support in general, and early learning and care in particular, which consistently give Canada a shameful review. Most recently, UNICEF ranked Canada in a tie for last out of 25 developed countries in terms of meeting suggested standards of early learning and care, along with other family policy benchmarks related to parental leave, child poverty, and universal access to essential health services.[5]

These findings parallel those reported in the OECD Family Database, which shows that, overall, support for families is relatively weak in Canada as measured by a combination of cash supports, tax benefits, and services such as child care (see chart 7).[6]

While the OECD and governments around the world differentiate between the provision of income supports for families (cash, tax transfers) and the provision of services, the current federal government combines all of these expenditures and claims that it is spending more than ever before to support early learning and child care. Yet, of the $5.6 billion[7] that the federal government counts in this funding envelope for 2007–08, 70% ($3.9 billion) goes directly to parents as income supports, with no strings attached. Income supports are important and necessary, particularly for lower-income families, and even more funding for income supports such as the Canada Child Tax Benefit is required. Bu*t income supports are not child care.*

Another 20% ($1.1 billion) of these expenditures goes to provinces and territories to nominally support early child development ($500 million) and early learning and child care ($600 million, as shown in Table 8), although there is no legal requirement for recipients to allocate these resources accordingly. Thus, *90% of the federal government's claimed spending on child care in fact goes to parents and provinces to spend as they please.*

Only 10% (about $600 million) of this $5.6 billion is actually accountable for some form of child care spending. Yet, even this expenditure — the child care expense deduction (CCED), which is available to parents who incur a broadly-defined range of child care costs — does not require or even promote access to quality early learning and child care services.

As a result of the current federal, provincial and territorial approaches to child care, outside of Quebec and to some extent Manitoba,[8] today we are witnessing:

- **Higher parent fees:** The reduction in federal transfers led the province of British Columbia to cut operating funds to child care services, suggesting that parent fees could increase to make up the difference. But a recent study in the same province shows that child care is the second highest cost to families, next to housing.[9] Today, many young families are paying more in child care fees than other families are paying for their children's university tuition.

- **Minimal progress on staff wages:** Although compensation for trained staff is a key indicator of quality, the predominantly-female child care service sector remains one of the lowest paid in Canada. The resulting recruitment and retention crisis across the country compromises the quality of our children's care.
- **Slower growth in spaces and an open door to for-profit, corporatized child care services:** In 2007 and 2008, the number of regulated child care spaces in Canada grew by only 3% annually, about one-third of the growth rate earlier in the decade.[10] Equally worrying is that the percentage of for-profit child care appears to be growing in Canada, increasing from about 20% of total spaces in 2004 to 25% in 2008.[11]

High fees, low wages and unmet demand — these conditions should be a wake-up call to governments about the fundamental inequality of the market approach to child care services. The evidence-based response should be a publicly-funded system that prioritizes equality in both access and service provision.

Most Canadians agree. A series of recent polls shows that at least three-quarters of Canadians support a national child care program, considering the lack of affordable child care to be a serious problem.[12]

Barriers

In spite of public support, barriers to a publicly-funded child care system remain.

The most significant challenge is the formidable opposition to the introduction of a new public service in Canada. Some people believe that acceptable levels of quality, affordability, and accessibility can be achieved within a market-based approach, but the Canadian child care experience with a market-based approach over the last 30 years clearly demonstrates that this belief is not grounded in the evidence. Rather, it's based on values, ideology, and business interests. In fact, the principles of the recommended system — collective responsibility through universal entitlement, significant public investment and democratic decision-making about regulations and standards, staff training and compensation, affordability and service location — are polar opposites of the values espoused by the global pressure for less government and more market-oriented solutions to public concerns.

Interestingly, there is now a growing awareness of problems created by over-reliance on a market-based approach that is not balanced by government intervention to achieve equitable access to quality services. Even before the current recession, the public discourse acknowledged the need for government involvement in addressing issues like climate change. This awareness may enhance opportunities to develop a publicly-funded child care system; or it may encourage market advocates to seek new ways to reap private profits on public goods like child care.

The evolving state of FPT relations is another challenge. The AFB's policies and funding decisions on child care are necessarily related to the role of the federal government, and reflect the view that system building is best achieved with strong federal leadership on policy (national legislation), funding (dedicated federal transfers) and accountability (annual reporting to legislatures on results). In recent years, however, some provincial governments have resisted this federalist approach. They argue that, since they have primary responsibility for service delivery, federal transfers should be unconditional because provincial and territorial governments are responsive and accountable to the distinctive needs of their own populations.

(It is interesting to observe that, despite provincial claims of uniqueness, most governments continue to apply remarkably similar, market-based policy and funding approaches to child care services — with consistently weak results).

The 1999 Social Union Framework Agreement and the subsequent FPT child-care-related Agreements between 2000 and 2005 highlight the previous federal government's attempt to overcome this tension. Provinces and territories received dedicated federal transfers in exchange for their agreement to improve regulated child care services. But the funding levels were initially low and accountability measures very weak. With this "small carrot, tiny stick" approach to FPT relations, progress has been limited and uneven.

The AFB acknowledges the right of Canada's First Nations and Aboriginal peoples to design, deliver, and govern their own early care and learning services. We also respect Quebec's right to develop social programs and applaud the leadership Quebec has shown in initiating the only North American child care system. That is why it is particularly discouraging to see that the current federal government is not taking up its leadership role on child care services and failing to find ways to bridge FPT differences in order to advance equitable access to services across the country. In fact, the federal government has consistently reduced the federal spending power.

As a result, while provinces and parents are both receiving more direct transfers from the federal government than ever before, there have been no substantial improvements in access to quality, affordable child care services since the Conservative government was elected early in 2006. Today, Canada's human rights commitments on child care to both children and women remain largely unfulfilled.

More recently, the growing interest in using the public education system as a vehicle for the delivery of early learning and care across Canada is an important policy development. Most countries that have implemented effective systems have done so through education ministries, rather than social services, and many are moving to integrate the traditional separation between early learning programs in public schools and child care in community settings. Furthermore, the principles of education across Canada — universal entitlement to programs provided by reasonably paid and trained staff, with democratic governance — are consistent with the principles the AFB recommends for child care.

At the request of the Ontario government, child expert Charles Pascal released a report in June 2009, recommending a comprehensive family policy with integrated early care and learning through a publicly-funded and governed system.[13] These recommendations have enormous potential, but provincial funding is in short supply; federal funding support would allow for timely implementation.

The Ontario report moves the education system to recognize the realities of parenting today, ensuring that the full working-day needs of families are met in a way that also supports healthy child development. This is critical because provincial education systems, outside of Quebec, have not adjusted their programming to accommodate the fact that most parents are in the paid labour force — including three-quarters of mothers with young children[14] — so before and after school care is already a significant concern across the country.

The implications for existing child care services and professional early childhood educators of a move towards public education need to be assessed and discussed. In building a new, publicly-funded system of education and care for young children, one would hope for a process and a solution that respects and includes early childhood professionals who are keen to participate in advancing a quality, universal, democratically-controlled system.

Finally, beneath the surface of all of these barriers lies society's ongoing ambivalence about the role of women and caregiving. Although women are well-established in the labour force, child care services continue to challenge traditional notions about public support for working mothers and the professionalization of caring.

Conclusion

There is compelling evidence that investing in child care services offers among the highest benefits of any policy strategy a nation can adopt. Economic studies have repeatedly shown that the multi-generational benefits of focused, accountable investments in child care outweigh the costs by at least 2 to 1. Further, access to quality child care services promotes health, advances women's equality, reduces crime, addresses child and family poverty, and deepens community social inclusion.

But wishful thinking and a market-based approach won't make it happen. Accepting the current approach to child care services in most of Canada means accepting that our children will not get the best start possible, accepting an under-performing economy, accepting that women should pay an economic penalty for parenting and working, and accepting little progress on critical social issues in communities.

The federal government must move from wishful thinking to accountability for results by ensuring that children and families have equitable access to quality, affordable, inclusive, non-profit child care services across Canada. The AFB therefore implements a focused public investment strategy which includes:

- **public funding,** providing adequate, dedicated and sustained child care transfers directly to provinces and territories;
- **public planning,** requiring provincial and territorial child care plans, with timelines and targets to reduce parent fees, raise staff wages and add public or community-owned spaces; and
- **public reporting,** to ensure accountability for the provision of child care services that support children, families and women in all of their roles.

In countries that have adopted this strategy as a key component of family policy, child care services are an expected and planned part of communities. Like schools, libraries, and recreation centres, child care services are available, accessible, and affordable to all who choose to use them. Children's healthy development and parent's work/life balance are well-supported, the current and future labour force is enhanced, and the economic returns on public investment are promptly realized.

Canada has all the resources and motivation it needs to build the child care system that families want and need. On the one hand, we have the everyday crisis that families face as they struggle to patch together child care arrangements from extremely limited, frequently high-cost options of varying quality. Conversely, we have overwhelming research proving the multiple benefits of child care services — benefits that can only be realized if we ensure that services are high quality and accessible.

We have plans with timelines, targets, and key system indicators for achieving accountability for results. We have all of Canada's opposition parties agreeing on the importance of child care services. And, not surprisingly, given all of the above, we have polls that repeatedly show Canadians want greater public investment in child care services.

Publicly-funded child care has been a missed opportunity in this recession to date. The AFB proposes to correct this omission, and increase annual federal transfers for early learning and child care to $5.5 billion by 2013–14, by which time all children aged three to five should have access to a quality child care space in their community. Starting in 2010–11, building this system requires the following dedicated federal transfers to the provinces and territories for child care services:

- to confirm the funds already committed under the 2003 Multilateral Framework Agreement on ELCC ($350 million) and the Child Care Spaces Initiative ($250 million) — total: $0.6 billion; and
- to provide an additional transfer of $1.1 billion.

Total spending for 2010: $1.7 billion.

Federal transfers of $1.7 billion in 2010–11 will be increased to $2.7 billion in 2011–12, and $3.9 billion in 2012–13, and finally to $5.5 billion in 2013–14.

Notes

1 This chapter incorporates excerpts from various publications of the Child Care Advocacy Association of Canada and draws extensively from the article "The Fight for a Publicly-Funded Child Care System in Canada" by J. Dallaire and L. Anderson, in the CCPA's Spring 2009 issue of Our Schools Our Selves "Beyond Child's Play: Caring for and Educating young children in Canada". V. 18 N.3 (#95).

2 Child Care Human Resources Sector Council (CCHRSC). (2009) Literature review of socioeconomic effects and net benefits: Understanding and addressing workforce shortages in early childhood education and care (ECEC) project. Ottawa. CCHRSC. See http://www.ccsc-cssge.ca/english/aboutus/completed.cfm#p5 for full report.

3 Quebec introduced a comprehensive family policy, including child care, in 1997. As a result, Quebec's progress towards a publicly funded child care system far exceeds any other province or territory. While more work is required in Quebec, the most significant policy and funding gaps discussed in this chapter are primarily applicable outside of Quebec.

4 Calculated from Canada. Department of Finance. (2008) Fiscal Reference Tables. Ottawa. http://www.fin.gc.ca/toc/2008/frt08_-eng.asp

5 Adamson, Peter (2008). The child care transition: A league table of early childhood education and care in economically advanced countries. UNICEF Innocenti Research Centre, Report Card 8. Florence. P.2. http://www.unicef-irc.org/publications/pdf/rc8_eng.pdf

6 Organization of Economic Co-operation and Development. (2008). OECD Family Database: PF1: Public spending on family benefits. OECD. P.2. http://www.oecd.org/dataoecd/45/46/37864391.pdf

7 http://www.universalchildcare.ca/eng/faq/index.shtml#support_families

8 Parent fees in Manitoba are the second lowest in the country, after Quebec. The government of Manitoba sets the maximum allowable fee that may be charged for child care.

9 Richards, Tim et al. (2008). Working for a Living Wage: Making Paid Work Meet Basic Family Needs in Vancouver and Victoria. Vancouver, CCPA p.3. http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC_Office_Pubs/bc_2008/ccpa_bc_living_wage_2008_summary.pdf

10 Beach, Jane et al. (2009) Early childhood education and care in Canada 2008. Toronto. CRRU. Calculated from http://www.childcarecanada.org/ECEC2008/tables_long/TABLE22_ECEC08_LONG_VIEW.pdf

11 ibid.

12 http://www.ccaac.ca/pdf/resources/Reports/Poll_Fact_Sheet.pdf

13 Pascal, Charles, E. (2009) "With Our Best Future in Mind: Implementing Early Learning in Ontario". Toronto. see http://www.ontario.ca/en/initiatives/early_learning/ONT06_018865

14 http://www.childcarecanada.org/ECEC2008/tables_big/TABLE6_ECEC08.pdf

Cities and Communities

Recovery and Restructuring

With the economic recovery gaining a bit of momentum, there is a temptation to scale down infrastructure stimulus spending, work out who is going to pay for the costs of the rescue package, but then otherwise go back to business-as-usual.

That would be a grave mistake.

Before the economic and financial crisis hit, Canada already had major economic problems:

- Our economic productivity was stagnant and falling: we're working harder and longer, but producing and gaining less for our efforts.
- Real wages and incomes barely increased in the past quarter century. More people were working, but otherwise most of the benefits of economic growth went to higher corporate profits and to the rich. The working poor and middle classes were being overworked and squeezed at both ends.

Thanks to a growing economy and booming resource sector, the fiscal situation of the federal and provincial governments was much improved, while business taxes and income tax rates on higher incomes had been cut.

However, this came at a cost.

Cuts in transfers to municipalities and downloading of responsibilities led to the municipal infrastructure deficit rising to over $120 billion and pushed property tax rates in some provinces to among the highest in the world.

Unfortunately, property taxes are also very regressive: lower income households pay a much higher share of their income in property taxes (or property taxes through their rent) than do higher-income households.

Unlike in other countries, Canadian municipalities are severely restricted in how they can raise the revenues they need to fund their operations. They can't levy income or sales taxes, and are largely restricted to using property taxes and user fees, which provide over 75% of their own-source revenues. In comparison, most major cities in the U.S. levy income and/or sales taxes, and many European countries also rely heavily on income taxes. Municipalities in other countries also obtain a larger share of their revenues through transfers from upper levels of government.

Transfers from federal and provincial governments in Canada had provided approximately 26% of the revenues of local governments during the early 1990s. After 1995, these transfers were severely cut by the federal government, but more significantly by provincial governments that had their own transfers from the federal government slashed. By the year 2000, federal and provincial transfers provided only 16% of local government revenues.

Local governments across Canada — and especially in Ontario — ended up hiking property taxes, increasing user fees and service charges, cutting back on public services, and delaying their investments in, and maintenance of, public and community infrastructure.

Transfers to local governments continued to be squeezed even while federal and provincial governments ran surpluses and cut tax rates on upper incomes and on businesses.

Property taxes, especially in Ontario, were increased significantly, while the municipal infrastructure deficit grew larger and larger, rising to $123 billion by 2006.

Following much pressure, and incidents of bridges collapsing, federal and provincial increased their transfers to local governments in recent years, through the gas tax fund, infrastructure funding, and more recently stimulus funding. However, the proportion of local government revenue that these transfers provide still falls far short of the levels that prevailed prior to 1996. And, unfortunately, federal government infrastructure funding and transfers to municipalities are set to decline after 2010.

This shortfall in transfers to local governments has added up to a cumulative $50 billion from 1996 on — including $3.4 billion as recently as 2008 — compared to what they would have received if transfers had been maintained at 26% of their revenues.

There is no question that local governments, with their rising populations and increased responsibilities, need access to a different and growing source of revenues. But what sort of revenue should it be and where should the funding come from?

There is a growing mismatch between the source of most municipal revenues — property taxes and user fees — and the municipal services that are provided. Although some services that municipalities provide are property-based — such as fire protection — an increasing share of the services that they provide are not property based, and are better matched to income or consumption-type taxes.

The Ontario government provided the City of Toronto with a number of broader taxation powers through the *City of Toronto Act*, but these were restricted to limited and narrow areas, lack the ability to raise a lot of revenue, and have largely regressive impacts. In addition, taxes that can be set by individual municipalities can easily lead to either leakage of economic activity or negative tax competition between municipalities.

The Manitoba government has a better approach. Through the *Building Manitoba Fund*, the province provides municipalities with 4.15% of the province's personal and corporate income tax revenues, and a share of its gas and diesel tax revenues. These amounted to about 8% of local government revenues in Manitoba, compared to the City of Toronto's new taxation powers, which provided only 2% of the city's revenues in 2008.

The local government revenue problem isn't restricted to one or two provinces: it's a national problem that requires national solutions. This funding also needs to be matched with increased transparency and accountability to prevent the highly partisan channeling of funds that has occurred. It should be connected to national strategic planning involving local governments on key concerns: climate change mitigation and adaptation, planning of our national transportation infrastructure, and improvements to social services. Otherwise, what was an ambitious New Deal for Cities will continue to decay into a "Backroom Deal for Suburbs."

This planning should be coordinated by a new Department of Communities that would be responsible for federal infrastructure funding, with a mandate to coordinate national priorities reflecting the needs of diverse communities. The federal government can also help to rebuild communities from the ground up, by providing support to Community Development Corporations and Neighbourhood Renewal Corporations.

A number of pressing needs dominate now:

Community Recession Relief Fund

As government funding has been scaled back, local community and social service organizations have become increasingly dependent on private sources of revenue, such as charitable contributions from foundations, businesses, individuals, and investment income. These revenues have fallen as a result of the economic downturn, just as the demand for the services that these organizations provide has increased.

Federal and provincial government stimulus funding has gone largely to infrastructure and housing construction, support to business, and actions to stimulate spending. Little support has been provided to "social infrastructure" or to help the vulnerable.

Many of these organizations are already laying off staff and cutting programs, and some may be forced to close their doors, just when more people need their help and services. If increased support is not provided, we are likely to see a rise in homelessness, overcrowding of shelters, deteriorating health conditions, and ultimately increased long-term costs for society.

The AFB allocates $1 billion for a *Community Recession Relief Fund*, with support to go to community-based public and not-for profit agencies serving vulnerable people, settlement and homeless programs, consistent with what the Toronto-based *Recession Relief Coalition* is calling for. This will provide short-term support for public and private non-profit agencies and organizations, to be cost-shared with provinces, municipalities, or other levels of government. The funding will prevent spending cuts to agencies serving vulnerable people, and increase funding to social development and settlement programs. Funding will also go to employment development organizations that provide broad-based support to the unemployed.

- Cost: $1 billion funded in 2010–11 budget year, but it can be drawn down in both 2010–11 and 2011–12.

Sustainable funding for cities and communities

Stimulus spending has provided a much-needed injection of funding for cities and communities. But this funding is short-term and the same problems of underfunding will recur when the stimulus funding ends in March 2011. The real value of the gas tax transfer will decline, an infrastructure deficit will remain, and the cost of maintaining infrastructure will increase. After the last recession, municipalities were hard hit, with cuts to transfers compounded by offloading of responsibilities. These problems still haven't been fixed.

The federal gas tax funding that was provided as part of the New Deal for Cities and Communities in 2005 was a major and positive advance. This funding, however, is now frozen at $2 billion a year and will increasingly lose its value in future years.

The AFB will index the federal gas tax, to keep up with inflation and urban population growth, by a rate of 3% a year.

- Cost: $60 million extra 2010–11; $122 million 2011–12; $185 million 2012–13.

At the same time, it is essential that we transform our cities and communities. The greatest economic and environmental challenge facing us in the coming decades is the urgency of climate change.

We need not only to adapt to the inevitable climate change that is now occurring, but also work to prevent further damaging climate change. The latter will require not just achieving greater energy efficiency with the buildings and infrastructure that we now have, but it will also involve a major transformation of how our communities operate. Our cities and communities are in the front lines in this transformation. By creating more dense low carbon communities, achieving greater energy efficiency, and investing more in public transportation infrastructure, we can both make our communities more environmentally and financially sustainable and healthier.

This will lead to long-term savings, but it will require substantial up-front investments. To achieve this goal, the AFB will provide cities and communities with annual funding equivalent to the revenues from one cent of the GST (~$6 billion a year) for a *green community transformation fund,* starting January 1, 2011, as the stimulus funding winds down.

Funding through this initiative will be provided for environmentally sustainable municipal infrastructure and programs, and will be contingent on the communities completing an integrated sustainable community plan, with public participation. Funding will be restricted to projects owned and operated by the community through the public sector. Funding will also involve a high level of transparency, and accountability requirements.

- Cost: ~$6 billion a year, to be funded with a one cent increase in the GST.

Culture and the Arts

The state of the sector

The arts and culture sector in Canada is rich and diversified, but it remains relatively fragile and must count on public investments to thrive. Our country is blessed with a very high proportion of artists, creators, cultural institutions and industries, but these are greatly handicapped by our small internal markets and immense geography. In order to prosper, this important component of our economy must develop markets both internally and externally.

It is still difficult to analyze the exact impact of the economic crisis on the arts and culture sector, particularly since large segments are already impacted by structural changes brought about by new digital technologies. The good news is that the current government's 2009 Economic Action Plan did include some specific injections of new money and maintained the status quo for most existing federal investments in the sector. However, several cultural industries and institutions have suffered from a steep decline in publicity and sponsorship revenue and in subscription renewals. Several non-profit cultural organizations have also seen the revenue from their endowment funds dry up. Finally, the abolition of some important programs in market development has put additional pressures on funding agencies like the Canada Council.

To ensure the continued stability and growth of the arts and culture sector, the changing realities in the Canadian labour force must be recognized. This may be implemented through measures providing greater access to social benefits and security to self-employed Canadians, which is the status of over a quarter of the cultural workforce.

Why invest in the arts and culture sector?

Investment in the arts and culture sector is good for Canada's economy, good for Canadian society, and good for building a strong, unified nation.

The ecology of Canada's economy is changing: the knowledge economy is progressively replacing an economy based on industry. The creative economy can tap into the most renewable of natural resources: the rich diversity of Canada's population. As the Cultural Careers Council of Ontario notes, "Artists may be models for the way we will be working in the future — independent, entrepreneurial, and more reliant on individual networks than conventional organizations."[1]

The arts and culture sector is an important component of the creative economy, contributing in several ways to the economy, to the quality of life, and to our identity as a nation. Those pursuing careers in the arts and culture sector are dynamic professionals within the Canadian labour market. They boast a high level of self-employment and often work in multiple capacities, within a variety of fields. The sector continually evolves in order to stabilize its presence within Canada, but also to build robust audiences around the world.

The arts and cultural sector is the source of livelihood for over 650,000 Canadians. Collectively, with direct, indirect, and induced inputs, the cultural sector contributed $84.6 billion to the Gross Domestic Product in 2007.[2] Statistics Canada has noted that culture employment grew at a much greater rate than the workforce as a whole over the period between 1981 to 2001. During this time, the growth in cultural employment was 81% in Canada, much higher than the 32% growth in the overall labour force during the same period.[3]

The costs of creating jobs in the arts and culture sector are the lowest compared to other sectors of the economy, with an average cost of $20,000 to $30,000 for an arts sector job as compared to $100,000 to $300,000 for a light to heavy industry position.[4] The cultural sector has the unique ability to put funds to work within a very short period of time, with low administrative costs.

There is a strong return for every dollar invested in the arts and culture sector. According to the Conference Board of Canada, for every $1 of real value-added GDP produced by Canada's cultural industries, roughly $1.84 is added to the overall real GDP. Even more specifically, Hill Strategies reports that the performing arts generate $2.70 in non-governmental revenues for every $1 invested by the government.[5] An additional bonus to this small investment is the employment level, which naturally rises as a result. Millions of Canadians purchase books, magazines, films, new media products, and sound recording materials: Statistics Canada estimates that household expenditures on cultural products continue to grow every year.

Investing in market development and cultural diplomacy

As mentioned above, the Canadian arts and culture sector is greatly handicapped by Canada's small internal markets and immense geography. In order to survive, markets must be developed, both internally and externally, for our various cultural products.

Internationally, the arts can play an important role in Canada's foreign diplomatic and commercial strategies. In the early 1990s, the Special Joint Committee Responsible for the Review of Canadian Foreign Policy recommended that international cultural relations become an integral element of a renewed foreign policy. The government reacted by declaring "the promotion of Canadian culture and values" as the Third Pillar of Canadian foreign policy. There is evidence that the integration of a diplomatic strategy prioritizing cultural relations and trade is one which yields both economic and diplomatic benefits for Canada. This, in fact, is a path followed by several countries, including the United States, China, and the European Union.

Despite several small international programs within the Canadian Heritage portfolio agencies, there is currently no coordinated strategy to promote Canadian artists and cultural works internationally. The Department of Foreign Affairs and International Trade (DFAIT), which formerly had a program devoted to developing cultural markets abroad, now only offers the Global Opportunities for Associations (GOA) contributions program, which supports industry-wide national trade associations.

The 2010 Alternative Federal Budget (AFB) launches a comprehensive program with an annual budget of $25 million so our cultural sector can cultivate new markets at home and abroad, and fully support the government's foreign and trade policies.

Action items:

- Invest an additional $25 million per year into the development of markets at home and abroad and reintroduce arts and culture as the third pillar of Canada's foreign and international trade strategies.
- Annual cost of new investments: $25 million

Investing in the creative economy and its numbers

It is crucial, as Canada's economy changes, to invest in the development of creativity in the arts and culture sector. Given the demonstrated need for further investments in our artists and creators and the track record of the Canada Council in administering programs, the AFB includes a substantial increase to the Council's base budget over the next four years.

There is a crisis affecting the traditional broadcasting industry and the production of quality Canadian programming. This crisis could be partly remedied by adopting appropriate regulations to ensure that the cultural objectives of the Broadcasting Act are achieved. The federal government must also increase its own investments in the production of Canadian programs and support Canada's national broadcaster in achieving its extensive mandate.

Given the importance of investing in Canadian programs, film, video and new media production, the AFB also leaves with the Canada Council, the CBC, Telefilm and the National Film Board the sums they have been asked to identify in the context of the 2009 Strategic Review exercise. Also, in order to support the health of the Canadian film industry, the AFB follows the recent example of the Québec and Ontario governments with regard to tax credits supporting film production in Canada.

The 2010 AFB reflects the 2008 unanimous recommendation of the Standing Committee on Heritage that the government effect a long-term Memorandum of Understanding with the CBC. The Committee stated that the additional $60 million the CBC has received annually since 2002 be permanently added to the Corporation's base budget and that CBC's "core funding be increased to an amount equivalent to at least $40 per capita."[6]

Although the Canada Music Fund was recently renewed for an additional five years, the AFB supports the reinstatement of recently cancelled programs supporting exploration in musical diversity. Investing in what is deemed to be at the fringe today may well shape our culture tomorrow. It is important for the federal government to help develop this natural resource, since it is our diverse cultural communities that weave the fabric of Canadian society. The AFB believes it is one of the responsibilities of the federal government to invest in experimentation which will lead to the development of new forms of music by Canadian artists. This is equivalent to risk investment or funding fundamental research in other sectors of the economy.

Finally, the AFB considers that it is crucial for the development of the cultural sector to have access to relevant and timely data. For a sector to be able to evaluate programs and adopt new policies, it must have data with which to gauge successes and failures. Canada was once a forerunner in developing cultural statistics. Over the past 15 years, however, the resources dedicated to cultural statistics have dwindled. Recently, Statistics Canada dismantled its cultural statistics division, incorporating elements into the Demography Division and handing the responsibility for cultural surveys to the Service Industry Division. As part of its cost-cutting measures, Statistics Canada also recently cancelled its surveys of radio and television audiences and cut its analyses of and access to cultural data. The regularity of labour market data, export activity, and new forms of cultural activity are essential instruments to cultivate an evolving element of Canada's economy, a fact always recognized in the AFB.

Action items

- Raise to $300 million the base budget of the Canada Council for the Arts by 2014, through annual increases of $30 million starting in 2010–11.
- Increase to 25% the tax credit for films shot in Canada, applicable to full production costs, including pre- and post-production.
- Increase by $7 to $40 per capita the CBC appropriation in the context of a multi-year Memorandum of Understanding with the Corporation.
- Reinstate $1.3 million to support musical diversity and experimentation by Canadian artists.
- Invest $2 million a year to develop new statistical tools to better gauge the growth and nature of the arts and culture sector.
- Cost of new investments: $815 million over three years.

Investing in cultural infrastructure: people and places

In 2008, the Centre of Expertise on Culture and Communities released a study noting a growing concern for the state of Canada's cultural infrastructure. Much of the cultural infrastructure built around Canada's 1967 centennial celebration is in need of repair.[7] Cultural spaces within Canada often have uneven distribution within communities, resulting in a lack of affordable and sustainable rental spaces in many regions of the country. This report states that greater attention should be paid to issues of life-cycle, productivity, the interaction of social and built infrastructure, and long-term sustainability.[8] There must also be a coordinated policy and funding effort in order to maintain accessibility to cultural sites for the Canadian public.

The government recently renewed the Canada Cultural Spaces Fund for five years, with a one-time increase of $30 million as part of its January 2009 Economic Action Plan. This is a small step in the right direction, and the AFB will enhance it by allocating sufficient resources over the next several years to modernize and repair the cultural infrastructure in Canada's communities.

Infrastructure, however, is more than just bricks and mortar. One critical element in sustaining the success of the arts and culture sector is the preparation for a new generation of talent. Long-term vision is needed. In combination with a pan-provincial approach to arts education in primary and high school, the role of mentorships and internships must be addressed. As part of an employment strategy, an investment of $1.5 million a year for the next five years will be made for the creation of a mentorship/internship program for the cultural sector. To administer such funds, the government has various options, including the Cultural Human Resources Council and a number of national arts service organizations.

Finally, a National Museum Policy must be established, not only for stabilized funding, but also for a stable policy commitment to protect and project our national heritage for Canadians and foreign visitors. All stakeholders and all political parties had come to a consensus four years ago on the adoption of a new National Museum Policy, but nothing has been done on that front since 2006. Quite the opposite: the past three years have seen significant cuts made to the museum community, particularly to the Museum Assistance Program ($4.6 million) and with the termination of the Exhibition Transportation

Services. The National Portrait Gallery project, which was open for contending cities to compete, was finally put on hold with little explanation. The 2010 AFB reinstates the completion of the project to install the National Portrait Gallery in the former U.S. Embassy in Ottawa as a national priority.

Action items:

- Maintain spending in communities' cultural infrastructure for Canada Cultural Spaces Fund: $60 million over two years.
- Invest in emerging cultural professionals with $1.5 million a year for the next five years in the creation of a mentorship/internship program for the cultural sector.
- Commit $50 million a year to finally implement the new national museums policy.
- Commit $25 million capital investment to the completion of the National Portrait Gallery project in Ottawa.
- Cost of new investments: $240 million over three years.
- Total annual additional recurrent investments in arts and culture: $1.1 Billion over three years.

Notes

1 Enriching our Work in Culture: Professional Development in Ontario's Cultural Sector, Cultural Careers Council Ontario, March 2008.

2 Valuing Culture: Measuring and Understanding Canada's Creative Economy, Conference Board of Canada, August 2008.

3 Culture Employment in a North American Context: 1981–2001, Statistics Canada, August 2007.

4 Cultural Human Resource Council.

5 Finances of Performing Arts Organizations, Hill Strategies, November 2008.

6 CBC/Radio-Canada : Defining distinctiveness in the changing media landscape, Report of the Standing Committee on Canadian Heritage, February 2008, p. 144

7 From Road to Rinks: Government Spending on Infrastructure in Canada: 1961–2005, Statistics Canada, Canadian Economic Observer, September 2007.

