Canadian Centre
for Policy Alternatives

Alternative Federal Budget 2011

Rethink, Rebuild, Renew.

A Post-Recession Recovery Plan

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Introduction

Three years ago, the global economy collapsed into the worst recession since the Great Depression, forever changing the world as we know it.

At the time, citizens everywhere turned to their governments for immediate action to address the crisis. Those governments that moved quickly with stimulus investments and corporate bailouts — including Canada — incurred short-term fiscal deficits, but staved off an even deeper downturn and spared their citizens from a harsher fate.

The question of what comes next is the focus of this year's Alternative Federal Budget. It draws the best ideas from a broad cross-section of civil society to ensure that Canada will not only make it through its current fragile economic recovery, but move beyond the crisis into a more sustainable way of doing business.

AFB 2011 presents a comprehensive recovery plan designed to:

- get Canadians working in good jobs again;
- reduce record-high income inequality, strengthen Canada's middle class, and improve supports for Canada's poor and most vulnerable;
- protect public programs that all Canadians rely on — including public health care and public pensions;
- manage Canada's debt-to-GDP ratio without vital public program cuts;
- get serious about reducing greenhouse gas emissions; and
- launch a multi-pronged initiative to expand high value-added production in key sectors.

The AFB 2011 begins with a reckoning: There is no going back to the old way of doing things.

The global meltdown helped discredit a free-market system where governments turned a blind eye to lax regulations and let their citizens bear all the risks of a wild-west economy. Citizens around the world are still paying the price for that failed experiment.

Despite the rosy optimism of last year's green shoots of economic recovery and the ensuing political puffery that Canada had performed better than other countries, Canada's domestic economy remains shaken to the core.

Canada's GDP growth is tepid, kept alive by government and consumer spending while business investors remain skittish bystanders. It's time to get real.

Today, two years after the recession hit Canada, the pressing challenge for our federal government is still jobs. Too many Canadians remain jobless. Efforts to date have not been effective enough. Creation of full-time jobs remains Job One and is the first element of the AFB 2011 recovery plan.

About a year after recession struck Canada, the federal and provincial governments collaborated in an unprecedented effort to coordinate a nationwide stimulus program to save and create jobs during the worst of the global economic meltdown. The federal response — Canada's Economic Action Plan — continues to be trumpeted by the Harper government as a wild success. It did help some Canadians keep the lights on while the private sector sat things out and prevented Canada sliding into a deeper recession. But it arrived too little, too late, to spare hundreds of thousands of Canadians from unemployment.

At the peak of Canada's recession in mid-2009, more than 800,000 Canadians relied on Employment Insurance (EI) for support. Many more were turned away, left to fend for themselves by outdated EI rules that disqualify too many unemployed from accessing their own national insurance system in times of trouble. AFB 2011 improves Canada's EI program so that it truly serves as insurance for workers who lose their job.

Today there are still 1.4 million unemployed Canadians. The national unemployment rate in January 2011 stood at 7.8%, down from the recession peak of 8.6%. While private-sector forecasters expect unemployment to be 7.7% in 2011, TD Economics predicts unemployment rates as high as 8.1%.

Despite plans to wind down stimulus spending in 2011, the federal government has yet to resolve the ongoing problem of a private sector not yet ready to create jobs of its own.

Canada slid into recession in 2008 after sharp declines in business investment and exports — the traditional engines of Canadian economic growth. However, Canada's economic recovery — such as it is — has not come from these sectors.

Instead, it can be credited to two key players: consumers and governments. Despite recession, Canadian consumer spending remained strong, due especially to a short-lived housing boom and driven in part by record-high household debt (totalling $1.41 trillion) that Bank of Canada Governor Mark Carney warns is unsustainable.

Both consumer and government stimulus spending were financed through increased indebtedness. In contrast, Canadian corporations paid off their own debt during the recession and have yet to re-invest in the economy and in job creation.

Without private-sector investment in good full-time jobs, Canada's economy will continue to be fragile. That leaves government as the only actor powerful enough to keep Canada's economic engine rumbling. AFB 2011 unleashes an investment plan that will create at its peak almost 300,000 jobs.

But it's not just the Canadian economy that is stuck in neutral; much of the world economy is still in bad shape.

The International Monetary Fund (IMF) calls the global recovery "unbalanced" and "fragile". Nobel prize-winning economist Paul Krugman warns that the world's advanced economies "seem set to experience a prolonged period — maybe even a lost decade — of weak growth, high unemployment and low interest rates."

While Canadians struggle to recover, an elite few have proven to be recession-proof: Canada's 100 best-paid CEOs breezed through the peak of the recession in 2009 with an average $6.6 million in compensation. That's 155 times more than what a Canadian earning the average wage of $42,988 earns.

In fact, the wealthiest Canadians haven't enjoyed this much income since the 1920s. The richer the Canadian, the bigger the bounty. The richest 1% of Canadians doubled their share of income between the late 1970s and 2007; the richest 0.01% quintupled their share. Meanwhile, 80% of Canadian families with children earn a smaller share of income today than they did a generation ago. Average wages in Canada have remained stagnant for about 30 years.

The result is an anxious Canadian middle class — a broad swath of men and women who worry about losing their jobs, about being one or two paycheques away from poverty, about their ability to afford retirement, and about their children's future prospects.

The most recent poverty statistics for Canada were captured before the recession, in 2007. According to those numbers, one 1 in 10 Canadians — and 1 in 4 Aboriginals — lived in poverty. The recession has certainly exacerbated the problem. We know from past recessions that income inequality worsens during tough economic times, so Canadians can fully expect the gap between the rich and the rest of us to grow.

Income inequality is emerging as an unshakeable political problem in search of leadership. AFB 2011 implements a range of initiatives to redress this issue.

To help keep a lid on growing income inequality in Canada, AFB 2011 implements a goodwill premium on the richest Canadians. This Legacy Tax represents a new federal tax rate of 32% on incomes over $250,000 and a 35% tax on incomes over $750,000. The AFB also closes tax loopholes for exercised stock options and capital gains, which will recapture needed revenues from those in the strongest position to contribute to our collective well-being.

AFB 2011 gets Canada's federal government back into the business of poverty reduction, helps provinces that have already committed to reducing poverty, and brings on board those provinces that haven't yet implemented a plan. The AFB also introduces funding for new affordable housing stock. This addresses the number one reason most Canadians find themselves living beyond their means and taking on record-high household debt.

Last year's early signs of economic recovery emboldened some (including Canada's Prime Minister) to press for an austerity agenda to cut public services. However, signs that the domestic recovery is fragile, and the widespread social unrest that austerity plans unleashed in Europe, suggest that wading into this territory is economically risky and politically dangerous.

As reality sets in, it's becoming increasingly obvious that clearer thinking is in order. Therefore, the AFB 2011 recovery plan protects public programs from the political lure of indiscriminate cutbacks that leave Canadians with fewer public services and bigger user fees. It also introduces a national early learning and child care program that helps keep Canadians working and provides the best early start for our children.

AFB 2011 proposes a three-year spending program. It costs out a collaborative social and physical infrastructure program to help keeps jobs alive until the private sector does its part, and strengthens Canada's public programs and infrastructure such as roads, bridges, water mains and public buildings. These strategic investments have the upside of creating jobs, raising productivity and driving future GDP growth. During the darkest moments of the recession, all three levels of government proved they could work together in the best interests of Canadians. AFB 2011 promotes a collaborative process to help Canada move beyond the crisis.

AFB 2011 also launches a plan to reverse the regression of Canada's economy to raw resource (mainly oil) exporter status, and enhance value-added production and investment in key manufacturing and service sectors. It includes investment incentives, new controls on foreign investment, and new trade models.

The AFB 2011 also focuses on the government's deficit, but does so in a sustainable way. Given the tenuous nature of global economic recovery and the irresponsible corporate tax cuts both now and in the future, Finance Minister Jim Flaherty's promise to wipe out the federal deficit by 2015–16 may prove fanciful at best, harmful at worst.

Since Spring 2010, Canada's economic recovery has been sluggish. After adjusting for population growth, Canada's per-capita expansion (at an annualized 0.9 percent) was the slowest of any G7 economy during the second and third quarters of 2010 — worse even than Italy and the still-depressed U.S.

While in the past the domestic economy has recovered from recessions as a result of increased exports to the United States, the Canadian economy faces a weak American economy, little export growth and slow related employment growth.

In other words, there will be no American post-recession coattails to ride on in 2011. In fact, the consensus among mainstream Canadian economists is increasingly one of slower growth for at least the next five years.

Despite these projections, the Harper government remains steadfast in its plan to cut taxes by a total of $220 billion between 2007 and 2013 — which will likely continue the growing gap between Canada's wealthy and the rest of us, at a time when revenues are sorely needed to maintain cherished public programs such as health care, education, rebuilding outdated and aging infrastructure, and investing in a valued-added green economy.

The Liberals and NDP both oppose a continuation of the Harper corporate tax cut agenda when there is such need for public investment. A KPMG study cites Canada as the second-most tax competitive nation in the world, behind Mexico. Since there is no significant evidence that a decade of corporate tax cuts has led to increased job-creating business investment, it begs the question: Is this a competition we really need to win?

To help tackle the fiscal deficit, AFB 2011 restores the federal corporate income tax rate to 21% — its level in 2008 — instead of further cutting corporate taxes to 15%, which the current government plans to do. The AFB also eliminates tax loopholes for capital gains and corporate stock options, so this investment income is taxed at the same rate as employment income. And it introduces a tax rate of 28% on the highly profitable oil and gas industry to compensate for low royalty rates and declining tax rates in this sector.

By all accounts, taxation is fast becoming a make-or-break issue for this year's federal budget, and Canadians may find themselves heading to the voting booth once again. AFB 2011 puts forward an alternative that gives Canadians something to vote for (rather than against).

After several years of economic and political turmoil, Canadians have been through enough. They want good, collaborative governance. They sought it two years ago, when they endorsed government decisions to enter into deficit with public spending to save the economy. Recession may have shaken Canadians' confidence in the economy, but the expectation that our governments are elected to act in the best interests of the people has not wavered.

As the global economy inches toward economic recovery, neoliberal governments the world over are facing citizen resistance to efforts to simply press the reset button and continue supporting an agenda that puts the elite few first and the majority of people last. Here in Canada, as the Harper government experiences deep resistance to its own plan to cut corporate taxes with no guarantee of protecting public programs, the time for a re-think has clearly arrived. There is no going back to the old way of doing things. AFB 2011 lays down a plan that is proactive, do-able and sustainable. It looks beyond the crisis — the chief task for all political parties as they consider their position on what is turning out to be an election lightning rod: Canada's 2011–12 federal budget.

Macroeconomic and Fiscal Framework

Introduction

It's a year and a quarter into the "recovery", and Canadian economic growth is losing steam. As the country enters 2011 and stimulus spending winds down, the precursors for private-sector growth are much weaker than they were after previous recessions. There is only a weak recovery in exports to the United States, as the American economy is languishing in a self-created deleveraging crisis that will likely drag on for years.

Public-sector job creation, driven by counter-cyclical stimulus spending, remains the one bright spot, largely keeping pace with Canada's growing working-age population (defined as people over 15 years of age by Statistics Canada's Labour Force Survey). But that source of job-market strength, and the overall economy, is at risk, as the federal government (and many provinces) switches to austerity mode and promises to cancel stimulus efforts that have been so important to Canada's halting recovery.

Canada's private-sector job creation has lagged significantly behind both public-sector employment and growth in the working-age population. Despite some deceiving drops in the official unemployment rate — which mostly reflect the withdrawal of young Canadians from the labour market — private-sector job creation has been stagnant since mid-2010. Today, nowhere near enough new jobs are being created to absorb the growth in Canada's working-age population. Those jobs that have been created show a marked shift away from permanent full-time employment toward temporary and part-time work.

Despite these challenges, the federal government has chosen 2011 as the year to cut total program spending, thereby pulling the rug out from under what the finance minister himself describes as a "fragile recovery." His leap of faith is that the private sector will roar back to life despite its lacklustre performance to date.

The 2011 Alternative Federal Budget (AFB) seeks to move beyond stimulus and toward a more sustainable future. Instead of continuing tax cuts — especially for corporations — and downsizing social programs that Canadians value and need, the AFB focuses on building strong foundations for sustainable economic growth that will benefit all Canadians.

FIGURE 1 **G7 GDP growth comparisons, 2nd and 3rd quarter of 2010, annualized rates (%)**

	GDP Growth	GDP per Capita Growth
Germany	6.1	6.1
U.K.	3.9	3.2
Japan	3.7	3.9
France	2.1	1.6
U.S.	2.1	1.1
Canada	1.7	0.9
Italy	1.5	1.4

SOURCE Author's compilation from OECD Economic Outlook database

A Year of "Recovery"

Canada emerged from the recession in the third quarter of 2009. The economy posted annualized real GDP growth rates of 4.3% and 5.3% respectively in the fourth quarter of 2009 and first quarter of 2010. Supporting this initially robust growth spurt was strong spending on consumer goods and services (especially on housing) and government expenditures. In contrast, the rebound in exports and business investment — the two traditional drivers of private-sector growth in Canada — was underwhelming.

Even this growth, however, was short-lived, as real exports declined in the third quarter of 2010. The strong Canadian dollar, now dancing around parity with the American greenback, has led to robust imports. Government expenditures that have been critical in supporting Canadian GDP through the downturn have flat-lined, as stimulus spending in 2010 turns to austerity in 2011.

It's worth noting that the drivers of GDP growth appear less sustainable. In previous Canadian recoveries, exports, primarily to the U.S., have been Canada's lifeline. Even if Canadian consumers fared poorly, our southern neighbour was always willing to buy more of our exported wares. In 1991 this was no different, as exports rose by $17 billion ($2002) over the first five post-recession quarters. Imports rose an equivalent amount of $16 billion ($2002) over the same period.

Contrast that performance to what we're seeing today. Instead of imports and exports balancing each other out, imports have risen $63 billion ($2002) while exports have only risen $21 billion ($2002) over the first five quarters. Exports have recovered barely one-quarter of their pre-recession levels, and remained stagnant during the last half of 2010. Imports, on the other hand, have rebounded smartly, hitting their pre-recession level by the third quarter of 2010. The result is a large trade deficit that saps purchasing power from Canada's economy. Canada's current account deficit is currently running at an annual rate of $65 billion per year. The high Canadian dollar has put a damper on Canadian export growth, a traditional mainstay of Canadian recoveries.

The pace of the Canadian recovery has fallen sharply since the start of 2010, but that is not the case for all countries.[1] In fact, comparative data from the OECD indicate that Canadian growth during the second and third quarters of 2010 was the second-weakest of all the G7 economies. Growth was three times faster in Germany, and twice as fast in the U.K. and Japan.

Moreover, even this comparison is skewed in Canada's favour, because Canada's rate of population growth is the second-fastest (next to the U.S.) of any G7 economy. Therefore, Canadian economic growth needs to be faster than other countries to preserve equivalent levels of per-capita GDP. After adjusting for population growth, Canada's per capita expansion (at an annualized 0.9 percent) was the slowest of any G7 economy during the second and third quarters of 2010 — worse than Italy and the still-depressed U.S.

The Jobs Front

The Canadian media made much of the news that by December 2010, Canada had regained all the jobs it lost during the recession. This is a tremendously misleading "claim to fame." In the past two years, as in almost any period, the working-age population has grown (by about 1.5%, or 200,000 people, per year) yet the number of available jobs remains at its mid-2008 level. The result is significantly higher unemployment, though the headcount of jobs has returned to pre-recession levels.

The gradual decline in the official unemployment rate to 7.6% by the end of 2010 may suggest that more new jobs are available. Unfortunately, what's driven the decline is a drop in labour force participation. Young Canadians in particular simply stopped looking for jobs. Sending young Canadians to live in their parent's basement can hardly be considered a solid foundation for future growth.

Statistics Canada does examine the number of Canadians who are underemployed or who have simply quit looking for a job even though they would take one if it was offered to them.[2] This "Supplementary Unemployment Rate" is higher than the official unemployment rate by approximately 2%. This means that "real" unemployment may be closer to 9.6% instead of the official 7.6% (as of December 2010). In concrete job terms, it means that an additional 370,000 Canadians are either unemployed or have given up looking for a job, even though they want to work. This would be on top of the 1.4 million Canadians included in the official unemployment rate.

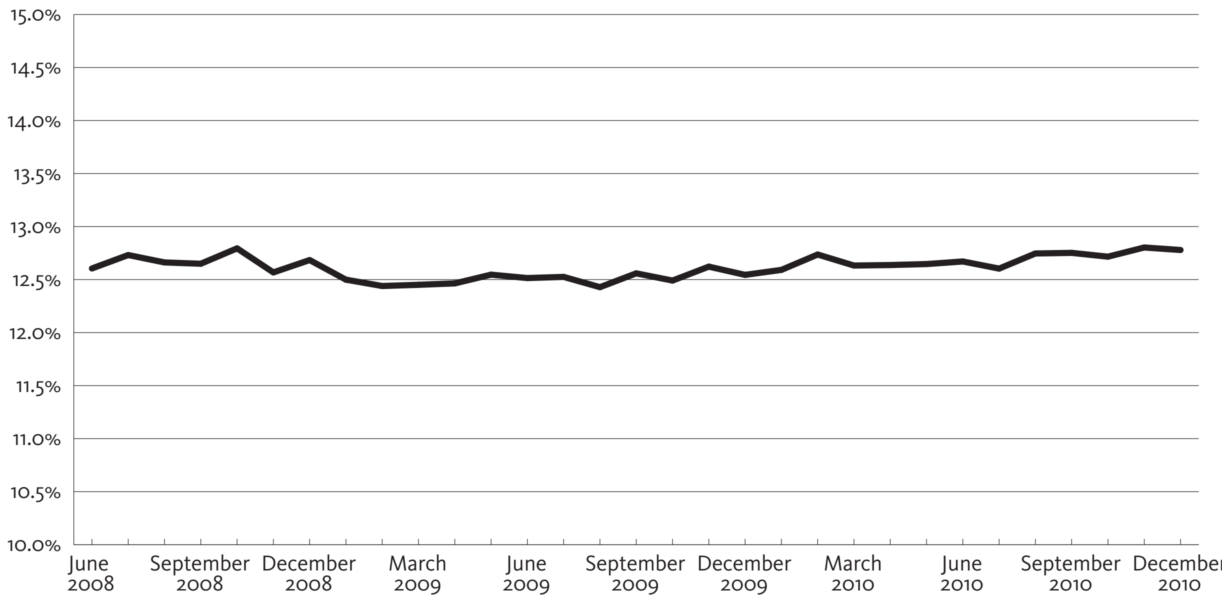
At times of declining labour force participation, it can be illuminating to examine employment as a proportion of the working-age population (instead of focusing on official unemployment as a share of the labour force). The decline in the employment rate accounts for those Canadians who have left the labour force. For all sectors, Canada's employment rate fell from a seasonally adjusted, pre-recession peak of 63.9% in February 2008, to a low of 61.4% by summer 2009. By the end of 2010, the employment rate had clawed its way back to only 61.8% — repairing less than one-fifth of the damage inflicted by the recession. In this context, the claim that the labour market has regained its pre-recession peak is nonsense.

The evolution in the employment rate has both private and public components. Public-sector employment (Figure 2), has had a slow but steady increase throughout the recession, although nothing like the swings experienced by private-sector employment. Since the start of 2010, public-sector jobs as a proportion of the working population have actually increased slightly. What this means is that governments, through counter-cyclical funding during and after the recession, have not cut jobs, but have expanded them to keep pace with population growth. Which incidentally is exactly what governments should be doing — stepping in when the private sector gets hit hard, to keep the economy going. It's noteworthy that most of the government jobs were for health care workers and other social services jobs, not in government bureaucracies.

The picture for the private sector is less pretty. Prior to the recession (as shown in Figure 3), private-sector jobs employed approximately 41% of Canada's working-age population. This percentage dropped to under 39% by October 2009. The private sector did recover some of its job losses in early 2010, but despite these small increases the private sector now only employs 39.4% of the working-age population. If the private sector employed 41% of the population as it did prior to the recession, an additional 400,000 Canadians would have private-sector jobs.

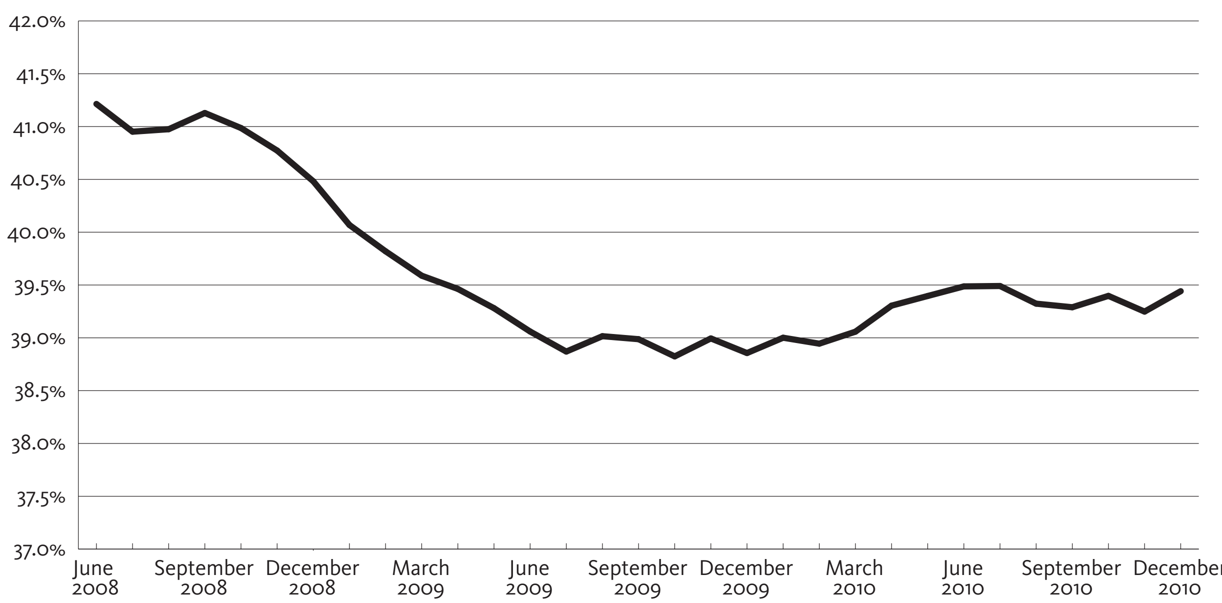
During the 2008–09 recession, Canadians who lost jobs sometimes turned to self-identify-

FIGURE 2 **Public-sector employment as a percentage of the working-age population**



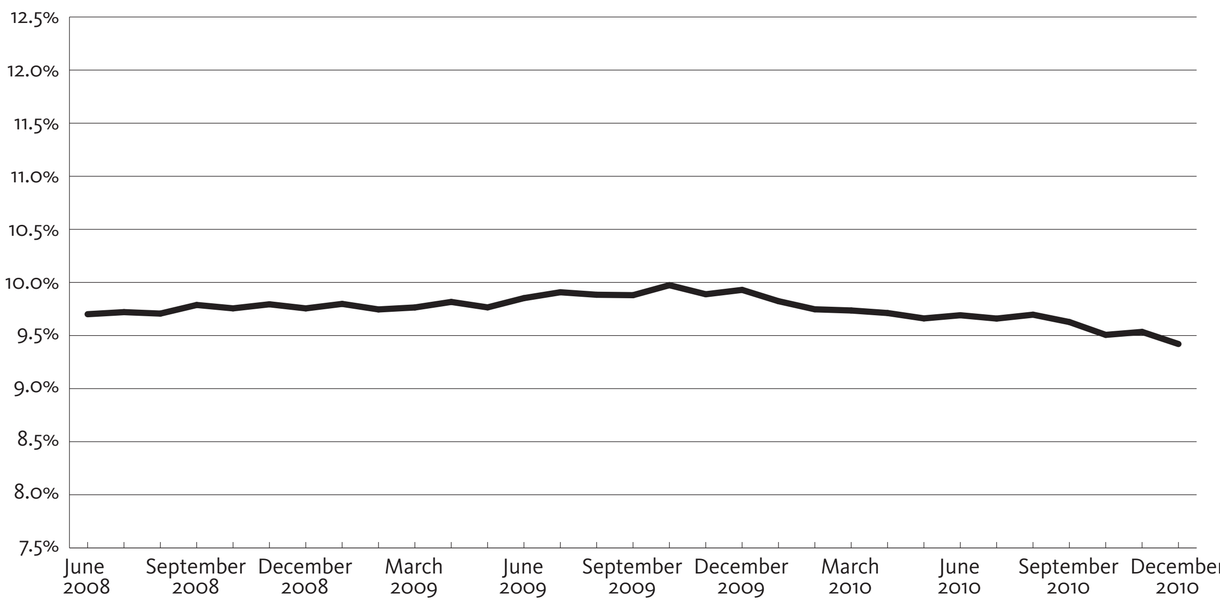
SOURCE Labour Force Survey and Author's Calculations

FIGURE 3 **Private-sector employees as a percentage of the working-age population**



SOURCE Labour Force Survey and Author's Calculations

FIGURE 4 **Self-employed as a proportion of the working-age population**



SOURCE Labour Force Survey and Author's Calculations

FIGURE 5 **Forms of employment by gender (as a percentage of total employment by gender)**

	1997	2007	2010
Men Permanent	70.9%	70.9%	70.1%
Men Temporary	8.8%	10.0%	10.5%
Women Permanent	76.6%	76.6%	76.5%
Women Temporary	10.1%	12.0%	12.1%

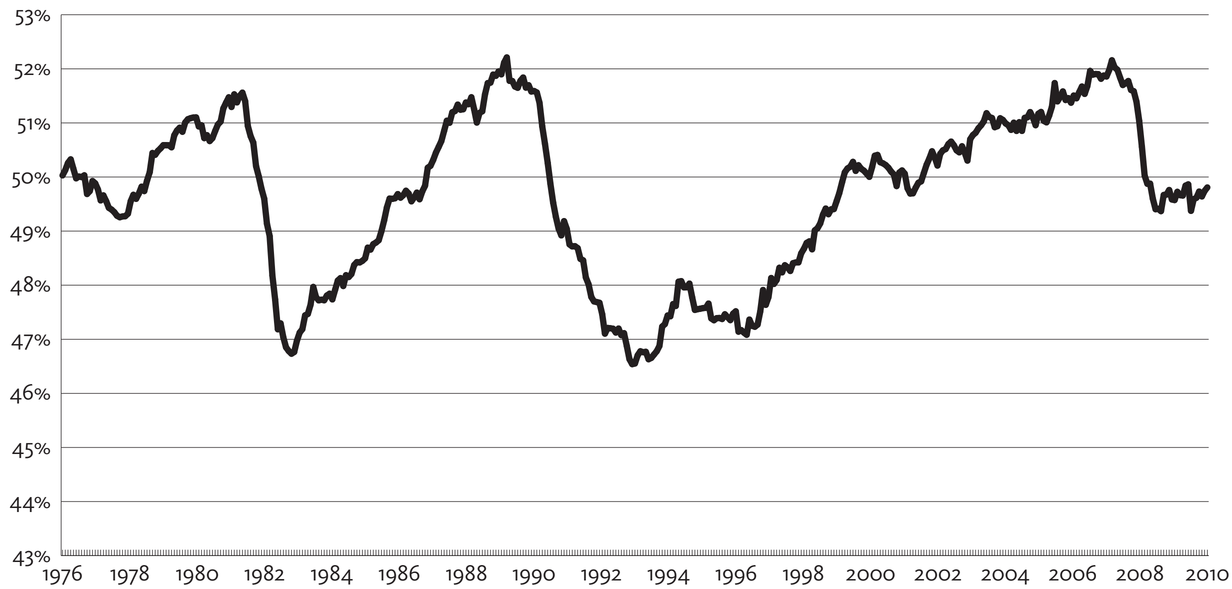
SOURCE Statistics Canada, Labour Force Survey

ing as "Self-Employed" instead of unemployed. Industrious men and women decided to hang up a shingle and print business cards. Self-employment rose slightly through 2009 (Figure 4), although by December 2010 running their own business had lost its allure for many people, and the self-employment rate declined to slightly below pre-recession levels.

To take a slightly different perspective, the proportion of Canadians working in temporary employment, whether full time or part time, has been on the rise since 2007. Men have seen a 0.5% increase in temporary work today as compared to before the recession. Women have seen a 0.1% increase over the same period in temporary employment. For both men and women, the percentage of permanent jobs has declined since the recession. Since full-time jobs can be temporary — that is, they are time-limited — the full-time jobs that have returned are not as stable.