8 Marla Daschko Waltman, The State of Data on Canada's Cultural Infrastructure, Centre of Expertise on Culture and Communities, August 2008. *Arts Research Monitor 7.8: Facilities/Cultural Infrastructure*, Hill Strategies, January 2009.

Communications

Developing a communications framework for social and economic inclusion

Job searches, EI applications, passport renewals, airline tickets, and banking are a few of the thousands of common activities that are increasingly carried out on-line. Even the current H1N1 flu vaccine clinics have relied heavily on electronic communications to manage their wait times, reducing them dramatically by continuously updating their status to websites and social networks. High-speed Internet connections have become an integral part of modern life.

Yet government policymakers seem unable to meet the challenge presented by this new phenomenon. In the recent Berkman Center study of broadband policies around the world, Canada ranks 22nd overall, 16th in access, 20th in speed, and 25th in price.[1] This is just the most recent of many international studies exposing the effects of Canada's failure to modernize its legislative and regulatory communications framework. At stake is nothing less than the economic and social health of our communities.

Recognizing "effective" connectivity as a legal right

The Berkman Center study recognized broadband "as a key enabler of economic growth that can benefit services such as telemedicine in rural areas, allow better management of transportation and energy systems, and reduce infrastructure costs for businesses."[2] Especially in the current economic downturn, communities need such an enabler.

Unfortunately, remedial programs have taken baby steps when giant steps are needed to catch up in the field of communications. In 2009, the government allocated $225 million over three years to encourage the development of rural broadband infrastructure.[3] The program defines broadband connectivity as "access to Internet service that supports data transmission at a minimum speed of 1.5 Mbps to a household."[4] 1.5 Mbps. is not enough to support applications such as e-health or e-education or e-commerce. At this speed, rural and some urban Canadians will remain effectively disconnected and disabled for a long time to come.

Estonia (2004), Australia (2006), and Finland (2009) have acknowledged that broadband has become an essential service. They have declared broadband Internet access to be a legal right.[5] The AFB declares that Canadians, too, should not only have a legal right to broadband service but also that such service must be robust enough to support social and economic applications essential to community sustainability.

- The AFB will make access to "effective" bandwidth that supports a wide range of communications applications a legal right for all Canadians.

Talking to Canadians: Developing a national strategy

Countries ranking high in the Saïd study of connectivity around the world (South Korea, Japan, Sweden) had developed a national broadband agenda.[6] A brief glance at the broadband planning activity in some of our peer nations indicates just how far we have fallen behind:

- Australia released its National Broadband Strategy in 2004. It recognized, as a top priority, the need to improve infrastructure across the country.
- Over the past year, Great Britain has involved its citizens in planning for their digital future and in June, 2009, released the Digital Britain Report.
- Germany released its Information Society Germany 2010 plan in 2006.
- France and New Zealand announced national digital strategies in 2008.
- The U.S. Federal Communications Commission (FCC) was scheduled to present a national broadband strategy to the U.S. Congress early this year.

In Canada, in 2005, the then Liberal government established a three-person panel to make recommendations on how to move toward a modern telecommunications framework. The panel held two public meetings, one in Ottawa focusing on industry perspectives, another in Whitehorse focusing on public interest issues. Although well attended by local public interest advocates, the Whitehorse venue was inaccessible to many others. Of the many written submissions received by the panel, only 15% came from Aboriginal, consumer, women's, and community groups.[7] It is no surprise then, that The Telecom Policy Review Panel Report[8] reflected "a much narrower vision of the role and value of telecommunications in Canadian society than that held by many Canadians," as pointed out by Philippa Lawson, former director of the Canadian Internet Policy and Public Interest Clinic.[9]

Urgent calls for action are coming from all sectors of society. Even the CRTC, in its 2009 New Media decision, pointed out the need for a comprehensive national strategy to secure the nation's digital future. "Such a strategy is essential if we want to maintain a competitive advantage in this global environment," said CRTC chairman Konrad von Finckenstein.[10]

The AFB will begin developing a national communications strategy immediately. The purpose of such a strategy will be to design a national framework advancing the development and use of broadband — a framework that fully sustains open competition for all levels of Internet services.

The process will take the form of open and accessible consultations that will go beyond business and academia. This consultation will be led by a panel of independent researchers, who will lead citizen fora across the country and receive written submissions. The fora will explore a wide range of communications policy issues, from copyright to the infrastructure required to operate the national network on an open access basis.

A report outlining an integrated national communications strategy will be submitted in 2011.

- The AFB allocates $750,000 to fund a broad national consultation to modernize communications policy in Canada.
- The AFB allocates $40 million to support new and existing national public access sites.

Building capacity and generating demand with a national public access program

The Berkman Centre study also notes that national programs providing access, education, and support to ensure effective use of ICTs in communities are considered essential in countries like Korea that rank high in their use of on-line tools. Such programs are considered investments, both generating demand and building human capacity to meet that demand.[11]

Canada currently has a national network of 3,500 community technology centres that help more than 100,000 people per day[12] to incorporate new technologies into their lives. These sites and their young facilitators, along with a legion of volunteers, provide job search and software training, technology literacy programs, access to community services, and cultural integration opportunities. They partner with the local private and public sector to provide services and experienced personnel in many different areas, from film editing to website building. Along the way, thousands of youth gain valuable job experience.

Both internal and external evaluators have agreed that this very cost-effective program has been a success story for years.[13] The AFB will not allow this network to collapse in the current telecom policy vacuum. Support for existing centres will be expanded and a program to restart funding for new centres will be established.

This investment will boost the local economy by encouraging the uses of technology for community development and by offering collaborative tools that promote the effectiveness of the community sector. With so many communities in distress due to major job losses, these programs provide essential support in this economic downturn.

Looking down the road: Next generation broadband

The 2006 report of the Telecom Policy Review Panel noted that Canada was "among the first countries to recognize the potential for information and communications technologies (ICTs) to transform and enrich economic and social life."[14]

However, Canada's rapidly declining telecommunications infrastructure has now become a major concern for small and large business, the R&D sector, the education sector, and the social sector alike. "Broadband speed is an important driver for useful connectivity, since it facilitates the flow of information, stimulates inovation, encourages education, [and] increases productivity and economic prosperity," says a recent report from the Canadian Chamber of Commerce.[15]

According to telecom analyst Sheridan Scott, "A 2009 study by the World Bank suggests that an increase of 10% in broadband penetration in high-income countries correlates with GDP growth increases of 1.2%."[16] The Canadian economy needs strategic investment in more than roads and bridges to exploit the potential of the new communications tools.

In April, 2009, the government of Australia announced it would build a national high-speed broadband network that would deliver up to 100Mbps to 90% of its citizens. The eight-year, AU$43 billion project will be one of the largest state-sponsored Internet infrastructure upgrades in the world. The Australian Prime Minister has suggested that the project will support up to 37,000 jobs at the peak of construction.[17]

This is the kind of program that will be necessary if Canada is to bring its communications infrastructure back up to world-class standards. Starting in 2011–12, and over a period of 10 years, the AFB will invest $2 billion per year in a pan-

Canadian infrastructure project to make world-class broadband a reality for most Canadians. In this undertaking, the AFB will be guided by the recommendations of the National Communications Strategy. Given such a major commitment of public funds, we will ensure that Canadians retain majority ownership of the resulting infrastructure.

2010 budget for communications:

1. $750,000: To fund a broad national consultation to modernize communications policy in Canada.
2. $40 million a year: To support new and existing National Public Access sites.
3. $2 billion a year for 10 years on broadband infrastructure.

Notes

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Health Care

Since October 2008, 486,000 jobs have been lost across Canada and there are now almost 1.6 million unemployed people across the country.[1] The loss of good jobs has been devastating for families and communities, especially coming on the heels of an already precarious situation for many people in Canada.

In its 2009 Report Card on Child Poverty, Campaign 2000 reports that 637,000 children (about one in ten) and their families were living in poverty in 2007. In First Nations families, one in four children is living in poverty.[2] A recent report from the Canadian Institute for Health Information found, not surprisingly, that people in more disadvantaged urban areas face higher rates of hospitalization.[3] They were more likely to be smokers and less likely to enjoy good health than people in more privileged communities. Low-income people are less likely to find ways out of poverty in the midst of an economic crisis.

In the midst of the current economic crisis, food insecurity has grown. Food banks across Canada responded to 794,738 separate individuals in March 2009. This was an increase of 17.6%, or almost 120,000 people, compared to March 2008.[4] Mental health issues are exploding. A gathering of mental health experts convened by Canada's Mental Health Commission in August 2009 concluded that we may expect increased levels of depression, anxiety and suicide over the next year, as unemployment, or the threat of unemployment, takes its toll. The report from the Round Table suggested that the social and economic effects of the recession are likely to increase and be felt for at least a decade.[5]

A deep social crisis is in full swing for those people who cannot find decent work. More than ever, people are depending upon public services to help them cope with the tremendous pressure they are under. Our public health care system is a fundamental pillar of our society, and it must be strengthened, especially in the wake of the devastation caused by the economic crisis. Public health care remains one of our most valued public services. A recent Health Canada report confirmed that over 85% of Canadians are very satisfied or somewhat satisfied with the way health services are delivered.[6] These results were confirmed in October 2009 by Nanos Research, which found that 90% of Canadians support universal health care.[7]

When it comes to the experience of economically marginalized peoples, whether Aboriginal, recent-immigrant, unemployed or low-income communities, this recession will not be over for a long time. It will continue to have devastating impacts on human health and will require strategic thinking about how to best deliver health services in an equitable manner. As a result, the AFB will respond to these needs.

What we need

The current federal government allocation of the Canada Health Transfer was $24 billion in 2009–10. Under the terms of the 2004 First Ministers' Agreement, this amount will grow at 6% per year to 2013–14. The tax transfer was $13.9 billion in 2009–10 and will grow in line with the economy.[8] We know the federal governments will be facing a deficit but this in no way should lead to cuts in health transfers, and the Alternative Federal Budget will maintain the terms of the agreement. The AFB will strengthen and expand the public system to ensure that everyone has access to quality health care, regardless of their ability to pay.

Given the impact of the economic crisis on individuals, families, and communities across the country, we must affirm this commitment in the federal budget now more than ever. We will not let this economic crisis be used as an excuse for proponents of privatization to "not let a good crisis go to waste." We stand against those who would discard the Canada Health Act. We reject privatization, whether in the form of private hospitals, public-private partnerships in hospitals, or in any other way.

Pharmacare: A universal public drug plan

The massive job losses experienced across the country have reduced access by hundreds of thousands of families to prescription drugs. Not just individuals, but entire communities have seen their benefits cut off. As well, the attack on retirement security has meant that thousands of pensioners also have more difficulty getting the drugs they need. Since 2004, when manufacturing job losses started to soar, per capita out-of-pocket spending on prescription drugs has increased almost 30%.[9] Between 2004 and 2009, one in seven manufacturing workers became unemployed, with many losing their drug insurance coverage along with their jobs.[10]

In Canada, we spent over $25 billion on prescribed drugs in 2008. We spent 17.4 % of total health expenditure on drugs. Given that total prescription drug costs have increased 51% over inflation since 2000, on a per capita basis, rising drug costs are an unsustainable aspect of our health care system. A public program is needed, one that will provide universal public drug insurance, a national formulary for essential drugs, independent drug evaluation, and bulk-purchasing.[11] The public program will ban direct-to-consumer advertising. Brand-name companies will not be allowed to restrict generic drugs by extending patents. Pharmacare will ensure the safe and appropriate use of drugs, and cover essential drug costs just as Medicare covers hospital and physician costs.[12]

The 2010 AFB will end years of federal government inaction by launching serious discussions with the provinces and territories to cost-share Pharmacare between the federal and provincial governments and employers at a proposed rate of 50-25-25%. The AFB will allocate $20 million over two years to set up a Royal Commission on the Establishment and Financing of a Public Drug Plan. As a first step toward a universal program, the AFB will allocate $900 million in the first year and $1.2 billion in the second to extend coverage for low-income people as part of a cost-shared program with provinces and employers. Funding will come with cost-cutting conditions attached.

Long term care and community care

The Alternative Federal Budget will restore federal cash payments for "extended health services," defined in the *Canada Health Act* as nursing home intermediate care services, adult residential care services, home care services, and ambulatory (outpatient) health care services.[13]

Designated federal contributions to provincial extended health services ended in 1995, when the federal government introduced the *Canada Health and Social Transfer* (CHST). David Dingwall, then the minister of health, reported to Parliament that the CHST necessitated nine consequential amendments to the CHA, which "did not affect any of the criteria or conditions of the Act nor any of the provisions for their enforcement."[14]

Unfortunately, this was not the case. Amendments to the *Canada Health Act* included the repeal of Section 6, which authorized the federal Minister of Health to allocate discretionary cash payments for extended health services. In 1995, approximately 10% of Health Canada's total health contribution was allocated to nursing homes, residential care, home care, and outpatient services such as physiotherapy, at an estimated rate of $51.32 per capita. In return for the cash, the provinces were required to report to the federal Minister of Health about their activities in this increasingly important area of health services delivery.[15] The 1995 repeal of Section 6 removed any obligation on the part of the federal government to provide funds specifically for extended health services, and also removed any requirement that the provinces disclose information about public funding for and access to this sector of the health care system.[16]

As Canada's population ages, there is a growing need for extended health services across the country. In July 2009, Statistics Canada estimated that the population in the 45-to-64 age group accounted for 40.4% of the nation's working-age population, while those above the age of 65 accounted for 13.9% of the population.

The reduction in the number of days spent in hospital for patients undergoing surgery has increased the need for rehabilitative outpatient services. In most provinces, however, limits are imposed by both public and private insurers on access to ambulatory health care services such as physiotherapy. The demand for rehabilitation services after joint replacement surgery is increasing, but access is restricted by a growing number of financial barriers.

As the need for home, long-term, and residential care rises, it places additional strains on those on low and fixed incomes. Many people who are actively engaged in the workforce are supporting parents who require health care services that are not included in provincial health insurance plans. We need federal leadership to expand coverage and access through legislation and build a stable home care workforce.[17]

We need to extend Medicare to residential long-term care, with increased federal funding tied to legislated standards, including *Canada Health Act* criteria and conditions. We must phase out public funding to for-profit providers and end contracting-out. We need legislated minimum staffing levels to ensure that the ratio between staff and patients/residents meet safety and quality standards that would apply across the country.[18]

The AFB will restore cash transfers to 1995 levels. This will cost $65.34 per capita or $2.2 billion. Such an allocation will reduce the stress on the health care system by providing access to needed services for the elderly, people with disabilities, and those who require community-based services such as physiotherapy.

Health human resources

We see the longer wait times as a labour issue. Wait times will not be reduced by creating a parallel private health care system. Instead, public resources should be used to strengthen the public system. We need good wages and working conditions for health care workers so that they are attracted to — and remain in — the health professions.

In the wake of the prolonged economic crisis, the AFB will support public health care and maintain sufficient transfers to provinces and territories so that workers do not bear the brunt of declining tax-revenues. We see in health human resource policy an opportunity for health care workers to work in safe and healthy environments that support high quality care.[19] Workers have the right to maintain a balance between work and personal life.

We recognize the need for reform that would expand the skill utilization of health care workers such that no profession is diminished, but all are enhanced. We reject cost-cutting measures that would pit worker against worker in a competitive working environment. We encourage healthy work environments where organizational practice encourages high levels of job satisfaction and cooperation. We will seek broad discussion on reforms that could make better use of health care dollars through reform of primary care and other innovations within the public system.

The AFB appreciates the skills of thousands of resident internationally-trained health care workers who would contribute to public health care across the country if they were given the opportunity to be employed in good jobs. These workers should have access to ongoing education and professional development, and have a clear path toward recognition of their international credentials. The AFB will allocate $10 million over two years for the federal government to work with professional regulatory bodies, health care unions, and immigrant rights organizations to facilitate the recognition of international education.

The AFB will allocate a further $10 million per year for a Health Human Resources Innovation Fund to test, evaluate, and replicate effective retentions strategies. These funds will be made available for pilot projects for partnerships by health care authorities, health care worker unions, and provincial, territorial, and First Nation governments. The results of these pilot projects will be disseminated widely.

The AFB will dedicate $200 million each year for the next three years to pilot a job-laddering program for health care workers who are already working, but who need either training or upgrading to develop their skills and gain access to other professions within the health care system. This pilot program will develop the potential of the health care labour force and ease the shortage of health care workers within the public system.

The AFB will commit additional funds to expand seats in medical, nursing, and other health care education programs. The AFB will pay 50% of tuition fees, up to $5,000 per year, based on financial need. We will also support institutions committed to reducing student fees with a fund of $100 million in each of the next two years.

The health needs of Aboriginal communities are not being met in large part because of a shortage of health care workers. Aboriginal peoples are underrepresented in health care fields. In recent years, post-secondary institutions have begun to incorporate issues of cultural safety within their programs, but these efforts need to be advanced and supported to meet the health needs of Aboriginal peoples and increase their representation in health education programs. In each of the next two years, the AFB will allocate $50 million to post-secondary institutions to support Aboriginal students in health education programs who choose to work with Aboriginal communities. This education support will be tied to employment equity programs like the Representative Workforce Strategy in Saskatchewan.[20]

Migrant workers' health agenda

The AFB commits $20 million for each of the next two years to improve the access of migrant workers to health care. As part of the dismantling of the Temporary Foreign Workers' Program and

TABLE 9 Health Care Investments ($millions)

	2010–11	2011–12
Royal Commission on the Establishment and Financing of a Public Drug Plan	10	10
Pharmacare	900	1,200
Extended Health Services	1,500	2,200
Credential Recognition	5	5
Health Human Resources Innovation Fund	10	10
Extend EI for Retraining Health Care workers	200	200
Tuition Debt, Seat Expansion for Health Education Programs	100	100
Seat Expansion for Aboriginal Health Care Workers	50	50
Funding for Migrant Workers' Health Agenda	20	20

the transition to a more just immigration system, the federal government will establish a program to ensure access to health services by migrant workers. This program will be designed in consultation with migrant workers, advocates, and community health researchers.[21] Such a program will extend health outreach services to migrant workers through clinics at locations and during hours that are most convenient, as well as through a "telehealth line." Translation will be available. The program will ensure that workers will not be vulnerable to repatriation or loss of future employment if they fall ill or become injured. Workers will have access to information in their own languages and will have the means to appeal decisions concerning workers' compensation. The program will ensure pan-Canadian standards.

Notes

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Housing

In the past 14 months, the federal government has promised to spend $1.9 billion over five years for various affordable housing and homelessness programs, and then, in the 2009 budget, promised an additional $2 billion in housing investments over two years. Add to that the annual housing investments in tax incentives for homeowners (estimated at $9.39 billion in 2009), plus the $125 billion that the federal government has offered to banks to insure their faulty mortgage portfolios since October 2008, and the dollars really start to add up. The big dollars raise equally big questions:

- Is the federal government spending all the money that it has promised?
- Is the promised money being targeted to those with the greatest housing needs?
- Are more investments required in the 2010 federal budget?

Last year, the Alternative Federal Budget called for an additional $2 billion in federal affordable housing investments. Since then, the federal government has made substantial promises, but almost all the dollars have gone to those who need the help the least. Meanwhile, low, moderate, and middle-income Canadians are still waiting for the housing help that has been promised. For instance, one year after it promised $242.8 billion for new affordable homes, the federal government reported that it has actually delivered zero of those dollars. And one year after promising the banks a record $125 billion through the Insured Mortgage Purchase Program, the government has already given them $66 billion. The banks, of course, have gotten plenty of housing help, even as they collectively declared multi-billion profits, while the waiting lists for affordable housing across the country grew longer.

Canada has massive, diverse, and growing housing needs. A record 1.5 million Canadian households (more than four million women, men, and children) are in "core housing need" — Canada Mortgage and Housing Corporation's calculation of those facing the worst housing needs. More than 3.1 million households (about 8.4 million people) are paying 30% or more of their income on housing, which puts them in the affordability danger zone, according to Statistics Canada. More than 3.3 million households (almost nine million people) are living in substandard housing that requires major or minor repairs, according to Statistics Canada. No one knows exactly how many Canadians suffer homelessness (the federal government estimates up to 300,000 annually, but academics and advocates believe the real number is higher); nor does anyone have an accurate estimate of the number of Canadians who require special physical or mental health supports and services to allow them to access and maintain adequate housing.

The federal government does a poor job of measuring housing need compared to other national governments around the world — and without reliable numbers, it's difficult to set proper targets and timelines, and measure progress. But the numbers that we do have all point to deep and persistent housing insecurity right across the country. The recession with its hundreds of thousands of lost jobs has made a bad situation worse, along with growing income inequality and poverty. In addition, cost increases in both the private rental and ownership markets (including ominous signs of an ownership price bubble emerging in several urban markets) mean that an increasing number of Canadians are literally being priced out of private housing markets. The disproportionate burden of precarious housing is experienced by Aboriginal people, people from racialized communities, and recent immigrants. Women, youth, and seniors experience housing problems arising from physical and sexual violence, along with economic issues, and require specific housing solutions.

The federal government has a fundamental responsibility to ensure that all Canadians have access to adequate, healthy homes. Canada has a legal obligation in international law to honour the right to adequate housing for all — and the federal government, in its formal response to the United Nation's Human Rights Council's Universal Periodic Review of Canada's human rights obligations on June 9, 2009, acknowledged that it needs to do more on housing and homelessness and promised to take effective action with the provinces and territories.

The federal government also needs to realize that affordable housing investments are smart economic and fiscal strategies. Every dollar invested in housing directly generates and indirectly induces several dollars in additional economic activity, plus jobs. The housing investments can be linked to training and employment opportunities for groups who are excluded from the regular employment market. This would require a link between affordable housing and employment strategies. Affordable housing investments are smart economic stimulus at a time when the economy still requires urgent support. In addition, the dollars invested in affordable housing solutions are less expensive than the bigger dollars required to deal with the consequences of housing insecurity and homelessness, including higher health and social services spending. Investments in affordable housing strengthen communities, and they help families and individuals to lead healthier lives.

So how is the federal government doing when it comes to affordable housing investments?

Much promised, little delivered: Only 3% of the federal housing investments promised over the past 15 months has actually been committed to new or renovated homes, according to a government report tabled in Parliament on November 16, 2009. Zero dollars of the $242.8 million promised through the federal Affordable Housing Initiative have been delivered. Only $53.8 million of the $1.475 billion promised in the 2009 federal budget has been delivered.

Eroding value of federal housing investments: The federal government invested $1.6 billion in affordable housing in fiscal 1998 (ending March 31, 1999) and $2.2 billion in fiscal 2008, ending March 31, 2009). Over those two decades, inflation rose by 51% and Canada's population grew by 24% — which more than outpaced the 39% increase in housing investments. Over that same period, Canada's economy grew by 232% — yet

TABLE 10 Federal Housing Investments Promised In September, 2008, and January, 2009, and Total Amounts Actually Committed as of the End of September, 2009

	Promised	Committed by September 2009	% of promised
Repairs	$251,290,000	$7,300,000	3%
Affordable Housing Initiative	$242,800,000	0	0%
Total September 2008	$494,090,000	$7,300,000	1%
Provincial Affordable Housing Renovations	$850,000,000	$46,060,000	5%
Federal Affordable Housing Renovations	$150,000,000	0	0%
Seniors	$400,000,000	$7,660,000	2%
Disabled	$75,000,000	$100,000	0%
Total Budget 2009	$1,475,000,000	$53,820,000	4%
Total	$1,969,090,000	$68,420,000	3%

SOURCE Government of Canada, November 2009

federal investments in affordable housing as a percentage of the GDP dropped sharply.

No national housing framework: Canada, unlike other developed countries, doesn't have a national housing framework that allows for the quick and orderly flow of funding from governments to the affordable housing sector. When federal, provincial, and territorial housing ministers last met in September of 2005, they promised quick work on development of a new framework — but nothing has been achieved since then. In June 2009, in its formal response to the United Nations' Universal Periodic Review of Canada's compliance with its international human rights obligations, the federal government accepted several detailed critiques of Canada's rights failures, and stated: "Canada acknowledges that there are challenges and the Government of Canada commits to continuing to explore ways to enhance efforts to address poverty and housing issues, in collaboration with provinces and territories."[1] The federal government finally agreed to meet with provincial and territorial housing ministers on December 4, 2009 (the first meeting during the term of the Harper government), but the final communiqué from the session offered no plan or commitment to move towards a national housing framework.

The federal government has created a patchwork of funding and initiatives in recent years as the political pressure has mounted for an effective response to growing homelessness. It has promised to make substantial investments in housing in fiscal 2009, including:

In 1935, during the depths of the Great Depression, Prof. Percy E. Nobbs, dean of architecture at McGill University and a leading housing scholar, offered this withering criticism of the then federal government's misdirected housing policies:

"[The Dominion Housing Act] is a comedy of errors, composed by gentlemen who ignored the parliamentary committee's report and so produced an act to facilitate the financing of houses for the middle class who were not in the market… The larger problem of financing future low-rent housing that will pay its way, in fact, must be pursued. Large blocks of three per cent money must be forthcoming for this, if not today, then tomorrow. I am sure it is not beyond the art of man to bring this about, even in Canada, even after five years of desperate depression… Our unemployed are largely quartered in the poorest accommodations we have… These householders are paying far more rent than they can afford, hence they are underfed,

TABLE 11 **Federal Affordable Housing Investments** 1999–2009

Date	Federal Housing Investments ($millions)	GDP ($millions)	Housing Investment as % GDP
1989	1,598	657,728	0.24
1990	1,702	679,921	0.25
1991	1,965	685,367	0.29
1992	1,904	700,480	0.27
1993	1,980	727,184	0.27
1994	1,945	770,873	0.25
1995	1,962	810,426	0.24
1996	1,940	836,864	0.23
1997	1,964	882,733	0.22
1998	1,862	914,973	0.20
1999	1,865	982,441	0.19
2000	1,928	1,076,577	0.18
2001	1,885	1,108,048	0.17
2002	1,910	1,152,905	0.17
2003	1,979	1,213,175	0.16
2004	2,092	1,290,906	0.16
2005	2,072	1,373,845	0.15
2006	2,119	1,449,215	0.15
2007	3,502	1,532,944	0.23
2008	2,155	1,600,081	0.13
2009	2,220	1,527,512	0.15
Percentage Change Over Time			
1989–2009	39%	232%	-38%
1989–1999	17%	149%	-21%
1999–2009	**19%**	**155%**	**-21%**

under-clothed, unhappy and are, more or less, on the road to destruction as human beings."[7]

While the federal government of 1935 rushed to the aid of middle-class home owners, largely ignoring the housing needs of unemployed Canadians and others in desperate conditions, the federal government of 2009 rushed to the aid of the financial sector — handing out $66 billion (so far) for mortgage relief to the banks without asking them to spend even one penny of that money on housing help for people who are homeless or precariously housed. The federal government has made some significant promises to ramp up housing investments geared to low- and moderate-income households, but most of those promises remain unrealized — largely because the federal government dismantled its national housing programs in the 1990s, leavig no effective national framework to ensure that dollars promised are invested in real brick and mortar.

The latest national report from RBC Economics on affordability in Canada's ownership markets offers the grim news that: "All provinces and major metro markets shared in the deterioration in affordability in the third quarter."[8] While Canadians were struggling with rising housing prices (even when offset with low inter-

TABLE 12 Federal Housing Investments ($millions)

Investments Targeted to Low, Moderate, Middle-Income Households	
Housing Program Expenses[2]	$2,247
Affordable Housing Initiative[8]	$164
Homelessness Partnering Strategy[3]	$134
Renovation of Social Housing[4]	$500
Housing For Low-Income Seniors[5]	$200
Housing For Persons With Disabilities[5]	$25
First Nations' Housing[5]	$200
Northern Housing[5]	$100
Total	**$3,571**
Investments Not Targeted	
Home Renovation Tax Credit[5]	$3,000
Various Home Buyers' Tax Subsidies[5]	$160
Capital Gains Exemption For Principal Residence — Full Inclusion Rate[5]	$6,230
Total	**$9,390**
Other Federal Housing-Related Investments	
Insured Mortgage Purchase Program[6]	$66,000

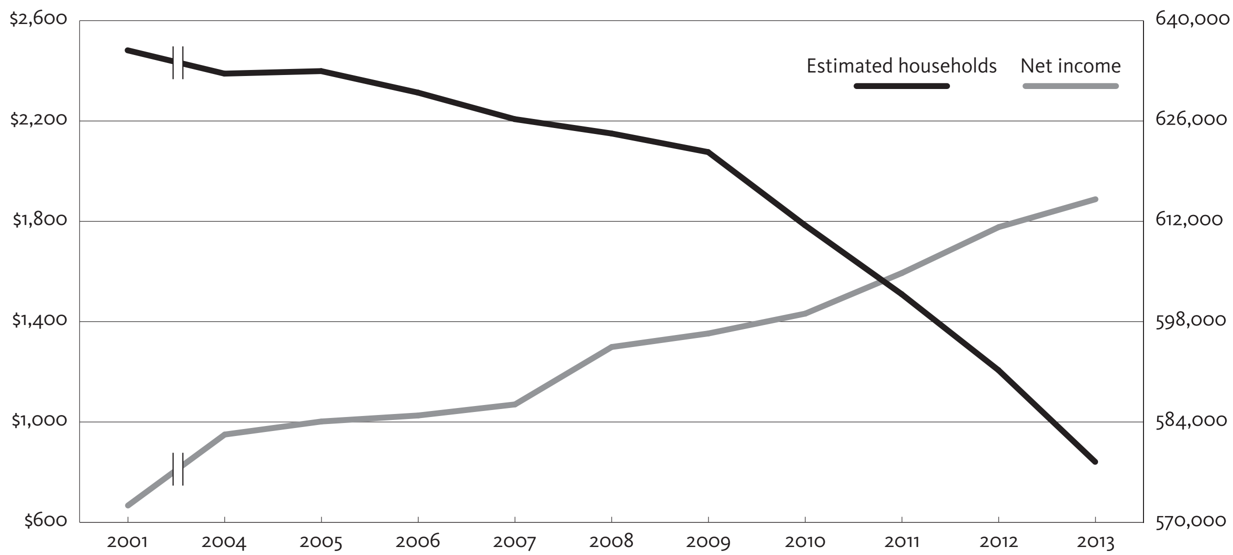
est rates, the ownership affordability barrier is growing higher for low, moderate, and middle-income households), the bulk of federal housing investments on the ownership side ($66 billion) are geared to the banks, which have allocated $11.2 billion to those who already own a home, and only a relatively modest $190 million in subsidies for first-time home buyers.

The dollars are also skewed when it comes to repairs and renovation. The federal government estimates that it will spend $3 billion on subsidies to wealthier homeowners through the home renovation tax credit (owners must spend up to $10,000 of their own money to access the federal credit — which leaves out lower-income home owners), while offering only $628 million ($500 million for social housing repairs and $128 million for the residential rehabilitation assistance program) to the 3.3 million households living in substandard housing. The federal RRAP program — the major ongoing repair initiative of the federal government — manages to renovate about 20,000 new homes annually. At this rate, it will take the federal government 150 years to fund the repairs of all the homes that are currently substandard.