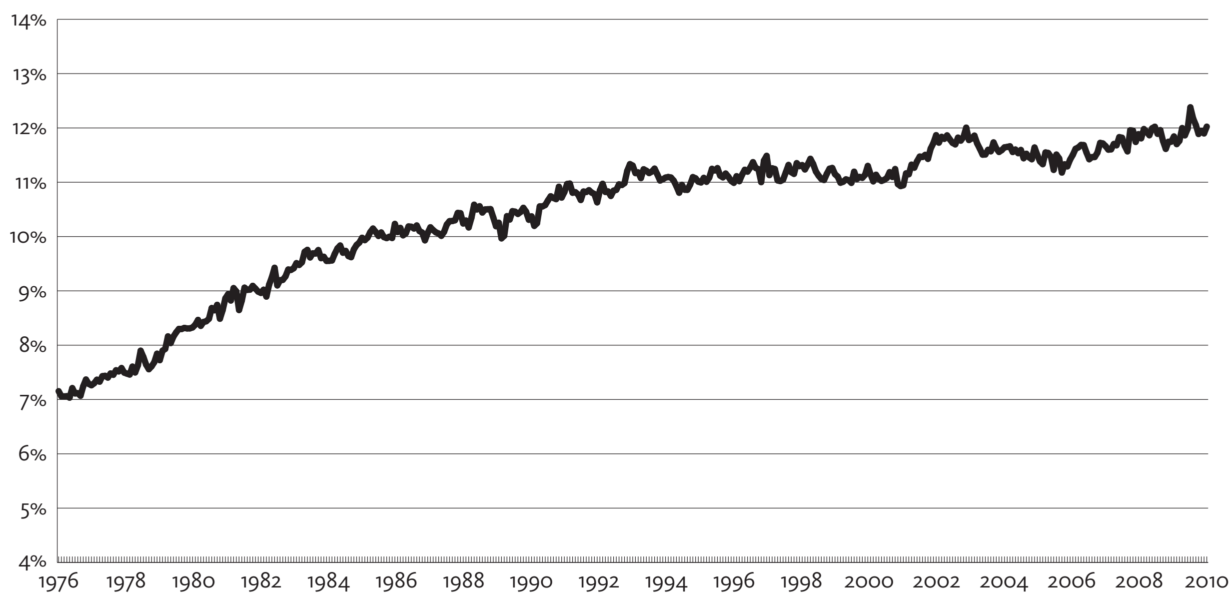
While private-sector job creation has not kept pace with population growth, the quality of the jobs that have been created has also deteriorated. Figure 6 shows the percentage of the working- age population that has a full-time job. The previous two recessions (in 1981 and 1991) are evident in the dramatic decline in so-called "good jobs", or full-time jobs that help to sustain

FIGURE 6 Full-time jobs as a percentage of the working-age population



SOURCE Labour Force Survey and Author's Calculations

FIGURE 7 Part time jobs as a percentage of the Working Age Population



SOURCE Labour Force Survey and Author's Calculations

Canadian families. The loss of full time jobs also means the rise of more precarious work. Employers gain more leverage over employees who may work in less permanent working situations because they have little choice.

The 2008 recession also resulted in a predictable drop in the percentage of Canadians with a full-time job. Thankfully, the decline in full-time jobs was not as large as in the 1991 recession. However, having reached the inflection point in the loss of full-time jobs, Canada is not seeing the rapid comeback of the 1980s. Instead, the drawn-out double-dip job recovery of the early 1990s seems a more likely prospect.

While recession hits full-time jobs particularly hard, it is striking to compare the same measure for part-time jobs (Figure 7). Instead of seeing large swings in employment, part-time work is completely unaffected by recessions in Canada. The difference between Figure 6 and Figure 7 shows that full-time positions were hit harder in the past three Canadian recessions.

The longer-term trend is also clear: part-time employment is becoming a more common feature of Canada's labour landscape. Approximately 12% of Canada's working age population is employed that way, up from only 7% in the mid-1970s.

Put together, the picture is of weak job creation in the private sector — and so far in this recession, the jobs created have not been full-time (in Figure 6). The public sector has been much more consistent by slightly increasing its proportion of employed Canadians throughout the recession. However, the dwindling of stimulus spending in 2011 is sure to undermine the public sector's contribution to the stability of Canadian labour markets.

Macroeconomic Base Case

The sluggish recovery, particularly in private-job creation, is painted against the backdrop of federal program spending actually declining in 2011–12 as a result of the end of stimulus programs. The $3.8-billion decline projected for 2011–12 would be the second biggest spending decline (in dollars) since the 1950s, although on a GDP basis the fall is less dramatic.

In fact, such a large withdrawal of federal funds from the economy, and the likely pull-back of the matching funding from the provinces, could lead to job losses of between 63,000 to 90,000 jobs.[3] If the private sector regains its footing, it may make up this shortfall. That is what private-sector economists are predicting, as unemployment is not expected to increase that amount. However, in a high-unemployment environment, it seems unwise to guarantee job losses with only the hope that the beaten-down private sector will fill the void.

Figure 8 represents the base case as reflected in the Update of Economic and Fiscal Projections of October 2010. The large deficits of 2009 and 2010 under the government's plan are slowly whittled down to $11.5 billion by 2013, with the debt-to-GDP peaking at 35.3% in 2011 and then declining to 33.7% by the third year. The private sector predicts that 2011 will continue to experience weak nominal GDP growth of only 4.1% as unemployment averages 7.7% for the year.

Government deficits persist even after year three, in no small part because of continuously declining corporate tax rates, which dropped again January 1st 2011 from 18% to 16.5%, draining an additional $1.3 billion from the economy in 2011–12. The final drop is scheduled for January 1, 2012, when rates will drop to 15%, this time removing another $1.7 billion from the treasury. Figure 9 shows the cost of tax cuts beginning with Budget 2006. The amounts lost are tremendous, totalling almost $220 billion by 2013–14. The decline in business tax revenue alone is worth $58 billion. The annual amount lost by the treasury from cuts in business taxes just keeps increasing.

The annual World Bank/ Pricewaterhouse-Coopers survey of corporate taxes[5] ranked Canada lowest in corporate tax rates out of all G8 countries (including Russia), with a combined

FIGURE 8 **Finance Canada Base Case**

Macroeconomic indicators ($mil)	2010	2011	2012	2013
Nominal GDP	1,616,000	1,682,000	1,770,000	1,861,000
Nominal GDP growth	5.9%	4.1%	5.2%	5.1%
Real GDP growth	2.9%	2.4%	2.8%	2.9%
Employed (000s)	17,500	17,763	18,090	18,402
Employment rate (as % of working age population)	61.9%	61.9%	62.2%	62.4%
Unemployment rate	8.0%	7.7%	7.3%	7.0%
Unemployed (000s)	1,522	1,482	1,425	1,385
Budgetary transactions ($mil)	**2010–11**	**2011–12**	**2012–13**	**2013–14**
Revenues	232,500	246,300	261,200	277,700
Program spending	246,600	242,800	246,100	251,700
Debt service	31,300	33,400	36,400	37,500
Budget balance	(45,400)	(29,900)	(21,300)	(11,500)
Closing debt (accumulated deficit)	564,500	594,200	615,500	627,000
Budgetary indicators as percentage of GDP	**2010–11**	**2011–12**	**2012–13**	**2013–14**
Revenue/GDP	14.4%	14.6%	14.8%	14.9%
Expenditures/GDP	15.3%	14.4%	13.9%	13.5%
Budgetary balance/GDP	-2.8%	-1.8%	-1.2%	-0.6%
Debt/GDP	34.9%	35.3%	34.8%	33.7%
Effective interest rate		5.9%	6.1%	6.1%

SOURCE Update of Economic and Fiscal Projections (October 2010) and Author's Calculations

FIGURE 9 **Cost of tax cuts since 2006**

($ billion)	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	Total
GST	11.6	12.0	12.7	13.2	13.8	14.6	77.9
Personal Tax	12	13.6	13.4	13.8	14.5	15.0	82.3
Business Tax	5.3	6.8	9.2	10.5	12.2	13.9	57.9
Total	28.9	32.4	35.3	37.5	40.5	43.5	218.1

SOURCE Federal Budget 2009 and author's calculations (see note 4)

federal/provincial rate 10% lower than that of the United States, and half of the rate in France.

KPMG's annual "Competitive Alternatives" report also ranked Canada second-lowest in total tax cost of the 10 countries it examined.[6] Mexico ranked lowest, although if Canada is compared to the other developed G7 countries it comes out on top (Russia was not included in the study). The 2010 report looked at 41 major international cities and found Vancouver the cheapest in terms of total tax cost. Montreal ranked 4th and Toronto 5th. It's worth noting that the 2010 KPMG survey was completed before Canada lowered its corporate income tax rate again on January 1st, 2011.

Even large accounting firms that generally advocate for lower business taxes find that Canada ranks lowest in terms of corporate taxation. Canada has clearly the won the global race to the bottom. Apart from larger deficits, it's unclear what the prize is.

AFB Fiscal Framework: Beyond Stimulus

The continued weak economy in 2011 combined with the withdrawal of federal stimulus funds and matching provincial dollars foreshadows another year of uncertainty for Canadians. As the country limps out of recession, unemployment will likely remain high, and growth low. All of assumes that a double-dip recession doesn't hit either in Canada or south of the border.

Despite this stagnation, the federal government's interests are focused elsewhere. Deficit reduction, in spite of any countervailing facts about the economy or unemployment, is the primary focus. Even though the obvious answer would be stop the continuing corporate tax cuts that will drain the treasury for years to come, the government has chosen to balance its books by cutting the social programs that Canadians rely on.

Canadians will receive little protection from their government, and what little they did receive over the past two years will be withdrawn as the stimulus program winds down. Imports will remain weak. Unsustainable personal debt loads will remain at historic highs, even though history shows this will likely end badly. As these debts are paid down, there will be a strong negative pull on consumer demand in the economy. Without government spending driving the economy, most of its component parts will remain idle.

This needn't be the case. Budgets may appear to be about tables and numbers, but fundamentally they are about choices. In fact, budgets are one of the most important decisions a government makes. There is a choice this year, as every year, as to whether we want to exacerbate unfair taxation and inequality and lead in a global race to the bottom, or whether we want to build useful programs like universal pharmacare and $10-a-day child care.

The AFB's position is that what Canada needs is not stimulus, but longer-term programs that help support people — not just corporations — and build a diversified economy. It is by supporting regular Canadians that the government can improve the economy, reduce unemployment and build a country, and a future, that all Canadians can be proud of.

To that end, the AFB will implement fair taxation, where everyone pays their fair share. With fairer taxation comes less inequality where all Canadians from low skilled labourers to Bay Street bankers benefit from economic growth.

In addition to fair taxation, the AFB will implement useful programs that make it easier for Canadian families to make ends meet. The AFB will also lend a helping hand to low-income seniors, aboriginals, Canada's poor, and others who haven't shared the benefits of recent (modest) economic growth. In each of these cases, the AFB includes practical, costed plans that lead to long-term solutions.

Future Canadian growth is based on strong infrastructure — both social and physical — that Canadians can use and rely on. The AFB meets this requirement with significant new funding for physical infrastructure at the municipal level, and new funds for clean water on reserves and in other Canadian communities. Also, because access to digital information is critical to innovation, the AFB directs considerable funding to rural broadband initiatives across the country. And since infrastructure is not just about physical amenities, but also about social programs, the AFB supports stronger community health care, more affordable housing and lower post-secondary tuition.

Economic growth is usually pitted against environmental protection, as if the two are mutually exclusive and that we can only have one or the other — but not both, The AFB shows that cutting on greenhouse gases (GHG) and "riding the green wave" can be accomplished while making Canada's economy more efficient. But while climate change is without question the dominant environmental issue of our time, it is not the only one. Thus, the AFB also contains funding and measures to protect Canada's water systems, parks and nature reserves.

Debt and deficit reduction has become the government's overriding concern. However, Canada has the lowest debt-to-GDP ratio of any country in the G8 — and by a fair margin. In fact, if Canada spent an additional $500 billion (or 10 times its 2009 deficit), it would still have the lowest debt burden (although tied with Germany). An extra year or two to close the deficit gap will leave us comfortably still in first place on the debt-to-GDP front.

Deficits alone do not tell the full story. The debt burden is best understood as a share of a country's economy. The bigger an economy grows, the less of a problem the same size debt or deficit is. However, the federal government has chosen to focus on a smaller deficit within a smaller economy. The AFB, instead, aims to create a larger economy with lower unemployment. Both approaches produce the same debt burden, but the AFB does it with a stronger economy and more Canadians working.

The double benefit is that by having more people working, unemployment is (obviously) lower, but both economic growth and government tax revenues are higher. There is a multiplier effect when the government becomes more involved in the economy. Government spending on health care, infrastructure or education has a much larger effect on the economy than do tax cuts. The reason is that government spending directly employs Canadians and drives down unemployment, whereas many tax-cut benefits "leak" away to imports and savings.

The AFB multipliers for nominal GDP, job creation and federal government revenue are derived from Informetrica Ltd.[7] However, the model was also run with multipliers from Finance Canada.[8] Using the latter, by year 3 the number of jobs created was within 10,000 jobs of the estimate (in Figure 9) using Informetrica. The real GDP effect using the Finance Canada multipliers was even larger than Informetrica's. The Informetrica multipliers show that corporate tax increases or cuts have little effect on real GDP and employment.[9] The AFB utilizes several corporate tax measures to fund new programs. Using the Finance Canada model, the tax measures slightly reduce growth, but this effect is significantly offset by growth created through new programs.

The AFB focuses much effort up front, in the otherwise weak 2011–12 year. The private-sector forecast for nominal GDP growth for 2011–12 (Figure 8), is only 4.1%, with 7.7% unemployment. The AFB gets to work early, with much higher 6.2% nominal GDP growth in 2011–12 and much lower 6.4% unemployment.

By the third year, both the Base Case and the AFB cases have whittled the deficit down. The Base Case has fallen somewhat faster to reach a deficit of $11.5 billion, compared to the AFB's $13.5 billion. However, the country's economy is bigger under the AFB, and somewhat closing the gap on a GDP basis with the AFB filing a 0.7% deficit-to-GDP. The Base Case estimates a 0.6% deficit-to-GDP.

Despite dramatically reduced unemployment and a much more rapid response to stagnant growth in the AFB, the overall debt picture compared to the Base Case is almost identical: both report debt-to-GDP of approximately 34% to 35% in year 3.

Under the AFB unemployment drops fast as Canadians can get jobs again and the fiscal deficit disappears due to the recovery. A wide variety of new programs (as reviewed in Figure 11) are implemented. People who have been left behind by economic growth are helped back to their feet. The environment is protected. Taxation becomes much fairer with everyone paying their fair share. Meanwhile, the overall financial picture remains relatively unchanged.

The AFB rejects the steady state of the Base Case, with its high unemployment and poor economic growth. Instead, the 2011 AFB illustrates

FIGURE 10 **AFB Case**

	2010–11	2011–12	2012–13	2013–14
Nominal GDP	1,616,000	1,715,706	1,795,413	1,880,085
Nominal GDP growth	5.9%	6.2%	4.6%	4.7%
Revenues ($mil)				
Base case	232,500	246,300	261,200	277,700
Net AFB revenue measures		18,299	36,871	44,557
Multiplier effect		4,890	4,579	5,247
Total	232,500	269,489	302,650	327,504
Expenditures ($mil)				
Base case	246,600	242,800	246,100	251,700
Net AFB program measures		35,857	47,446	50,101
Total	246,600	278,659	293,548	301,803
Debt service	31,100	34,704	38,158	39,249
Budget balance (deficit)	(45,200)	(43,872)	(29,054)	(13,546)
Closing debt (accumulated deficit)	564,500	608,372	637,426	650,972
Budgetary indicators as percentage of GDP				
Revenue/GDP	14.4%	15.7%	16.9%	17.4%
Expenditures/GDP	15.3%	16.2%	16.3%	16.1%
Budgetary balance/GDP	-2.8%	-2.6%	-1.6%	-0.7%
Debt/GDP	34.9%	35.5%	35.5%	34.6%
	2010	**2011**	**2012**	**2013**
AFB jobs created (000s)		295	292	218
Employed	17,500	18,058	18,381	18,620
Employment rate (as % of working age population)	61.9%	63.0%	63.2%	63.1%
Unemployed (000s)	1,522	1,244	1,220	1,256
Unemployment rate	8.0%	6.4%	6.2%	6.3%

that it's possible to make better choices for the country *and* encourage economic growth.