The federal government urgently needs to develop a more reliable measure of the diverse housing needs of Canadians, and use that to set targets and timelines, and develop a comprehensive national affordable housing framework that includes the provinces, territories, municipalities, Aboriginal communities, the non-profit sector and the private sector. Bill C-304, a private member's bill from MP Libby Davies, would require the federal government to launch a national consultation and create a new national affordable housing plan within 180 days. The bill has passed second reading in the Commons with the support of the NDP, Bloc and Liberals — plus a lone Conservative. The bill is due back in the Commons in its amended form shortly.

During the 1980s and 1990s, the federal government shifted the funding and responsibilities of Canada Mortgage and Housing Corporation (Canada's national housing agency) away from

CHART 8 CMHC's Surplus Will Rise as Number of Assisted Households Drops ($billions)



SOURCE Canada Mortgage and Housing Corporation, 2009

affordable housing and towards commercial activities, such as mortgage insurance. These changes were formalized in amendments to the National Housing Act in 1998–99. In addition, the federal decision in its 1996 budget to transfer the administration of most federal housing programs to the provinces and territories locked in place an automatic "step-out" (annual funding cut) to overall affordable housing spending.

The effect of these two decisions is becoming increasingly alarming: The overall number of households that will get federal housing help will drop by 9%, or more than 57,000 households, from 2001 to 2013, even though Canada's population will increase during that time, and the number of households in "core housing need" will also grow; and federal funding for the affordable housing initiative (to finance new homes for low and moderate income households) will drop from $166 million in 2001 to a mere $1 million in 2013. Meanwhile, over that same time, CMHC's surplus will triple from $667 million to $1.9 billion.

As a down payment on a long overdue national housing plan, the Alternative Federal Budget will add $2 billion to its current and promised affordable housing investments. This funding will be used both to enhance existing federal initiatives that are not adequately funded (doubling the federal homelessness initiative, doubling Residential Rehabilitation Assistance Program), and also to provide funding for new homes, repairs, and housing services for the diverse housing needs of Canadians who are not currently getting support. This including a dedicated portion for Aboriginal people living off-reserve through a new national Aboriginal housing strategy that ensures that Aboriginal housing is under Aboriginal control.

The federal government's Homelessness Partnership Strategy provides services for the homeless, but it is limited to only 61 communities. It funds items like food, health care, and other services for the homeless, temporary shelters, and transitional housing. The Residential Rehabilitation Assistance Program is a repair program for low-income housing. Currently, it funds repairs to about 20,000 homes annually.

There needs to be specific targets to ensure that the new housing is truly affordable for low and moderate-income households. The new spending could be allocated as shown in Table 12.

The AFB will utilize housing rehabilitation and construction projects to provide training, apprenticeship, and employment opportunities for marginalized people who have barriers to employment and are still excluded from the economy. Funding for this kind of program or service will be provided through Labour Market Agreements. This will strengthen Canada's economy and help bolster us against a future downturn.

Some of the revenue to support the new investments can be drawn from the operating surplus of Canada Mortgage and Housing Corporation. The federal government also needs to re-profile existing housing subsidies and tax expenditures to ensure that federal housing dollars are going to those with the greatest need.

TABLE 13 AFB 2010 Housing Initiatives

Homelessness Partnering Strategy	$135 million
Residential Rehabilitation Assistance Program	$128 million
New Housing Supply and Supports	$1.7 billion

Notes

1 See official federal response at http://www.pch.gc.ca/pgm/pdp-hrp/inter/101-eng.cfm

2 Canada Mortgage and Housing Corporation corporate plan 2009.

3 Consultation Paper, Federal Housing and Homelessness Consultation, August 2009

4 Government of Canada, Federal Budget 2009

5 Federal Department of Finance, Tax Expenditures Report, 2009

6 Government of Canada, Canada's Economic Action Plan, Fourth Report to Canadians, 2009

7 See http://www.urbancentre.utoronto.ca/pdfs/policyarchives/1935PercyNobbs.pdf

8 RBC Economics, November 2009: http://www.rbc.com/economics/market/pdf/house.pdf

Immigration

Introduction

For many mainstream economists and media pundits, the current economic crisis began around the end of 2008. But for many Canadians, especially immigrants and members of racialized communities, their economic woes started long before the TSE plummeted by 700 points in one day. The financial situation for many families from immigrant and racialized communities has never been great, but it has definitely become worse over the last year.

That Canada's immigrants are not faring well economically is something all Canadians need to be worried about. A declining birth rate coupled with an aging population means that immigrants are soon going to be the key driving force behind Canada's economic engine. By 2017, nearly all new entrants into the labour market will be immigrants.

Also by 2017, one in five Canadians will be a "visible minority" according to Statistics Canada — due largely to the continuing trend of Canada receiving more and more immigrants from Asia, Central and South America and the Caribbean than other regions in the world.

Yet by any measure — income, employment, housing conditions, health status, etc. — immigrants and members of racialized communities are falling behind their Canadian-born and/or non-racialized neighbours. The Canadian government should be developing policies and committing resources to address the growing socioeconomic racial inequities. Instead, the approach adopted by successive governments to date has been to treat this sizeable segment of the population as a mere afterthought.

The growing disparities

The 2006 Census reported one in five Canadians as foreign-born, the highest proportion in 75 years. Recent immigrants born in Asia made up the largest proportion of newcomers to Canada in 2006 (58.3%). Another 10.8% were born in Central and South America and the Caribbean. Not surprisingly, 68.9% of the recent immigrants in 2006 lived in three census metropolitan areas: Toronto, Montreal, and Vancouver.[1]

In 2006, most recent immigrants experienced higher unemployment rates and lower employment rates then their Canadian-born counterparts. The exceptions were immigrants from the Philippines and those born in Europe, who had labour market outcomes similar to the Canadian-born. Immigrants born in Africa had the most difficulties in the labour market, regardless of how long they had lived in Canada. For the very recent African-born immigrants, their unemployment rate at 20.8% was four times higher than that of the Canadian-born.[2] Higher unemployment rates are also found among the younger recent immigrants between the age of 15 and 24, irrespective of where they were born.[3]

In case anyone is wondering whether the high unemployment rates among recent immigrants are due to their inferior educational background, statistical studies have conclusively disproved that assumption. With few exceptions, very recent immigrants who had any level of post-secondary education had employment rates that were lower than that of their Canadian-born peers. Most important to note is that this was true irrespective of where this post-secondary education was obtained. Statistics Canada reports that, in 2007, very recent immigrants aged 25 to 54 who received their highest university education in Canada were less likely to have significant Canadian work experience compared than their Canadian-born peers. The same study also showed that almost one in five very recent immigrant university graduates were attending school in Canada in 2007, even though they already had a university degree, yet the majority of university-educated very recent immigrant students were not participating in the 2007 labour market.[4]

Gender also seems to play a role in this respect. Although immigrant women represented nearly half of university-educated very recent immigrants, their participation in the labour force was significantly lower, particularly for those born or educated in Asia.[5]

The only exceptions to this troubling pattern of employment gaps are recent and established immigrants who received their highest university education in Canada or Europe; they had comparable employment rates in 2007 to the Canadian-born. In contrast, many of those who obtained these credentials in Latin America, Asia or Africa had lower employment rates, with the one exception being immigrants who received their university degree from a Southeast Asian (mainly Filipino) educational institution.[6]

If immigrants are not getting employed at the same rates as others, they are also not earning the same levels of income, either. The immigrant's birthplace — a proxy for ethnicity — turns out to have the strongest influence over the immigrant's earnings, as a Statistics Canada study has shown. This finding coincides with the repeatedly noted fact that immigrants to Canada increasingly come from "non-traditional" sources, are members of visible minorities, and are more likely to be educated than persons born in Canada. Despite an increasing number of university graduates among immigrants, however, the relative earnings of immigrants did not improve in recent times.[7]

Hiding behind the statistics is the disturbing trend of the ever growing racial inequities in Canada among immigrant group members, as well as racialized individuals born in Canada. Disturbingly, the employment inequities and the resulting income inequities experienced by recent immigrants with degrees (excepting those with European or Filipino background) are shared by young visible minority men born in Canada to immigrant parents. Everything else being equal, their annual earnings are significantly lower than those of young men with native-born parents.[8] Canadian-born members of racialized communities, who have even higher levels of education than other Canadians in the same age group, are faring the worst.[9]

Adding to the mix is the growing number of workers who entered Canada under the Temporary Foreign Worker Program (TFWP). Over the last few years, the TFWP has grown from a relatively small program to one that provides for an ever-larger number of guest workers coming to Canada. In 2003, the total number of guest workers in Canada was just over 110,000. By 2007, that number had soared to about 165,000, versus 41,251 skilled workers who were brought in as permanent residents.[10] Most guest worker applications approved by the federal government are for jobs in semi- and low-skilled jobs in agriculture, tourism, and the service sector — raising serious questions about whether they are truly meant to fill a labour market need or to provide a cheap and vulnerable source of labour.

During the Conservative government's reign, the program also underwent a series of "administrative changes" which some critics have described as benefiting employers without any provisions to ensure that the workers' rights would be protected. Although racial status data are not available for these workers, they are disproportionately people of colour. Of the top 10 source countries for guest workers, half of them have racialized populations, and in 2006 nearly 35% of the 160,000-plus guest workers came from countries where the population is racialized.[11]

On December 9, 2009, some dramatic new changes to TFWP came into force.[12] They place a higher onus on employers to prove that their job offers are genuine, to prevent workers from being duped with promises of jobs that don't exist. Employers who have failed to meet their contractual obligations to provide satisfactory wages and working conditions are to be barred from hiring new workers for two years.

But the small positive change effected by the new regulations is overshadowed by the negative measure which bars temporary foreign workers from working in Canada for six years after having worked a cumulated period of four years. The new prohibition effectively keeps these workers forever temporary, with no chance of ever becoming a citizen of the country that they help to build.

In short, the persistent economic inequities cannot be explained by immigration status alone. Racialized workers, be they immigrants or Canadian-born, experience higher unemployment rates and earn lower incomes. Workers with less than full status — most of whom are racialized — are ghettoized in poorly paid jobs vulnerable to exploitation and abuse.[13]

To conflate the experience of members of racialized communities with that of immigrants is to misdiagnose the problem. Yet policy-makers of all stripes — governmental and non-governmental alike — continue to minimize if not altogether ignore the racialized aspect of the inequities. Nor do they differentiate between "immigrants" from racialized group members, often treating the two groups as being synonymous. Conveniently, policy-makers attribute these income gaps and labour participation differentials to settlement adjustments, thereby shifting the blame from institutional actors to the "immigrants" for allegedly causing their own misfortune. Thus the policy-makers can refrain from tackling the real underlying problem: systemic, structural inequities in the labour market.

The economic crisis

The impact of the prolonged economic recession on immigrants and racialized communities has virtually been ignored. Few socioeconomic studies have been done to date about these communities with a view to analyzing their job loss rates or access to the Employment Insurance (EI) benefits. Some data about the gender-based differential access to EI benefits is available, but there are no disaggregated data on the basis of race or related grounds.

One poll last year did confirm that immigrants are taking the brunt of the recession and are recovering less quickly than their Canadian-born counterparts. Prepared for the *Globe and Mail,* a Statistics Canada study released in July 2009 showed that employment among Canadian-born workers fell 1.6% over the previous year, compared with 5.7% among recent immigrants who have been in the country for five years or less. Immigrants who have lived in Canada for at least a decade fared slightly better, but still had double the unemployment rate of their Canadian-born counterparts.[14]

Ask any immigrants or members of racialized communities why they are not doing well financially. and they will not be citing the stock market crash. They will more likely tell you about the problems they have getting good jobs or getting a promotion because of their race. If they are immigrants, they will complain about the lack of recognition for their internationally obtained degrees and skills, which leave them little choice but to work in low-waged dead-end jobs.[15] These workers need far more direct government intervention to stop them from falling further down the income ladder. So far, the federal government has offered little, either in policy or financial terms, to address their concerns.

The federal Budget tabled in January 2009 contained a few partial measures to assist immigrants and racialized communities, including an increase in the EI benefits period, but failed to respond meaningfully to the tough economic circumstances they now face.[16] The extension of EI benefits period, for instance, only benefits workers who are qualified for EI. The current EI program rules do not reflect the needs of workers in "non-standardized" work — a disproportionate share of whom are racialized and/or newcomers. The proportion of the unemployed receiving EI benefits is also substantially lower in large urban areas where most immigrants and members of racialized communities reside.[17]

Last November, the Minister of Human Resources and Skills Development and the Minister of Citizenship, Immigration and Multiculturalism jointly introduced the Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications.[18] It was touted as "an important step in paving the road to success for Ontario's newcomers".[19] Essentially, however, all the Framework requires of the regulatory bodies is that they advise foreign-trained workers who submit an application to be licensed or registered within one year whether their qualifications will be recognized. The Framework is not a legal document and is not binding on any of the regulatory bodies, who are free to maintain their own requirements for assessing qualifications.

The under-utilization of immigrants has resulted in their experiencing significant earning deficits.[20] But immigrants are not the only ones who lose when their prior learning and experiences are not being recognized in the Canadian labour market. Eliminating the learning recognition gap of immigrants would result in billions of additional income being earned — and hence the corresponding increase in government revenue in the form of income tax.[21] The persistent failure of both the federal and provincial governments to address this problem has thus not only kept immigrants in the bottom rung of the social hierarchy, but also resulted in significant loss to the Canadian economy.

Closing the racial equity gaps

Given all these problems, the Alternative Federal Budget presents several policy and funding initiatives designed to help immigrants and racialized groups overcome the barriers of discrimination that have been raised against them.

The first measure is to reform the Employment Insurance system so that it more adequately meets the needs of Canadian workers, particularly members of racialized communities, including women, immigrants and refugees:

- The number of hours needed to claim EI benefits will be lowered to 360.
- Benefits will be raised to 60% of the best weekly earnings in the previous 52 weeks, and extended to 52 weeks.
- The EI's training fund will be made available to immigrants for training to help

gain recognition for their international credentials.

Secondly, the federal Wage Earner Protection Program (WEPP) will be amended to double the amount of payout to workers from the current 4 weeks maximum 8 weeks. This program will also be extended to cover workers from workplaces that are insolvent.

Amendments will be made to the *Bankruptcy and Insolvency Act* to collect back from employers who regain their financial stability any money that the government has paid out under the WEPP.

Thirdly, the AFB will provide incentives to employers to institute paid internships for recent graduates from equity-seeking groups in strategic fields (e.g., in emerging green jobs) in order to facilitate their labour market integration.

Finally, full funding will be allocated for a reinstatement of the Court Challenges Program that was terminated by the Harper government. This will allow racialized communities and other equity-seeking groups meaningful access to the courts to challenge legislation and policies which perpetuate racial and other forms of discrimination in our society.

Granted, not every problem can be solved by money. The challenge facing immigrants in obtaining recognition for their accreditation, for instance, cannot be overcome without the full co-operation of all self regulated professions and trades in all provinces and territories. The ultimate answer lies in legislative reform that will compel professions and trades to remove all barriers to accreditation — both of internationally trained newcomers and native-born Canadians alike.

The AFB also commits to other policy initiatives that do not necessarily come with a price tag but will help remove structural barriers to equal participation by immigrants and racialized group members. One, in particular, is to require all provinces and territories that receive investments and stimulus packages from the federal government to meet the Federal Employment Equity Program targets for any jobs that are created as a result.

The AFB will also reform the Temporary Foreign Workers' Program to stop the practice of bringing in cheap disposable foreign labour and to rescind the new regulations that bar individuals under the TFWP from entering Canada for six years. In fairness to these workers, steps will also be promptly taken to revamp the point system for independent immigrant class by giving workers of all skill levels an equal opportunity to enter Canada as permanent residents.

Finally, the AFB will require the collection and tracking of disaggregated data across all ministries, departments and relevant institutions, in order to identify racialized and other structural and systemic discrimination. When subsequent Budgets are prepared, this information will allow the differential impact of all budgetary decisions on various historically disadvantaged and marginalized communities to be calculated in advance. This will promote the establishment of goals and time targets to achieve equity for all of these groups now still deprived of equitable treatment.

Notes

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21 According to the Conference Board of Canada's 2001 report entitled "Brain Gain, The Economic Benefits of Recognizing Learning and Learning Credentials in Canada", the closing of the learning recognition gap would give Canadians an additional $4.1 billion—$5.9 billion in income annually. Among the groups who stand to gain the most are immigrants. An improved system for recognizing the learning of immigrants would also result in a brain gain to offset the brain drain to the United States, according to the same report.

Post-Secondary Education

The summer of 2009 saw the second highest level of student unemployment since Statistics Canada started collecting data in 1977, with both July and August breaking all previous records. Even though the real value of the Canadian dollar dropped by 0.8% between fall 2008 and fall 2009, average undergraduate user fees ("tuition fees") rose by 3.6% in the same period, reaching $4,917.[1]

Combined with the additional compulsory fees that most institutions charge to circumvent provincial tuition fee regulation, total average undergraduate fees climbed to over $5,650. In specialized programs such as medicine, law and dentistry, students often pay three or more times the Canadian average, driving student debt for many future health professionals into six figures.

Since the federal funding cuts of the mid-1990s, the responsibility for financing post-secondary education has been increasingly downloaded onto students and their families. Between 1986 and 2006, government grants as a share of university operating revenue plummeted from 80% to less than 57%. As a direct result, the share of university operating budgets funded by tuition fees more than doubled during the same period, from 14% to 29%. Tuition fees have increased at more than double the rate of inflation since the early 1990s, with the largest increases in professional programs. As a result, low-income families are now half as likely to attend post-secondary education in Canada.

As Canada entered a deep recession in late 2008, the federal government delivered a budget lined with infrastructure funding, including nearly $2 billion for colleges and universities. Despite this substantial investment, however, the budget did not increase core funding or contain any measures to reduce student debt or increase accessibility.

The Alternative Federal Budget will make key federal investments in post-secondary education as a cornerstone of economic recovery.

Core funding

The federal government has a long history of involvement in the funding of post-secondary education, with the first transfer payments introduced with the Canada Assistance Plan in 1966. These transfers reached their high-point in the 1980s, before declining throughout the 1980s and '90s. Funding has fallen from a high of 0.56% of GDP in 1981 to a low of .15% in 2005, roughly the same level as when the transfer was first introduced in the late 1960s. Since then, federal transfers have increased slightly to .21% for the 2008–09 year.

When the Canada Health and Social Transfer (CSHT) Payment was introduced in 1996, it removed the accountability of transfers to the provinces for post-secondary education. CSHT — renamed the Social transfer after funding for health care was changed to a dedicated transfer payment — lumped all social transfers from the federal government to the provinces together, giving no guarantees that federal monies intended for post-secondary education ever made it to students and their families. The 2007 Budget took a step in the right direction, by earmarking funds for post-secondary education. Although the earmark seemingly added some degree of transparency, provincial governments, without binding agreements, are under no obligation to ensure that federal monies transferred to them benefit students. There is consensus in the post-secondary community that the current design of transfer payment mechanisms is insufficient to meet federal objectives for post-secondary education.

The increase implemented in the 2007 federal Budget was a good first step, but the Canadian Association of University Teachers still estimates that the federal government's contribution is at least $1.2 billion short of 1992–93 levels when accounting for inflation and population growth.

Lagging federal funding for colleges and universities has resulted in higher tuition fees, as costs are passed on to students and their families. As the value of federal transfers diminished in the 1990s, tuition fees skyrocketed from an average of roughly $1,460 in 1990 to over $3,300 by 1999. Lower levels of funding also impair the ability of institutions to hire an adequate number of instructors and support staff, resulting in a reduction in the quality of Canada's colleges and universities.

A similar situation existed with federal funding for health care, until the introduction of the Canada Health Act in 1984. This act established guiding principles to maintain high standards in quality and accessibility, and made federal funding conditional on these principles being respected. The AFB introduces a new dedicated post-secondary education cash transfer, to be guided by a piece of federal legislation that is based on similar principles of accessibility, comprehensiveness, collegial governance, public administration, and academic freedom. This new cash transfer will return funding to pre-1992 levels by 2013–14.

Student financial aid

Past government decisions at the federal and provincial levels are forcing students and their families to take on more education-related debt than any previous generation, during a time when earnings for the majority of families have been stagnant for the past 20 years. High tuition fees and an increasing reliance on loan-based financial aid have pushed student debt to historic highs. Monies owed to the federal government alone for student loans surpassed $13 billion in January 2009. This number becomes much larger when you count payments owed to provincial governments, families, and private lenders.

Student debt is one of the primary effects of the move towards policy that downloads the costs of public education onto students and their families. Student debt levels have been linked to lower degree completion levels and a reduced likelihood of continuing studies beyond a bachelor's degree or college diploma. Heavy debt loads are also a negative factor in an already weak economy. Student loan obligations reduce the ability of new graduates to start a family, work in public service careers, invest in assets, build career-re-

TABLE 14 AFB 2010 Post-Secondary Education Initiatives ($millions)

	2010–11	2011–12	2012–13
Create New Income Tested Grants	2,073	2,174	2,276
Cancel Textbook Tax Credit	(83)	(84)	(85)
Cancel Scholarship Tax Credit	(39)	(39)	(40)
Cancel Tuition Fee and Education Tax Credit	(1,025)	(1,045)	(1,065)
Cancel RESP	(300)	(340)	(380)
Cancel Canada Education Savings Grant	(626)	(666)	(706)
Total Budget Effect	0	0	0

lated volunteer experience, or take lower-paying work in order to get a "foot in the door."

In fall 2009, the beleaguered Millennium Scholarship Foundation was replaced with a publicly accountable up-front grants program. This new program greatly increases accountability, but, in order to meaningfully reduce debt, a larger investment is required. The Canada Student Grants Program will distribute roughly $514 million this year, while the Canada Student Loan Program expects to lend just under $2.2 billion. Although a substantial amount of funds is being distributed through the CSGP, they pale in comparison with the $2.4 billion the government will spend on education-related tax credits and savings schemes. Despite their large price tag, federal tax expenditures are a very poor instrument to either improve access to post-secondary education or relieve student debt, since everyone who participates qualifies for tax credits regardless of financial need. The federal government is diverting vast sums of public funding where they are not necessarily required.

The non-refundable education and tuition fee tax credit alone will cost the federal government over $1.5 billion this year. Tax credits are a poor instrument to improve access or reduce student debt. Credits disproportionately benefit wealthy families. For those students who do earn enough to claim the credits and get money back on their taxes at the end of the financial year, these rebates do little to help them afford tuition fees in the first semester.

The Alternative Federal Budget will eliminate all federal student debt, by increasing the value and number of up-front grants available to students, by redirecting funds currently used on education-related tax credits and savings schemes into upfront grants.[2]

Aboriginal students

The federal government has a moral and legal responsibility to provide for the well-being of Canada's Aboriginal peoples, including access to post-secondary education. The Post-Secondary Student Support Program (PSSSP) is the primary mechanism by which Aboriginal students receive financial support from the federal government. Since 1996, annual growth in funding for the PSSSP has been capped at 2%. With inflation and population growth, this cap results in an annual *decrease* in per-capita funding.

In a 2004 report of Canada's Auditor General, lack of federal funding to the PSSSP was cited as the cause of preventing approximately 9,500 eligible First Nations students from pursuing a post-secondary education in 2000. To reduce socioeconomic disparities between Aboriginal and non-Aboriginal Canadians, the AFB will remove the cap on funding for the Post-Secondary Student Support Program and increase funding to meet the needs of all Aboriginal post-secondary learners.

University research

A highly educated workforce is the foundation of a knowledge-based economy. Graduate students are instrumental in the production of basic research that lays the groundwork for future innovation and makes Canada more competitive internationally.

Recent federal Budgets have invested heavily in university research geared towards producing a commercially beneficial end product, while offering little to basic research. By funding a very narrow range of research disciplines — mostly in science, engineering, and business — these funding decisions have led to a deterioration of a research environment that is comprehensive and based solely on the academic merits of the work.

The federal government's science and technology strategy is geared towards producing products that can yield short-term results, with little consideration to long-term innovation. In addition, federal funding increases geared towards market driven research programs are leading to an unhealthy private-sector dependency on universities for their research and development. This corporate subsidy contributes directly to Canada lagging behind other OECD countries in private-sector investment in in-house research and development capacity. As this trend deepens, our private sector research and development infrastructure will give way to a publicly-backed university system that does not have a consistent track-record of bringing innovations to the marketplace.

Recognizing the importance of funding based on an independent, peer-reviewed, and merit-based approach, the AFB increases the Granting Council's base budget by 10%, with greater funds asymmetrically allocated to the social sciences and humanities to support innovation in graduate student research.

Notes

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Poverty Reduction

From bankers to the unemployed, everyone is concerned about the fragility of the recovery because 63% of the economy is reliant on consumer spending — yet Canadian consumers face record levels of indebtedness. Going into the recession, the average Canadian household owed $1.40 for every dollar of disposable income. By mid-2009, that figure had reached $1.45, placing millions of households in jeopardy should they lose a job, or face rising interest rates.

A recent report on pensions raised concerns that significant numbers of middle-income retirees face serious declines in living standards in the coming years.[1] The looming spectre of economic ruin and decline haunts an increasing number of Canadians.

Spearheaded nationally by organizations and coalitions such as Make Poverty History, Canada Without Poverty, Citizens for Public Justice, and Campaign 2000, civil society groups across the country are demanding that the federal government step up with a concrete strategy. Complementing these efforts, important work is underway by organizations representing those sectors of society where poverty is most acute, such as the Assembly of First Nations, and disability organizations.

Today the political momentum to tackle poverty is undeniable. Six provinces — Quebec, Newfoundland and Labrador, Ontario, Nova Scotia, New Brunswick, and Manitoba — have poverty reduction plans in place or in development. At the federal level, however, the Harper government has failed to take poverty reduction measures, even though the House of Commons, last November, passed a motion with all-party support directing it to "*develop an immediate plan to eliminate poverty in Canada for all.*" And a recent report from the Senate Subcommittee on Cities also urged the federal government to "*adopt as a core poverty eradication goal, that all programs dealing with poverty and homelessness are to lift Canadians out of poverty rather than make living within poverty more manageable, and that the federal government work with the provinces and territories to adopt a similar goal.*"[2]

Clearly, the political terrain is shifting.

While provincial governments have taken the lead, the job can't be completed without the active partnership of the federal government. In fact, it is the Government of Canada's responsibility to lead the poverty reduction charge with respect to Aboriginal poverty, seniors' poverty, child poverty, and poverty among recent immigrants and people with disabilities. The economic security of these people, and all citizens, should not depend on the part of Canada in which they reside.

Historically, the federal government has played a key role in alleviating poverty in Canada. For every dollar spent by provinces and municipalities on social assistance, the federal government spends six dollars on Old Age Security, the Canada Child Tax Benefit and Employment Insurance. In addition, the federal government supports the incomes of the poorest Canadians through the Working Income Tax Benefit and the GST credit. But much more needs to be done.

There is nothing inevitable about poverty in a society as wealthy as ours. Evidence from countries such as England, Ireland, Sweden and the Netherlands demonstrates how governments that commit to bold action plans get results.[3] Canada also had a similar experience when we chose to tackle poverty among the elderly in the 1960s: as a result, the lowest rate of poverty for any demographic group in Canada has been, by far, that for seniors. When there is a plan to get something done, progress gets made.

Consider this: the AFB proposal for a federal poverty reduction plan this year would cost $2 billion. That's a mere 0.2% of national GDP, and little more than 0.8% of federal program spending. By what economic logic, in a nation with a total annual income of about $1.7 trillion, are we unable to afford to take a serious run at poverty, knowing the payoff from these initiatives will benefit citizens and public treasuries for years to come? It is a hopeful sign that some provincial governments are waking up to these realities. It is time for our federal government to do the same.

Another hopeful sign: the public desire for action is very strong. According to polling conducted in late 2008 by Environics for the CCPA (just as the recession was taking root), 90% of Canadians say it's time for strong leadership to reduce the number of poor people in Canada; 89% say both the Prime Minister and the provincial Premiers need to set concrete targets and timelines to reduce the number of poor Canadians; and 77% of Canadians say that, in a recession, it's more important than ever to make helping poor Canadians a priority.

National poverty reduction plan

The need for a national poverty reduction plan is clear. In 2007 (the latest year for which we have statistics), the national poverty rate was 9.2% (using Statistics Canada's after-tax low-income cut-off), or 10.1% (using the federal government's Market Basket Measure — arguably a superior measure that captures the actual cost of living in communities across the country). Irrespective of the measure used, over three million Canadians — more than 600,000 of them children — lived in poverty, even before the recession began. For these Canadians, the issue is not just making ends meet, but being able to plan for the future, develop skills, or participate in the social, cultural, and political life of the community. Temporary bouts of poverty may be easier to overcome, but evidence shows that the duration of poverty is lengthening, leaving a scarring legacy on individual lives and communities across the country. Persistent poverty represents a violation of basic human rights, and a squandering of human potential.

As people struggle to find permanent, well-paying jobs and deal with unsustainable levels of debt, this recession will add hundreds of thousands of the nouveau poor to the déjà poor. For those experiencing unemployment, poverty and homelessness, the crisis is far from over. And, as the unemployed exhaust their EI coverage, they are discovering a provincial social assistance system that is a shadow of what it was in the recession of the early 1990s. Real social assistance benefit rates are much lower and new rules have made assistance much less accessible, often forcing people to liquidate their savings before help is provided.[4] Those in desperate need of income support, due to the loss of a job, the loss of a spouse, the loss of good health, old age, or any number of other life circumstances, find that the social safety net meant to catch them has been shredded.

For hundreds of thousands of Canadians, the purported economic recovery is a fiction. Many economists believe Canada is likely to experience a jobless recovery for some time. We can't wait for economic growth to start trying to reduce poverty.

Inequality

Without question reducing poverty is a matter of urgency. But inequality shapes our view of that urgency. Decades of international research have now revealed an important link between poverty and inequality: the higher the rate of inequality among people, the higher the rate of poverty that is tolerated.[5] That could explain why poverty didn't decline in Canada in the past decade, even though the economy was firing on all cylinders.

Between 1997 and 2007, the Canadian economy enjoyed the most sustained period of robust growth since the 1960s, resulting in a gradual decline in the prevalence of poverty — but also unprecedented growth in income inequality.[6] By 2007, the average after-tax income of the richest 10% of non-elderly households was 21 times that of the average incomes of the poorest 10%. That's much higher than during the depths of the recession in the 1990s, when average incomes of the richest were 15 times that of the poorest.

Two recessions in as many decades (1981–82 and 1990–91) have knocked the stuffing out of the bottom half of the distribution, while those at the top barely felt a thing. Thousands of good-paying middle-class jobs disappeared after both recessions, replaced by jobs that paid less, had fewer hours, or were impermanent. These shifts in the labour market resulted in a smaller middle class, and a Canada of greater extremes at the top and bottom.

Canada needs a plan that prevents and reduces poverty — a plan that restores the resilience of its middle class. For that plan to work, everyone has to buy in. For poverty to decline, inequality has to decline, too.

Affordability

As Canada struggles through the global economic downturn, our governments need to recognize that a poverty reduction plan is where we are likely to see the maximum stimulus bang for the buck. That's not just AFB analysis. That's the message from the IMF, the World Bank, and the United Nations.

Income support programs can be boosted easily, and can quickly get money into the pockets of those in greatest need, concentrating that assistance in the communities hardest hit. And, unlike middle- and upper-income households, low-income households do not have the luxury of saving: they spend everything they have, primarily in our local communities.

Many of those in poverty rely on social assistance, and live thousands of dollars a year below the poverty line. Nearly half of those living in poverty, however, are employed in the low-wage workforce, and over half of poor children live in homes where the adults are employed,[7] but their earnings are not enough to lift them and their children out of poverty.

The story of poverty in Canada is not only one of inadequate and inaccessible income supports (welfare, EI, and Old Age Security), but also, importantly, a low-wage story. A comprehensive poverty reduction plan must address both these dimensions.

We all pay for poverty

Many Canadians feel a sense of shame about the poverty and homelessness in our midst, but too often they accept the claim that we cannot afford more help for the poor. In fact, the opposite is true: we cannot afford *not* to take action.

Study after study links poverty with poorer health and higher health care costs, higher justice system costs, more demands on social and community services, more stress on family members, and diminished school success. A recent study published by the Ontario Association of Food Banks calculated the cost of poverty in Ontario to be between $10.4 and $13.1 billion for the public treasury, and between $32.2 and $38.3 billion for society at large (or about 6% of Ontario's GDP).[8] Clearly, refusing to act doesn't save us money. Doing nothing is a false economy, and an increasingly unaffordable posture as we look into the future and see looming labour shortages that will compromise our standard of living and quality of life.

Setting clear targets and committing to a plan

A meaningful poverty reduction plan must have clear targets and timelines, using multiple and widely accepted measures of progress. The benchmarks for the timelines must be concrete enough, and frequent enough, that a government can be held accountable for progress within its mandate. The AFB adopts the following indicators, targets, and timelines:

- Reduce Canada's poverty rate by 25% within five years (by 2015), and by 75% within a decade.
- Ensure the poverty rate for children, lone-mother households, single senior women, Aboriginal people, people with disabilities, and recent immigrants likewise declines by 25% in 4 years, and by 75% in 10 years, in recognition that poverty is concentrated within these populations.
- In two years, ensure every person in Canada has an income that reaches at least 75% of the poverty line.
- In two years, ensure no one has to sleep outside, and end all homelessness within eight years by ensuring all people who are homeless have good quality, appropriate housing.
- Reduce the share of Canadians facing "core housing need" — those who pay more than 50 per cent of their income on housing — by half by 2015.
- Reduce the number of Canadians who report both hunger and food insecurity by half within two years.
- Reduce the share of low-wage workers. Canada should seek to reduce the share of workers earning less than two-thirds the median wage every year.

In order to achieve these targets, the AFB will take action in the following key policy areas:

1. **Provide adequate and accessible income supports.**
   Priority Actions:
   - Legislate an Act to reinstate minimum national standards for the adequacy and accessibility of provincial income assistance.
   - Ease the rules governing EI eligibility, increase EI benefit rates, and extend the duration of EI coverage.
   - Increase the Guaranteed Income Supplement for low-income seniors by 15%.
   - Double the refundable GST credit.
   - Increase the Canada Child Tax Benefit to $5,000 per child.

2. Improve the earnings and working conditions of those in the low-wage workforce.

Priority Action:

- Re-establish a federal minimum wage (set at $11 and indexed to inflation).

3. Address the needs of those most likely to be living in poverty.

- The plan focuses its efforts on those groups with higher poverty rates, such as Aboriginal people, people with disabilities and mental illness, recent immigrants and refugees, single mothers, and single senior women.

4. Address homelessness and the lack of affordable housing.

Priority Actions:

- Pass a National Housing Strategy (as proposed by Bill C-304).
- Immediately start building *new* units of social housing (not counting conversions, rental subsidies, or shelter spaces).

5. Provide universal publicly-funded child care

Priority Action:

- Within one year, develop a comprehensive plan and timeframe for the implementation of a high-quality, universal, publicly-funded Early Learning and Child Care program. Initial phase-in should start immediately.

6. Provide support for training and education

Priority Action:

- Immediately increase the availability of post-secondary grants for low-income students.

The AFB will also introduce a new federal transfer payment to the provinces, tied to helping them achieve their poverty reduction goals and helping them meet new minimum national standards. This innovative transfer will be worth $2 billion in both the first and second year, over and above the costs associated with the federal measures outlined above. It is specifically designed to assist provinces and territories to meet clear poverty reduction targets and timelines.

In the first year, there are no strings attached to the amounts transferred. In subsequent years, however, only provinces that can demonstrate improvement in income supports and show progress on a significant number of other outcome indicators will continue to receive federal support. The intent of this transfer is to ensure that the lion's share of these funds help provinces improve social assistance and disability benefit rates and eligibility.

The Government of Newfoundland and Labrador has aimed to be the province with the lowest poverty rates in Canada by 2014. It is well on the way to achieving that do-able and inspiring goal. As the Chair of the National Council on Welfare put it: *"If every province and territory sought to match or exceed what Newfoundland and Labrador has already done and intends to do, there would be that much more reason for confidence that poverty can be drastically reduced and eventually eliminated in Canada."*[9]

If we commit to a bold plan, a dramatic reduction in poverty and homelessness within a few short years is a perfectly achievable goal.

Notes

1 Janet MacFarland, "Lower living standard looms for many high-income Canadians", The Globe and Mail, December 18, 2009.

2 The Standing Senate Committee on Social Affairs, Science and Technology, December 2009. In from the Margins: A Call to Action on Poverty, Housing and Homelessness. Report of the Subcommittee on Cities.

3 See for example, Jane Waldfogel, 2008 (September). "Improving Policies for the Working Poor: Lessons from the UK Experience." Policy Options.

4 For a full review of provincial social assistance rates and eligibility rules, see: National Council of Welfare (2008), Welfare Incomes, 2006 and 2007.

5 Pierre Fortin, "Quebec is Fairer", Inroads, Winter/Spring 2010, Issue No. 26, pp. 58–65.

6 Statistics Canada, Incomes in Canada 2007, Catalogue No.75-202-X, June 2009; Armine Yalnizyan, The Rich and the Rest Of Us, Canadian Centre for Policy Alternatives, March 2007. The rate of child poverty in 1989 was 11.7%.

7 Human Resources and Skills Development Canada (2009), Low Income in Canada: 2000–2007 Using the Market Basket Measure. (August)

8 Nathan Laurie (2008), The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario, Toronto: Ontario Association of Food Banks.

9 Government of Newfoundland and Labrador, Press Release: "First Progress Report Shows Significant Results in Province's Fight Against Poverty", December 14, 2009

Seniors and Retirement Security

Retirement incomes

Action is urgently needed on pension reform to ensure the future economic security of Canadians as the baby boom generation gets set to retire. The stock market meltdown, combined with the current economic recession, has had a major impact on workplace pension plans. The value of pension fund investments has dropped so that many plans are underfunded — lacking enough money to pay all the promised pensions. Companies that continue in business may have time to make up the shortfall before they have to pay out to retirees. But if a pension plan sponsor with unfunded liabilities goes under, workers may lose their pensions or find they get only a portion of what they had expected. Even employers whose business is ongoing may decide to get out of the pension business or to offer less in the way of benefits to their workers — especially to younger workers who have been hired more recently.

Canadians who have been saving for retirement through RRSPs have found the value of their savings has dropped sharply. And if they are close to retirement age, they may have no time left to wait for the market to bounce back again. They may now be faced with having to go on working because they can no longer afford to retire. In fact, recent changes to the Canada Pension Plan are designed to encourage them to do just that. It's been estimated that the average amount held in RRSPs by workers nearing retirement is about $60,000 — enough to provide them with an income of only $250 a month.

Workplace pensions are only one part of the pension system. Only 38% of paid workers have these pensions. That's down from 45% in 1992. Everyone else must rely on public pension programs — Old Age Security, the Guaranteed Income Supplement, and the Canada Pension Plan (the Quebec Pension Plan in Quebec), supplemented by their own savings. These parts of the retirement income system also need to be reviewed.

Reform of the retirement income system is urgent, and we propose to make a start on needed reforms with this year's Alternative Federal Budget. There is probably no one "magic bullet" that will fix everything. But it's important that we consider what can be done and that we actually start doing it.

Canada's pension system

Canada's pension system has been praised by international bodies like the OECD for the good balance it has maintained between public and private arrangements. In fact, it's a three-tier system. The basic building block is Old Age Security and the Guaranteed Income Supplement. Together, they provide a guaranteed annual income for seniors and do not depend on participation in the work force. The Canada Pension Plan (or Quebec Pension Plan in Quebec) constitutes the second tier. These provide earnings-related pensions for people in the paid work force when they retire or become disabled, and benefits for the dependants of disabled or deceased contributors. The third building block consists of private arrangements — workplace pension plans and RRSPs — that receive tax subsidies. There are issues raised in each of the three tiers that need to be addressed. Changes to any part of the system will likely require adjustments to other parts.

Old Age Security and the Guaranteed Income Supplement

There are actually three programs that fall under the Old Age Security Act: the Old Age Security (OAS) benefit itself, the Guaranteed Income Supplement (GIS), and the Allowance. Programs in this first tier of the retirement income system are generally thought of as the "anti-poverty" part of the program. However, it is also important to note that OAS plays a role in replacing pre-retirement earnings.

Old Age Security is an important source of income for today's seniors — particularly for women. In 2007, for example, women aged 65 or older received almost 21% of their income from OAS; OAS provided 15% of the income of men aged 65 or older in the same year. It should be noted that OAS pays a monthly benefit to individuals who meet the residency requirements. Benefits do not depend on participation in the paid work force or on a spouse's income. In effect, it provides a retirement pension for women in their own name.

There are several issues of concern with the programs in the first tier of the pensions system:

Benefit levels are low

The maximum annual income a single individual could receive from OAS and GIS combined in the July-September 2009 quarter) is about $14,000. However, Statistics Canada's 2008 after-tax low-income cut-off for a single individual in a major urban area with a population of 500,000 or over was $18,373. For a couple with no other sources of income apart from OAS, the maximum annual benefit they could receive from OAS and GIS combined in the July-September 2009 quarter was about $22,748. While this amount was above the 2008 after-tax LICO for two persons living in smaller urban areas, it was close to the after-tax LICO for a larger city.

Although most provinces pay top-up benefits to low-income seniors who are receiving GIS, the amounts of these benefits tend to be small. There are also tax credits, such as the GST credit and the age credit, given to seniors through the tax system. But the fact that 14% of senior women on their own have incomes below the after-tax LICO, even after taking all these programs into account, indicates an urgent need to address their low incomes. The AFB will therefore increase the GIS for single individuals by 15%, adding about $100 to the maximum monthly GIS benefit for singles and bringing the maximum annual OAS/GIS benefit up to roughly $15,200, which approximates the after-tax low-income cut-off for a single person in a small urban area. This measure should help to eliminate poverty among older women on their own, recent immigrants, First Nations people, and seniors with disabilities.

Further increases in GIS may be expected in future budgets. We estimate the total cost of this measure will be about $847 million. It should be noted that, if CPP retirement benefits are increased to this extent, the cost of a GIS enhancement could be less than this. We note that the net cost in lost tax revenues of subsidies to RRSPs is projected to be $16.8 billion in 2010. We propose to limit tax subsidies to RRSPs to free up funds to improve GIS benefits.

Immigrants are disadvantaged

To qualify for an OAS benefit, a person must be a Canadian citizen or legal resident on the day preceding the application's approval, and must have lived in Canada for at least 10 years after age 18. Full benefits are paid only to those who have lived in Canada for 40 years after age 18. (There are some exceptions to this rule — for example, for people who were 25 or older on July 1, 1977.) Those who don't meet these residency requirements may receive a partial OAS benefit equivalent to 1/40th of a full monthly benefit for each full year lived in Canada after the person's 18th birthday.

As a result of these requirements, many immigrants cannot qualify for full benefits. However, it should be noted that low-income immigrants who cannot qualify for full OAS may be able to receive an enhanced GIS to make up for this. This provision may help low-income immigrants who have not been in Canada long enough to qualify for a full OAS benefit, but it should be noted that high rates of low income among some groups — particularly among older women on their own — are calculated after taking into account taxes and transfers. In other words, even after receiving the benefit of government programs, large numbers of these women are still left with low incomes.

We will review the residency requirements for OAS with a view to modifying it to make it easier for immigrants to qualify for benefits. We do not intend to eliminate the residency requirement completely, but we believe there are grounds for reducing it below the 40 years now required.

Indexing to prices will result in a growing gap between seniors and the rest of the population in future

Benefits in the first pillar of the retirement income system — as well as retirement pensions from the CPP — are indexed for inflation using the Consumer Price Index (CPI). Inflation indexing is particularly important for women elders because, on average, they will spend longer in retirement than their male counterparts, so they need to be protected from erosion of the real value of their benefits over time.

Over the longer-term, however, wages tend to increase faster than prices. As a result, seniors in the future will likely find themselves falling further and further behind the rest of the population in their standard of living. The AFB will therefore phase in a new regime of indexing for public pensions (OAS, GIS and CPP) based on wages instead of prices.

The Canada Pension Plan

No government funding is involved in the second tier of the retirement income system — the Canada Pension Plan (and Quebec Pension Plan in Quebec).[1] Essentially, it is a pay-as-you-go plan, in which contributions from the current work force are used to pay pensions to workers who have retired, although the plan became partially funded when changes were made in the late 1990s. Earnings from the CPP investment fund will be used to supplement contribution revenue, starting around the year 2020.

The Chief Actuary of the CPP has given the plan a clean bill of health. He said that, in spite of the projected substantial increase in benefits paid as a result of an aging population, the plan is expected to be able to meet its obligations throughout the projection period — that is, until 2075. He also confirmed that indicators showed the CPP is sustainable over the long term, "as it is projected that there will be more cash inflows than outflows over the entire projection period."

However, retirement pensions from the CPP are based on replacing 25% of the average annual earnings of a contributor up to a maximum roughly equivalent to the average annual wage. When the plan was established in 1966, the replacement rate was deliberately set at a very modest level in the expectation that private arrangements, such as workplace pension plans and individual savings, would be used to supplement benefits from the public plans to provide an adequate retirement income for Canadians. Clearly that has not happened. As a result, there are now increasing calls for an expansion of the public pension programs.

We support the proposal by the Canadian Labour Congress to double the CPP's replacement rates from 25% to 50% of a retiree's pensionable earnings. The change will be phased in over a seven-year period. This will require an increase in contribution rates from 4.95% of covered earnings in 2009 (with a matching employer contribution) to 7.8% of the Year's Maximum Pensionable Earnings (YMPE) — with a matching employer contribution — in 2016. The maximum CPP retirement pension then would be $1,635 a month, compared with $908 a month in 2009.

We will also introduce measures to offset the impact of a premium increase on lower-income workers by doubling the year's basic exemption for contributions so that no contributions would be made on the first $7,000 of earnings, instead of the first $3,500 as it is now. We note that, since it will take longer than seven years to qualify for a doubling of maximum CPP benefits, this particular reform will primarily benefit younger workers.

These changes will require the consent of two-thirds of the provinces having two-thirds of the population, but no government funding would be required.

It should also be noted that most workers retiring today do not receive the maximum CPP retirement pension. In fact, the average monthly CPP retirement pension paid to women who retired in May 2009 was only $391.29, compared with an average $564.23 for men. Even if improvements are made to the CPP, increases in OAS/GIS will still be needed to supplement the earnings-related pensions of lower-income workers and to provide benefits for those who have little or no retirement pensions from other sources. However, it may be expected that fewer people will need to access GIS.

Workplace pension plans and private savings

The majority of Canadian workers do not have a workplace pension plan. Although 84% of public sector workers have such a plan, only 25% of paid workers in the private sector have pension coverage. Pension coverage is closely related to union membership. For example, almost 80% of workers in unionized jobs have pension plan coverage, compared with only 27% in non-unionized positions. Coverage is also related to firm size, with smaller employers less likely to provide a workplace pension plan.

Nevertheless, measures need to be taken to protect the benefits of those workers who belong to workplace pension plans. Ontario is the only jurisdiction to have a Pension Benefits Guarantee Fund (PBGF). If an employer goes under without enough funds to pay worker pensions, the PBGF guarantees the benefits up to a maximum of $1,000 a month. The fund has been built up through levies on pension plan sponsors. The recent report of the Ontario expert commission on pensions (the Arthurs Commission) recommended that the monthly guarantee should be increased to $2,500.

The AFB will establish a national pension insurance fund, with adequate means to guarantee workers' pensions in the event of corporate bankruptcy. The fund will be self-financing and will be mandatory for all plan sponsors under federal jurisdiction. Provinces could opt into the scheme, which would then become mandatory for plan sponsors under the jurisdiction of opted-in provinces. Such a national fund already exists in the United States. The AFB will incorporate a permanent program whose objective is to guarantee a better retirement income to people ending their membership in a pension plan, regardless of whether it is the result of the termination of a plan or termination of employment before retirement.

The financing model will follow the recommendation of the Arthurs Commission which reported on pension plans under Ontario jurisdiction. The cost to a plan sponsor would be $2.50 per year per plan member, to a maximum of $12 million per pension plan. We also propose a Financial Transfer Tax on Canadian stock markets to be levied by Ottawa's new securities regulator to cover large claims on the insurance system — thereby forcing speculators to play a role in financing pension insurance.

Rather than purchasing annuities for plan members when a pension plan is terminated, the value of deferred or immediate pension rights of terminated plans would be transferred from the original pension plan to the proposed fund. We believe this will immediately permit an increase in deferred and pension benefits in pay by 15% to 20% for a typical pension plan that is not fully funded on wind-up, compared with the current situation. No injection of government funds will be required to establish the program, other than the administrative costs.

A pension summit

Provincial premiers, through their Council of the Federation, have called on the federal government to host a national summit on retirement income by 2010. According to the premiers, the summit "should bring together provinces and territories, the federal government, and interested stakeholders and experts, to discuss possible options to improve saving options for Canadians and to encourage greater savings." We propose to call a national pensions summit at which all stakeholders will be able to discuss reform options for all parts of the retirement income system. Among other things, such an event will make it possible to look at how changes to one part of the system may interact with other parts, and to determine what can be done to address the problems Canada's retirement income system is now facing.

Notes

1 For the sake of convenience we will refer only to the CPP in the rest of this chapter, although the features of the two plans are generally equivalent.

Women's Equality

This year, 2010, marks the 15th anniversary of the Fourth World Conference on Women, held in Beijing, China. The resulting Beijing Declaration, the Beijing Platform for Action, and the "Beijing+5" resolution of the UN General Assembly represent the world's most comprehensive policy platforms for ensuring support for the human rights of women. Canada endorses the Beijing Platform for Action. There is, however, no comprehensive federal governmental plan or mechanism for implementing the recommendations made in the Platform for Action in the arenas of finance or elsewhere.[1]

Canada has initiated spending measures to aid domestic economic recovery during the global recession. This is a prime opportunity to invest in programs aimed at the full and equal participation of women in core areas of Canada's economy, such as health care, education, and the delivery of social services. It is also the vehicle for addressing the uneven effects of the economic downturn on women and men. The Government of Canada's "Economic Action Plan," however, has not done so. Instead, its Economic Action Plan focuses on short-term spending and investment in physical infrastructure projects, with no parallel investment in social infrastructure projects. The result of this strategy is more than just a missed opportunity to support the equal participation of women and men in the country's economy; it is actually increasing the gap between men and women.

Several initiatives announced in the Economic Action Plan are simply not accessible to the women who need them most. For example, the Home Renovation Tax Credit and the Home Buyer's Tax Credit target middle- to upper-income homeowners who are disproportionately men or two-income families. Nearly 40% of women in Canada earn so little that they do not have any income tax payable in the first place, and so will not qualify for these programs.[2]

Two billion dollars were committed to affordable housing; but half of this money is to be spent renovating existing stock and the other half is to be spent to create affordable housing once agreements with provinces and territories are reached. This does nothing for people who are in critical housing situations regardless of the recession, nor those people whose housing is at risk as a result of the recession and loss of employment security. According to Statistics

Canada, many women experience housing affordability problems, especially unattached women and female lone parents who rent their homes.[3]

The Economic Action Plan earmarks billions of dollars for physical infrastructure projects. These projects will provide economic opportunities in male-dominated sectors such as engineering and construction. There is no parallel investment in social infrastructure projects. Social infrastructure projects have a three-fold benefit. Firstly, they provide economic opportunities in sectors where women are well-represented, such as health care, education, and child care. Secondly, they increase the accessibility of health care, education, and childcare for those hardest hit by the economic crisis. Thirdly, there is clear evidence that investments in early learning and child care have a significant multiplier effect on economic growth. Thus, the Economic Action Plan represents a missed opportunity for greater returns on economic stimulus.

The government's economic recovery initiatives do more than ignore the needs of women. They also take direct aim at eroding women's economic and human rights. Despite protests from human rights organizations, labour unions, and women's organizations, the federal Budget Bill 2009 made pay equity for federal public servants a matter for collective bargaining, and subject to "market forces."[4] This removes pay equity from the domain of human rights in one of the few employment sectors where women have access to stable, sustainable, salaried employment.

The AFB will honour Canada's international obligations to women's human rights under the CEDAW and will take pro-active measures to ensure that strategic investments are made, not only to avoid perpetuating inequality, but to advance women's human rights.

During Canada's 2008 review on compliance to CEDAW, the UN CEDAW Committee expressed grave concern on a range of issues, but called for immediate government action on two particular areas of concern: the inadequacy of social assistance rates across Canada, and the alarming numbers of missing and murdered Aboriginal women. Although the normal reporting cycle for CEDAW is four years, the CEDAW Committee called on the Canadian government to report back in one year on steps taken to remedy these issues.

Social assistance

"The Committee calls upon the State party to establish minimum standards for the provision of funding to social assistance programmes, applicable at the federal, provincial, and territorial levels, and a monitoring mechanism to ensure the accountability of provincial and territorial governments for the use of such funds so as to ensure that funding decisions meet the needs of the most vulnerable groups of women and do not result in discrimination against women. The Committee also calls upon the State party to carry out an impact assessment of social programs related to women's rights."

—Concluding Observations of the Committee on the Elimination of Discrimination against Women on the occasion of the Committee's Review of Canada's 6th and 7th Reports (para.14) November 7, 2008.

Federal funds to support social assistance are provided to provinces and territories through the Canada Social Transfer (CST). The CST supports post-secondary education, social assistance and social services, early childhood development, and early learning and child care. The expenditure of these funds is at the full discretion of the provinces and territories. If there is no political will to increase social assistance rates, they stagnate, leaving recipients with inadequate support for the real cost of housing, food, and clothes.

Between 1989 and 2005, when the cost of living rose by 43%, social assistance benefit rates declined in both absolute and relative terms in most provinces.[5] The federal government also permits the provinces and territories to "claw back" the National Child Benefit Supplement, sinking welfare recipients further into poverty. This cycle of poverty has a deeply negative impact on the rights of vulnerable groups of women, such as single mothers, Aboriginal women, Afro-Canadian women, immigrant women, elderly women, and disabled women, who rely on social assistance for an adequate standard of living.

While not purely a budgetary measure, the AFB will attach common standards of adequacy for social assistance to the Canada Social Transfer to ensure that rates in all jurisdictions are adequate to meet current real costs of food, clothing, and housing. The AFB will also prohibit all provinces and territories from clawing back the National Child Benefit Supplement from welfare recipients.

Missing and murdered Aboriginal women

"The Committee urges the State party to examine the reasons for the failure to investigate the cases of missing or murdered Aboriginal women and to take the necessary steps to remedy the deficiencies in the system. The Committee calls upon the State party to urgently carry out thorough investigations of the cases of Aboriginal women who have gone missing or been murdered in recent decades. It also urges the State party to carry out an analysis of those cases in order to determine whether there is a racialized pattern to the disappearances and take measures to address the problem if that is the case."

—Concluding Observations of the Committee on the Elimination of Discrimination against Women on the occasion of the Committee's Review of Canada's 6th and 7th Reports (para.32) November 7, 2008.

More than 520 Aboriginal women in Canada have gone missing or been murdered over the last 40 years, the majority of whom have not been been found or identified in the last decade.[6] There has been no formal recognition by the federal government of these disappearances and murders as a massive human rights violation. Although the government has supported the Sisters In Spirit Initiative led by the Native Women's Association of Canada to research the root causes and trends related to the disappearance and death of these women and girls, as well as to educate Canadians about these tragic losses, the funding for this initiative will end in 2010. This is an important effort to address the issue, but the federal government must take leadership to comply with its obligations.

The AFB will make a direct, immediate, and transparent response to this crisis. The AFB will allocate sufficient resources for a thorough investigation of all cases of missing and murdered Aboriginal women, and to correct deficiencies in the law enforcement system. The Native Women's Association of Canada has created a sophisticated database of more than 250 variables to address the root causes, trends, and police or system responses to more than 520 cases of missing and murdered Aboriginal women and girls. The AFB will support the ongoing development of the database and provide resources to ensure that the database is utilized by all those responsible for dealing with this issue, including law enforcement and judicial officials, and policy-makers.

The social and economic conditions of Aboriginal women make them even more vulnerable to violence. The AFB will also invest in a national plan of action to deal with Aboriginal women's poverty, lower educational attainment, poor health, and lack of access to clean water and decent housing. The inquiry and national plan of action will be designed and implemented through consultation and in collaboration with all levels of governments, all relevant federal departments, and especially with Aboriginal women's organizations.

Child care

During Canada's 2003 CEDAW review, the Committee recommended that affordable child care spaces in Canada be expanded.

"The Committee recommends that the State party further expand affordable childcare facilities under all governments and that it report, with nationwide figures, on demand, availability and affordability of childcare in its next report."

—Concluding Observations of the Committee on the Elimination of Discrimination against Women on the occasion of the Committee's Review of Canada's 5th Reports (para.330) January 23, 2003.

Prior to 2006, the progress on creating a national early learning and child care plan was extremely slow. Since then, child care agreements and transfers to provinces and territories were approved. However, soon after the election of the Harper government, the agreements were cancelled, in favour of a $100 taxable monthly benefit. This benefit has not created needed additional spaces, does not come near to covering the cost of a single space, and does little to help women in Canada or guarantee equal access to paid employment and opportunities for economic empowerment.

The 2008 CEDAW recommendations echoed this concern.

"The Committee urges the State party to step up its efforts to provide a sufficient number of affordable childcare spaces…"

—Concluding Observations of the Committee on the Elimination of Discrimination against Women on the occasion of the Committee's Review of Canada's 6th and 7th Reports (para.40) November 7, 2008.

The AFB will repeal the cancellation of the child care agreements and ensure that all children, women and families have equitable access to quality, affordable child care services. This requires adequate and sustained transfers to provinces and territories. The AFB will also demand that accountability mechanisms be established to require provinces and territories to develop plans with timelines and targets for lowering child care fees and adding public spaces.

(For more details on AFB specific actions, see the child care chapter.)

As the anniversary of the Beijing Platform for Action approaches, the AFB is committed to taking concrete measures to implement CEDAW and to uphold women's equality rights in Canada. In order to do this, Canada must address the dire human rights violations being committed against Aboriginal women; take steps to better meet the needs of low-income Canadians; and invest in the needs of all children, women and families through a publicly-funded early learning and child care system.

Notes

1 Auditor General of Canada Report to the House of Commons, Chapter 1, "Gender-Based Analysis", Spring 2009, p 8

2 Canadian Feminist Alliance for International Action in collaboration with Lisa Phillipps, Osgoode Hall, "Why Tax Policy Matters to Women", November 2007, available at www.fafia-afai.org

3 Canadian Feminist Alliance for International Action, "Women's Inequality in Canada: Submission of the Canadian Feminist Alliance for International Action to the United Nations' Committee on the Elimination of Discrimination Against Women on the Occasion of the Committee's Review of Canada's 6th & 7th Reports", September 2008, p.92, available at www.fafia-afai.org

4 Canadian Feminist Alliance for International Action in collaboration with Kathleen Lahey, Queen's University, and Lisa Phillipps, Osgoode Hall, "Federal Budget 2009: As the rich get richer, women are still left out in the cold" February 2009, available at www.fafia-afai.org

5 Canadian Feminist Alliance for International Action, "Women's Inequality in Canada: Submission of the Canadian Feminist Alliance for International Action to the United Nations' Committee on the Elimination of Discrimination Against Women on the Occasion of the Committee's Review of Canada's 6th & 7th Reports", September 2008, p.87, available at www.fafia-afai.org

6 Ibid., p. 11 Native Women's Association of Canada, *Voices of Our Sisters In Spirit: A Report to Families and Communities*, Ottawa, April 2009.

SECTION 2

Protecting our Climate, Nature, and Water

Environment

Investing in a prosperous green future

As Canada moves toward hosting the G-8 and G-20 summits this year, it is important that strong steps be taken to support effective global action on climate change — both for the benefit of future generations and for Canada's international reputation.

The AFB will start by taking the most important step:

- Putting a price on greenhouse gas emissions by introducing a national harmonized carbon tax in July 2011, combined with strategic measures to protect Canadians and trade-exposed sectors from undesired impacts.

The AFB will also finance these three priority environment and conservation measures:

- Renewing Canada's support for renewable energy, to attract investment and create jobs (estimated cost $1,653 million over 3 years).
- Protecting ecosystems and biodiversity from dangerous climate change, by funding a national ecosystem-based adaptation strategy (estimated cost $594 million over 3 years).
- Investing in Canada's freshwater future, beginning with the Great Lakes-St. Lawrence basin (estimated cost $2,562 million over 3 years).

These three actions alone will create over 8,000 new jobs in renewable energy, ensure a clean source of drinking water for millions of Canadians, and help create new national parks.

Investing in renewable energy and a national water strategy, and imposing a price on carbon, will expedite the transformation of the Canadian economy into a globally leading, environmentally-restorative economy that creates jobs while preserving Canadians' enviable quality of life. They will also help Canada shine on the world stage during the International Year of Biodiversity (2010) and in the lead-up to hosting the G-8 Summit in June.

Delaying action further will create real costs for Canadians — in missed business opportunities, in increased financial and economic costs for future environmental protection, and in greater risks to our collective health and climate.

The good news is that the solutions to these severe environmental problems will also lead to important economic, social, human health, and environmental benefits for Canadians. To that end, the AFB will implement a comprehensive environmental plan to address the environmental challenges Canada faces and to make Canada an international environmental leader.

The transformation to a globally-leading, environmentally-restorative Canadian economy requires major investments in renewable energy and water and wastewater infrastructure; forcing polluters to pay for the environmental and health damage they cause; and making financial transfers to governments and subsidies to industry conditional on achieving defined environmental outcomes.

Policies will also be needed to ensure that market prices for goods and services accurately reflect the true value of the required resources, today and in the future, as well as the full costs and benefits to the environment and human health associated with their development, production, transportation, sale, use, and disposal. This approach is often called ecological fiscal reform (EFR), and will be implemented through a mix of market-based instruments, such as taxes, fees, rebates, credits, tradeable permits, and subsidy removal.

Such policies will reward environmental leaders in business and society, preserve natural resources for higher value uses, stimulate environmental innovations with global export potential, and expedite the development of economies where success brings concurrent environmental and human health benefits, and where self-interested economic choices are more frequently those with the most social and environmental benefits. Fairness to citizens and business will be enhanced through the "polluter pays" principle,[1] forcing polluters to pay for the harm they cause.

Putting an adequate price on carbon is the most crucial step towards making our economy work in harmony with a healthy environment, because it will set a price on pollution that spurs emission reductions throughout the economy. But market-based economic instruments cannot do the job on their own. They need to be combined with government leadership, strong regulations, education and R&D, pro-active industrial policies, and significant public investments. The change needed will lead to many jobs being lost in some sectors and gained in others. Full-cost pricing to protect our climate and other resources will impose proportionately greater costs on lower-income families, who have less ability to adapt to change. Polluter-pay and user-pay policies must therefore be balanced with the ability-to-pay principle.