Notes

1 Thanks to Jim Stanford from the Canadian Auto Workers for the international comparison research.

2 Canadian Labour Congress, *Recession Watch Bulletin*, Issue 4, Winter 2010, pg. 10

3 The low end of the scale assumes little provincial cutbacks of matching dollars and the federal decline in program spending reflects the distribution non-taxation expenditures in the 2009–10 stimulus package. The high end of the scale assumes that provinces fully cut back all matching dollars and that those cutbacks reflect the distribution of spending in the 2009–10 stimulus package.

4 While the original figures are from Federal Budget 2009, pg 255, they are updated for changes in tax revenues from GST, personal and corporate taxes based on Finance Canada, *Update of Economic and Fiscal Projections*, October 2010, pg 35.

5 PricewaterhouseCoopers, *Paying Taxes 2011*

6 KPMG, *Competitive Advantage 2010: Special Report: Focus on Tax,* 2010 (http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Press-Releases/Pages/CanadasTax-FriendlyEnvironmentforBusiness-RanksSecondAheadofLargestWesternEconomies-KPMGstudy.aspx)

7 Informetrica multipliers, although leading to smaller growth results allow for a more detailed calculation of the various affects of AFB programs.

8 As were used when the government calculated the effects of its stimulus package. See Finance Canada, *Federal Budget 2009*, pg. 240.

9 Employment Effects are impacts over a 12 month period

FIGURE 11 **AFB Program List ($mil)**

Program Name	2011–12	2012–13	2013–14
Aboriginal Affairs			
INAC elementary-secondary education program	304	310	315
INAC post-secondary education program	495	504	513
New schools construction for First Nations	150	153	156
First Nations language instruction	127	129	132
First Nations governance support	65	66	67
First Nations safe drinking water	1,000	1,019	1,037
Gender balance to economic development	30	30	0
Aboriginal maternal child health program	100	100	100
Sisters in spirit	5	0	0
Aboriginal healing programs for violent offenders	15	15	15
Early Childhood Education and Care			
Affordable child care	1,000	1,600	2,300
Cities and Communities			
Community economic development roundtable	0.5	0.5	0.5
Neighbourhood revitalization program	100	100	100
Building community fund	1,500	6,000	6,000
National clean water fund	1,000	1,000	1,000
Gas tax transfer indexed to 3%	62	122	185
Community support fund	1,000	0	0
Culture and Arts			
Audience and market development	40	40	40
Canada Council For the Arts	30	60	90
Training and internship/mentorship opportunities	1	1	1
National museum policy	50	50	50
Cultural statistics	1	1	1
Increase charitable tax credit	137	137	137
Communications			
Modernize rural broadband	400	500	600
National public access program	40	40	40
Defence and International Development			
Spending back to pre-9–11 levels	-1,400	-2,600	-4,000
ODA to increase to 0.7% of GNI	887	2,080	2,444
Employment Insurance			
Universal entrance of 360 hours	1,100	1,100	1,100
Continued support for long tenured employees	250	250	250
Extended training benefits	500	500	500
Additional 5 weeks of benefits	500	500	0

Program Name	2011–12	2012–13	2013–14
Environment			
Carbon tax	0	-5,855	-9,548
Provincial harmonization	0	2,927	4,774
Green energy tax refund	850	3,400	4,080
Conservation plan	10	10	0
National parks and conservation areas	50	50	50
Expand “Ecoenergy” home efficiency program	350	350	350
Air quality improvements	65	65	65
Global climate finance	400	800	1,000
Natural capital indicators	10	7	7
Label water efficient fixtures and appliances	5	5	5
Cancel tax subsidies for oil industry	-761	-761	-761
Cancel asbestos and nuclear power subsidies	-103	-103	-103
Equalize mining and recycling tax benefits	-65	-65	-65
Health Care			
Community health care	2,500	3,000	3,200
Dental health for children	50	100	150
National Pharmacare	3,390	3,830	4,000
Canadian health services research foundation	150	0	0
Health human resources innovation fund	10	10	10
Job-laddering for health care workers	200	200	200
Reduce tuition for health care programs	100	100	0
Medical students to aboriginal communities	50	50	0
Increase Canada Health Act division budget	6	6	6
Housing			
New affordable housing supply	1,500	1,500	1,500
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 provincial transfer to provinces	410	410	410
Deferred college and university maintenance	800	800	800
Reduce tuition to 1992 levels	799	1,590	2,390
Create new income tested grants	1,360	1,393	1,406
Cancel textbook tax credit	-42	-42	-42
Cancel scholarship tax credit	-38	-38	-38
Cancel tuition fee and education tax credit	-470	-470	-470

Program Name	2011–12	2012–13	2013–14
Cancel RESP	-140	-160	-160
Cancel Canada Education Savings Grant	-670	-683	-696
Increase Canada Graduate Scholarships to 3000	25	25	25
Poverty Reduction			
Poverty reduction transfer to provinces	1,800	1,800	1,800
Increase CCTB to $5,400/child	4,759	4,759	4,759
Double refundable GST credit	3,680	3,732	3,784
Public Services			
Reduce federal contracting out	0	-200	-350
Sectoral Development			
Sectoral development councils	50	50	50
Automotive recycling program	300	300	300
Green car levy	300	300	300
Green energy manufacturing tax credit	50	50	50
Green skills initiative	100	100	100
Sustainable forestry and skills	300	300	300
Sustainable farm income supports	650	650	650
Eliminate biofuel crop subsidies	-200	-200	-200
Capitalize canadian development bank	1,200	1,100	700
Seniors			
Increase singles GIS benefits by 15%	1,164	1,164	1,164
Taxation			
New income tax above $250,000 (32%)	-2,064	-2,229	-2,400
New income tax $750,000 (35%)	-1,200	-2,000	-2,100
Eliminate stock options deduction	-1,004	-1,100	-2,100
Fully tax personal capital gains	-2,356	-3,140	-3,500
Cap tax free savings accounts	-57	-114	-171
Limit RRSP contributions to $20,000/year	-200	-220	-240
Fully tax corporate capital gains	0	-2,625	-3,500
Reinstate 2007 corporate tax rates	-5,400	-11,200	-13,400
Reinstate 28% rate on oil and gas and financial industries	-750	-3,000	-3,000
Eliminate meals and entertainment deduction	-300	-300	-300
Financial activities tax	-4,700	-4,800	-4,900
Water			
Hydraulic fracturing assessment	2	0	0
Map Canada's water sources and uses	3	0	0
Protect Canada's freshwater resources	675	675	675
Study trade deal effects on water exports	1	0	0
Improved mining environmental assessments	50	50	50
Study of climate change effects on water	5	0	0

Program Name	2011–12	2012–13	2013–14
Woman's Equality			
Create pay equity commission and tribunal	10	0	0
Support women's shelters	20	20	20

Restoring a Fair and Progressive Taxation System

AFB Changes to Personal Taxes

New tax bracket for incomes over $250,000
The AFB introduces a higher income-tax bracket of 32% on those making over $250,000 a year, above the 29% federal tax bracket in effect for incomes over $130,000. This is still below the 33% tax bracket that the U.S. applies to those making over $200,000. An extra tax bracket will affect the less that 1% (0.8%) of tax filers who make over $250,000 a year. Calculations based on 2008 tax returns show that a 32% tax rate would generate $1.638 billion annually. Revenues are likely to reach $2 billion in 2011. (This assumes annual growth of 8%, below the four-year annual average growth rate of 13%).

Revenue:

- $2,064 million in 2011 at the 32% rate
- $2,229 million in 2012 (at 32% rate)

New tax bracket for incomes over $750,000
Canada's super-rich — those in the top 0.1%– now take a larger share of the economic pie than of any generation since the Great Depression. They also benefit from the lowest marginal tax rates since the 1920s. From the mid-1930s through to the early 1980s, the top marginal income-tax rate for the highest incomes in Canada was over 60%, and at one point reached 90%. None of this appeared to slow economic growth: in fact, it was a period of unparalleled economic growth and social progress. Now the average top federal-provincial marginal tax rate is 43%, and tax loopholes further reduce the rate on much of this income.

Adding a fifth federal tax bracket at 35% for incomes above $750,000 a year could raise an additional $1.2 billion a year. A federal tax rate of 35% would translate to a combined average federal-provincial top marginal rate of 52%. It is important to note that these tax rates only apply to incomes above $750,000. Individuals would still benefit from the lower tax rates that apply to all Canadians with taxable incomes below this amount.

- Revenue: $1,200 million in 2012 (at the 35% rate)

Eliminate stock option deduction
The executive stock option deduction allows Canada's wealthiest executives to pay half the

tax rate on their income that ordinary Canadians pay on their employment income. It is not only the most regressive and inequitable of Canada's tax loopholes — it also helped to fuel the kind of reckless speculation and stock manipulation that led to the financial crisis. Finance Canada projects that it lost $590 million from this tax loophole in 2010, down from an average of over $1 billion a year between 2005 and 2007. However, their projections tend to be low and with the bounce back in stock markets, the loss is likely to reach close to $1 billion again in 2010 and 2011. (This assumes 10% annual growth, lower than the 17% annual average growth for the 2004–07 period.)

- Revenue: $1,004 million

Fully tax personal capital gains

Income from investment and speculation is currently taxed at half the rate of employment income: e.g. at a top federal rate of 14.5% versus 29%. The value of this loophole was doubled in 2000 when the inclusion rate was reduced from 75% to 50%, ostensibly to boost investment and productivity. But it has had the opposite effect: since then the rate of business investment has declined. Finance Canada calculates that the cost of this loophole for the federal government was over $5.9 billion in 2007, and $3.1 billion in 2008. Half of the value of this loophole benefits the richest 1% of tax filers who earn over $250,000 a year. Meanwhile, Canadians who inherit land, homes or cottages that have been in the family for decades must often sell the properties to pay the high capital gains taxes on inflationary property-value increases. This is unfair and encourages more speculative short-term investments.

The AFB will tax capital gains at a full rate, similar to employment income after adjusting for inflation. The new rate is effective July 1, 2011. Revenues from this measure are conservatively estimated at over $3.1 billion a year, assuming an annual growth rate of 10% — well below the 28% annual growth rate of the 2004–7 period. It also assumes an inclusion rate of 90%, with a 10% adjustment for inflation, representing an assumed average holding period of five years. If the holding period is less, then revenues will be higher.

- Revenue: $2,356 million (2011–12) and $3,141 million (2012–13)

Inheritance tax on large estates

The AFB introduces a minimum inheritance tax of 45% on large estates (in excess of $5 million) that are passed on to the heirs of wealthy families, similar to the Estate Tax in the U.S. This would apply a minimum tax to gifts and inheritances that are able to avoid and minimize capital gains taxes that would otherwise apply.

Revenues from this measure are difficult to estimate. Capital gains taxes would continue to take precedence; this minimum tax would apply to wealth that escapes taxation through various means and ensure that large inheritances are fairly taxed.

Cap Tax Free Savings Accounts (TFSA)

Introduced in Budget 2008, TFSAs allow Canadians to shelter up to $5,000 annually tax-free (even though most people don't have sufficient disposable income to contribute even to an RRSP). The AFB would allow the maximum $10,000 lifetime contribution provided so far for all Canadians. Finance Canada estimated that the TFSA program would cost $45 million in 2009, the first full year that the loophole was in effect. While initial losses are low, Finance Canada projects that the annual cost to federal coffers will soon balloon to $3 billion. Capping the TFSA at $10,000 will save the federal government approximately $57 million in 2012, rising to over $200 million by 2014. This assumes an annual growth rate for investments of 6%.

- Revenue: $57 million (2012)

Limit RRSP contributions

The annual limit for RRSP contributions in 2010 was $22,000 and is $22,450 in 2011. However, any contribution room above $18,000 only applies to those making more than $100,000 a year, as it is based on 18% of earnings. While more than two-thirds of those making over $100,000 a year contribute to RRSPs, less than a quarter of those making less than $50,000 can contribute — and they contribute much less, an average of less than 1/10th of the amount that high-income taxpayers deduct from their income each year. The AFB will cap annual RRSP contributions at $20,000, which will only limit contribution room for those with incomes over $111,000 a year. The calculation of $200 million revenue saved from this measure assumes that approximately 20% of those with annual incomes above $110,000 maximize their RRSP contributions.

- Revenue: $200 million

Corporate Tax Changes

Financial activities tax

The financial industry has been the most consistently profitable sector in Canada's economy, and is far more profitable than financial sectors in other countries. The sector has maintained its high profits because it is highly protected by the government and has benefited enormously from recent tax cuts and tax preferences. The annual value of just a few of these tax cuts and preferences now amounts to approximately $10 billion a year.

It's important to maintain a stable Canadian financial sector through strong regulation, but the sector should also be fairly taxed. The AFB will apply a value-added tax of 5% in the financial sector (profits and remuneration less fixed investment). As advocated by the IMF, such a measure would help compensate for the relative under-taxation of the sector as a result of the exemption of most financial services from value-added taxes (such as the GST). The AFB's revenue calculation is based on IMF estimates of the size of a tax base in Canada for a Financial Activities Tax, and assumes a 4% annual growth rate.

- Estimated revenue: $4,700 million in 2011–12

Fully tax corporate capital gains

Corporate investment income is taxed at half the rate of income from regular revenue sales — at a top federal rate of 9% instead of 18%. Finance Canada estimates the value of this exemption in 2010 was $3.3 billion. This was a low year compared to the $5 billion-plus cost of the same loophole between 2005 and 2008. This tax loophole encourages and rewards corporate mergers and acquisitions, with all the disruption they cause, instead of more productive business activity. With corporate coffers flush with cash, the business press expects a boom in mergers and acquisitions this coming year, with most of the benefits going to corporate lawyers and financial dealmakers.

The AFB will fully tax corporate capital gains at the normal rate of tax after making an allowance for inflation (as is done for personal income) starting July 1st, 2011. This will provide fair taxation relative to other forms of income and would remove the tax disincentive for longer-term investments. The AFB's revenue savings are based on conservative assumptions, including an assumed growth rate for capital gains deductions of 10% from 2009 (compared to annual average pre-recession growth rate of 27%) and an average holding period of five years.

- Revenue: $2,625 million (2012–13), $3,500 million (2012–13)

Reinstate corporate tax rates

According to KPMG, PricewaterhouseCoopers and the World Bank, corporate tax rates (CIT) in Canada are the lowest in the G7.[1] Some of the 30 countries in the OECD have lower corporate rates, but they are either economically troubled (like Ireland and Iceland) or have much smaller economies (like the Slovak Republic and Poland) that Canada is not directly competing against.

The global corporate-tax-cut race to the bottom was supposed to pay off as businesses invested more in equipment, technology and workers. The larger business investment would, in turn, drive Canada's disturbingly low productivity growth and lead to better real GDP growth and more jobs.

Unfortunately, these projections did not come to pass. Business investment is not up, productivity growth has remains stagnant, and full- time jobs are down. What has increased is corporate profits. Clearly, the experiment with dramatically lower corporate taxes has failed, and Canada is running a much larger deficit because of the lost taxes.

Despite the failure of corporate tax cuts to spur investment and job creation, the rates are scheduled to drop again January 1, 2012 (from 16.5% to 15%). This will mean that corporate taxes have decreased more than 30% since 2006 (from 22.1 % to 15%) and by more than 50% since 2000 (from 30.1% to 15%).

Effective immediately, the AFB restores federal CIT rate to 18%, and will increase it to 21% — the pre-2008 rate — on January 1, 2012. The AFB will not reinstate a corporate surtax of 1.12% that was eliminated in 2008.

- Revenue: $5,400 million in 2011–12, and $11,200 million 2012–13

Reinstate 28% corporate tax rate for the financial and oil and gas industry

The oil and gas industry is one of the most highly profitable industries in Canada outside of finance, yet it pays low royalty rates and its corporate income tax rates have been declining. With much of the industry now foreign-owned, much of its increased profits simply flow overseas. The AFB will increase the tax rate on this industry above the standard rate to 28%, effective January 2012.

- Revenue: $750 million in 2011–12, and $3,000 million in 2012–13

Eliminate tax deduction for meals and entertainment

According to Finance Canada, the revenue losses associated with the meals and entertainment expense tax deduction for both personal and corporate income taxes averaged $300 million a year from 2005 to 2010. This amount is expected to rise. The AFB will eliminate this deduction (with an exception for long-distance truckers). The revenues from this measure assume an 8% annual growth rate, consistent with longer-term trends.

- Revenue: $300 million

Sales and Environment

National Carbon Tax

British Columbia introduced a carbon tax at a rate of $15/tonne on July 1 2009, which is to increase by $5/tonne a year to $30/tonne on July 1, 2012. Carbon taxes are more efficient, transparent and less corruptible mechanisms for putting a price on carbon than cap-and-trade systems. While carbon taxes don't provide windfall gains for some industry sectors, they are more market-friendly because they send a clear price signal.

However, as with all forms of carbon pricing, carbon taxes are regressive. They most hurt those on low incomes, and would have a limited impact unless they are combined with complementary policies, regulations and investments to promote energy efficiency, clean energy and low-carbon infrastructure and communities.

The AFB would introduce a harmonized carbon tax (HCT) integrated with provincial carbon taxes. Half of the revenues will be devoted to a progressive green tax refund, and half to support energy efficiency, renewable energy and to help communities, workers and industry adapt to climate change and a lower-carbon world. The HCT system could either be devolved to the provinces or evolved up to the federal level. It would also include a border tax adjustment so that domestic manufacturers and producers wouldn't be unfairly penalized (i.e. out at a competitive disadvantage to countries without carbon taxes).

A national carbon tax of $30/tonne on the approximately 250 MT of non-industrial uses of fuel could generate approximately $7.5 billion a year. A similarly rated carbon tax on Canada's 350 MT of industrial emissions could generate over $10 billion annually. B.C.'s carbon tax, $30/tonne, is expected to generate $1 billion in 2011–12. A green tax refund at a rate of $300 per adult and $150 per child provided to families with incomes up to $80,000 would cost approximately $4 billion annually.

The AFB's green tax refund will be introduced January 2012. The HCT will take effect later, on July 1, 2012, at a rate of $30/tonne.

Revenue:

- Carbon tax revenues at $30/tonne: $7.5 billion for non-industrial uses; another $10 billion if also levied on industrial carbon emissions
- Cost of annual green tax refund: $4 billion (see *the AFB Environment chapter*).

Notes

1 PricewaterhouseCoopers, *Paying Taxes 2011*, KPMG, *Competitive Advantage 2010: Special Report: Focus on Tax,* 2010

SECTION 1

Securing Our Common Wealth

Aboriginal Affairs

In a climate of continued fiscal constraint, strategic investments in First Nations and their citizens continue to make sense. The costs of continuing the current way of doing business under the Indian Act — of managing poverty, maintaining ineffective processes, and drawing out settlement and implementation of claims — are high. Moving forward, while incurring short-term costs, ultimately brings greater financial prosperity.

First Nations have been in a state of deep economic crisis as a result of colonialism and dispossession. First Nations citizens continue to lag significantly behind the rest of Canada on all socio-economic indicators. According to the Community Well-Being Index, only one First Nations community ranked among Canada's top 100 communities, while the bottom 100 was populated by 96 First Nation communities.[1]

Indigenous peoples in Canada represent the youngest and fastest-growing population in the country, and have for some time. First Nations' share of the Canadian labour force is expected to triple over the next 20 years. This significant increase in First Nations population presents both a challenge and an opportunity for Canada.

If investments are not made to increase First Nations' skills and opportunities, the gap between First Nations citizens and Canadians will grow. However, strategic investments, paired with fundamental structural and policy changes, will lead to greater economic self-reliance for First Nations and increased well-being of First Nations citizens and communities. Further, these will lead to substantial competitive gains for all Canadians.

For First Nations communities in Canada, substantial changes are needed in the following strategic areas:

1. Support for First Nations governments
2. Lifelong learning
3. Health and healing
4. Economic opportunities
5. Environmental sustainability
6. Community infrastructure

1. Support For First Nation Governments

Strong, capable, and appropriately supported First Nations governments are the foundation for effective governance, programming, and service delivery. However, chronic under-funding and the systemic undermining of First Nations' capacity have served to erode the ability of First Nations governments to effectively serve their citizens. In fact, First Nations governments deliver a more comprehensive range of programs and services than any other level of government in Canada. While the responsibilities and functions of First Nations governments and their associated costs have greatly increased over the past decades, funding has remained essentially the same due to a federally imposed 2% cap on spending.[2]

Most Canadians enjoy the security of fundamental programs and services that prevent and protect Canadians from suffering the excesses of poverty. Canadians rely on these programs and services — the "social safety net" — 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, most notably the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

Guaranteed escalators (to reflect population growth and inflation) and 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 survive 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.

As noted, First Nations 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 2006 study of cost drivers conducted by Indian and Northern Affairs Canada (INAC) estimated that there was, at minimum, a $61 million shortfall in key governance support — most notably costs of audits and elections — at that time. Remarkably, there have been no funding increases for governance since the study was completed and none are foreseen.

Furthermore, the 2006 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 for First Nations[3]. This must be addressed for First Nations governments to adequately serve their citizens.

First Nations are in a unique position to promote access to development opportunities, provide a human-resources pool 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.

A real partnership between the Government of Canada and First Nations is the cornerstone of reconciliation, hope, and prosperity. Acting now and making strategic investments constitutes a prudent and effective policy choice and is ultimately the most fiscally responsible course of action. Maintaining the status quo, structured within the legislative framework of the Indian Act, is not an option. A fundamental transformation of the relationship between First Nations and Canada is required.

2. Lifelong Learning

Strategic investments in First Nations education are critical to building healthy, prosperous, and safe communities. 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 legacy of the residential school system was the subject of an apology from the Prime Minister in the House of Commons on June 11, 2008. To move forward in this post-apology era, the lingering effects of the residential school system must be acknowledged and addressed, 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 the failures of the system have yet to be fully expunged from Canada's approach to First Nations education. It is necessary to recognize 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 Nations governments in both its design and operation, along with greater investment in meeting the needs of First Nations children and youth. Moreover, federal funding for First Nations education is not statutorily based, but subject to policy change and internal allocation methodologies on an annual basis.

In Budget 2010, the Government of Canada committed to achieving comparable education outcomes for First Nations students. But comparable outcomes require comparable inputs. Since 1996, funding for First Nations education has been capped at 2%, whereas provincial funding for education increased annually by 6% over the same period. This discriminatory double standard in the provision of comparable inputs has been allowed to exist, and has resulted in an estimated funding shortfall in First Nations education of $2 billion.[4]

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

This lack of funding means, for example, that computers are not as common in First Nations' school classrooms as they are in other schools. It means that education for First Nations children with special needs is not necessarily available, nor is vocational training equipment widely on hand. It means that salaries for First Nations 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.

Furthermore, First Nations education infrastructure requires significant investment. According to a 2010 analysis, INAC's planned capital expenditures over the next three years are insufficient to meet the estimated need to build 40 new First Nations schools at an average cost of $12.5 million each. This figure does not account for funding of operations and maintenance or needed renovations to existing schools.

The economic benefits of improved First Nations education and employment outcomes are indisputable. In 2009, the Centre for the Study of Living Standards (CSLS) estimated that over the period from 2001 to 2026, if Aboriginal peoples were able to increase their level of educational attainment to the level of non-Aboriginal Canadians, they would contribute between $130 billion and $312 billion more to Canada's economy.[5] A modern goal for First Nations education systems, in addition to developing human capital for a market economy, should be to reconnect First Nation learners with their land, languages and cultures.

3. Health and Healing

First Nations face an unprecedented health funding crisis that is affecting patient safety and health-service delivery. Some First Nation communities are closing health centres due to nursing shortages, are unable to deal with potential disease outbreaks, and are being forced to reconsider the renewal of health transfer agreements due to a lack of price/volume increases in their budgets — fiscal pressures that put First Nations patients at risk.

With over 30% of First Nations communities located more than 90 kilometres from a physician, it is common for First Nations to travel long distances to receive basic health care, including dental services, dialysis, mammography, chemotherapy and mental health services. Not only do First Nations have to receive pre-approval to receive support for transportation and dental, vision, and other benefits, but, increasingly, more policy restrictions mean more frequent denials in needed care, such as for endodontic and orthodontic treatments for teeth. New and sufficient investments into the Non-Insured Health Benefits (NIHB) are required.

A First Nations-led healing strategy is another priority that needs to be addressed. The Aboriginal Healing Foundation (AHF) has played a vitally important role for Indian Residential School (IRS) survivors and First Nations communities. Many former IRS students, families, and communities have benefited from the work of the AHF. However, despite its successes, funding for the AHF was terminated in 2010. Given that Canada is at a critical time in the implementation of the Indian Residential School Settlement Agreement with its Truth and Reconciliation Commission, the Canadian government must build on its apology to residential school survivors and renew its commitment to healing with the reinstatement of funding to the AHF.

4. Economic Opportunities

First Nations' economic concerns have been communicated in a number of national resolutions calling for immediate concerted attention to increasing and diversifying First Nations economies, increasing benefits derived from natural resources, and increasing workforce skills and productivity. Economic strength that brings long-term benefits to First Nations communities has been a long-desired outcome.

Canada's labour force is aging. As a result, First Nations' potential share of the labour force is expected to triple over the next 20 years. If adequate investments to increase First Nations' skills and economic opportunities 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. Furthermore, Canada will realize a significant decline in the costs associated with maintaining First Nations in poverty through reduced stresses on social service programs, an enriched social fabric and cultural diversity of Canadian society, and efficient allocation of labour resources within the economy. Overall, this will lead to increased productivity, innovation, and improved prosperity for Canada as a whole.

Additionally, First Nations need to participate in resource development. First Nations require not only resource revenue-sharing agreements, but investment in the capacity to participate in development directly. The development of such local economies will lead to long-term sustainability and the achievement of the resource development interests of First Nations and Canada.

5. Environmental Sustainability

Many First Nations communities face challenges that include poor quality drinking water, water source degradation, chemical and biological contamination, disease and decline in traditional food sources, and inadequate waste management. While First Nations are struggling with the daily challenges of environmental sustainability, new problems such as the impacts from climate change threaten their livelihoods and well-being. Few First Nations communities have the capacity to address these matters, as they do not have access to, nor do they benefit from, natural resource development.

The current national assessment of water and wastewater facilities identifies a need of billions of dollars for water and wastewater alone. Current numbers show that 49 communities have high-risk water facilities and 114 communities are under drinking water advisories.

Significant mutual interests can be served by enhancing of First Nations capacity regarding the environment and access to natural resources. Not only would enhanced environmental capacity lead to more meaningful standards and enforcement of stewardship within a given region, but these would operate in tandem with the identification of new sustainable development opportunities for First Nations, thereby becoming an important new revenue source for First Nations self-government and nation-building. These innovations would, in turn, support a cleaner environment, better health, and increased productivity over the long term.

6. Community Infrastructure

Research has shown a strong link between adequate housing and the well-being of individuals and the communities they live in. Crowded housing contributes to a host of health problems, including the increased risk of transmission of infectious diseases such as tuberculosis and Hepatitis A.[6] Overcrowding can also increase the risk of physical injuries, mental health issues, family tensions, and violence.[7]

Significant investments for housing and infrastructure are needed to improve the critical housing conditions faced by First Nations. In 2006, 26% of First Nations people living on-reserve lived in homes with more than one person per room — nearly nine times higher than the rate for non-Aboriginal people (3%). Nearly half (44%) of First Nations people living on-reserve reported that they lived in homes that required major repairs in 2006 compared to 7% of non-Aboriginal Canadians.[8]

As a result, there is a demand of an estimated 85,000 new units required to alleviate overcrowding and backlogs in 2010. Coupled with this is the requirement to provide lot servicing for every one of these new housing units. A conservative estimate to build a house in First Nations communities is approximately $150,000, and, for lot servicing, an additional $25,000 per service connection.

One significant area of physical infrastructure is the growing importance of information technology. Currently, First Nations lag significantly behind other Canadian communities in access to information technologies. It is essential to close the "digital divide" and create opportunities that strengthen First Nations participation in the Canadian and global economies. Many First Nations communities remain without broadband service or are significantly underserved. Without immediate targeted support, First Nations citizens risk being left out of the opportunities for community and economic development offered by broadband connectivity.

Conclusion

The reforms and investments outlined above will not only help the Government of Canada to meet its financial and fiduciary obligations, but will also lead to a stronger and more prosperous Canada through the strengthening of healthy, safe and prosperous First Nations. Through strategic investment combined with structural changes, the Government of Canada can maximize outcomes and create the foundation for our collective well-being.