Climate change, carbon pricing, and energy

The failure of the world's political leaders to reach an effective and legally binding agreement at last December's UN Climate Change Summit in Copenhagen may have caused many Canadians to lose hope of making further progress on global warming. But such despair is unwarranted. The Copenhagen conference did show just how difficult it is to achieve an accord based on an international cap-and-trade system, which is the underlying framework for Kyoto and subsequent negotiations.

This doesn't mean that we should stop trying to achieve an effective international agreement based on a cap-and-trade framework to reduce global emissions; but neither does it mean we can't take action now with alternative methods.

The simplest and most effective alternative to a cap-and-trade system is a price-based carbon tax — a measure that many noted economists and climate experts agree would be more efficient and effective than a quota-based cap-and-trade system. Among those now calling for countries to implement a carbon tax are Nobel Prize-winning economist Joseph Stiglitz and leading climate change expert James Hansen.[2]

A carbon tax doesn't necessarily guarantee specific emission reduction levels, but it does provide much more certainty for businesses to plan into the future. It also eliminates the speculation, windfall profits, and false savings that will accompany a cap-and-trade system. One big advantage of a carbon tax is that it can be introduced almost immediately instead of waiting many more years to obtain international agreement on a cap-and-trade system.

In 2009, the AFB established a price for greenhouse gas (GHG) emissions of at least $30/tonne carbon dioxide equivalent (CO_2e) to be implemented by the start of 2011, rising to at least $75/tonne by 2020. This was to provide two years to develop a continent-wide cap-and-trade system in collaboration with the Obama administration, and to provide enough lead-time for industry and households to adjust without endangering the economic recovery.

With the failure of Copenhagen, it will now take at least several more years to develop and put in place a continental cap-and-trade system with the United States. But this is no reason for Canada to remain a laggard in introducing a national carbon tax. British Columbia's carbon tax is set to rise to $20 a tonne on July 1, 2010, to $25 per tonne by 2011, and to $30 a tonne by 2012.

In this year's AFB, we are introducing a national harmonized carbon tax set at $50 per tonne, to be introduced July 1, 2011. Detailed analysis by Marc Jaccard, Canada's foremost climate change economist, has shown that in order to meet the 2°C target to prevent very damaging climate change, Canada needs to introduce a carbon price of $50 a tonne now, rising to $200 a tonne by 2020.[3] If these revenues were recycled into investments in renewable energy and tax refunds for individuals, we could achieve deep reductions in our greenhouse gas emissions while maintaining strong economic growth and generating even more jobs than under the status quo. The carbon tax system will be integrated with and consistent with provincial carbon taxes, such as B.C.'s, with half of the revenues going to provincial governments. The carbon tax will be applied to all non-renewable fuels based on their CO_2 emission factors.

For large emitters, who comprise close to 50% of Canada's GHG emissions, the carbon tax will be integrated with any cap-and-trade system that may eventually be introduced.

Companies will be able to claim a carbon tax credit against their costs of achieving emission reductions through the cap-and-trade system.

The carbon tax and cap and trade system will be accompanied by a border carbon tariff adjustment to ensure that domestic producers are not forced to compete against countries with weaker or no similar environmental regulations. The tariff will be calculated by product category, based on the average greenhouse gas content of the goods. This will include an exemption for more impoverished and developing countries. Revenues from this tariff will go into a Green Climate Fund to help poorer countries reduce their emissions and to adapt to and mitigate the effects of climate change. Canada's commitment for the Global Climate Fund agreed to at the Copenhagen conference should start at $400 million in both 2010 and 2011, increasing to $800 million in 2012, and then by $400 million a year to 2014–15. Funding for this would come from the carbon tax and any border carbon tariff.

These international rules will, with carbon tariffs and the climate funding, provide a strong incentive for other countries to introduce effective greenhouse gas reduction measures.

The carbon tax would rise by $10 a tonne each year, reaching $90 per tonne by 2015. At that time, the effectiveness of the tax at reducing emissions would be gauged, with adjustments to the scheduled increases made as required. The tax may have to rise to the $200 per tonne carbon tax in 2020 that the Jaccard study found would be necessary to meet the 2% target. However, it is expected that other complementary measures, including renewable energy investments, energy efficiency programs, building and fuel efficiency standards and investments in public transit and energy retrofits would accelerate emission reductions, thereby requiring less reliance on carbon prices.

A carbon tax of $50 per tonne of CO_2 emissions will mean a tax of about 12 cents a litre for gasoline, 14 cents a litre for diesel and fuel oil, and 9.5 cents a cubic metre for natural gas. The tax will raise about $12 billion a year in the first full year (less amounts that would be credited to exporters). While most of this revenue will be quickly reintroduced into the Canadian economy, how it is reintroduced is of great importance. The AFB will transfer half the revenues from this tax to provinces to fund tax reductions, including direct payments to individuals, and further climate change measures.

The federal share of the revenues raised will be directed towards four priority areas:

- a Green Energy Tax Refund, to compensate Canadians, particularly low-income Canadians, for the additional costs they face, without reducing the incentive for behaviour change;
- helping to meet Canada's GHG reduction target (including investments in energy efficiency, renewable energy, ecosystem protection, and international emission reduction credits);
- border carbon tariff adjustments to protect the international competitiveness of trade-exposed sectors; and
- helping to meet Canada's international climate finance obligations, to support mitigation and adaptation efforts in developing countries.[4]

Green Energy Tax Refund

Together with the carbon tax, the AFB will introduce a *Green Energy Tax Refund* to ensure that a majority of Canadians are fully compensated for all the additional direct costs they bear from the federal portion of the carbon tax. In addition, it will more than compensate lower- and lower-middle-income families for all the additional indirect costs they bear from the carbon tax and the cap-and-trade system.

The tax refund will be set at $10 per adult and $5 per child annually for every $1/tonne in carbon taxes, on top of any associated provincial carbon tax credit. For instance, in the first full year, the tax refund will be $250 to every adult and $125 per child to compensate for the federal government's half share of the $50 per tonne carbon tax. The credit will be phased out progressively for family incomes above $70,000.

As the carbon price is increased, the value of this credit will be increased proportionately to ensure that middle- and lower-income households are not adversely affected. This refund will be much more progressive than the revenue recycling measures adopted by the British Columbia government as part of its carbon tax.[5] Provinces could choose to harmonize their credits with this federal tax credit, as many have done with the GST tax credit, which would double its value.

Other revenues from the carbon tax will be directed to public programs and investments to help households, businesses, and workers reduce their emissions and make the transition to a greener economy. These will include renewable energy and energy efficiency investments, including retrofits of homes and commercial and public buildings, and a Just Transition Strategy to assist adversely affected workers.

Collectively, these measures will further enhance success in reducing the risks related to climate change, and also ensure that households, workers, and other vulnerable Canadians are assisted in making the transition toward a greener economy.

Sustainable energy

The realities of climate change, both ecological and economic, make it clear that Canada must move decisively to take a sustainable energy path. This requires not just supporting renewable energy and energy efficiency, but also removing public subsidies that encourage unsustainable fossil fuel extraction and production. Such an approach will generate economic opportunities, as well as clean our air and water.

This an important time for Canada to increase its support for renewable power, to enable us to meet our target of 90% non-emitting electricity by 2020, and to create new economic development opportunities while keeping pace with major growth in the sector, both in the United States and overseas. In particular, we must focus on renewable electricity[6] in order to be prepared for the necessary replacement of many of Canada's power plants that are reaching the end of their working lives, and for the potential increased demand from electric and plug-in hybrid cars, while reducing the emissions from current power stations.

The AFB will start by seizing the opportunity to invest in clean electricity by:

- replacing the sun-setting ecoENERGY for Renewable Power (eERP) program with a capital grant program, including a specific set-aside for northern and remote communities;
- establishing Green Energy Bonds to ease access to capital and reduce borrowing costs for renewable energy developers, while enabling individual Canadians to directly support the development of renewable electricity; and
- unlocking Canada's geothermal potential by developing a national geothermal data and classification system to assess and quantify Canada's national geothermal resources.

Energy efficiency

Government programs that help individuals and business improve their energy efficiency are equivalent to a tax cut, since they reduce monthly energy costs, thus increasing disposable income or ability to grow business. Efficiency measures also create jobs in retrofits, equipment manufacturing, and the retail sales of efficiency equipment and installation materials. As the next steps leading to longer-term targets and programs, the AFB will immediately invest in actions to advance: home heat pumps, smart grid technologies, new green buildings, retrofits to existing apartment buildings, electric/hybrid vehicle fleets, and a national energy efficiency advertising campaign.

Just Transition Strategy

A Just Transition Strategy will assist workers and communities impacted by shifting employment caused by the transition to a greener economy. Supporting effective global action on climate change will mean job losses in some sectors, job gains in others, and shifts in the types of jobs available. Workers who lose jobs must be provided with other employment options, particularly in sectors experiencing overall growth. We will require transition programs for displaced workers to ensure that the Canadian labour force has the skills required to support a greener economy.

The Just Transition program will fund:

- training and educational opportunities for skills upgrading that allow workers to upgrade their skills for the jobs that are being created;
- early notice of layoffs so that workers can access counselling and training programs quickly;
- income support for displaced workers for up to three years to enable them to take advantage of training and educational opportunities;

- peer counselling to assess workers' needs, and analysis of labour market needs; and
- relocation funds for those who must move in order to find new work.

The AFB will invest $551 million a year to implement the entire Renewable Energy Strategy, which includes the Just Transition Strategy, energy efficiency research, and investments in renewable energy.

Conserving nature, safeguarding water, protecting human health

Protecting ecosystems and biodiversity

2010 is the International Year of Biodiversity, and the deadline for reporting to the United Nations Convention on Biological Diversity (CBD) on progress in protecting biodiversity. Given that Canada has not fully met our commitments under the CBD, there is a need to enhance efforts and actions that will result in the long-term protection of Canada's ecosystems and natural resources.

To improve Canada's performance on biodiversity protection, the AFB will act now to fund a national ecosystem-based adaptation strategy worth 208 million per year for the first two years, $178 million per year for the subsequent three years:

- completing Canada's national systems of national parks and federal protected areas for wildlife,[7] and ensuring their long-term protection;
- implementing integrated oceans management plans in five Large Ocean Management Areas (LOMAS), completing a national system of marine protected areas that covers at least 30% of Canada's ocean area, and enhancing efforts to recover wild salmon populations through fisheries, aquaculture, and habitat protection reforms; and
- creating incentives for protecting and restoring greenhouse gas reservoirs in natural forests and wetlands.

The AFB will also fund the full, effective implementation of the *Species At Risk Act*.

Such bold actions, along with federal leadership to coordinate complementary work by all levels of government nationwide, are essential to secure the ongoing health of our lands, waters, and wildlife, which in turn support the long-term health of our economy and human society.

Safeguarding Canada's waters

Canadians strongly believe that water is our single most important natural resource, ahead of oil, forestry and agriculture, and that federal leadership is crucial in protecting Canada's freshwater resources.

Canada should deliver its promised federal water strategy,[8] building upon its actions over the past three years, with initial implementation in the Great Lakes-St. Lawrence basin due to its unique economic, social and cultural importance. Federal leadership is required to ensure that actions to protect and restore the Great Lakes and St. Lawrence are focused and well coordinated.

The AFB will prioritize investments in the waters of the Great Lakes-St. Lawrence in these areas:

- **Water quantity and quality**
    - improve water quality by updating water and wastewater infrastructure and integrating conservation measures to ensure sustainability of water resources; and
    - ensure the clean up and de-listing of existing Great Lakes Areas of Concern (AoCs) and delivery of Ecological Rehabilitation Action Plans for both AoCs and the St. Lawrence Zones

d'intervention prioritaire (ZIPS) in Québec.

- **Freshwater ecosystems**
  - foster healthy biodiversity through the preservation and protection of ecologically sensitive wetland habitat in the watershed, particularly near shore areas; and
  - protect them from invasive species.

Such investments will ensure a clean healthy source of drinking water for millions of Canadians, strengthen the ecosystem's capacity and resilience to support strong economic and social systems, and facilitate a healthy, growing economy and business climate for area residents. The AFB will allocate $854 million per year for the next five years to this endeavour.

Renewable energy

The AFB will allocate $551 million/year (average) to the promotion and development of renewable energy sources for 4 years, and $100 million/year (average) for the subsequent 6 years

Notes

1 The government defined "polluter pays" in Budget 2005 as meaning that "the polluter should bear the costs of activities that directly or indirectly damage the environment. This cost, in turn, is then factored into market prices." [http://www.fin.gc.ca/budget05/bp/bpa4e.htm] On May 29, 2007, as Environment Minister, the Hon. John Baird re-affirmed the government's commitment to this principle by telling the Standing Committee on the Environment and Sustainable Development that the government "believes that the polluter should pay." The "polluter pays principle" was previously defined in the 1972 OECD Guiding Principles on the International Economic Aspects of Environmental Policies, as cited in OECD (2001): Environmentally Related Taxes in OECD Countries: Issues and Strategies, Paris, p.16.

2 http://www.project-syndicate.org/commentary/stiglitz121/English ; http://www.carbontax.org/ http://www.nytimes.com/2009/12/07/opinion/07hansen.html?_r=2

3 See Climate Leadership, Economic Prosperity, Pembina Institute and David Suzuki Foundation, October 2009.

4 The Green Budget Coalition describes the merits of these four areas in more detail in its Recommendations for Budget 2010: Investing in a Prosperous Green Future, pages 38–40. See http://www.greenbudget.ca/2010/main.html. It suggests two further areas — other tax reductions and compensating households in unduly impacted regions , which, under this AFB policy, would be addressed through the provincial revenue shares.

5 See Marc Lee and Toby Sanger (2008) for an analysis of the distributional impact of BC's carbon tax. Is BC's Carbon Tax Fair? Canadian Centre for Policy Alternatives, 2008. http://www.policyalternatives.ca/documents/BC_Office_Pubs/bc_2008/ccpa_bc_carbontaxfairness.pdf

6 "Renewable electricity" refers to electricity generated by renewable energy sources.

7 Federal protected areas for wildlife comprise National Wildlife Areas and Migratory Bird Sanctuaries.

8 In the 2007 Speech from the Throne, Canada's government committed to a "new water strategy". Steps have been taken toward fulfilling this commitment under the Government of Canada's Action Plan for Clean Water.

Agriculture

This years' Alternative Federal Budget acknowledges that agriculture is at a crossroads in Canada and that measures are urgently needed to bring more families into farming as a means of livelihood. The AFB supports those family farms which have experienced difficulties, not because they lack innovation, efficiency, or a dedication to providing food to Canadians and the global community, but because international rules established by rich countries have favoured large agribusiness corporations and placed farmers in an hyper-competitive position — within their communities, their country, and among farmers across the globe.

Since the signing of the World Trade Organization Agreement on Agriculture in 1994, a liberalized global market has increased agricultural trade among nations by threefold in value. In 2008 (latest figures available), Canada exported a record $39 billion worth of food and agricultural goods. This ranked Canada as the fifth largest global exporter. Yet statistics show that net farm incomes continue to be at an all-time low, especially for livestock producers; the number of farm operations continues to dwindle (now less than 250,000 farmers); and total farm debt has reached an astonishing record high of $60 billion.

At the same time, food-processing giants such as Maple Leaf Foods and Cargill, biotechnology companies Monsanto and Syngenta, and retailers Loblaws, Sobey's, and Metro all show healthy margins, even during a deep recession. Two beef processing transnationals, Cargill and Nilsson Brothers, control over 90% of the beef processing market in Canada; Maple Leaf Foods and Olymel control 65% of the hog processing market; and the top three retailers control 75% of the market. This concentration of market power in the retail, processing, and input sectors has forced many family farmers out of business or placed them in greater debt.

The agricultural and food sector is one of Canada's top economic contributors, representing approximately 9% of Canadian GDP, and is the engine of the rural economy in many regions of the country. As a first step toward renewing and supporting this important sector, the AFB will amend Canada's Competition Act to prevent the concentration of ownership in Canada's food system.

One in eight Canadians are employed in this sector and, as recently noted by the Office of the Auditor General of Canada, "the long-term prosperity of the agriculture industry depends on its ability to co-exist sustainably with the natural environment."[1]

What needs to be done?

Although food and agricultural exports have reached unprecedented high levels, trade statistics show an alarming trend: Canada imported a record $28 billion worth of food and agricultural products in 2008. In fact, the trend of purchasing more imported food is on the rise. A recent Statistics Canada study found that imports rose from 18% of total food expenditures in 1964 to 25% in 2004.[2] This ranked Canada as the eighth largest importer of food in the world, and, if the trend continues, a low U.S. dollar may lead to Canada incurring a food trade deficit with the U.S. in the near future.

For Canadians, food sovereignty is the right of citizens to reclaim decision-making power in the food system — to have a say in how their food is produced and where it comes from. Food sovereignty seeks to rebuild the relationship between people and the land, and between those who grow and harvest food and those who eat it.[3] As a nation state, food sovereignty means Canada has a right to determine the extent to which it wants to be self-reliant in food production and to protect and regulate domestic agricultural trade in order to achieve sustainable development objectives. According to the global peasant movement, La Via Campesina, "food sovereignty does not negate trade, but rather promotes the formulation of trade policies and practices that serve the rights of peoples to safe, healthy, and sustainable production".[4]

The AFB will introduce the Just Agricultural Transition Income Program (JATIP) for our farming families that will benefit regional local food economies and capture opportunities that are lost through the importation of products from other countries. JATIP will work on the principle that redundant trade, defined as needless trade that simultaneously exports and imports the same or similar products to a region[5] (or country), will be reduced. To stimulate this transition, resource spending will favour production that is destined for Canada's local domestic market.

Income support programs for producers will acknowledge the distinction between business ownership structures at the producer level. A family farm entity and family farm corporation, in which most of the labour, management and investment are made by someone within the family, is different from a corporate agri-business investment scheme, and therefore will not be supported. Cooperatives will be considered to be a collective of family farms.

In order to facilitate this transition, amendments will be required to the Department of Agriculture and Agri-Food Act whereby eligibility for business risk programs, crop and animal insurance, and/or loan programs by Canada will be made only to family farm entities, family farm corporations, and cooperatives. Other entities, such as publicly traded corporations, subsidiaries of those corporations or companies, partnerships and corporations that contain shareholders, members, investors or partners will not qualify for business risk pay-outs. These entities will be encouraged to divest their business structures, and a leniency program will be provided to those entities that hold loans through Farm Credit Canada.

Over the phase-in period, the AFB will also lower individual business risk pay-outs to farming operations to a maximum of $250,000 per farm, which will eliminate the "millionaire's club," — those farm operations that currently receive pay-outs of up to $3 million a year.

The JATIP will recognize the need to improve the long-term sustainability of the ecological foundation of agriculture, which are crop and livestock biodiversity, ecosystem diversity, intact water and nutrient cycling, and renewable energy processes. For those small and medium-sized family farm operations and cooperatives that are unable to invest in the capital and labour required to implement beneficial management practices, environmental farm plans, and a shift to sustainable farming, JATIP will provide financial support for this transition. Recognizing that organic agriculture is the highest form of sustainable agriculture and that the consumer demand for organic food cannot match the supply in Canada, targets will be set for the next decade. The AFB proposes that 10% of Canada's domestic food must be produced organically within the country.

In order to help grow Canada's organic sector and to improve our reputation of producing high-quality food and crops, a moratorium will be placed on new approvals for genetically modified organisms, until long-term studies, research, and cost-benefit analyses are performed and the potential human, environmental, and economic impacts are well understood.

The central plains of North America have become a giant laboratory for genetically engineered herbicide-resistant crops such as corn, canola, and soya beans. Evidence is mounting that the contamination from GM crops is becoming another economic burden on Canadian farmers. The recent action taken by the European Union to ban Canadian flax because it contained genetically modified material has prompted other countries to test Canadian flax. These actions will further limit the ability of Canadian flax farmers to find markets. Monsanto is now trying to register GM alfalfa in the U.S. and Canada, which, if successful, will economically devastate Canada's organic livestock and forage industry. To ensure that consumers have full knowledge and choice of what they eat, the AFB will require that current foods on the market containing GMOs will have to be openly and fully labelled.

The transition strategy will include a program that encourages young families to choose farming as a livelihood. Farm Credit Canada (FCC) will play a large role in this transformation. At $22.5 billion, FCC's share of holding Canada's outstanding farm debt (at $58 billion in 2008) is second only to the chartered banks. The New Beginning Farm Assistance Loan Program will offer small-scale entrants who supply the Canadian domestic market interest-free loans to move into farming. Farm Credit Canada, whose current equity rests at $2.3 billion and with a healthy profit of $211 million in 2008, will create a Farmland Investment Program, whereby new entrants will have access to affordable land. Lending priorities will also favour succession planning where assets will move easily and fairly from one generation to another. The *Farm Credit Canada Act* will be amended to phase out programs offered to large agri-business operations and to direct its lending priorities to farmer-owned business organizations such as cooperatives and those small-scaled businesses that provide regional infrastructural support in the food processing sector. Start-up costs and capital investments for small producers will be given priority. To help build a new farming generation, the AFB will provide the funds necessary to improve research, skill development, and extension services to support the transition to sustainable and organic agriculture.

The federal government will work with the provincial governments to improve supply-managed programs (chickens, eggs, turkeys, and milk), with the goal to increase the number of new entrants into farming. Specialty quotas will be developed to reflect consumer demand for organic and other identity preserved products. The cost for quotas will be drastically reduced and gradually phased out, upper limits will be placed on the number of quotas a farm operation can hold, and a quota pool will be created so that young new farmers can enter the program or to allow existing farm operations to convert into the supply-managed sector. At the same time, we will investigate whether other farm products, such as cattle and hogs, should be marketed through quota and a supply- managed system.

In total, $1 billion will be invested through JATIP over the next three years. A part of this spending will be directed towards the development of a national food policy and food security action plan that addresses food insecurity issues in Canada such as hunger, malnutrition, chronic diseases, obesity, and food accessibility and affordability. The goal will be to guarantee that all people in Canada "at all times must be able to acquire, in a dignified manner, adequate quantity and quality of culturally and personally acceptable food,"[6] and that this food should be healthy and safe and derived from a sustainable food system.

Evidence is mounting that current business risk programs designed for fluctuating global market prices do not provide adequate income support to ensure the livelihood of farming families. The flawed model rewards farm operations based on specialization and volume throughput. In fact, most farmers in Canada rely on at least one other job in the household outside of their farm.

As a long-term goal, the AFB will shift how we manage on-farm risks by introducing a Guaranteed Annual Farmer Income Program (GAFIP) over the next three years, worth $1.5 billion. This three-year pilot program will be modelled on the MINCOME project which was tested in Manitoba in the mid-1970s.[7] Family farm operations that do not recover their costs of production and cannot provide a decent standard of living will be provided top-up benefits.

Global responsibility and the food crisis

Now at over 900 million, the world's number of malnourished people continues to climb. The global food crisis has placed the most vulnerable rural families in developing countries in a condition of chronic hunger. A wealthy nation such as Canada has the responsibility to ensure that those in need are given the resources to build a healthy and resilient agricultural food system. Following the recommendations of the Canadian Food Security Policy Group,[8] the AFB will introduce the Global Resilience Agricultural Support Program (GRASP), a $600 million three-year program funded through the Canadian International Development Agency, which will provide unrestrictive funding to help build smallholder agricultural systems and vibrant communities in the developing world.

To further support smallholder farmers, Canada will play a leadership role in negotiating global and multilateral trade agreements, on the principle that sovereign nation states have the right to support, protect, and regulate their domestic food system.

Instead of undermining the global ban on terminator technology (seeds genetically modified to produce sterile seeds — termed genetic use restriction technologies), as agreed to through the UN Convention on Biological Diversity, Canada will pass domestic legislation to ban the release, sale, importation, and use of variety-related genetic use restriction technologies (GURTS) in seed.

To help pay for new program spending, the AFB will end subsidies to the biofuel industry, freeing up over $1 billion over the next five years. Proof is now mounting that biofuels derived from crops no longer serve to rejuvenate rural economies or reduce greenhouse gas emissions,[9] and in fact may be causing more problems than they were intended to solve.

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Water

Introduction

Canada needs a national water policy based on the principles of water as a human right and a public trust. Our water resources must be protected from contamination, privatization, and unsustainable commercial use, and distributed equitably and sustainably. With little knowledge of groundwater resources, lack of information about the impacts of climate change on water or the amount of water effectively being traded through water-intensive exports, the extent of the water crisis is yet to be fully understood. Yet the federal government is forging ahead with plans to weaken environmental protections, claiming they impede economic development.

In 2009, trade agreements and deregulation posed new threats to Canada's water supplies. The federal government is currently pursuing a trade agreement with the European Union that will give large multinational corporations such as Suez and Veolia access to $100 to $200 billion in subnational procurement.

The government is also exploiting a loophole in the Metal Mining Effluent Regulation of Fisheries Act, Schedule 2, to allow metal mining companies to dump toxins directly into natural bodies of fresh water, a practice that would destroy them.

Canada must adopt a comprehensive plan to protect water resources in the public interest, and ensure their equitable distribution.

The Alternative Federal Budget will take measures to ensure that all Canadians have access to safe, clean drinking water and sanitation. To that end, a national water infrastructure fund will be established for municipalities and First Nations communities; national enforceable drinking water standards will be set; water infrastructure will be placed under public control; and our water will be protected from pollution and shortages.

Water justice

The AFB recognizes water as a human right by enshrining it in domestic law, by recognizing the existing rights of Aboriginal communities to water, and by supporting the recognition of water in international law. Water must be recognized as a human right at every level of government. This will ensure that all people living in Canada, without discrimination, are legally entitled to safe, clean drinking water and water for sanitation, and that inequalities in access are corrected immediately. According to the World Health Organization,[1] the recognition of water as a human right will require governments to:

- respect or refrain from interfering directly or indirectly with the enjoyment of the right to water;
- protect or prevent third parties such as corporations from interfering in any way with the enjoyment of the right to water; and
- fulfill or adopt the necessary measures to achieve the full realization of the right to water.

In particular, the recognition of water as a human right will provide communities lacking access to clean drinking water with a legal tool to exercise this right. It will also provide legal recourse from the destruction of source water by industrial activities.

According to the UN, one billion people around the world lack access to safe drinking water and basic sanitation. The recognition of water as a human right in international law allows for the means and mechanisms available in the United Nations human rights system to be used to monitor the progress of states in ensuring the right to water and to hold governments accountable.[2]

The Canadian government has consistently opposed the recognition of water as a human right at key UN meetings. The AFB supports the recognition of water as a human right in international law.

First Nations' water rights

Indigenous communities in Canada have been affected disproportionately by the water crisis. Despite repeated pledges for access to clean drinking water, their water is still often contaminated. Last October, Health Canada reported 124 drinking water advisories in First Nations communities.[3] Industrial water pollution is rampant in these communities. High cancer rates associated with exposure to tar sands production, for example, have been reported among the First Nations and Métis communities in Fort Chipewyan, Alberta. Because industrial expansion is either directly on land to which Indigenous communities lay claim or upstream from where they live, it is crucial that the authority of Indigenous governments be respected.

The recognition of First Nations water rights requires the federal government to:

- respect Aboriginal self-determination;
- recognize and respect the authority of Indigenous governments;
- honour the right of Indigenous peoples to participate in decision-making regarding water;
- establish drinking water standards for First Nations reserves in collaboration with First Nations communities; and
- acknowledge and incorporate Indigenous knowledge in federal decision-making with respect to water.

Water a public trust

The recognition of surface and ground water as a public trust will require the government to protect it for the public's reasonable use, and to make private use subservient to the public interest. Permission to extract groundwater under the public trust doctrine, for example, might be granted based on the ability to show public benefit for any proposed extraction.[4] It may also lead to the creation of a hierarchy of use requiring that water use be allocated for ecosystems and basic human needs given priority.

Water security

National public water infrastructure fund

Decades of cuts in infrastructure funding, coupled with the downloading of several programs and services to municipal governments, have resulted in a "municipal infrastructure deficit," conservatively estimated at $123 billion by the Federation of Canadian Municipalities. Water and wastewater needs alone are estimated at $31 billion.

The AFB allocates $3.7 billion in 2010–11 to be invested in a National Public Water Fund. Some of the general municipal infrastructure spending is to be spent on rebuilding water infrastructure. Municipal water transfers would then reach their yearly target of $3.1 billion in 2011–12 in order to pay down the infrastructure deficit in 10 years. This funding will be apportioned from the Green Community Transformation Fund found in the Cities and Communities chapter.

The AFB devotes this spending exclusively to publicly owned and operated water infrastructure instead of through the failed P3 model. An additional $150 million over three years will be devoted to water operator training and certification in the public sector, along with water conservation programs.

National enforceable drinking water standards

Canada does not have legally enforceable drinking water standards.[5] In February 2008, the Canadian Medical Association Journal reported 1,766 boil-water advisories in Canadian municipalities, not including First Nations communities.[6] Several communities have endured drinking water advisories for years, and 90 Canadians die from water-borne disease every year.

The AFB will establish national enforceable drinking water standards that include a training program for workers and dedicated money for upgrading of infrastructure.

Strategy to prevent water pollution

Although regulating water pollution falls largely under provincial jurisdiction, the federal government is responsible for protecting fish-bearing waters through the Fisheries Act and controlling toxic substances under the Canadian Environmental Protection Act.

The AFB therefore introduces a plan to curb water pollution that includes:

- standards for industry and agribusiness;
- a slowdown of tar sands production;
- removal of Schedule 2 from the Fisheries Act;
- national enforceable standards for sewage treatment; and
- research and funding for environmentally friendly sewage treatment methods.

Every level of government must commit to creating and enforcing strict laws against industrial dumping, the use of non-essential pesticides on public and private lands, and the discharge of toxins into waterways or landfills.

Transition to a tar sands-free future

The tar sands projects release four billion litres of contaminated water into Alberta's groundwater and natural ecosystems every year. Toxins connected to tar sands production have been found as far downstream as the Athabasca delta, one of the largest freshwater deltas in the world. A transition away from the tar sands is clearly imperative.

Removal of Schedule 2 from Fisheries Act

Lakes that would normally be protected as fish habitat by the Fisheries Act are now being redefined as "tailing impoundment areas" in a 2002 "schedule" added to the Metal Mining Effluent Regulations of the Act. Once added to Schedule 2, healthy freshwater lakes lose all protection and become dump-sites for mining waste. Canada is the only industrialized country to allow this practice. It must stop.

National enforceable standards for sewage treatment

Canada has no national standards for municipal sewage treatment and wastewater effluent quality.[7] As a result, 200 billion liters of raw sewage are flushed into our waterways every year. While the federal government has announced a new plan for sewage treatment standards, it is crucial that municipalities receive the necessary financial support from higher levels of government to sanitize their sewage before discharging it into our waterways. Any regulation without investments in building the capacity of municipalities is a strategy to force municipalities to resort to private sector support.

Strategy to address water shortages

A third of our communities rely on groundwater as a source of drinking water, yet Canada still has not mapped its groundwater supplies or ascertained how long they will last.[8] The AFB therefore commits to implementing a thorough groundwater protection plan that will include:

- the application of the public trust doctrine to groundwater;
- prohibiting the extraction of groundwater in quantities that exceed its recharge rate; and
- a "local-sources-first" strategy that gives first rights to local people, farmers, and communities.

Canada is a net exporter of bottled water.[9] Despite growing shortages in municipal water supplies, over a quarter of bottled water consumed in Canada is actually public water repackaged. The AFB will introduce stricter regulation of the bottled water industry that will require bottled water corporations to identify their sources on labels and work with provinces to demand restrictions on water-taking permits.

A climate change plan

The Conservative government has failed to plan for the impact of climate change on Canadian watersheds and water infrastructure. Provinces and municipalities will require assistance from the federal government in planning for the water shortages, floods, and droughts that may arise.

The AFB plan for climate change includes:

- research and information on impacts of climate change on watersheds and infrastructure;
- renewal and funding of the Flood Damage Reduction Program; and
- drought and flood planning and support for Indigenous communities

Alternative sources of power

The energy sector is the single largest user of water. Canada diverts more water for hydroelectricity than any other country in the world, and tremendous amounts of water are consumed for tar sands development. A comprehensive water strategy must include plans to develop publicly-owned alternative sources of power that put less strain on water resources.

Water democracy

Corporations in Canada benefit from an environmental policy gap, while trade agreements protect foreign investors against future policies that would restrict or prohibit their activities.

The AFB therefore institutes the following mechanisms to enable governments to protect watersheds:

Ban bulk water exports: The need for such a ban is pressing, given the pressure to export water to serve drought-prone areas in the United States. In the last two years, we have seen detailed proposals from right-wing think-tanks in both the United States and Canada to export water from Manitoba and Quebec. These projects would be tremendously costly, require vast amounts of energy, and pose serious threats to watersheds.

Exclude water from NAFTA and all future trade agreements: Under NAFTA, water is defined as an investment and a service. This protects the right of foreign investors to consume vast and unsustainable amounts of water to extract oil from the tar sands, to bottle ancient glacier water and groundwater, and to dump their waste into lakes. If a corporation is granted permission to export water anywhere in Canada, it becomes a tradeable good under NAFTA, and other provinces will have to grant similar access to corporations seeking water export rights. Only a clear exclusion of water from NAFTA and other trade agreements will avert this threat.

Amend the Great Lakes Compact and recognize the IJC: The International Joint Commission (IJC) is responsible for resolving conflicts over boundary waters between Canada and the U.S. But it is increasingly being circumvented and its authority undermined. The Great Lakes Annex, initially created to prevent diversions from the Great Lakes/St. Lawrence River Basin, was negotiated by Ontario, Quebec, and the eight Great Lakes states without involvement by the Canadian federal government. The Great Lakes Compact, which makes the provisions of the Annex enforceable in the U.S., was signed into law by President George Bush in December 2008. These agreements empower another body with the responsibility for dispute resolution, thus making the IJC irrelevant and restricting Canada's ability to responsibly protect the future of the Great Lakes. The agreement also allows diversions through a loophole that gives bottled water corporations the right to withdraw unlimited amounts of water in containers of 20 litres or less. Key groups in Canada and the United States are now calling for an amendment of the Compact to incorporate the public trust doctrine and remove of the bottled water exception. The AFB will open negotiations with the U.S. to incorporate the public trust doctrine into the Great Lakes Compact Agreement and eliminate the bottled water loophole. It will also refer all boundary water matters to the IJC.

Water knowledge

Canada has the resources to be a leader in environmental research, but Canadian scientists are concerned that research in this area has declined significantly due to a lack of political will and severe funding cuts. To address the numerous information gaps in water quality and quantity, the 2010 Alternative Federal Budget injects funds into:

- the monitoring of water quantity and quality;
- the Global Environmental Monitoring Program; and
- a comprehensive study of water contamination in the tar sands.

The responsibility for monitoring water quantity and quality is shared between the federal and provincial governments, but inadequate funding and lack of coordination have led to gaps and inconsistencies in information.

The AFB will improve water monitoring through:

- the development of an overarching water quality and water quantity monitoring frameworks to assist provinces and communities;
- an increase in monitoring stations; and
- training for staff in water monitoring.

The AFB will allocate $325 million over three years towards funding these initiatives.

Tar sands contamination: This contamination has caused health and environmental problems for the residents of Fort Chipewyan and other communities on the Athabasca watershed.

A thorough investigation of the tar sands' health and environmental impacts is clearly imperative.

The AFB will commit $30 million to an in-depth study of the water effects of tar sands development.

Conclusion

The myth of water abundance and the lack of legislation have created a climate in Canada where corporations have been able to exploit water resources with very little restriction compared to other industrialized countries. Canada, through better research and science, must improve its understanding of the looming freshwater crisis, set concrete targets to protect water, and guarantee access to clean drinking water in all communities, while ensuring that water services remain in public hands. The foregoing measures set forth by the AFB will begin the too-long-delayed process of developing a policy that makes the conservation and protection of our water resources a public trust and access to clean drinking water a public right.

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SECTION 3

Canada and the World

Defence and Development

Canada is one of the 15 top military spending nations in the world, and the sixth largest military spender among the 28 members of NATO. Our military spending is now higher than it has been in more than 60 years — higher even than it was during the Cold War.

According to the federal government's latest budget estimates, Canada will spend $21.185 billion on its military forces in fiscal year 2009–10,[1] 9.6% more than it did last year and about 15% more than it did in its peak spending year during the Cold War (1952–53).

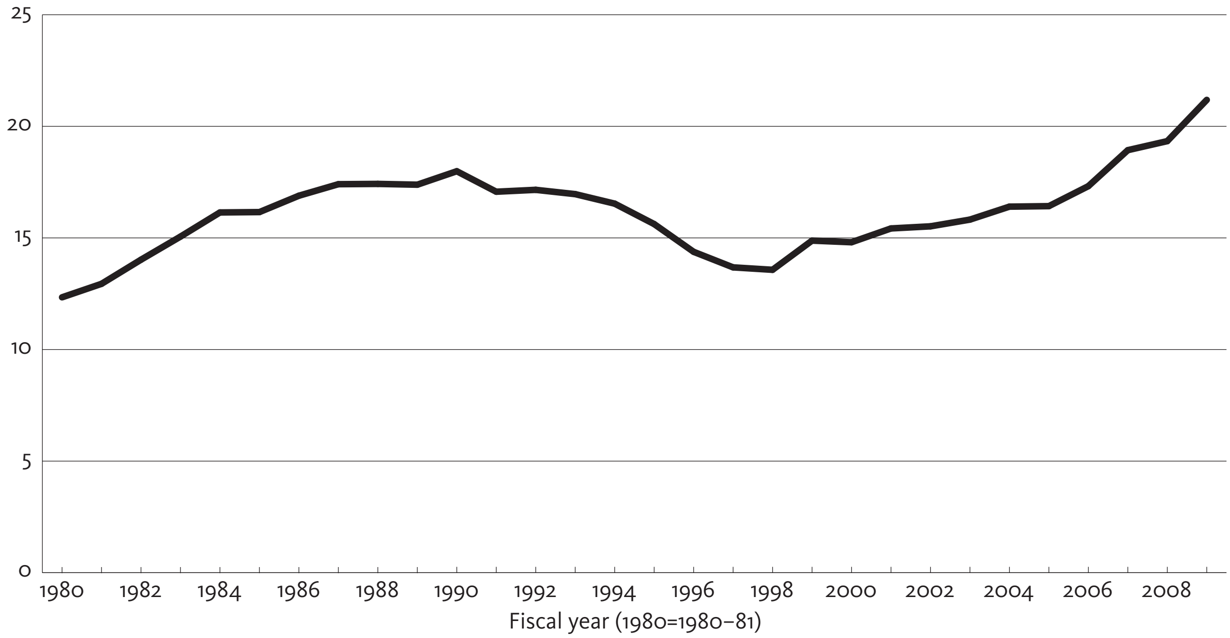
The current build-up in spending began in 1999, well before the 9/11 terrorist attack on the United States. But Canadian participation in the U.S.-led "global war on terrorism" that followed 9/11 has been the primary driving force behind the increases. Indeed, Canada's participation in the Afghanistan mission alone probably accounts for about half of the $23.1 billion in extra spending[2] that has taken place since 9/11.

Afghanistan mission costs

The Department of National Defence's annual *Report on Plans and Priorities* indicates that the incremental cost of Canada's military operations in Afghanistan during the nine years from FY2001–02 to FY2009–10 has been about $6.3 billion.[3] However, Parliamentary Budget Officer Kevin Page's report last year on the cost of the Afghanistan mission concluded that the actual incremental costs of the mission were higher — between $5.9 billion and $7.4 billion for the seven years from FY2001–02 to FY2007–08[4] (the *Report on Plans and Priorities* figures show incremental costs of just $3.6 billion during this period). If the figures for FYs 2008–09 and 2009–10 were similarly underestimated, the incremental costs for the Afghanistan mission are probably closer to $12–15 billion to date, equivalent to about half of the $23.1 billion extra spent during the FY2001–02 to FY2009–10 period.

Even that figure arguably underestimates the cost of the Afghanistan mission. Canada's presence in Afghanistan ties up not just the troops actually deployed in the country, but also many thousands of personnel preparing for deployment, recovering from deployment, or directly or indirectly supporting the operation from Canada. If Canada had chosen not to participate in the Afghanistan mission, we could have main-

CHART 9 **Canadian military spending, 1980–81 to 2009–10** ($billions 2009)



tained a somewhat smaller armed forces while continuing to participate in other missions, such as peacekeeping. Depending on the actual personnel level maintained, additional savings, potentially as much as several billion dollars, might have been realized over that period.

Continued budget growth projected

The extent to which Canada's military role in Afghanistan will be wound down after the scheduled end of the current mission in 2011 remains to be seen. Nonetheless, the *Canada First Defence Strategy*, unveiled by the Harper government in 2008, promises that Canada's military spending will continue to grow by an average of 0.6% in real terms (adjusted for inflation) and an average of 2.7% in nominal terms (not adjusted for inflation) per year from FY2007–08 to 2027–28.[5] Total spending over the 20-year life of this plan would likely be in the $415–440 billion range (2009 dollars),[6] or about $13,000 per Canadian.

Global comparisons

Actual level of spending

Worldwide military spending is estimated to have been $1.46 trillion in 2008 (U.S. dollars), the latest year for which reliable figures are available.[7] Like Canadian military spending, global military spending is now higher than it was during the Cold War.

Another way to assess Canada's military spending is to compare it to that of its allies in NATO. The 28 members of NATO collectively account for about 64% of world military spending, or nearly two-thirds of the total. Canada is the sixth largest military spender among those 28 countries, trailing only the United States, the United Kingdom, France, Germany, and Italy, all of which have much larger populations and economies.[9]

Failing at peacekeeping

Even most supporters of Canadian participation in the Afghanistan war would agree that Canada has borne an excessively high share of the burden of that war. Beyond the cost of the Afghanistan mission in killed and injured soldiers, the costs in money, personnel available to deploy, and other military resources together comprise a large part of the explanation for Canada's currently dismal contribution to UN peacekeeping operations. Even before the Afghanistan war, however, Canada had essentially abandoned any effort to shoulder a reasonable share of the burden of UN peacekeeping operations around the world.

During the Cold War, Canada provided about 10% of all UN peacekeeping troops. The huge growth in the number, size, and scope of UN operations after the end of the Cold War made this level of support no longer possible, but Canada continued to provide about 1,000 peacekeepers (sometimes more than 3,000) well into the 1990s.

In 1997, however, Canada began to dramatically reduce its contribution to UN operations. The initial reduction can be explained in large part by the extensive Canadian contribution to the NATO-led Stabilization Force (SFOR) in Bosnia and Herzegovina. SFOR was then followed by the 1999 Kosovo war, participation in the NATO-led Kosovo Force (KFOR), and then the post-9/11 Afghanistan mission.

By 2005, just 83 Canadian military personnel were assigned to UN peacekeeping missions. The Canadian government promised that year that the Canadian Forces would "maintain their contributions to international organizations such as the United Nations"[10] but the decline continued unchecked. In 2008, Canada and other governments voted to shut down the UN's Multinational Standby High Readiness Brigade (SHIRBRIG), an innovative rapid-reaction peacekeeping unit that had once been championed by Canada.[11] The shutdown took effect in June 2009.

TABLE 15 **Top 15 military spenders 2008**[8] ($US billions)

United States	607.0
China	84.9
France	65.7
United Kingdom	65.3
Russia	58.6
Germany	46.8
Japan	46.3
Italy	40.6
Saudi Arabia	38.2
India	30.0
South Korea	24.2
Brazil	23.3
Canada	**19.3**
Spain	19.2
Australia	18.4

Canada's switch from major supporter of UN peacekeeping to an almost exclusive focus on U.S.-led or NATO-led "coalitions of the willing" was not a result of the disappearance of UN missions. Notwithstanding the claim often heard in Canada that UN peacekeeping is dead, the demand for peacekeepers has actually grown in recent years. As of September 2009, there were 83,853 UN peacekeeping troops (plus 12,222 police) — a record number — participating in a total of 15 operations around the world.[12]

Canada contributes just 55 military personnel to these operations, or 0.07% of the total, making Canada 63rd on the list of 105 military contributors (down from 58th last year). These personnel are divided among seven operations, for an average Canadian contribution of 8 military personnel per operation.[13]

Our personnel contribution ranks between that of Cambodia (58 soldiers) and that of Romania (52). Even Albania, with an annual military budget of just $US235 million, provides more military peacekeepers (63) than we do. Rwanda contributes 64 times as many military personnel (3,502) as Canada does.

Our contribution in spending terms is equally tiny. The incremental cost of Canada's military contributions to UN missions between FY2001–02 and FY2008–09 was just $73.9 million, an average of $9.2 million a year. This year's amount is expected to be only half that, a paltry $4.5 million.[14]

The only Canadian contribution that remains substantial is a non-military one: our cash contribution to the UN peacekeeping budget, currently $190 million a year. This payment, a legal obligation of our membership in the United Nations, comes out of the budget of the Department of Foreign Affairs and International Trade, not the Department of National Defence.[15]

The sheer size of Rwanda's contribution highlights an uncomfortable fact about contemporary peacekeeping: the overwhelming burden of current UN peacekeeping operations has been transferred to the poorer countries of the world, whose soldiers are normally much less well equipped and in some cases are also less well trained. "Middle powers" such as Canada are not bearing their share of the burden of these operations, and the resulting equipment and training shortfalls threaten to undermine the effectiveness of the operations currently underway.

Canada could make a significant contribution to global security by renewing its commitment to peacekeeping. But there is little likelihood of that happening any time soon. The collapse in Canadian government support for peacekeeping happened even while Canada's military budget was undergoing greater than 50% growth. The problem, in short, is more fundamental than just money. There are not enough Canadian soldiers to both participate in Afghanistan-style missions and make a significant, ongoing contribution to peacekeeping. Despite the growing military budget, not enough Canadians want to join the military, and demographics suggest that these recruitment difficulties will only grow in the future.[16]

An even greater problem may be the strong institutional bias in the Department of National Defence and the broader Canadian "defence lobby" against UN peacekeeping and in favour of US/NATO "coalition of the willing" operations. This bias may begin to change as the cost in blood and treasure of such operations is weighed against their results. But insofar as peacekeeping is seen (and in some circles feared) as a possible alternative that might displace coalition combat operations as the primary international role of the Canadian Forces, that antipathy is likely to persist.

The AFB will refocus the Canadian military on the areas that Canadians are proud of, especially peacekeeping. In so doing, it is important to scale back the recent Canadian focus on combat operations. Over the coming five years, the AFB will reduce Defence to its pre-9/11 levels of funding. Prior to the 2001 ramp up in spending, the Department of National Defence spent just under $15 billion a year. In 2009–10 the figure has topped $21 billion. In order to return to the pre-2001 level, the AFB will shrink the defence budget by $6 billion over 5 years.

Humanitarian opportunity cost

Although the Afghanistan mission is often defended in part on humanitarian grounds, the money that is spent on such missions could be used far more effectively in development assistance and other humanitarian aid in other parts of the world.

At $4.08 billion in 2007, Canada's current level of Official Development Assistance (ODA) is the ninth largest in the world.[17]

This absolute dollar figure makes Canada a relatively large player in the aid field, but the worldwide total of ODA flows (and other forms of assistance) falls far short of internationally recognized requirements. For this reason, Canada and most other high-income countries have long promised to move towards providing 0.7% of

Gross National Income (GNI) as ODA.[18] A small number of countries have managed to reach or surpass this target, but the great majority of countries remain a long way from achieving it.

Canada's performance in this respect has not been impressive. The average ODA share among the members of the OECD Development Assistance Committee is only 0.45% of GNI, far short of the long-promised target level. But Canadian ODA, at a mere 0.29% of GNI, is even farther from the target, lagging at a dismal two-thirds of the international average.

A great deal of progress has been made in recent decades in development and humanitarian assistance. One clear example of this progress is the fact that the number of children under the age of five dying every year from hunger, disease, and deprivation has fallen by 3.6 million since 1990, even as the world's population has continued to climb.

But the long-standing shortfall in ODA resources has left much vital work undone: 24,000 people, including 17,000 children, die of hunger every day; 4,000 more children die daily from a lack of clean water and sanitation; 13% of children in developing countries are deprived of an education. All told, 9 million children under the age of 5 die of preventable causes every year, along with additional millions of older children and adults. During the time Canada has been fighting in Afghanistan, there have been some 70 million preventable child deaths around the world.

Worse still, the steady progress that has been made to date is coming increasingly under threat from the effects of climate change. The aid organization OXFAM recently called on the international community to "make a new commitment to fund adaptation to climate change," using funds separate from and additional to the 0.7% of GNI promised for aid.[19]

Addressing these problems will require a real commitment to provide greater resources on the part of Canada and other wealthy countries. If the extra $130-to-$155 billion that Canada will spend over the next 18 years as a result of its post-Cold War military budget build-up were spent instead on aid, it would be enough to nearly triple Canadian development assistance over that period, enabling us to meet and even exceed the 0.7% target and to provide additional resources for climate change aid.

Canada's contributions need not boil down to an either/or choice between military and non-military activities. In some parts of the world, conflict and chaos make it next to impossible to deliver significant development assistance or humanitarian aid. This is certainly the case in much of Afghanistan. Sometimes military help may be needed to provide a secure environment for aid delivery.

But if assistance to people in need is the primary goal, our first priority must be to deliver that assistance where it can do the most good. Just as it makes no humanitarian sense for a doctor to save one badly injured person if it means allowing three other injured people to die, it makes no sense to focus our humanitarian efforts in areas where aid can only be delivered with great effort, expense, and danger, and with limited success if it means leaving other parts of the world where aid could be delivered far more effectively without assistance.

In order to fulfill the Canada's commitment to development, the AFB will double current development spending to reach the 0.7% of GNI target over the next 10 years. This will mean increases of 14% a year on the present overseas development budget to reach that goal and keep up with the growth in the Canadian economy.

Conclusion

Canada is currently spending more on the military than it has at any time since the end of the Second World War. We are the 13th largest military spender in the world.

Canada's mission in Afghanistan has absorbed a significant part of the recent increases in Canadian military spending. This has come at the cost of Canada's ability to contribute to UN peacekeeping operations and its ability to fund non-military contributions to global security and humanitarian action. Canada could make a much greater contribution to global security and humanitarian action by shifting resources to non-military security efforts and to peacekeeping operations.

Notes

1 Total includes $416 million in respendable revenue. National Defence 2009–2010 Report on Plans and Priorities, Department of National Defence, 2009.

2 Calculated by comparing actual spending to what would have been spent if Canada's military budget had remained unchanged at its FY2000–01 level. All figures converted to 2009 dollars.

3 National Defence 2009–2010 Report on Plans and Priorities and earlier editions. "Incremental cost" as defined by DND is the cost incurred by DND over and above what would have been spent on personnel and equipment if they had not been deployed.

4 Ramnarayanan Mathilakath, Ashutosh Rajekar & Sahir Khan, Fiscal Impact of the Canadian Mission in Afghanistan, Office of the Parliamentary Budget Officer, 9 October 2008. The Parliamentary Budget Office figures are larger because they include the estimated cost of capital depreciation due to the war. Certain other costs, such as "accelerated procurement of capital and danger pay", were not counted due to a lack of reliable data. The report notes, therefore, that "the estimates provided may understate the costs of Canada's mission in Afghanistan." In addition to DND costs, the report looked at the costs to Canada of veterans' benefits and of foreign aid to Afghanistan. However, as those costs do not fall under the military budget, they are not cited here.

5 Canada First Defence Strategy, Department of National Defence, 2008.

6 Actual spending would depend on the type and intensity of operations undertaken over that period. The Canada First Defence Strategy puts the number at $490 billion, excluding operations costs, but this figure is not adjusted for inflation.

7 SIPRI Yearbook 2008: Armaments, Disarmament and International Security, Oxford University Press, 2008, Appendix 5A.

8 SIPRI Yearbook 2008: Armaments, Disarmament and International Security, Appendix 5A.

9 "Financial and Economic Data Relating to NATO Defence," NATO Communiqué PR/CP(2009)009, North Atlantic Treaty Organization, 19 February 2009.

10 A Role of Pride and Influence in the World: Defence, Government of Canada, 2005, p. 24.

11 Walter Dorn & Peter Langille, "Where have all the Canadian peacekeepers gone?", straight.com, 7 August 2009.

12 Contributors to United Nations Peacekeeping Operations, United Nations, 30 September 2009.

13 The combined Canadian military and police contribution is only a little bit better: 178 personnel, or 0.19% of the total, making Canada 56th out of 116 contributors overall (compared to 54rd last year).

14 National Defence 2009–2010 Report on Plans and Priorities and earlier editions.

15 Foreign Affairs and International Trade 2009–2010 Report on Plans and Priorities, Department of Foreign Affairs and International Trade, 2009.

16 See, for example, "Chapter 2—National Defence—Military Recruiting and Retention," 2006 May Status Report of the Auditor General of Canada, Auditor General of Canada, May 2006.

17 Aid Targets Slipping Out of Reach? OECD Development Assistance Committee, 2008.

18 ODA is normally measured as a percentage of GNI rather than GDP. GNI is similar to GDP but takes into account cross-border income flows.

19 Beyond aid: ensuring adaptation to climate change works for the poor, Oxfam Briefing Paper No. 132, Oxfam International, 2009.

International Economy

The global dimension

A free fall into global depression appears to have been averted. Policy-makers seem to have learned somewhat from mistakes of their predecessors in the 1930s.

This does not mean that countries have escaped a severe recession. They haven't — and the human collateral damage is devastating.

The International Labour Organization (ILO) predicted that the jobless numbers globally would rise by 60 million in 2009. The UN commission of experts on international financial and monetary reform warns that 200 million people, mostly in developing countries, could be pushed into deep poverty. Amnesty International's annual global report says: "We are sitting on a powder keg of inequality, injustice and insecurity, and it is about to explode."

Shrinking trade, falling remittances and other capital flows are deeply affecting poor countries' ability to respond to the crisis, and many who have climbed out of poverty are falling back into poverty.

The world's major economic powers have come together in a new forum, the G-20, to coordinate their responses to the crisis. At the London meeting in April 2009, they committed to reforming the global financial architecture: new resources for the International Monetary Fund, including a new issue of SDRs, the IMF's currency; a crackdown on excessive executive compensation, tax havens, hedge funds, and other elements of the shadow banking system; stronger capital requirements for banks, etc. Although a step forward in international cooperation, G-20 commitments are voluntary, often vague, and without enforcement measures.

Moreover, as the crisis has eased somewhat, the political will to act together appears to have waned. Cracks have widened in the positions of various countries, and real action has been limited.

The much larger and more representative United Nations forum, which is also developing responses to the economic crisis, has been largely sidelined by the Western media and major developed countries.

The AFB commits to push for the following policy measures at the G-20 and other international forums:

- Implement further stimulus measures until a real recovery takes hold. Ensure international recovery initiatives place jobs at the forefront. Support the International Labour Organization's Global Jobs Pact and its general framework to advance the social dimension of globalization.
- Do not compromise climate change policies in confronting the economic crisis. See it as an opportunity to address — simultaneously — economic stability and job creation while investing in measures to reduce greenhouse gas emissions. This should be an important component of stimulus spending initiatives. Countries should commit to targets and timelines for reducing emissions; support the adaptation costs of developing countries; and embrace the concept of "just transition" for workers affected by the transition to a green economy.
- Create effective mechanisms for international policy coordination, going beyond G-20 to include more representative institutions such as the United Nations.
- Renew efforts against tax havens and, more generally, tax evasion. Develop international cooperation mechanisms to avoid tax competition, wage deflation, and social dumping.
- Impose a global tax on financial transactions, both for purposes of discouraging financial speculation and also as a way to raise revenue. Such a tax would levy a tiny fee on trades of financial and instruments such as stocks, OTC derivatives, and credit default swaps.
- Reform the international dollar-denominated currency system, which has created huge financial imbalances and reduced global aggregate demand. Move toward a multilateral SDR-type global reserve currency based on an expanded basket of currencies.
- Encourage countries to implement controls on short-term capital inflows to prevent speculative bubbles and currency appreciation. These are key components of domestic macroeconomic policy management and industrial policy development. Countries in Asia, Latin America, and Eastern Europe are already resorting to direct capital controls to slow massive speculative capital flows from developed countries which are destabilizing their economic recoveries.
- Create a new agency to regulate systemic financial risk on an ongoing basis. The Financial Stability Board, which is currently responsible for planning and coordinating financial regulatory reform, is a non-transparent body dominated by central bankers, regulators, and finance officials.
- New regulatory measures should: limit excessive leverage in financial institutions; regulate the shadow financial system; increase transparency of over-the-counter derivatives markets; regulate executive pay structures so as to discourage excessive risk-taking; and reform the credit rating system to eliminate conflict of interest.
- Give greater decision-making power in the IMF to emerging and developing countries, and demand that the IMF cease requiring monetary and fiscal austerity in its stabilization agreements with countries experiencing severe economic hardship. Create a new lending facility without conditionality (either within or outside the International Monetary Fund), financed by a new allocation of SDRs.

The North American dimension

Both Canada and the United States responded to the economic crisis with massive monetary policy stimulus — interest rates at near zero — and major support/bailout packages for their respective financial sectors. Both countries also brought in a joint major support package for the North American auto sector.

The biggest difference between the U.S. and Canadian responses to the economic crisis has been in the area of fiscal policy. Although the Harper government touts its "massive" fiscal stimulus package, in fact it is far smaller proportionally than the U.S. package, despite the much lower Canadian debt/GDP ratio.

Comparing U.S. and Canadian government program spending in the first half of 2009, U.S. spending rose by almost 15% whereas Canadian spending rose only 2%. The Americans are outpacing us 7-to-1 in total spending.

While fudging on the size of its own fiscal stimulus package, the Harper government has been waging an aggressive campaign against the Buy America conditions attached to the U.S. stimulus package, and has been seeking a bilateral exemption from Buy America.

Given the depth of the U.S. recession, it is understandable that it would want its infrastructure projects to favour domestic producers over imports. This is especially true if other countries — Canada included — are not doing their part with their own fiscal stimulus packages and are attempting to free-ride on a U.S. recovery.

The just-concluded Buy America deal with the U.S. is is a terrible deal for Canada. Far from the promised exemption from Buy America provisions, it gives Canada fleeting access to stimulus projects worth $US4–5 billion, less than 2% of the $275 billion of procurement funded under the US Recovery Act. Canadian suppliers can expect to see very little practical benefit. In return for these meagre scraps, the provinces and municipalities have offered up temporary access to U.S. suppliers worth an estimated $CAD25 billion. Worse, Canada has bowed to U.S. pressure to bind purchasing by Canadian provincial governments under the WTO Agreement on Government Procurement, severely curtailing the use of procurement as a public policy tool. The deal is contingent on approval in both countries. It should be subject to parliamentary scrutiny and approval. The AFB rejects the Buy America deal on the grounds that it is unfair and detrimental to the Canadian public interest.

NAFTA renegotiation and the Security and Prosperity Partnership (SPP)

AFB priorities for renegotiating NAFTA were outlined in last year's AFB.

The SPP, a NAFTA-plus initiative ended by President Obama in the summer of 2009, was a post-September 11, 2001 business-driven initiative prompted by fears of border disruption and by a desire to rejuvenate the stalled NAFTA-plus integration project. Annual NAFTA leaders' meetings will continue, but it appears they will be more open and inclusive of other voices besides big business.

Among the SPP's more damaging actions:

- The SPP working group on energy helped to reduce regulatory barriers to tar sands development and to the construction of the pipeline infrastructure necessary to get the unprocessed bitumen to U.S. markets.
- Under an SPP regulatory harmonization agreement, Canada's chemical regulation regime has shifted towards the weaker American model put into place by the U.S. chemical industry under Bush, with its emphasis on self-regulation and risk management, and away from the much stronger European regime with its emphasis on the precautionary principle and the burden of proof on business.
- Ground zero in the H1N1 (swine flu) pandemic was a factory hog farm in

Mexico, owned by U.S. multinational Smithfield Foods, that ended up in Mexico due in part to lax regulations or weak enforcement capacity. An SPP pandemic plan was touted as an integrated emergency response initiative, which would make North Americans safer. It was designed to contain and control avian flu and other forms of influenza. But Mexico was not given the resources or the technology needed to do its part. Thus, the risks were integrated, but risk prevention was not integrated.

The AFB will work to undo these damaging measures. More generally, we will work to reverse, or reshape where appropriate, the adverse effects of unbridled free market continental integration.

At the same time, the AFB will strive to ensure that Canadian governments maximize essential policy flexibility — to reflect unique Canadian conditions and to be in a position to leap ahead of any floor of standards that may be agreed to.

Canada-EU trade and investment negotiations

The Harper government entered into trade and investment negotiations — the most extensive since NAFTA — with the European Union in October 2009. The negotiations are expected to last two years. Canadians generally admire the European social model and higher regulatory standards, and generally want to Canada to diversify trade away from its overreliance on the U.S., but the negotiations with the EU are very narrowly focused on a commercial basis. Trade with the EU is already largely tariff-free. These talks are about behind-the-border measures which go to the heart of domestic policy-making.

The European Commission wants access for its large corporations to Canadian public services and government procurement, the elimination of the Canadian Wheat Board and agricultural supply management, as well as tougher copyright and patent protection. The Harper government is eager for a deal that advances its free market, small government agenda.

The Harper government cannot be trusted to negotiate a deal with the EU that is in the best interest of Canadians. The AFB prefers and will initiate a broader diplomatic engagement with Europe that would move Canada toward the European social model and foster a race-to-the-top dynamic of regulatory standards and climate change policies.

SECTION 4

The Changing Nature of Work and the Economy

Employment Insurance

The economic crisis, the first since major cuts were made to our EI program in the mid-1990s, has been an extreme "stress test" for Canada's EI program. The program has failed and needs to be fixed.

Since the crisis began in October 2008, there has been a modest rise in the proportion of all unemployed workers collecting regular EI benefits, driven by two key factors. First, the initial stages of the downturn were marked by major layoffs of workers who had typically been in stable employment before becoming unemployed. Before the recession, proportionately more of the unemployed were new entrants and re-entrants to the workforce, who need 910 hours of work (almost six months of full-time work) to get into the system. This requirement disqualifies many young workers, as well as parents (almost all women) returning to work after a leave, as well as recent immigrants.

Second, the EI system automatically responds to downturns, though with an important lag, because entrance requirements and the duration of benefits depend on the local unemployment rate (based on a three-month moving average). By mid-2009, the entrance requirement to qualify for EI had fallen compared to October 2008 in about 40 of the 58 EI regions, accounting for over 80% of workers.