Canada needs to take this opportunity to change how it has been working with First Nations governments, to move forward in real partnership, to nourish First Nations families and communities, and restore young peoples' hope in the future. A new relationship can give full effect to Treaties, titles, inherent jurisdiction and rights. A new relationship will allow First Nations to move forward with a sustainable economic vision that includes Indigenous leadership in environmental stewardship and opens the door to First Nations prosperity.

To Address these issues the AFB will:

- invest an additional $304 million in INAC's 'Elementary-Secondary Education Program';
- invest an additional $495 in INAC's 'Post-Secondary Education Program';
- invest an additional $150 million in new schools;
- invest $127 million in First Nations langage instruction;
- invest $65 million in First Nations governments to address the shortfall in governance support; and
- invest $1 billion in First Nations housing and water infrastructure needs.

Notes

1 Based on preliminary results from a presentation entitled "The Community Well-Being Index (CWB)," on behalf of Indian and Northern Affairs Canada, presented by Erin O'Sullivan at the 2009 Aboriginal Policy and Research Conference, Ottawa, March 9, 2009.

2 The House of Commons Standing Committee on Human Resources. Skills and Social Development and the Status of Persons with Disabilities recommends that "the 2% cap on spending increases be eliminated and replaced by funding based on actual costs and needs", House of Commons Standing Committee on Human Resources. Skills and Social Development and the Status of Persons with Disabilities. (2010). Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada. Ottawa: Communication Canada Publishing, 173.

3 Blue Ribbon Panel on Grants and Contributions. (2006). The Report of the Independent Blue Ribbon Panel on Grant and Contribute Programs. Ottawa: Treasury Board of Canada Secretariat, 8.

4 First Nations Education Council. (2009). Paper on First Nations Education Funding. Ottawa: First Nations Education Council, 16.

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

6 Public Health Agency of Canada. (2008). Chief Public Health Officer's Report on the State of Public Health in Canada. Ottawa: Public Health Agency of Canada.

7 Statistics Canada. (2008). Aboriginal Peoples in Canada in 2006: Inuit, Métis and First Nations, 2006 Census. Ottawa: Statistics Canada, Catalogue no. 97 559-XIE.

8 Statistics Canada. (2008). Aboriginal Identity (8), Condition of Dwelling (4), Number of Persons per Room (5), Age Groups (7) and Sex (3) for the Population in Private Household of Canada, Provinces, Territories and Census Metropolitan Areas, 2006 Census — 20% Sample Data, Topic-based tabulation, 2006 Census of Population. Ottawa: Statistics Canada, Catalogue no. 97-558-XCB2006025.

Aboriginal Women

Aboriginal[1] women and girls in Canada continue to be marginalized. Although billions of dollars are spent each year to fund Aboriginal programs and services, Aboriginal women struggle to access these resources and continue to experience high levels of poverty, low educational attainment, high unemployment, family violence, poor physical and mental health, unequal citizenship rights, and lack of housing. These and other social and economic ills condemn many Aboriginal women and their families to an ongoing cycle of distress. While First Nations, Inuit, and Métis women share many of the same challenges, remedial strategies must address the geographic, cultural and linguistic differences and modes of service delivery.

Reports on the health and well-being of Aboriginal peoples in Canada consistently refer to significant gaps in incomes, housing and living standards, health, and education outcomes. However, the difference between Aboriginal men and women is rarely explored. The reality is, the experiences of women and men are very different and must be acknowledged through gender-specific policies and programs. The role of the federal government should focus on root causes of inequality, rather than stopgap solutions. Federal initiatives must focus on building a more positive image for Aboriginal women and girls and foster their role as significant economic actors in their own right to build a foundation for their economic prosperity.

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 Aboriginal peoples 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 doesn't take these differences into account. What's needed is a coordinated and population-specific approach to funding that recognizes both the problems faced by Aboriginal women specifically, and those faced by all Aboriginal peoples in general.

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

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. For example, social, economic, and human resource development initiatives must recognize Aboriginal women are often single mothers and have multiple roles as providers, educators, caregivers, and primary wage earners to their families. Programs must recognize these competing challenges by incorporating formal care-giving to support women as mothers and caregivers for the Elders in the community. The evaluation of programs must also change to reflect meaningful differences that have been made in communities, rather than limiting outcomes to quantitative assessments.

True investment in the Aboriginal community must begin with women to restore the balance of women as leaders who are the foundation of stable families and communities. 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.

Economic Security

In 2010, it was reported that Aboriginal women with a university degree were earning higher incomes — often higher than their non-Aboriginal counterparts[2]. However, the median employment income in Canada for Aboriginal peoples remains disturbingly low, suggesting that the majority of First Nations, Inuit, and Métis peoples struggle in low-end, low-wage jobs. This situation is often more acute for Aboriginal women without higher education, as they are more often single parents struggling to provide for an entire family.

The good news is Aboriginal women are achieving higher levels of success in education and earnings. The bad news is that too many women, men, families, and communities have yet to overcome the social and structural barriers that hinder their attainment of economic, political, or social well-being. "Economic security" needs to be viewed as more than a measure of wealth; its definition should also encompass broader indicators of health and well-being for individuals, families, and communities. What remains unclear in today's uncertain economy is whether Aboriginal women and men will continue to achieve improved economic conditions that lead to a secure future based on improved social and political health and well-being.

- *The AFB already has a $200 million investment in the new Aboriginal Economic Development Framework. In addition, the AFB allots $60 million over 2 years to honour gender balance in economic development initiatives (including financial literacy, leadership, women's entrepreneurship, asset building, procurement and business networks).*

Health and Well-Being

Aboriginal health is continuously identified as a political priority and as a failure of the Canadian state to provide equal and adequate access to the basic necessities of life. Reports often focus on on-reserve outcomes for First Nations peoples. However, significant disparities in health and inadequate resources for basic health infrastructure manifest themselves in different ways from coast to coast to coast.

For instance, Inuit communities face a different reality than southern communities, and Inuit women specifically face situations unique to the Arctic. Eighty per cent of Inuit live in 52 remote fly-in communities across the Canadian Arctic. The life expectancy of Inuit in Nunavik is 10 years less than that of the general population, and Inuit tuberculosis (TB) rates nationally are 185 times the national average. One study estimated that, in 2004, the average annual cost of treating each active TB patient in Canada was just over $47,000 per year, exclusive of other associated health problems.[3] That's a significant financial load for Inuit governments to bear.

But there is a way to lessen this burden. In March 2010, the chair of the National Inuit Committee on Health reported that "TB will never be eliminated until housing is improved, food security is improved, and the access to health care for Inuit is closer to what other Canadians take for granted."[4] Most Inuit communities are unable to provide a range of health services, from diagnostics to specialized services, necessitating medical transportation to larger centres to access health-care services. Transportation costs alone place a significant financial burden on the health-care system.

- *Aboriginal women's health and well-being continues to be a challenge on-reserve, off-reserve, in northern communities, and in cities. The AFB invests $100 million per year for the next five years to build culturally specific programs and leadership opportunities in disease prevention and maternal child health programs.*

Access to Justice

Violence against Aboriginal women and girls remains disproportionately high, yet few opportunities exist for these women to take control or change the outcomes of violence. The experiences of it are widespread, diverse, and vary according to geography, community, income, health status, housing, and other life circumstances. Too, the realities of violence are different for First Nations, Inuit, and Métis women and their families. For example, First Nations women living in remote communities or reserves often don't have access to police in an emergency, and when police are available, they rarely have adequate training to respond to situations of violence in a culturally appropriate or effective way. The rate of violence against Inuit women is up to 14 times higher than the national average, and the 52 Inuit communities across the Arctic are served by approximately 13 safe shelters. Each of these facilities struggles for ongoing funding, and only one serves women specifically. Métis women also lack access to services based on Métis culture, and funding for Métis programs that address violence.

The experiences of violence for First Nations, Inuit, and Métis women run far deeper than violence experienced by non-Aboriginal women in Canada. The statistics are sobering. There are nearly 600 known cases of missing or murdered Aboriginal women in Canada, a rate that exceeds by seven times the rate of violence leading to disappearance and death for the rest of the population. According to the 2010 research findings of the Sisters In Spirit initiative, the realities of homicide are very different for Aboriginal women, who are as likely to be killed by a stranger or an acquaintance as they are by an intimate partner. Perhaps more disturbing is the clearance rate, or charges laid, in the homicide of Aboriginal women: it stands at 53%, while the clearance rate for homicide in Canada is 84%. Clearly, the response of police investigations, public awareness and the criminal justice system must change to reflect the realities of homicide of Aboriginal women.

There was reason for some optimism regarding justice for Aboriginal women in Budget 2010, which allotted $10 million over two years to "address the disturbingly high number of missing and murdered Aboriginal women in Canada." However, the allocation of funds failed to include Aboriginal-specific goals or dedicated funding to the root causes of violence. Instead, the funding will be directed to the RCMP and the development of a website, a hotline to report missing women, and changes to the Criminal Code to allow for unwarranted wiretaps. Monies will also be available for organizations serving Aboriginal women, but applications are limited to groups from the four western provinces. Aboriginal organizations serving women and families in other Canadian provinces and territories won't have access to this funding, despite the fact that violence is experienced across the country.

- *The AFB will directly fund the "Sisters in Spirit" initiative with a $5 million grant.*
- *The AFB also invests $15 million a year in culturally specific healing and re-integration programs for Aboriginal persons in prisons. The AFB is committed to healing violent offenders and providing re-integration programs to end the existing cycle of violence and recidivism for these men and women.*

Conclusion

Until the social determinants of health for Aboriginal women and families — and violence against women and children — are adequately addressed, disparities will persist with significant human, social, and economic impacts. To achieve social, political, and economic prosperity for Canada as a whole, the federal government must invest in opportunities for all. This includes working with First Nations, Inuit, and Métis women and men. It means understanding that Aboriginal communities must receive adequate support for economic security, and investment in services to improve social, physical, and mental health and well-being. It means access to justice. Finally, the federal government must learn from existing evidence and trust that Aboriginal peoples and organizations are experts in their experiences, and should be seen and treated as the leaders of change.

Notes

1 In this context, the word Aboriginal is intended to be understood as First Nations, Inuit and Métis peoples.

2 Daniel Wilson and David Macdonald, *The Income Gap Between Aboriginal Peoples and the Rest of Canada*, April 2010, Canadian Centre for Policy Alternatives

3 http://www.phac-aspc.gc.ca/tbpc-latb/costtb/index-eng.php

4 http://www.cbc.ca/health/story/2010/03/10/tuberculosis-inuit.html#ixzz13wrlN5BF

Early Childhood Education and Care

Canadians have good reason to be concerned about the future of their well-established health and public education systems. For many, there is an uneasy sense that years of tax cuts have lessened our collective ability to publicly fund high-quality and equitable access for all. The evidence suggests that Canadians question the unrelenting push to bring market-oriented, often profit-making approaches to public services whose very foundations rest on values of sharing, caring, and equality.

But are concerns about the dangers of privatization real? After all, health and public education systems still exist. To answer this question, one need look no further than child care[1] — Canada's poster child for market failure and inadequate public investment in the common good. Rather than merely strengthening child care — as is necessary with our health and public education systems — we actually need to *build* a system of early childhood education and care in Canada.

Canada's Market-Based Child Care

Child care services in Canada are marketized, having always relied on the private sector (both for-profit and non-profit) to develop, finance, and operate programs for young children, with parents paying most of the costs even for regulated child care.

The result? Child care in Canada[2] demonstrates triple market failure, with:

- **High parent fees:** Data from British Columbia shows that child care is the second-highest cost to families, next to housing.[9] This is true across Canada as well: many young families pay more in child care fees than other families pay for their children's university tuition.
- **Low staff wages:** Compensation for staff trained in early childhood education is a key indicator of the high quality that is important for child development. However, Canada's training requirements for early childhood educators fall short of the average standards across OECD countries. Furthermore, the predominantly female child care service sector remains one of the lowest-paid in Canada. More than half of Canada's trained early childhood educators do not work in child care.[14] The resulting

recruitment and retention crisis across the country compromises the quality of our children's care.

- **Unmet demand:** While more than 70% of mothers of young children are in the paid labour force, only about 20% of children 0–5 years old have access to a regulated child care space (ECEC in Canada 2008, Tables 6 and 9).[10] Yet 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.[3]

High fees, low wages, and unmet demand should be a wake-up call to governments about the fundamental inequality of their longstanding market-based approach to child care services. The evidence-based response should be a publicly managed and publicly funded system that blends early childhood education and child care, and 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]

Fortunately, the solution is clear and powerful: a consistent body of evidence shows that building a public system of early childhood education and care is not just the right thing to do for parents and children, but the smart thing to do for Canada's economy. 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 these findings:

- **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 number of 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 returns to governments as increased revenue, and the federal government gains the most. Over the long term, every public dollar invested in quality child care programs returns $2.54 in benefits to society.

Although the benefits of public system-building are clear, and the failures of market-based ECEC are in plain sight across the country, it is disturbing to observe that for-profit child care is growing in Canada, increasing from about 20% of total spaces in 2004 to 25% in 2008.[11] The umbrella term 'for-profit child care' includes small, individually owned centres and a growing number of child care chains. And in 2010, Canada's first publicly listed Big Box child care chain began purchasing centres in Alberta, stating its intentions for substantial growth in other provinces.[4]

Countries such as Australia, the United Kingdom and the United States, which are dominated by for-profit programs, including Big Box chains, provide the following lessons for Canada if it continues to ignore this threat:

- Growth in spaces will be offset by closures, particularly of small, for-profit and non-profit operators.
- Growth will be least likely to occur in less 'profitable' areas and for less 'profitable' children (for example, rural or isolated communities, children with disabilities, and infants and toddlers).

- Because of their high fixed costs (staff, facilities, etc.), child care chains will not be any more financially viable than existing programs.
- Governments will be lobbied to promote profitability by relaxing quality standards and/or increasing public funding.
- Overall quality — so important for children — will decline, as the research literature shows definitively that the for-profit sector generally provides poorer quality (Childcare Resource and Research Unit, 2010).

In other words, public funds will support private profits rather than the public goals of quality, affordability, and access.

In its review of the evidence on indicators of "best practices" in early childhood education and care, UNICEF observed that:

> Some private providers are tempted to reduce less visible costs such as training, pay, and conditions of work. And staff turnover in for-profit services tends to be higher (a factor which, from the child's point of view, translates into instability of care)…poor quality early childhood education and care is not a product that can be returned, repaired, exchanged, or refunded. It may take years for the lack of quality to show its effects; the cause may never become apparent; and the consequences are likely to fall not only on the child but on society as a whole… what is offered by private providers of child care is not a consumer product but a child's once in-a-lifetime opportunity to pass successfully through critical stages of cognitive, emotional, and social development. As UNICEF has argued for many decades and in many contexts, the child's name is 'today'.[5]

Moving Towards More Public Early Childhood Education and Care

On the other hand, it is encouraging to note the recent and growing provincial/territorial interest (among governments, families, advocates, experts, etc.) in using public education systems to deliver ECEC services. Most countries that have implemented effective systems have done so through education rather than social services ministries, as many have moved to integrate the traditional separation between early education programs in public schools and child care in community settings. The principles of public education systems across Canada — universal entitlement to programs provided by reasonably paid and well trained staff, with democratic governance — are consistent with the evidence-based principles recommended for child care.