The responsiveness of the system to a higher unemployment rate, however, is gradual. Many industrial workers lost their jobs before the recession and in its early stages when unemployment rates were low, and their claims were approved and their duration established on the basis of a low unemployment rate. By contrast, those who lost their jobs after mid-2009 found it somewhat easier to qualify, and will qualify for longer periods of benefits.

Even as the system became somewhat easier to access, however, many unemployed workers have fallen through the cracks. In fact, the number of unemployed workers not in receipt of EI benefits has jumped by about one-third.

The performance of the EI system has also varied considerably by region and by province. The biggest increases in claims over 2009 compared to 2008 have been in Alberta, British Columbia, and Ontario, in that order, but the former two began the recession with low unemployment rates. The ratio of EI beneficiaries to unemployed — the B/U rate — continues to vary a lot between provinces. Most strikingly, the rate is very low in Ontario — just 40.1% in July 2009 — even though Ontario had an unemployment rate of 9.3% in July. This may be due to the relatively high proportion of recent immigrants in Ontario, especially the Greater Toronto Area, many of whom may have not been able to get over the 910-hour new entrant hurdle. The B/U rate is also still extremely low (38.6%) in Alberta. And the B/U rate has increased much more sharply among men than among women.

Entrance requirements in terms of hours worked continue to exclude many unemployed workers from benefits. About 10% of all unemployed workers in recent years worked before becoming unemployed, but did not have enough hours of work to qualify for benefits. That amounts to about 160,000 unemployed workers in any given month today, and a much higher number over the course of a year. Studies by HRSDC of a proposal to temporarily drop the entrance requirement to 360 hours — from the current range of 420 to 700 hours, depending upon the local unemployment rate — showed that this would bring about 184,000 more workers into the system over a year, at a cost of $1.14 billion. (This proposal would still have imposed a 910-hour requirement, or about six months' full-time work, on new labour force entrants and re-entrants, and would have let workers with relatively low qualifying hours into the system for only 14 to 36 weeks, depending on the local unemployment rate.)

The sudden entry of some relatively well-paid workers into the ranks of the unemployed has modestly increased the average weekly regular EI benefit. This rose from $321.88 in July 2008 to $347.87 in July 2009, an increase of 8.1%. But this is still well below the current maximum weekly benefit of $447 because many claimants — especially women and younger workers — were earning well below average incomes before the crisis.

Also, earnings are averaged over a six-month period. Often, workers experience a period of interrupted and thus lower earnings due to a short time working before a layoff, lowering their weekly EI benefit. Many workers also take part-time and/or temporary lower paid work while on claim, establishing the basis for a later claim, but the later claim will be at a much lower benefit level. Average benefit levels are barely sufficient to support a single person, let alone a family, and basically match earnings from a full-time job at minimum wage.

On top of unemployed workers who never qualify for benefits, many unemployed workers collect benefits for a while, but exhaust a claim before finding a new job. Workers who entered the EI system in the early stages of the economic crisis in late 2008 were starting to run out of benefits in significant numbers by the fall of 2009, and the number of exhaustees will soar in the months ahead.

Before the recession, more than one in four claimants exhausted their benefits (29.9% of women and 26.5% of men), and more than one in three (34.3%) older workers exhausted their benefits.[1] Currently, claimants are eligible for between 19 weeks and 50 weeks of benefits, depending upon how many hours of work they put in during the 52-week qualifying period before a claim, and the regional rate of unemployment. (This includes the temporary five weeks of benefits added to the system in all regions in the 2009 Budget.)

In an "average" region with an unemployment rate of 8% to 9% — the same as the average national rate — eligibility ranges from 23 to 47 weeks depending upon the number of hours worked in the previous year. More than 1,820 hours or essentially a history of working in a full-time, permanent job are required to get the maximum 47 weeks of benefits. (The 50-week maximum only applies in regions with an unemployment rate above 12%.)

CHART 10 Canada: Number of Unemployed and EI Beneficiaries (Regular Benefits), October 2008 to October 2009

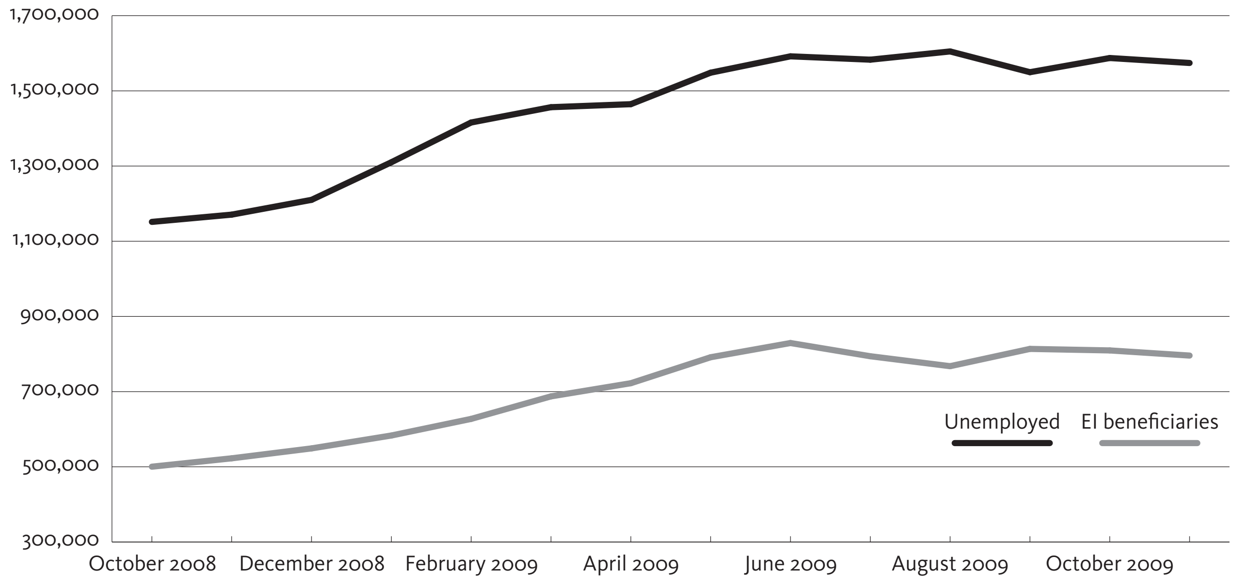
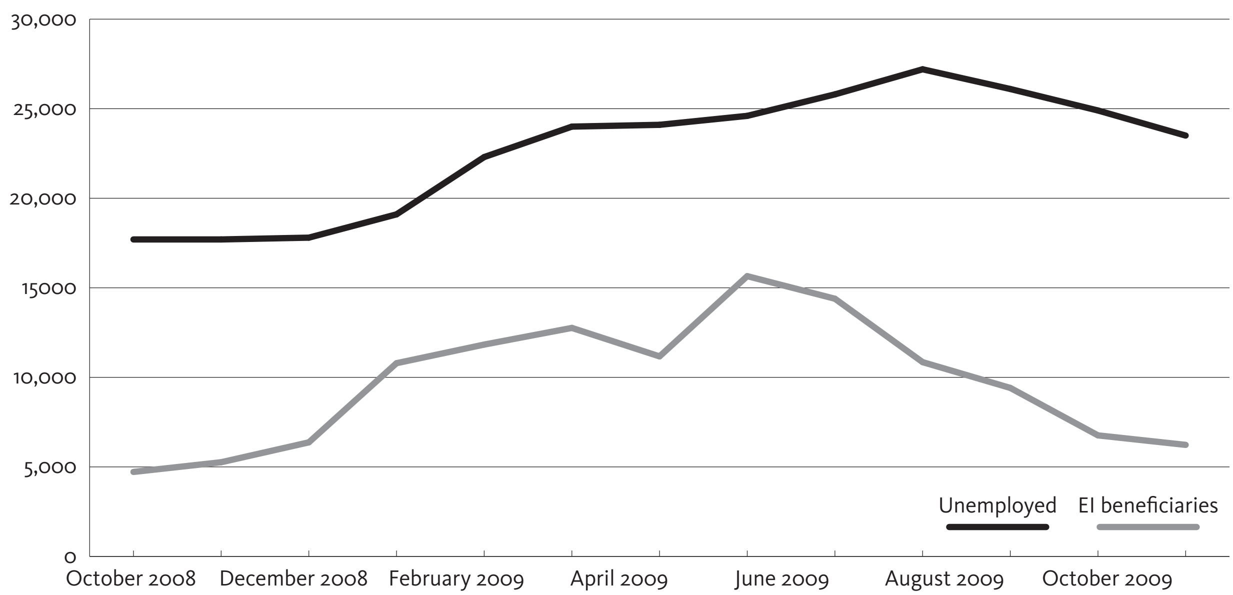


CHART 11 Windsor: Number of Unemployed and EI Beneficiaries (Regular benefits) (Number of Unemployed: S.A.; EI Beneficiaries: N.S.A.)



It can be estimated that a new EI claimant today will, on average, qualify for about 38 weeks of benefits. That is the average of 31 weeks before the recession (2006–07), plus the extra five weeks added in the last Budget, plus the extra two weeks generated on average by a two-percentage-point rise in the national unemployment rate.

We can expect that the total number of new regular claims in 2009 will hit about two million. If the exhaustion rate were to remain the same as in 2006–07, we could eventually see some 500,000-plus exhausted claims in late 2009 and into 2010. It is open to question if the exhaustion rate will remain the same as before the recession. On the one hand, a higher unemployment rate automatically triggers somewhat longer benefit periods, and five weeks have been temporarily added for two years. About 400,000 workers were expected by HRSDC to qualify for the extra five weeks in 2009–10. On the other hand, it will be far harder than in 2006–07 for those on claim to find a new job before their eligibility period ends.

At this point in the recession, jobs are still very hard to find. Between the start of the recession and September 2009, the average duration of a spell of unemployment has risen from 13.6 to 17.0 weeks, and more than one in five unemployed workers in September had been out of work for more than six months, clearly placing those on EI at risk of running out in the very near future — if, in fact, they have not already exhausted their benefits.

No direct data are available on the number of exhaustees, but the number of EI regular beneficiaries may appear to have peaked by the summer of 2009, even though the number of unemployed workers has continued to rise (see Chart 10). The gap between the number of unemployed workers and the number of regular EI beneficiaries has greatly increased in the Windsor CMA since May 2009, as shown in Chart 11. This is almost certainly because many unemployed workers in communities like Windsor, which entered the recession with an already high unemployment rate, have exhausted their benefits.

In response to the reality of many unemployed workers exhausting their benefits, the Conservative government legislated last November to further extend EI benefits by an average of five weeks (and a maximum of 20 weeks) on a temporary basis, but only for a small sub-group of claimants. The government estimates that 190,000 "long-tenure" workers will qualify over the short life of the program, at a cost of just under $1 billion. The payments will be made over the final months of 2009, 2010, and until the fall of 2011. A "guesstimate" is that only about one in five potential exhaustees will qualify for this additional extension. (If there are three million claims in 2009 and the first half of 2010, and the exhaustion rate is 30%, close to one million claims will be exhausted.)

To be eligible for the second round of extended benefits, a worker must have initiated a claim after January 4, 2009, thus excluding the many workers who lost their jobs in late 2008. Eligibility for the extended benefit will be rapidly phased out between June and September of 2010. To qualify, a worker must also have been paying into the system (defined as paying at least 30% of the maximum premium) for at least seven of the past ten years. The maximum additional 20 weeks goes to those who have been paying in even longer, for at least 12 of the past 15 years. Finally, to qualify, a worker must have claimed no more than 35 weeks of regular EI benefits over the last five years. This temporarily re-introduces an element of experience-rating into the EI system.

The target group was, very explicitly, older workers who have made very limited use of the EI system in the past — meaning that younger workers, many women, workers in high unemployment regions, workers in seasonal industries, and many industrial workers will not qualify. The 35-week cutoff will exclude many industrial workers who have been temporarily laid off to reduce inventories, to allow for retooling of plants, and other normal workforce fluctuations in operations. It will also exclude many claimants in provinces which experienced relatively high unemployment rates over the past five years — notably Atlantic Canada, Quebec, and rural and northern regions in other provinces — as well as the many workers impacted by the manufacturing and forest industry jobs crisis, which began well before the Great Recession.

The 35-week cutoff makes an invidious and unsupported distinction between the "deserving" and the "undeserving" unemployed, based on previous use of the system, ignoring the fact that any EI claim has to be based on an employer layoff as opposed to any choice exercised by a worker. (Workers who quit or are fired from a job are ineligible under the rules which have been in place for the past decade.)

As shown in the table, the latest government forecasts show that the EI Account will move into a large deficit position in both 2009–10 and 2010–11. EI premium revenues are forecast to decline slightly in 2009–10, and to increase only slightly in 2010–11. This flows from the government's decision to freeze EI premiums in 2009 and 2010, at $1.73 per $100 of insured earnings for employees. The chief actuary for EI recently calculated that EI premiums would have to rise by 41% in 2010 to cover the cost of the program had it not been for the premium freeze.

Meanwhile, EI expenditures will jump by almost $6 billion, or by 36%, this fiscal year to over $22 billion, and will stabilize at that much higher level next year.

It is notable that the percentage increase in EI expenditures this fiscal year is about the same as that between 1990 and 1991, when the unemployment rate rose by about the same amount (from 8.1% to 10.4%). However, the level of spending is much lower. In today's (2009) dollars, EI expenditures rose to $26.2 billion in 1991, the first year of recession, compared to $22.1 billion today (2009–10), even though there were fewer unemployed workers in absolute numbers in 1991 (1.5 million compared to 1.6 million).

The premium freeze will end in 2011, by which time the EI Fund will have incurred a huge deficit compared to its position going into the recession. The Fund — which is integrated with the Public Accounts of Canada but exists on paper as a separate government account — had a cumulative surplus of about $55 billion in 2008–09. Under current legislation, however, this is ignored for premium-setting purposes. Starting in 2011, premiums will have to be raised to cover the approximate $10-billion "recession deficit" in the EI Fund, minus the $2.9 billion the government will pay into the Fund next year to cover the cost of some EI measures. (The government is paying for the temporary five-week extension of benefits and increased EI spending on various training programs, but not for the cost of the premium freeze, higher EI expenditures resulting from higher unemployment, and extended benefits for long-tenure workers.) If nothing is done, the stage is set for at least several years of premium increases from 2011 in order to bring the EI Account back into balance. Premiums are likely to rise by the 15% maximum amount allowed over several years of what may prove to be times of continuing high unemployment and slow growth. (It remains open to the government to impose any premium rate it chooses, notwithstanding any decision of the EI Financing Board. The latter is mandated to set a rate to match premiums and spending, and to pay the government back any funds owing.)

The Alternative Federal Budget has long called for an EI program with a single national entrance requirement of 360 hours, and eligibility for up to 50 weeks of benefits based on 60% of the best 12 weeks of earnings in the qualifying period. As detailed in a recent CCPA report by Lars Osberg, *Canada's Declining Social Safety Net: The Case for EI Reform,* our EI program is one of the least generous in the high-income countries, and excludes many unemployed workers from benefits completely. The "stress testing" of the current system has shown that current entrance requirements continue to exclude many workers, and average benefits remain very low.

This year's AFB again proposes a lowering of the entrance requirement to a uniform 360 hours and higher benefits. The cost of lowering the entrance requirement to 360 hours for all entrants and all forms of benefits is about $1.5 billion per year. The cost of raising benefits to 60% of earnings based on the best 12 weeks is about $1 billion per year.

A major challenge facing Canadians is the prospect of very large numbers of unemployed workers exhausting their EI benefits today and over the coming months. Many of them, after using up their financial assets, will be forced to turn to provincial social assistance programs. In the United States, the federal government — as is usually the case in periods of very high unemployment — has temporarily extended benefits by up to 33 weeks in states with very high unemployment rates.

Extending benefits would result in higher EI benefit costs until such time as high unemployment rates begin to decline. However, these benefits are a highly effective form of temporary economic stimulus, flowing directly to the principal victims of the recession and to especially hard-hit communities. The huge surplus accumulated in the EI Account before the recession can and should be drawn upon if it is needed.

This year's AFB implements a special 26-week extension of benefits, applicable to all claims filed since October 2008 through October 2010. Eligible unemployed workers who have already exhausted a claim will be allowed to resume the claim if they remain unemployed. The 26-week special extension will incorporate the five-week extension already committed to by the government, as well as the additional extension for so-called "long-tenure" workers. Based on the government forecast that the five-week extension would cost $1.15 billion over two years, a 26-week extension could cost as much as $6 billion, less the $1.15 billion of the extra five weeks already in place, and less the $935-million cost of the long-tenured worker program.

The cost could be as high as $4 billion, with the great majority incurred in fiscal year 2010–11, but it would likely be significantly lower since: 1) only a minority of potential exhaustees will need the full extra benefit of 26 weeks; and 2) the AFB allocations as a whole will significantly lower the national unemployment rate.

The AFB will replace the current ad hoc system of government intervention in EI finances at times of unemployment crises. During the current crisis, the federal government froze employer EI premiums as EI costs spiked with the rise is unemployment. If the EI system had been allowed to proceed as designed, employers and employees would have been hit with a significant additional burden at exactly the same time companies saw their sales dry up in a recession. The government should be stepping in to protect employers from unduly high EI premiums at times of extraordinary unemployment. In order to facilitate more predictable future planning, the AFB will pay all additional EI costs above 7% unemployment. This allows for more predictability in EI premiums and will not unduly burden employers during a recession.

The AFB supports the extension of EI maternity and parental benefits to self-employed workers, but will amend the government proposal to require payments of premiums by all self-employed workers so as to cover the costs of their participation, as is the case in Quebec.

Notes

1 HRSDC, *EI Monitoring and Assessment Report*, 2008: 74–75

Sectoral Development

Canada has long prided itself on being a "trading nation." From the time of European settlement, foreign trade, investment, and other international linkages have always been disproportionately important to our economy.

In the last decade, however, some extensive and unprecedented changes have occurred in the nature of Canada's economic relationships with the rest of the world. This structural shift has had major implications for our international trade, our incomes, our productivity, our environment, and even our federation. The worldwide economic crisis has accentuated this structural shift in our economic direction (and, in some ways, Canada was uniquely vulnerable to the crisis *because of* these prior qualitative shifts). But the big changes in the sectoral make-up of our own economy reflect a longer and troubling trend, and are not just the result of the current recession.

The statistical evidence on the about-face in Canada's qualitative economic evolution is startling. Chart 12 shows that Canada's exports of goods and services have fallen dramatically, relative to the size of our overall economy. Ironically, by this measure Canada's economy is *de-globalizing* — even though we are told every day that globalization is omnipresent and irresistible. The decline in exports is not limited to our troubled manufacturing sector (or so-called "smoke-stack" industries). Exports of services (such as tourism, transportation, and business services) have also fallen sharply as a share of GDP.

Because of our soaring currency (which makes our products much more expensive to foreigners), a deep recession in our the United States, our most important customer, and the neglect shown toward high-value export industries by governments that believe free trade will automatically solve all our trade problems, a larger share of our work and output now takes place within "non-tradeable" industries. These are industries which dedicate their output to local use, rather than selling into global markets.

This shift is not all negative: there are some benefits to being less dependent on export markets. But it does reveal that Canada's role in the world economy is being re-made — and in ways that are clearly harming the prospects for keeping and generating good-quality jobs here at home.

CHART 12 **Export of Goods and Services as a % of GDP**

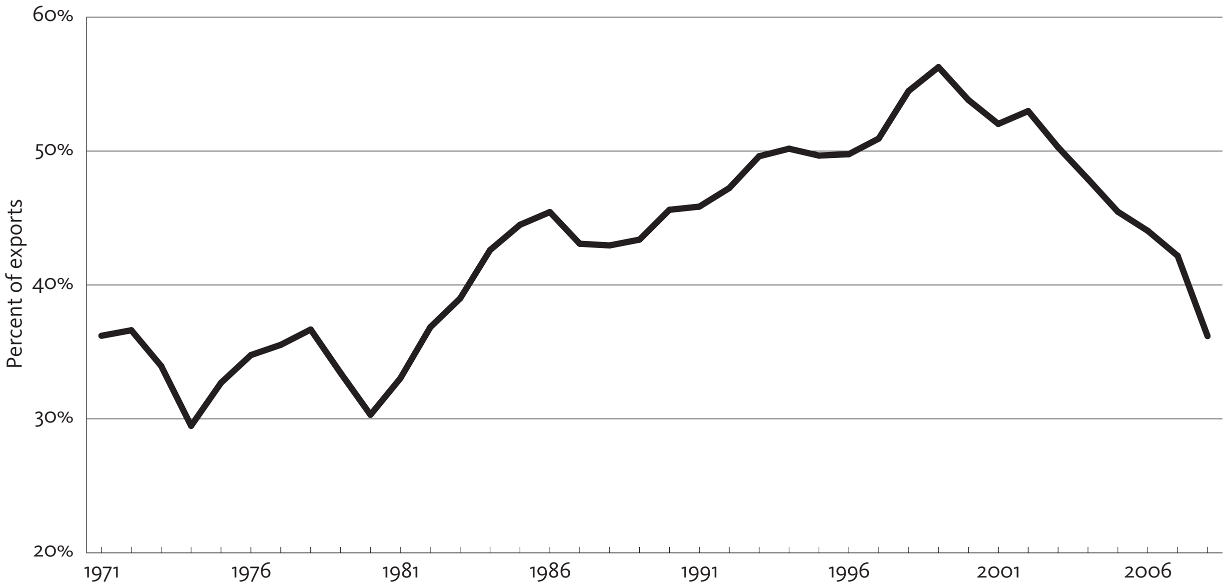
SOURCE Statistics Canada

Moreover, it's not just the quantity of our exports that has declined. The *quality* of our exports is also deteriorating. Pushed by the logic of free trade — in which Canada's prescribed role is to be a supplier of raw materials to other, more developed trading partners — Canada's exports have become increasingly concentrated in the harvesting and export of unprocessed or barely processed natural resources: minerals, agricultural products, forest products, and energy (*especially* energy).

Canada's total merchandise exports can be broadly divided into two categories: resources and "value-added" products (such as machinery, equipment, automotive products, and consumer goods). Chart 13 shows the rise and fall of value-added goods in Canada's total merchandise trade. Thanks to pro-active policies like the Auto Pact, an effective aerospace policy, successes in high-tech telecommunications equipment, and other value-added success stories, Canada's exports of value-added products grew steadily and impressively from the 1960s through the 1990s. After continental free trade, however, the subsequent boom in commodity prices for much of the past decade, and the decline of Canada's manufacturing base, this progress has been dramatically reversed. Value-added products now account for just 35% of total merchandise exports — the lowest level in three decades, and down from 55% at the turn of the century.

For most of the 1990s, then, Canada tolerated the erosion of its value-added manufacturing base and ignored the crisis in service export industries, such as tourism. For a while, the boom in resource exports allowed us to continue "paying our bills" as a country in international trade. But with the global economic crisis (which reduced demand for our exports and led to a downturn in commodity prices), the wheels fell off the resource bandwagon. Then we experienced the downside of putting so many of our eggs in the resource extraction basket: our trade balance deteriorated rapidly and substantially. From tra-

CHART 13 “High Value” Exports as a % of Total Exports



SOURCE CAW Research from Statistics Canada

ditional trade surpluses (which were essential to allow us to offset the ongoing drain of payments resulting from Canada's unique reliance on foreign investment), Canada has slipped into substantial trade deficits — the largest in our postwar history.

Much public attention and hand-wringing has been devoted to the issue of government budget deficits in recent months. But few are paying attention to the accumulation of *foreign debt,* which is the inevitable result of these trade deficits (and corresponding current account deficits). In the last four quarters of 2009, Canada's current account deficit totalled over $40 billion (twice as large as the federal government's deficit over the same period, as measured in National Accounts data) — and this international deficit is getting worse, not better.

The only clear response from the federal government, however, has been an insistence that signing still more free trade agreements will be the cure for whatever ails our trade performance. But it was free trade that pushed Canada into the present "resource trap": a reliance on extracting and exporting ever-greater quantities of natural resources — no matter the geopolitical or environmental consequences — in a fruitless effort to pay for the flood of higher-value products which we import from the rest of the world. Additional free trade agreements with other jurisdictions which are not dependent on natural resources (such as Korea or the European Union) can hardly rectify this imbalance. Canada already imports far more from the EU and Korea than we export, producing substantial bilateral trade deficits in each case.

Worse yet, with both these jurisdictions, Canada exports mostly resources, and imports mostly high-value products — so we face both a quantitative and a qualitative deficit. Table 16 summarizes this imbalance in the case of the EU. Canada's top exports (with one exception) are all resource-based. Canada's chief imports from the EU (again with one exception) are all

TABLE 16 **Summary of 2010 AFB Sector Development Measures**

	Annual Impact ($million)	
Policy Measure	**Revenue**	**Expense**
Sector Development Councils	–	50 per year
Corporate Tax Increase, Petroleum	1,000 per year	–
Other Measures to Slow Petroleum Development • Environmental review • Stronger net benefit test	–	–
Target 80-Cent Exchange Rate or Lower	–	–
New Model of Trade Negotiations	–	–
Negotiate a North American Auto Pact	–	–
Canadian Development Bank		1,000 per year share capital
Green Economy Programs • Sustainable forestry • Extended producer responsibility • Green manufacturing fund • Green skills development	 – 300 – –	 200 300 500 100
Youth Summer Employment Program	–	112
Net Fiscal Impact	**$850 m net cost**	

value-added manufactured goods. A very similar pattern applies to Canada's bilateral trade with Korea, with whom Ottawa is also pressing hard for a free trade deal. Providing more access for imports of European value-added products (for example, by eliminating any local procurement restrictions on Canadian purchases of public transit equipment — the key goal of European negotiators) can only make this imbalance worse.

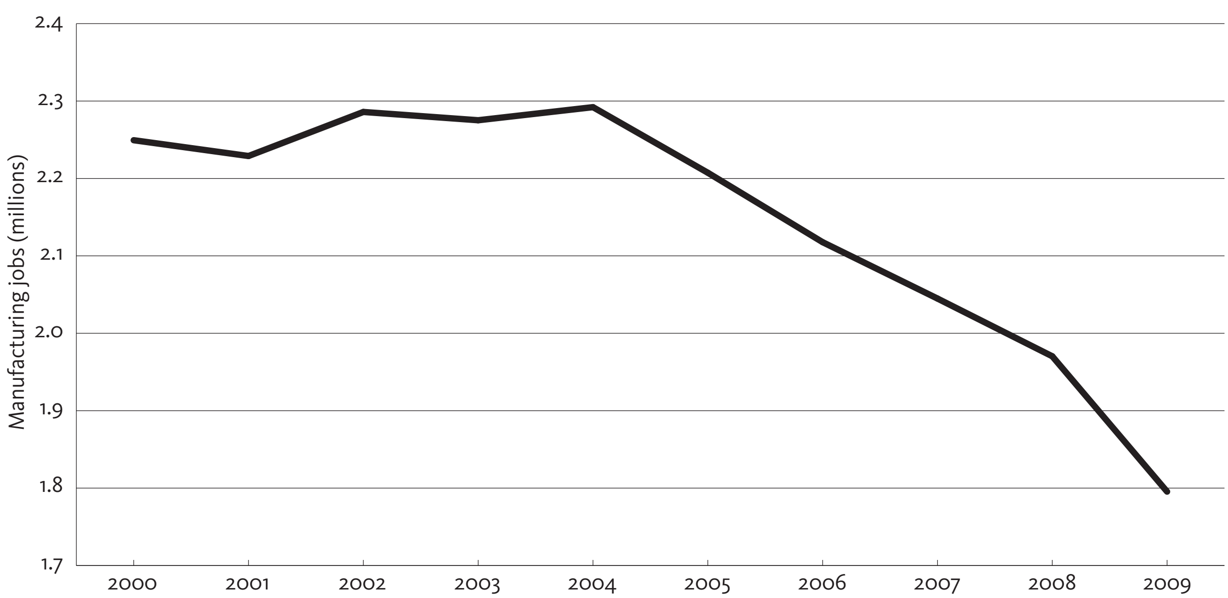
The deindustrialization of Canada's exports, and the failure of our trade policy makers to provide a more realistic and effective framework for the development of value-added export industries in Canada, is a key cause of the shocking devastation of Canada's manufacturing base. Manufacturing led Canada into recession (real GDP in manufacturing has been falling steadily since 2006). Over a half-million manufacturing jobs — which pay, on average, 20% more than the typical Canadian job — have been lost (see Chart 15). Entire communities have been devastated. But all Canadians pay a price for this neglect, not just manufacturing workers. Any country which cannot participate successfully in global trade for advanced, innovative products is destined to suffer chronic trade deficits, growing international debt, and growing economic and social polarization. The U.S. and U.K. economies provide vivid warnings of the long-run consequences when governments (lulled by the false confidence that free trade and "comparative advantage" always ensure a country's international success) allow their manufacturing base to wither away.

One of the most incredible ironies of the resource-led restructuring of Canada's international linkages (and, indeed, of our entire national economy) has been its very negative impact on productivity growth. Resource industries are traditionally marked by stagnant or even declining levels of productivity (with resource depletion, it takes more and more work to produce the sought-after resource). Canada's resource sector is no exception to this rule: average labour productivity has declined by as much as one-third this past decade, due both to depletion and the inefficient, helter-skelter pattern of development that was fostered in booming regions, like Al-

CHART 14 Goods and Services Trade Balance

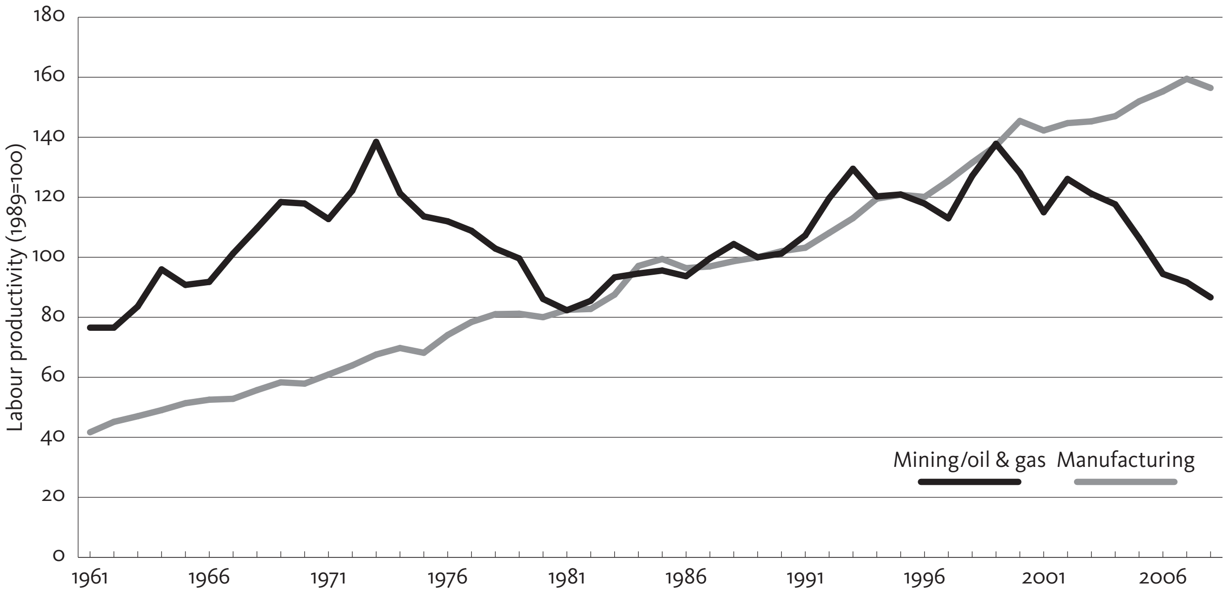
SOURCE Statistics Canada

CHART 15 Manufacturing Meltdown



SOURCE Statistics Canada, Labour Force Survey

CHART 16 **Labour productivity indices**



SOURCE Statistics Canada

berta's tar sands. Yet free trade forces are leading Canada to invest more resources (including people) in resource industries with *declining* productivity — while our manufacturing sector (which possesses higher-than-average productivity and faster productivity growth) shrinks dramatically (see Chart 16). Little wonder, then, that Canada's productivity performance (which has long been inferior) ground to an absolute halt in recent years. Incredibly, Canada experienced *no growth at all in labour productivity* between 2005 and 2008 while the resource boom was running flat out — leaving us all the further behind other, more innovation-focused countries.

Mix matters

The deterioration in Canada's international trade performance and the resulting crisis in important export-oriented sectors (such as manufacturing, tourism, and other hard-hit sectors), reinforces the need for Canada to have a more deliberate, pro-active vision and strategy for developing desirable, innovative, technology-intensive industries. These are the industries which provide better-quality jobs, thanks to higher productivity and higher incomes, and which will ensure that Canada maintains and expands a foothold in global markets.

Countries that deliberately aim to create, nurture, and expand innovative sectors — usually on the strength of growing export success — are the countries that successfully engage with global markets while at the same time developing their internal capacities. Successful Asian exporters have followed this recipe with great success: first Japan, then the so-called "Tigers" (including most notably Korea), and now China, whose government uses economic planning and a diverse toolkit of hands-on interventions to deliberately foster the domestic growth of high-tech, dynamic sectors.

Similar lessons can be gleaned from the experience of several European and Scandinavian nations, where the sectoral make-up of the economy is not left to chance (and certainly not to the supposedly "natural" forces of free trade and markets). Instead, these countries mobilize a diverse set of policy levers, including skills, technology, finance, and procurement policies, to stimulate the domestic location and expansion of desirable, innovative industries. The Finnish experience — through which a once-resource-dependent economy was transformed into a world leader in innovation, productivity growth, and social equality — seems especially relevant for Canada.

The AFB measures which follow, therefore, are motivated by a common, unifying theme. It matters greatly what sorts of industries a country specializes in. In other words, "mix matters." It is better to be heavily invested in industries that feature technological innovation, productivity growth, higher-than-average incomes, environmental sustainability, and a propensity for export success. Instead of passively waiting for free trade forces to determine which industries we specialize in (in which case our resource-dependence will only grow), it is better to pro-actively work to develop and expand our national participation in industries that offer a brighter future than a self-defeating quest to extract and export ever-more non-renewable raw resources.

Alternative Federal Budget sector development proposals

1. Establish a system of Sector Development Councils

The federal government will work with other stakeholders (including provincial governments, labour organizations, industry associations, businesses, universities and colleges, research and engineering institutes, and financial institutions) to establish a network of Sector Development Councils. These councils will be established in a range of goods-producing and services-producing industries which demonstrate many or all of the following characteristics: technological innovation, productivity growth, higher-than-average incomes, environmental sustainability, and export intensity. A non-exclusive list of these sectors would include: green energy technologies; aerospace and space products; communications equipment and services; value-added forestry products; motor vehicles and components (with an emphasis on alternative fuel and sustainable technologies); tourism; high-value transportation services; specialized health services; film and broadcasting; software development; and composite materials.

The councils will work to identify opportunities to stimulate more investment and employment in Canada; to develop and mobilize Canadian technology; to transfer technology from universities and other educational institutions to productive use; to invest in sustainable products and practices; to better penetrate export markets. In other words, the councils will be established as the first step in rebuilding Canada's national capacity for sector development planning (or what was once known as "industrial policy"). Each council will be asked to develop a medium-range plan for developing its sector in Canada, and a short-list of actionable items that could help to attain that plan's targets.

The Sector Development Councils will each be given an annual operating budget of $50 million to support their work, commission research, and perform other infrastructural tasks. (The actions that arise from their recommendations will be financed through other budget items, including those listed below.)

2. Develop energy resources in a slower, more deliberate manner

The willy-nilly energy boom of the 2000s imposed immense economic and environmental strains on Canada — despite the jobs and other economic spin-offs that were also associated with that boom. An over-valued exchange rate, immense fiscal imbalances within Confederation, and the utter destruction of Canada's credibility to negotiate on climate change issues — these were just some of the collateral damage caused by the unregulated energy boom. The federal government will quickly take advantage of the pause in development that has resulted from the global financial crisis to implement a more sensible and sustainable framework for the development of these resources.

To accomplish this, income tax rates on petroleum production will be raised to the former 28% rate that prevailed prior to the series of corporate tax reductions that began in 2001. This measure will conservatively raise an estimated $1 billion per year in additional revenues for the federal government (to be used to capitalize the Canadian Development Bank described below).

A new regime of environmental approval processes will also be imposed on major energy developments, to require (consistent with Canada's international treaty commitments) reductions in greenhouse gas emissions associated with those extraction projects.

Finally, a strengthening of the Investment Canada Act provisions regarding the demonstration of "net benefits" to Canadians from foreign takeovers of Canadian companies will prevent the wholesale sell-off of Canadian energy resources to foreign investors (as has occurred in recent years). The criteria of "net benefit" in regard to energy industry transactions will be explicitly broadened to ensure that the mere transfer of ownership of energy resources to foreign owners will not pass that test. Together, these policies will ensure that energy developments occur in a slower, more manageable manner, with fewer side-effects and greater net benefits for all Canadians.

3. Target a Canada-U.S. exchange rate of 80 cents or lower

Canada's currency has been trading at levels far above its "fair value" for most of the last three years. This overvaluation has contributed substantially to the deterioration of all non-resource export industries in Canada (including manufacturing, tourism, and other tradeable services). A true fair value for our currency, based on comparisons of purchasing power, unit production costs, and other benchmarks, would be around 80 cents (U.S.) or lower.

The efforts described above to rein in the rampant, unplanned development and foreign takeover of energy extraction and export projects will automatically lead to an immediate and substantial pullback in the Canadian currency — given that speculative financial traders have come to associate (rightly or wrongly) Canada's currency with the prospects of the petroleum industry which has come to dominate our international trade and investment linkages. Merely slowing down and regulating the energy boom will take much of the excess steam out of the loonie. Additional downward pressure on the dollar could be mobilized, if needed, by explicit direction from the federal government to the Bank of Canada that a sustainable value for the currency (consistent with long-run price competitiveness of Canadian non-resource exports) should be taken into account in the setting of the Bank's monetary policy decisions and interventions.

4. A new model for trade negotiations

Whatever the problem, it seems, in Ottawa's view the solution is another free trade agreement. The federal government is pressing hard for new FTAs with Korea, the EU, Colombia, and others. Such agreements would reinforce the lopsided nature of Canada's international commerce: both in terms of quantity (importing more than we export), and quality (exporting resources, importing value-added products and services). The proposed deal with the EU would break new, dangerous ground by further constraining those limited tools of policy intervention (like public procurement) which Canadian governments still possess to stimulate the domestic development of desirable industries and sectors. By their very nature, free trade agreements make it much more difficult to implement pro-active sector-building measures.

The 2010 AFB will immediately stop FTA negotiations with Korea, the EU, and Columbia. In place of more FTAs (with their built-in bias in favour of corporate mobility and privilege, at the expense of democratic economic governance), the federal government will pursue a different sort of trade negotiation with key partners — including those countries, the U.S., and other jurisdictions (such as China, whose massive $30 billion trade surplus with Canada gets bigger every year, and has become a massive drain on employment and incomes here). The main goals of these alternative negotiations will be to find measures that 1) ensure balanced two-way trade, rather than the one-way beggar-thy-neighbour flows that characterize most of our trade relationships; 2) recognize the need and the legitimacy of government policies to promote sectoral development and economic diversity; and 3) impose equal adjustment costs resulting from trade imbalances on all parties (both surplus and deficit nations).

One concrete example of this new sort of trade agreement will be a new North American Auto Pact, which Canada will seek to negotiate with the U.S. and Mexico (in light of the near-death experience of North America's auto industry this year). Instead of the unconstrained race-to-the-bottom which currently describes the global auto industry, the three nations will seek a managed and balanced trade relationship: each country will retain a fair proportional share of continental production and employment, and global automakers will be compelled to allocate production to North America in proportion to their sales here. This approach allows us to combine the benefits of specialization and economies of scale (the theoretical benefits of trade) with the security that comes from having a guaranteed "fair share" of production and employment in desirable industries. Similar approaches could be adopted in other industries, and other bilateral and multilateral relationships.

5. Establish a Canadian Development Bank

To provide financing for the ambitious development programs prepared by the Sector Development Councils, the federal government will create and endow a new publicly-owned economic development bank: the Canadian Development Bank. The Bank's initial capital will be provided through the first two years of the higher corporate income tax collected from the petroleum industry. Then the Bank (like other banks, both commercial and publicly-owned) will leverage that capital into an expanded quantity of loans or other placements in new sector development initiatives that advance the public policy goal of diversifying Canada's exports and stimulating and nurturing desirable innovative industries.

This expansion of public lending capacity will reduce the extent to which key long-term economic development priorities are vulnerable to the cyclical whims of private finance. It also allows for potential projects to be evaluated and funded on the basis of a more broad set of criteria (including an integrated social cost and benefit analysis) than is utilized by private lenders — so long as the Bank itself "breaks even" with its invested capital. The social benefits of a successful program to develop and expand innovative export industries (not to mention the fiscal return to government from that progress) justifies the government's role in this type of targeted lending activity.

Support for sustainable production, green manufacturing, and green skills development

The Alternative Federal Budget fully embraces the imperative of building a sustainable economy. We recognize that the adjustment to sustainability entails significant costs and transition challenges; but there are also many potential upsides and opportunities associated with the

TABLE 17 Canada-EU Trade, Top Ten Products 2008 High-value-added products in bold ($billions)

Top Exports to EU		Top Imports From EU	
Gold	$4.4	Petroleum	$8.2
Diamonds	$2.5	**Pharmaceuticals**	**$5.4**
Petroleum	$2.2	**Motor Vehicles**	**$3.5**
Aircraft	**$1.5**	**Aircraft**	**$2.3**
Uranium	$1.2	**Wine**	**$0.8**
Coal	$1.1	**Wind Generators**	**$0.6**
Iron Ore	$1.0	**Construction Machinery**	**$0.4**
Nickel	$0.8	**Beer**	**$0.3**
Ash	$0.6	**Tractors**	**$0.3**
Aluminum	$0.5	**Turbines**	**$0.3**

SOURCE CAW Research from Industry Canada Strategies site.

greening of our economy. To maximize those upsides, and ease the transition, our sector development strategy pays special attention to the need to stimulate the creation of good green jobs across a range of specific activities.

To that end, the 2010 AFB proposes four specific green jobs initiatives:

- *Sustainable forestry and skills program*: $200 million per year to develop a higher-value-added profile for the Canadian forestry and forestry products sector, implement energy conservation and other sustainable practices, and invest in skills required for sustainable forestry and forestry products production.
- *Extended producer responsibility motor vehicle program*: $300 million per year in investments in motor vehicle recycling, end-of-life conversion, and green motor vehicle components production, self-financed from a new $200-per-vehicle Green Car Levy imposed on all sales of new motor vehicles in Canada (which would raise about $300 million per year).
- *Green manufacturing fund*: In addition to financing for green manufacturing initiatives through the Canadian Development Bank, investments in green energy components, alternative fuel vehicles, and other green manufacturing initiatives will be further supported through a $500 million program to provide additional support (interest-free loans, grants, investment credits, or co-investments) to projects which commercialize green technologies and expand Canada's very small footprint in green manufacturing.
- *National green skills fund:* To support college and on-the-job training in enhancing the capacity of Canadian workers to perform high-level services in green industries (such as green energy systems, insulation and retrofit, green manufacturing, waste amelioration, and others), a $100 million annual green skills program will be established under the umbrella of HRSDC to work in partnership with provincial governments, colleges, trade unions, and other stakeholders.
- *Improve Youth Summer Employment Program:* Canadian youth have been particularly hard hit by the current recession. We need to make sure that they don't sit out their first productive years

waiting in their parents' basement for the job market to improve.

Measured by the size of our exports, Canada's economy is "de-globalizing." Less than 30% of Canada's GDP is currently exported to world markets, compared to 45% in 2000.

It's not just the quantity of exports that's falling — it's their quality, too. Barely one-third of our exports now consist of higher-tech value-added products (down from 55% at the turn of the century). The rest are unprocessed or barely processed natural resources.

Canada traditionally enjoyed a trade surplus (that helped to offset the heavy foreign ownership of our economy). But since 2000 that has deteriorated into a large trade deficit — the largest in our postwar history.

Since earlier in this decade, Canada's manufacturing sector has lost over one-half-million jobs — and the pace of job destruction has accelerated with the economic crisis.

Average labour productivity has fallen significantly in the mining and petroleum industries in Canada this decade. Productivity in manufacturing, on the other hand, is high and continues to grow. Free trade forces, ironically, are leading Canada to relocate resources from manufacturing to mining and petroleum — with a very negative effect on our overall national productivity.

Privatization

Public services

A recent CCPA study shows that public services make a significant and unparalleled contribution to Canadians' standard of living.[1] The study found that Canadian families benefit from public services by an average of about $41,000 or 63% of their income. Even households which earn between $80,000 and $90,000 a year receive a benefit from public services that is equivalent to about half of their income. As one of the study's authors, CCPA research associate Hugh McKenzie, reminds us, "It's the best deal we're ever going to get." He calls it Canada's "quiet bargain."

In this chapter, as in others, the AFB argues that strong and effective public services are essential to addressing the historic economic and environmental challenges that we face. Privatization and contracting-out are neoliberal mechanisms designed to undermine that public sector capacity.

Public services are not under attack because the private sector can deliver them better, although that is the mantra repeated by market ideologues. Public Services are under attack precisely because they are a great deal. Why provide them at relatively low cost on a non-profit basis when there is a potential to make huge profits from them?

When services and infrastructure are publicly owned and operated, they are more efficient, less expensive, of higher quality, and more accountable than when they are privatized. Public control is necessary to ensure that all Canadians benefit equally. Public services reduce inequality, promote stability, and promote economic, social, and environmental security. If unregulated market forces and private sector incursion into the public sector was as effective as its proponents contend, the public sector would not have been the called upon to manage and organize every major challenge of the last 100 years, from the Great Depression to Second World War mobilization, to post-war reconstruction, to the public "stimulus" measures provided to mitigate the effects of the current recession.

Privatization and Private-Public Partnerships (P3s)

Infrastructure spending

While far from the only form of privatization, Private-Public Partnerships (P3s) are the form that is seen as the easiest to get support for from the public. P3s are multi-decade contracts (usually 25 or 30 years in length) that include private sector financing, construction, management, and ownership or operation of vital public services or infrastructure. The main supporters of P3s are investment banks, law firms that organize P3 constortiums, and governments that hope to get re-elected by appearing to look like good fiscal managers. They are not. P3s result in higher costs, lower quality, and loss of public control.

Hidden long-term debt

The long-term financial obligations inherent in P3s are a form of debt which governments try to hide from the public. Government's claim that P3s enable them to build badly needed infrastructure without incurring more debt. This is untrue. The latest year-end Public Accounts published by the B.C. Finance Department, for example, calculates that government's contingencies and contractual obligations to its P3 partners to be more than $50 billion.[2] Although technically the government didn't have to borrow that money, it's still debt. The taxpayers of B.C. still have to pay the P3 provider from public revenue.

The key differences are twofold.

First, P3 consortiums have to borrow money from international investment banks at higher interest rates than the province or the federal government; so, over the 25-to-30-year average span of a P3 contract, it will cost the public much more than it would have had the government borrowed the money directly to finance a traditional design/build contract.[3]

Second, by privatizing debt, governments erode public accountability. The details of private sector contracts with government are kept secret because they become the property of the contractor, not the public. Citizens are not allowed to view the books of their P3 partner, even though they are ultimately obligated to pay for the project. So it is extremely difficult to estimate how much money contracting-out and privatization are actually costing Canadians.

The long term outcomes of privatized, hidden long term debt erode future public policy flexibility. The more P3s that are approved, the more the public service bargain is undermined and the more policy options are straightjacketed. Future governments will inevitably have less flrxibility in the provision of public services.

Experience shows that governments ultimately remain accountable to deliver services, regardless of whether P3 projects or their funders meet their obligations. Government is obligated to provide public services. Business is obligated to make money for its shareholders and its investors, and, as recent experience has shown, won't hesitate to take quick action, including bankruptcy and liquidation, to protect some or all of their investors' finances.

The public always bears a high degree of risk from P3s. There are numerous cases every year where P3s have failed and where the public has been left holding the bag.[4]

Federal government support for P3s

The federal government has supported P3s for over a decade. The current Conservative government has boosted that support, largely through the words and action of federal Finance Minister Jim Flaherty. Flaherty promised that he would set up a Federal P3 organization, PPP Canada, along with funding and policies to encourage provinces and municipalities to adopt P3 solutions for government infrastructure renewal and management — and he has done so.

Greg Melchin, chair of PPP Canada, says the federal government's support for P3s is a tremendous opportunity for private contractors.

PPP Canada intends to reach out to federal departments and lobby for more federal P3 activity.

The Alternate Federal Budget will abolish PPP Canada and replace it with a Canadian organization that will transparently plan and support federal, provincial, and municipal infrastructure development, and will be motivated by the long-term interests of all Canadians, not those of a select group of investors.

Sell-off of government assets

The 2009 Federal Budget re-committed to an ongoing review of its corporate assets. These include federal properties which the government believes could be developed by the private sector, Crown corporations which the government believes compete with the private sector, and other holdings where the government believes that it competes directly with private enterprises, earns income from a property, or performs a commercial activity. The criteria for this review is whether the initial rationale for government ownership is still relevant to what the Harper government believes should be its core responsibilities, their market value, their effectiveness, and the sustainability of their business plans.

Seven government buildings have already been sold, and there are tentative plans to sell 31 more. Canadian embassy buildings are also on the list to be sold. Although the government realized a short-term profit from the sale of the seven buildings, an Informetrica analysis found that they were sold for at least $350 million less than they will actually be worth at the end of the 25-year lease. This is in addition to the 30% of capital costs and contract management costs for which the Canadian public is still responsible, totalling about $165 million.[5]

The government has also put its Atomic Energy of Canada Limited (AECL) CANDU reactor division up or sale to the highest bidder, ensuring the price will be low by publicly calling it a "sinkhole."[6]

The same ideological assumptions that drive P3s also underscore the sale of federal assets. Profits generated by the sales are hailed while the long-term costs for the public are underplayed, misidentified, and hidden.

Privatization by review: Current expenditure review processes

All recent federal governments have undertaken both program and expenditure reviews which include criteria that eliminate public capacity. The 2009 federal Budget included the requirement for on-going Strategic Reviews. According to the government, the (very subjective) criteria for making cuts though this review is whether programs are achieving their intended results, are efficiently managed and are aligned with the priorities of Canadians.

Because the Strategic Review is not done transparently, however, Canadians have no way of knowing if the program cuts that are identified will be in their best interests or not. In the past the Conservatives have made cuts to important areas of environmental enforcement, food inspection, maintenance for arts, and human rights-based programs like the Court Challenges program and the Status of Women. The decision to cut these programs was entirely arbitrary. In its 2009 Budget, the Conservative government used the expenditure review argument to eliminate pay equity in the federal public service.

Privatization of regulatory oversight and enforcement

A poll conducted in the spring of 2009 found that 90% of Canadians believed the Canadian government should do much more to protect the environment and public health and safety. A large majority (83%) of the respondents believed that the people who actually inspect and regulate industries in Canada should work for government agencies, and not for the industries being regulated.[7]

Canadians understand that industry needs to be able to compete, but they believe that safety should come before profits. Putting corporations in charge of public safety is like "putting the fox in charge of the henhouse." It's not a good idea. In order to protect the public interest, Canadians expect their government to enforce strong regulations and standards. Although the Harper government has said it is committed to providing increased regulatory oversight, it is instead systematically reducing and privatizing regulatory oversight. This is not what Canadians want.

For example, in the summer of 2008, the government unveiled a plan to transfer key food inspection functions to companies and downgrade the Canadian Food Inspection Agency to "an oversight role, which would allow industry to implement food safety control programs and manage key risks." Leading food experts say that the plan is a recipe for disaster.[8] Although there are more than 1,000 meat-processing facilities, and thousands of produce, cheese, and other food production facilities, the CFIA employs only about 1,100 food inspectors.[9] The number of food safety scientists has also been falling.[10]

In 1999, rail safety regulations were handed over to the railway companies to monitor themselves through Safety Management Systems (SMS). Since then, rail accident rates have increased.[11] Changes to Canada's air safety regime are following the same pattern.

In 2005, Transport Canada cancelled its air safety national audit program and handed off enforcement and investigation to the airline companies. As long as airline companies have an SMS program where they record the details of their self-regulation measures, government enforcement investigations no longer take place. An Act to institutionalize this relaxed enforcement system has been working its way slowly through Parliament.[12]

The Auditor-General reported that there are not enough trained staff to properly monitor airline SMS reporting.[13] Recent studies show that fewer inspectors, combined with the pressure that airline companies now feel to keep costs low, is a recipe for disaster.[14]

Contracting-Out, marginal jobs and temporary staffing agencies

Since the mid-1990s, the government has also been privatizing both its staffing operations and growing numbers of its staff. Using temporary staffing agencies, the government is increasingly depending on a marginalized temporary workforce. At the same time, it is sidestepping legislated obligations around official languages and equitable hiring practices, sending a message to thousands of potential new public sector recruits that they are regarded as nothing more than replaceable parts of a machine, deserving no expectation of job security or career advancement.[15] Workers don't benefit from contracting-out. They receive less pay and benefits, if any at all.

We estimate that in 2009–10 the government plans to spend as much as 11.3 billion for contracted-out work and services.[16] Almost $7.9 billion is earmarked for professional and special services alone. Last year, departments and agencies spent $7.5 billion on professional and special services, mostly in the National Capital Region. This includes both multinational consulting firms like Deloitte, CGI, and IBM, as well as over 100 temp help agencies and over 200 IT firms.[17]

The privatization of Internet technology support services is especially severe. An examination of federal public sector computer services outsourcing in the summer of 2009 showed that "The value of contracts signed for CS outsourcing has risen dramatically from $250 million a year in 2005–06 up 93% to $482 million only three years later. Actual spending on contracts has also jumped substantially from a lower plateau of $520 million before 2006 to a new higher plateau of $700 million afterwards."[18]

AFB budget actions

The AFB is committed to upholding Canada's "quiet bargain" between its citizens and its public services. The following steps will help restore balance to that bargain, and ensure that Canadians continue to receive the "best deal they are ever going to get."

1. PPP Canada, the Crown corporation created to promote P3s in the municipal, provincial and federal sectors, will be converted into a Public Assets Office which will:

- be dedicated to assisting in the creation of good green jobs, training and infrastructure, and immediately stop forcing municipalities, provinces, and territories to use P3s for their infrastructure projects;
- have a governance structure which reflects the diversity of the Canadian public and is accountable to the public through Parliament; and
- work internally with departments and agencies and externally with other levels of government to examine infrastructure priorities, green infrastructure practices, and comprehensive investment strategies; and
- immediately cancel all planned federal P3 projects.

2. A transparent Program Review Process will be set up that will:

- explore how programs can be improved to reduce poverty, create good green jobs, training and infrastructure, and support enforceable regulations that protect people;
- examine the costs of program improvements and recommend the amount and kind of tax and other revenue collection initiatives and changes that might be undertaken to meet the identified need;
- seriously examine the staffing, training and retention strategies required to meet program goals;
- examine the growing costs for federal government contracting-out and compare them to the costs of public delivery;
- ensure that Canadian workers employed by the federal government are treated equally, and that temporary staffing agencies are used only for short-term unanticipated work;
- enact legislation similar or superior to recent Ontario legislation so as to protect all temporary workers employed by the federal government;
- ensure that the budgetary process is transparent, accountable, and democratic, and that the Auditor-General, the Parliamentary Budget Officer, and the people of Canada understand the relationship between the programs that are wanted and needed and the revenues that the government receives; and
- implement full-cost-accrual accounting through the federal government estimates and procurement process that will reflect the value of government assets on public books and the long-term costs of leasing properties to show the actual deficit.

It is anticipated that a review of existing contracting-out practices will result in generating significant future savings, as well as more accountable and citizen-centred public services. Those savings can then be redirected into programs and projects that are in the broader public interest.

3. The AFB supports strong public regulatory oversight and enforcement. To that end, it will:

- review Canada's regulatory regime and ensure that it protects the interests of Canadians and adheres to the precautionary principle; and
- ensure that human and support resources are in place for pro-active and precautionary monitoring and enforcement of federal regulations by public officials.

Notes

1 McKenzie Hugh, Shillington Richard *A Quiet Bargain: Who Benefits from Public Spending*, CCPA April 2009

2 $1 billion of this is for the Sea to Sky Highway alone not to mention other B.C. P3 obligations, McInnis Craig, *P3 financing wins favour by limiting political risk*, Vancouver Sun October 28, 2009).

3 The Sea to Sky Highway would have cost taxpayers $300. million less over the life of the 25 year contract if the government had chosen the traditional contracting method as opposed to a P3. McInnis Craig, P3 financing wins favour by limiting political risk, *Vancouver Sun*, October 28, 2009)

4 Mehra Natalie, *Flawed, Failed and Abandoned*, Ontario Health Coalition March 2005

5 McCracken Michael, Informetrica, Testimony to the Standing Committee on Government Operation and Estimates, December 5, 2007

6 Cheadle Bruce Federal Government Formally Offers AECL Reactor Division to Bidders, Canadian Press Dec 17, 2009

7 The question was: "Please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each of the following statements about government regulation of business. "The Canadian government needs to do much more to protect our environment, health and safety" and "The people who actually inspect and regulate industries in Canada should work for government agencies, NOT for the industries themselves."

8 Schmidt Sarah, Allowing food industry to police itself dangerous, experts say, Ottawa Citizen July 12 2008 Michael Hanson a senior scientist with Consumers Union and publisher of Consumer Reports said that "They're moving towards the U.S. model, where the inspectors don't actually do the inspection, they just oversee and the companies actually do the inspection. That's a really dangerous thing."

9 Kingston Bob, Spread too thin, Citizen Special, Ottawa Citizen Sept 18, 2008

10 The blueprint includes a plan to shift away from a "full-time presence" of veterinarians at abattoirs to an "oversight role, allowing industry to implement food safety control programs and to manage key risks," outlined in a November, 2007 cabinet document obtained last July by Canwest News Service. in Schmidt Sarah, Science Union Calls for Quick Action on Food Inspection Services, Montreal Gazette, Nov 02, 08")

11 (One indicator of rail transportation safety in Canada is the main-track accident rate. This rate increased from 2.6 accidents per million main-track train-miles in 2006 to 3.2 in 2007. Transportation Safety Board Annual Report to Parliament 2007 2008 pg 17)

12 An Act to amend the Aeronautics Act and to make consequential amendments to other acts

13 "Human resources planning is particularly critical given that the number of employees has decreased by 8 percent in the past five years (Exhibit 3.7). Departing employees take with them the highly specialized knowledge, skills, and abilities they gained on the job. Hiring, however, has not increased. Some regions submitted estimates showing increased resource requirements when small air operators and related maintenance organizations begin implementing SMS.... We noted that about 15 percent of inspectors and engineers had not completed the required recurrent training; moreover, we noted that another 15 percent had not completed their initial training. These staff, therefore, do not meet the requirements for exercising all their job responsibilities, thus contravening the Department's own training policies." (Report of the Auditor General of Canada to the House of Commons, Chapter 3, *Oversight of Air Transportation Safety — Transport Canada*, May 2008

14 The study has just been completed by Linda Duxbury of the Sprott School of Business at Carleton University. The survey interviewed 276 pilots working as inspectors at Transport Canada and the Transportation Safety Board of Canada. Schmidt Sarah, Forecast shortage of inspectors puts flying public at risk, December 1, 2008. also "TCASMS has very different features and approached than that recommended by ICAO and being implemented by other developed countries. Canada's approach delegates more to industry and places more oversight and enforcement powers in the hands of industry than any other jurisdiction in the world." Implementation of the Transport Canada Aviation Safety Management System : What's Not Right and Why Change is Necessary, Union of Canadian Transport Employees, September 28, 2009

15 "The government became reliant on temp agencies after the downsizing of public service in the 1990s when more than

50,000 jobs were cut, but the work wasn't. A key attraction is the cost of temp workers. Departments can get workers fast, try them and get rid of them if they don't work out or the work dries up. Most importantly, government doesn't have to pay pensions and benefits." Kathryn May Ontario law rewrites rules for temp firms, The Ottawa Citizen November 6, 2009

16 The government estimates that the major areas where contracting for services in the federal public services occur are in Professional, Special, Purchased, Repair Maintenance and Information Services. In 2007–08 this spending amounted to $11.3 B. This amount is based on information from the Main Estimates; utilizing a formula formerly employed by the Federal Treasury Board that identifies Contracting Out costs see Contracting for Services An Overview TBS Canada April 11, 1994.

17 Kathryn May Ontario law rewrites rules for temp firms, The Ottawa Citizen November 6, 2009

18 MacDonald David Increasing Cost of CS Outsourcing at the Federal Government, Professional Institute of the Public Service of Canada, Sept 2009

Acknowledgements

From its beginnings, the fundamental premise of Alternative Federal Budget is that budgets are about choices and choices reflect the values and priorities of those who make them.

The AFB starts from a set of social justice values — human dignity and freedom, fairness, equality, environmental sustainability and the public good-embraced by representatives of a broad spectrum of civil society organizations: labour, environment, anti-poverty, church, students, teachers, education and health care, cultural, social development, farm, child development, women, international cooperation, disability, Aboriginal, think tanks, etc.

AFB participants then proceed to collectively develop a set of fiscal policy measures that reflect these values, and create a sophisticated and workable budgetary framework within which they are met. This framework acknowledges political and economic realities but nevertheless produces a result that differs dramatically from the federal government's budget.

The Alternative Federal Budget is a "what if" exercise — what a government could do if it were truly committed to an economic, social and environmental agenda that reflects the values of the large majority of Canadians — as opposed to the interests of a privileged minority. It demonstrates in a concrete and compelling way that another world really is possible. The AFB is also an exercise in economic literacy — to demythologize budget making. It is an exercise in public accountability. And finally, it is a vehicle for building policy consensus amongst progressive civil society organizations and providing the policy fuel for popular mobilization.

The AFB's credibility speaks volumes about what can be achieved by a dedicated group of volunteers working together far away from the ivory and glass towers of the government and corporate worlds. We would like to acknowledge the very valuable financial assistance provided by the Canadian Labour Congress, the Canadian Auto Workers, the Canadian Union of Public Employees, the Canadian Union of Postal Workers, the National Union of Provincial and General Employees, the Public Service Alliance of Canada, the Communications, Energy and Paperworkers Union, and the United Steelworkers.

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