However, as ECEC researchers Kaga, Moss and Bennett conclude:

> Simply moving administrative responsibility for [ECEC] into education is not enough: it is a starting point for reform. Great attention has to be paid to the subsequent process, including strong re-thinking to complement deep re-structuring.… Integration requires re-thinking of concepts and understandings and re-structuring, covering a range of areas including access, regulation, funding, and workforce (UNESCO: 122).

The fact that, to date, the full working-day needs of families have not been part of the mandate of Canadian education systems provides an example of the restructuring required through this process. Furthermore, the public education field in Canada has not yet adjusted conventional conceptions about how young children learn to ensure that "schoolification" (that is, age-inappropriate focus on more academic content and approaches to learning) of ECEC is avoided. Finally, the implications for child care services and early childhood educators of a move towards public education have yet to be fully 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 those who are keen to participate in advancing a quality, universal, democratically controlled system.

The Organisation for Economic Cooperation and Development (OECD), in calling for "A strong and equal partnership" between child care and education, captures the spirit of this discussion OECD, 2001).

The Absence of the Federal Government

A key barrier to advancing a system of early childhood education and care in Canada is the federal government's absence from the table. In the past, federal governments have promised more than they've delivered on child care, but the current federal government has gone one step further by abandoning all responsibility for the file. In this instance, doing nothing is a policy decision — and a poor one. The federal government's lack of leadership on child care is limiting provincial/territorial progress today and restricting our ability to act in the future.

Interestingly, there is 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 recent recession, the public discourse acknowledged the need for government involvement in addressing issues like climate change. In the end, this awareness may enhance opportunities to develop a publicly funded and managed system of early childhood education and care, or it may encourage market advocates to seek new ways to make private profits from this public good.

"We would but we can't afford it" was the excuse for inaction on child care 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 Canada's sole significant national child care initiative. As a result, federal transfers in 2007–08 were reduced by 37% from 2006, and by 61% from the previous government's commitment for 2009.[6] Canada's public spending on ECEC programs is only 0.25% of GDP — about one-third the OECD average (0.7%) and far short of the international minimum benchmark of 1% of GDP.[7]

Having squandered the opportunity to share the economic good times with children, women, and families, Canada entered the recent recession with deep poverty and inequality, and exacerbated 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 early childhood education and care track, leaving Canada far behind. The legacy of Canada's continued reliance on a market-based approach is reflected in international comparisons of family support in general, and early childhood education 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 minimum benchmarks for early childhood education and care, along with other family policy benchmarks related to parental leave and child poverty.[5]

Conclusion and Recommendations

There is compelling evidence that the right kind of public investment in early childhood education and care — with its multiple benefits to multiple groups — offers among the highest benefits available from policy strategies that nations can adopt. Economic studies have repeatedly shown that well-designed public spending promotes health, advances women's equality, addresses child and family poverty, deepens social inclusion, and grows the economy.

But wishful thinking and a market-based approach won't make it happen. The federal government must move to accountability for results by beginning to build a system of high- quality, affordable, inclusive, and publicly owned early childhood education and care services across Canada, with equitable access for all children and families.

To protect and promote the public interest, the AFB provides leadership and significant funding support to provinces and territories that commit to building public systems of early childhood education and care. The goal of the AFB's early childhood education program is to reach 1% of GDP by 2020, starting this year with a $1-billion investment that escalates over the next 10 years.

The AFB will establish a policy framework to guide collaboration with provinces and territories, providing federal funds to those that are accountable for:

1. **Public plans** (including legislated universal entitlement, targets, and timetables) for developing comprehensive and integrated systems of ECEC services that meet the care and early education needs of both children and parents
2. **Public expansion** through publicly delivered ECEC services (including integration of existing community-based services into publicly managed systems).
3. **Public funding** delivered to ECEC systems, not to individual parents, designed to create and maintain high-quality, accessible services
4. **Public monitoring** and reporting in the legislatures (federal, provincial/ territorial) on the quality of, and access to, the early childhood education and care system.

Within these broad recommendations, 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. It also respects Quebec's right to develop social programs and applauds the leadership Quebec has shown in initiating its child care system. However, it is clear that additional federal funding is required to further advance Quebec's system, so the AFB encourages the federal government to work with Quebec to achieve the province's goals for child care.

In Summary

Canada has all the resources and motivation it needs to build the early childhood education and care system that families want and need. On the one hand, families face an everyday crisis as they struggle to patch together child care arrangements from extremely limited, frequently high-cost options of varying quality. On the other hand, overwhelming research proves the multiple benefits of a comprehensive and integrated approach to early childhood education and care — benefits that can only be realized if the government ensures that services are high quality and accessible.

Federal leadership on early childhood and care is the last remaining barrier to achieving significant progress.

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). It also draws on various publications of the Childcare Resource and Research Unit as well as on M. Friendly and S. Pren-

tice's book "About Canada: Childcare", published In 2009 by Fernwood Publishing.

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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

15 While child care fees remain modest in Quebec, non-profit expansion has slowed in recent years and additional attention to consistent quality in programming is required.

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Cities and Communities

Over the past few years, Canadians have witnessed the decline of the manufacturing sector, watched their pensions disappear, feared to lose their immigration status, and lost jobs. In 2010, many citizens felt acute need for additional social services — for, among other things, immigrant settlement, child care, and relief from rising energy and water bills.

However, as Canada's economic recovery begins to gain momentum, the federal government plans to scale down infrastructure stimulus spending in 2011. This is a grave mistake. Despite the economic gains of a few, many of our most vulnerable community members are being left behind.

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

- Economic productivity was stagnant and falling. People were working harder and longer, but producing and gaining less for their efforts.
- Real wages and incomes for those in the bottom 80% barely had increased in the past quarter century. More people were working, but 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 had improved, while business taxes and income tax rates on higher incomes had been cut. However, this came at a cost for the majority of Canadians.

Cuts in transfers to municipalities and downloading of responsibilities have led to a current municipal infrastructure deficit of over $120 billion and pushed property tax rates in some provinces to among the highest in the world. Social-service cuts make it difficult for cities to meet the needs of their most vulnerable community members, including single mothers, the working poor, immigrants and social assistance recipients. Adding insult to injury, property taxes are also regressive: lower-income households pay a much higher share of their income in property taxes — or property taxes through rent — than do higher-income households.

Unlike in other countries, Canadian cities are severely restricted in how they can raise revenues to fund their operations. They can't levy income or sales taxes, and rely largely on property taxes and user fees, which provide over 75% of their own-source revenues. In comparison, most major U.S. cities levy income and/or sales taxes, and many European cities 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 provided approximately 26% of the revenues of local governments in 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. As a result:

- Local governments across Canada, especially in Ontario, ended up hiking property taxes, increasing user fees and service charges, reducing public services, and delaying their investments in, and maintenance of, public infrastructure.
- Transfers to local governments continued to be squeezed even while federal and provincial governments ran surpluses and cut tax rates on higher incomes and businesses.
- Property taxes, especially in Ontario, increased significantly while the municipal infrastructure deficit grew larger and larger, rising to $123 billion by 2006.

Following much pressure — a few bridges collapses — federal and provincial governments increased their transfers to local governments 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 pre-1996 levels. Further, federal government infrastructure funding and transfers to municipalities are set to decline this year.

The shortfall in transfers to local governments amounts to a cumulative $50 billion since 1996, 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.

Local governments with 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?

This is a critical question, because there is a growing mismatch between the source of most municipal revenues — property taxes and user fees — and the services provided. Although some municipal services — such as fire protection — are property-based, an increasing number of services are better matched to income or consumption-type taxes.

The Ontario government provided the City of Toronto with broader taxation powers through the City of Toronto Act, but these powers are restricted to limited areas, cannot raise significant revenue, and have largely regressive impacts. In addition, taxes that can be set by individual municipalities can easily lead to 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. This accounts for about 8% of local-government revenues in the province, compared to Toronto's new taxation powers, which in 2008 provided only 2% of the city's revenues.

A new funding arrangement for municipalities must include increased transparency and accountability to prevent partisan channelling of funds. It should be linked to national strategic planning that includes local government input on key concerns such as climate-change mitigation and adaptation, national transportation infrastructure, housing and child care strategies, and social-services improvements. Otherwise, what was an ambitious New Deal for Cities will continue to decay into a "Backroom Deal for Suburbs."

Sustainable Communities

A long-term commitment

National strategic planning should be coordinated by a new Department of Cities and Communities (DCC) responsible for federal infrastructure funding for municipalities. All federal departments must be willing to work with municipal governments to ensure efficient and effective program delivery and execution where appropriate, and the DCC will ensure the coordination of these departments as they design programs and policies for Canadian communities.

A lesson learned from rolling out the infrastructure stimulus funds since 2009 and 2010 is that when federal, provincial, and municipal governments work together, they can be efficient and effective. For that to happen, cities need a reliable source of funding they can base their goals and aspirations upon. Currently this source does not exist. This is problematic, because sustainable, well-thought-out planning at the municipal level cannot depend on the annual whims of higher levels of government.

- *The AFB commits to continue work with all three orders of government in 2011 to support local communities and plan a long-term infrastructure funding strategy for 2012.*
- *The AFB commits to more equitable distribution of tax revenue in 2012 to replace the 8 cents-per-dollar that Canadian municipalities now receive.*

Community renewal

Recovery from the economic crisis stands a better chance if it has federal support for community economic development (CED) approach, a community-led process that creates economic opportunity and enhances social and environmental conditions. Policy becomes more relevant when it's informed by the people whose health and well-being it affects.

A CED approach supports flexible, community-driven solutions that consider the interconnectedness of social, economic and environmental conditions. The model enables citizens to participate in the planning and implementation of holistic development strategies that respond to their community's unique needs and priorities.

If the benefits of development are distributed within and throughout the community fairly instead of being concentrated in a few industries and businesses — the least supportive of which are often foreign-owned corporations — then communities can begin to affect a positive impact on overall well-being and quality of life.

The federal government can address complex community challenges by implementing a federal CED Policy Framework like the one employed by the Province of Manitoba. It would include a set of CED criteria to help departments incorporate CED principles into government initiatives so they can better respond to local economic, social, and environmental needs. By maximizing multiple benefits for communities, a federal CED Policy Framework would promote inclusive, sustainable, and resilient Canadian communities.

- *The AFB will develop and implement a federal CED Policy Framework housed within the Department of Cities and Communities. Sufficient funding will allow the department to research and develop CED initiatives based on best practices and deliver an internal communications strategy to help deploy the Framework throughout the department.*

Effective implementation of a federal CED Policy Framework requires infrastructure to enable the ongoing development of CED initiatives between governments and communities.

- *The AFB creates and invests in a roundtable mandated to develop a working relationship with all three orders of government and citizens. It will incorporate national, provincial and local structures to work toward building a people-centered economy that is inclusive of the voices and interests of urban and rural citizens, practitioners, unions and civil society. The AFB also creates and invests in an ongoing outreach strategy to promote the development of public policy with all levels of government and civil society partners. (Cost: $2.5 million over five years)*

Despite the proven track record of the CED model, communities across Canada continue to lack the support required to take innovative and sustained action. CED organizations nationally need multi-year financial support to sustain and strengthen the results they are achieving in their communities.

- *The AFB establishes a Neighbourhood Revitalization Fund as part of a federal Neighbourhood Revitalization program. This will provide multi-year core funding to support the creation and ongoing operation of Neighbourhood Renewal Corporations (NRC) in urban communities throughout the country. NRCs will coordinate revitalization efforts within their communities based on five-year neighbourhood revitalization plans. The fund will also support individual community-led development initiatives consistent with the neighbourhood revitalization plan and that employ the CED model within those communities. (Cost: $100 million per year for five years)*

Building Community Fund

Municipal governments currently have direct or indirect control over approximately 44% of greenhouse-gas emissions in Canada.[1] City planning include the adoption of sustainable building practices, promotion of parks and clean air, energy-efficient and accessible public transportation, walkable city designs and well-organized neighborhoods that combine living, working and business space.

Our cities and communities are on the front lines in a transformation that not only requires us to achieve greater energy efficiency with existing buildings and infrastructure, but to fundamentally reconsider how our communities will operate in the future. Our current conditions have created a tremendous opportunity to invest in infrastructure that sustainably supports our environment and creates good, green jobs.

- *The AFB provides annual funding equivalent to the revenue from a 1% GST increase, or approximately $6 billion annually. Funding through this initiative will support environmentally sustainable municipal infrastructure and programs, and will be contingent on the communities completing an integrated community sustainability plan (ICSP), with public participation. Additional support will be provided to rural municipalities. Funding will be restricted to projects owned and operated by the municipality, and will require a high level of transparency and accountability. Funding will begin January 1st, 2012.*

The vision, goals and plans of local communities rarely express a desire to privatize and hand over their public assets or services to the highest foreign bidder. The Public Assets Office, part of the Department of Cities and Communities, will prioritize the retention and protection of public assets.

- *The AFB commits to ensuring that public assets remain under the ownership and control of Canadian communities.*

Urgent community support required

1. Social Housing Fund
Because federal contributions for social housing will begin to expire in the next few years, the AFB includes measures to ensure that funds will continue to be directed toward maintaining and upgrading our existing social housing stock. The government will collaborate with municipal and provincial governments to develop a National Housing Strategy to increase Canada's affordable housing and address the economic and social roots of poverty and homelessness (*see the AFB Housing chapter*).

2. National Clean Water Fund
The AFB establishes a National Clean Water Fund to fund the infrastructure upgrades necessary to meet new, more stringent wastewater regulations. These upgrades will be cost-shared with federal, provincial and municipal governments and require a federal commitment of $1 billion a year over 20 years to enable communities to complete projects on time. This will include the allocation of $150 million to cover the costs of training, certification, and testing of water operators. Funding will be restricted to publicly operated facilities.

- Cost: $1 billion a year

3. Gas Tax Indexation
The Gas Tax Fund created in 2005 as part of the New Deal for Cities, became a permanent and important source of funding for municipalities in 2007. In 2010, it reached its maximum funding threshold of $2 billion per year. The AFB will index the federal gas tax, to keep pace with inflation and national population growth, by a rate of 3% per year.

- Cost: $62 million in the first year, increasing over time.

4. Community Support Fund
Cities are increasingly being referred to as Canada's social safety net, yet federal and provincial government stimulus funding for the most part has excluded "social infrastructure". Stimulus funding supported physical infrastructure and housing construction, but did little to help vulnerable community members at the very time when they most needed support.

Current municipal sources of revenue are insufficient to meet these rising social needs of many of their citizens. Local community and social-service organizations have become increasingly dependent on private sources such as charitable contributions from foundations, businesses, individuals, and investment income. Many have had to lay off staff and cut programs. The economic and social costs of deteriorating health, rising homelessness, and overall instability are high.

The AFB allocates $1 billion to a Community Support Fund, to bridge the funding gap as the government negotiates a more equitable share of federal tax revenues for cities. This funding will be cost-shared with the provinces, municipalities, or other levels of government. The funding will temporarily offset spending cuts to agencies serving vulnerable community members, and increase funding to employment development and workers advocacy centres, immigrant/migrant settlement programs, and other organizations providing comprehensive and integrated supports to the unemployed.

- Cost: $1 billion funded in the 2011–12 budget year

Notes

1 EnviroEconomics. (2009). Act Locally The municipal role in fighting climate change. Prepared for the Federation of Canadian Municipalities (FCM). Ottawa, Ontario. Page 1.

Culture and Arts

The State of the Sector

The arts and culture sector in Canada is rich and diverse, but it remains relatively fragile and dependent on public investment to thrive. Our country is blessed with a high proportion of artists, creators, cultural institutions and industries, but they are handicapped by small domestic markets and Canada's immense geography. To prosper, this important component of our economy must develop markets both domestically and abroad.

However, for many artists, reaching international audiences has become harder because of the cancellation of federal programs that supported foreign-market development. The loss of these programs has put additional pressure on funding bodies such as the Canada Council. Québec is the only province that has taken measures to soften the blow. Structural changes brought about by new digital technologies also affect arts and culture organizations and creators. Technology is changing business models for creators and requires additional investments into digital training and creating digital platforms for artists' works. Without programs to develop these digital skills, creative workers are seeing increasingly complex trajectories towards distributing their work.

Fortunately, the government's Economic Action Plan included some specific injections of new money and maintained the status quo for most existing federal investments in culture. At the same time, several cultural industries, including magazines, performing arts touring companies, and fine art institutions have suffered from a steep decline in publicity, sponsorship revenue and subscription renewals. Several non-profit cultural organizations have also seen revenue from their endowment funds dry up. Finally, and ominously, the pending completion of the Economic Action Plan will stop the flow of new money and possibly lead to federal program cuts.

Such cuts are already occurring at the provincial level. In British Columbia, for example, where arts and culture employs close to 80,000 people and contributes more than $5 billion to the provincial economy, the sector is facing major cuts by the B.C. Arts Council and the elimination of funds from provincial gaming revenues. Similar measures, if implemented across the country, could inflict severe damage on the sector and eliminate thousands of jobs.

To ensure stability and growth in Canadian arts and culture, the changing realities of the sector's labour force must be recognized. There is a generational gap between aging artists who do not have the training as their digitally-prone counterparts. There is also a trend towards flexible labour, where creative workers support themselves primarily through multiple professional roles, often on contract or self-employed, with no social benefits attached. Implementing measures that provide greater access to social benefits and security to self-employed Canadians who represent more than a quarter of the cultural workforce will be a positive step forward.

Why Invest in Arts and Culture?

Investment in arts and culture is good for Canada's economy, for Canadian society, and for a strong, unified nation. As part of a global strategy, it can also support Canadian foreign-policy and international trade objectives.

The ecology of Canada's economy is changing: the knowledge, or creative, economy is progressively replacing traditional industry. The former presents a shining opportunity that 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 cultural sector is employs more than 650,000 Canadians. Collectively, with direct, indirect, and induced inputs, the sector contributed $84.6 billion to the GDP in 2007.[2] Statistics Canada notes that between 1981 and 2001 cultural employment grew by 81%, a much greater rate than the 32% growth rate of overall workforce during the same period.[3]

Creating jobs in the arts and culture costs less than in any other sector 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] Further, the cultural sector has the rare ability to put funds to work quickly, often with low administrative costs.

Millions of Canadians purchase books, magazines, films, new media products, and sound recording materials, and Statistics Canada estimates that household expenditures on these cultural products continue to grow every year. This helps explain why every dollar invested in arts and culture generates a strong return. 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. Hill Strategies reports that the performing arts generate $2.70 in non-governmental revenues for every $1 invested by the government.[5] Adding value to this modest investment is the increases employment it helps produce.

To maintain and enhance Canada's arts and culture workers,

- *The AFB mandates the Department of Human Resources and Skills Development (HRSDC) to expand access to EI training support for the self-employed, and to dedicate $1 million per year for five years to foster the professional development of cultural workers through internships and mentorships.*

Further,

- *To increase the flow of charitable gifts from Canadians, the AFB supports Imagine Canada's suggestion to establish a "stretch" tax credit that increases the federal charitable tax credit by an additional 10% on all new giving up to $10,000.*

Investing in Market Development and Cultural Diplomacy

As mentioned above, the Canadian arts and culture is greatly handicapped by Canada's small internal markets and immense geography. For the sector to survive and thrive, it must further develop internal and external markets.[6]

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. Evidene suggests that a diplomatic strategy that prioritizes cultural relations and trade yields both economic and diplomatic benefits for Canada. Countries including the United States, China, and many in the European Union, already follow this path.

Despite several small international programs within the Canadian Heritage portfolio agencies, no coordinated strategy currently promotes Canadian artists and cultural works internationally. The Department of Foreign Affairs and International Trade (DFAIT), which once 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 AFB dedicates $40 million of new money to expand capacity for market development nationally and internationally for Canadian artists, cultural institutions and industries.*

Investing in the Creative Economy and Its Numbers

As Canada's economy changes, it's crucial to invest in Canada's creative capacity in all its forms.

Television: There is a crisis affecting Canada's traditional broadcasting and the production of quality Canadian programming. This situation could be partly remedied by adopting appropriate regulations to ensure that the cultural objectives of the Broadcasting Act are achieved. This means that new distribution platforms whether through the web, or cable and TV must be called upon to contribute, as did their predecessors, to the production and dissemination of Canadian cultural products.

The federal government must also invest more in the production of Canadian programs and support the extensive mandate of Canada's national broadcaster. The AFB reflects the unanimous 2008 recommendation of the Standing Committee on Heritage that the government draw up a long-term Memorandum of Understanding with the CBC, which would ensure that the additional $60 million the CBC has received annually since 2002 be permanently added to the corporation's base budget, and that its core funding be increased to an amount equivalent to at least $40 per capita.[7]

Film and video: To maintain Canadian programs, film, video and new media production, the AFB allots sums identified during the 2009 Strategic Review exercise to Canada Council, the CBC, Telefilm and the National Film Board. To support the health of the Canadian film industry, the AFB supports the example of the Québec and Ontario governments, both of which offer tax credits to support film production in Canada. In Ontario, the Ontario Film & Television Tax Credit (OFTTC) administered by OMDC is a refundable tax credit based upon eligible Ontario labour expenditures incurred by a qualifying production company with respect to an eligible Ontario production. The OFTTC is generally "harmonized" with the Canadian Film or Video Production Tax Credit. In Quebec, a similar program is the Quebec Film Production Services Tax Credit administered by the Quebec Film and Television Council.

Music: The Canada Music Fund was renewed by the Department of Canadian Heritage in 2009 or an additional five years, and the AFB will reinstates cancelled programs that supported exploration in musical diversity. Investing in what is deemed to be at the fringe today may well shape our culture tomorrow. The government believes one of its responsibilities is to invest in experimentation that may lead to the development of new musical forms by Canadian artists. This is equivalent to risk investment or funding fundamental research in other sectors of the economy.

Finally, it is crucial that the cultural sector has access to relevant and timely data it can use to gauge successes and failures, evaluate programs, and adopt new policies. Not long ago, Canada was considered a pioneer in developing cultural statistics. Over the past 15 years, however, the resources dedicated to these statistics have dwindled. Recently, Statistics Canada dismantled its cultural statistics division, rolling elements of it into the Demography Division and handing the responsibility for cultural surveys to the Service Industry Division. Cost-cutting measures also led Statistics Canada to cancel its surveys of radio and television audiences and cut its analyses of, and access to, cultural data. As it has in the past, the AFB recognizes that regular, reliable data about the labour market, export activity, and new forms of cultural activity are essential instruments to cultivate Canada's evolving arts and culture sector.

To support the demonstrated need for further investment in Canada's artists and creators, and the good track record of the Canada Council in administering programs,

- *The AFB increases the base budget of the Canada Council for the Arts by an additional $30 million per year beginning in 2011–12, with a target goal of $300 million by 2015.*

Further, to ensure that Canada's arts and cultural industries have access to reliable data to plan and measure success,

- *The AFB allots an additional $1 million to the Department of Canadian Heritage (PCH) to develop and maintain a satellite account for culture at Statistics Canada, as is done for tourism and the voluntary sector.*

Investing in Cultural Infrastructure

In 2008, the Centre of Expertise on Culture and Communities released a study that expressed growing concern for the state of Canada's cultural infrastructure (including, but not limited to, art galleries, museums, libraries, theatres and other performance spaces).

Much of the cultural infrastructure built around Canada's 1967 centennial celebration is in need of repair.[8] Cultural spaces within Canada often have uneven distribution within communities, resulting in a lack of affordable and sustainable rental venues 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.[9] There must also be a coordinated policy and funding effort in order to maintain accessibility to cultural sites for the Canadian public.

Infrastructure, however, is more than just bricks and mortar. It's equally as critical to prepare for a new generation of talent — and here, long-term vision is needed. In combination with a pan-provincial approach to arts education in primary and high schools, the role of mentorships and internships must be addressed. As part of an employment strategy,

- *The AFB invests $1.5 million a year for the next five years 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 that provides stabile funding and a commitment to protect and present Canada's national heritage, must be established. All stakeholders and all political parties agree four years ago to adopt a new National Museum Policy, but there has been no action to make it a reality since 2006. Quite the opposite: in the past four years, the museum community had absorbed significant cuts — particularly to the $4.6 million Museum Assistance Program — and the termination of the Exhibition Transportation Services. A nascent plan for a National Portrait Gallery was put on hold, with little explanation.

- *The 2011 AFB makes the creation of a National Portrait Gallery in the former U.S. Embassy in Ottawa a national priority.*
- **National Museum Policy:** The AFB dedicates an additional $50 million to create a National Museum Policy that promotes Canada's national heritage, exhibits Canadian stories and preserves our culture.

Notes

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Communications

The New Critical Infrastructure: Jobs and Economic Development Via High-speed Communications Networks

Over the past decade, the communications world has changed so dramatically that the Canadian Radio-television Telecommunications Commission (CRTC) is reconsidering its 1999 "basic service" obligations. These require Canadian telecommunications carriers to offer all customers in their area individual-line local service with touch-tone dialing and low-speed Internet connectivity at local rates — i.e. dial-up Internet access.[1] Today, however, more and more everyday transactions, from job searches to banking, are being carried out online. Dial-up access is woefully inadequate for these and other bandwidth-hungry applications. Today, the incorporation of high-speed Internet into the lives of Canadians is so common that access to some level of broadband must be recognized as a basic, universally available service.

Modernizing communications infrastructure is costly. At CRTC hearings in October 2010 that reconsidered basic service obligations, one telephone company estimated that it would cost $700 million annually[2] for 10 years to bring high-speed Internet to all Canadians. "It's a task that can never be achieved by market forces alone," one telecom provider told the CRTC, in one of the first such estimates to be made for Canada. There is little doubt that governments will have to facilitate the transition with various programs to bridge the gap.

The recommendations in this section are designed to return Canada's communications infrastructure to world-class standards.[3] At stake is nothing less than the economic and social health of our communities.

Recognize "Effective" Connectivity as an Essential Service

A study done for the U.S. Federal Communications Commission (FCC) 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."[4] Communities need such an enabler, particularly during economic downturns. In other words, effective broadband supporting a wide range of communications applications must become a vital part of Canada's federal policies and programs.

- *The AFB recommends that access to 1.5 Mbps broadband should become part of the "basic service" definition for telecommunications providers in Canada. At the same time, it should be recognized that this is a minimum level that is barely enough to support social and economic applications essential to community sustainability.*

Develop a National Broadband Plan

Canada still lacks a national plan for universal access to effective broadband. This stalls our economy and negatively affects productivity. The CRTC, among others, has pointed out the need for a comprehensive national strategy to secure the nation's digital future.[8]

Broadband planning activity elsewhere in the world indicates just how far Canada has fallen behind:

- Australia released its *National Broadband Strategy* in 2004;
- Great Britain released the *Digital Britain Report* in June 2009;
- Germany released its *Information Society Germany 2010* plan in 2006;
- France and New Zealand announced national digital strategies in 2008; and
- the FCC released its national broadband strategy for the U.S. in March 2010.

In May 2010, Industry Canada conducted a six-week public online consultation about the digital economy. For a major national issue, the whole exercise was limited and ad hoc, with no indication of how the input was being evaluated, deadlines, or a chairperson or named group of experts directing the process. Industry Minister Tony Clement, speaking to an industry group in November 2010, offered a vague interim report and suggested that something more definite might be ready for the spring of 2011.[5]

While other countries are working on implementation, Canada lingers in the slow lane. The AFB proposes a comprehensive national consultation on Canada's digital future. The online and industry consultations completed so far may inform the public process, but they are no substitute for a broader consultation that reflects the concerns of all Canadians.

The process will invite input from beyond business and academia, and be led by a panel of independent researchers mandated to hold citizen meetings across the country and receive written submissions. The meetings 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.

The discussions will also seek ways to improve the environmental sustainability of the ever-growing use of digital technologies. ICT devices currently account for 2–3% of global greenhouse emissions.[6] As the availability and use of "always on" broadband rises, this amount will likely increase. Technical solutions such as "power-saving" devices — and upgraded standards for them — must be explored and supported. On the social side, incentives for telecommuting and video-collaboration to support decreased use of fossil fuels for land and air transportation should be considered.

- *The AFB allocates $250,000 to fund a broad national consultation to modernize communications policy in Canada. We will present a transparent process that can be implemented before September 2011. A comprehensive plan based on these discussions will be presented to Canadians by April 2012.*

Creating Jobs With Next Generation Broadband Networks

To fully exploit the potential of the new communications tools, Canada needs better broadband infrastructure. Though there are no firm estimates of the number of Canadian jobs at stake, experience from other jurisdictions can offer some guidance:

- A 2009 study by the World Bank suggests that an increase of 10% broadband penetration in high-income countries correlates with a 1.2% growth in GDP.[7]
- "Rural counties in the United States that embraced broadband adoption at the start of this decade enjoy access to more jobs than those that did not," reads a 2009 study by the U.S. Department of Agriculture.[8] Their residents also make more money than their less-connected counterparts.
- The Communications Workers of America predicts that a $5-billion stimulus for broadband infrastructure would create almost 100,000 new jobs directly in the short term and 2.5 million jobs through network effects.[9]
- A report by the Information Technology and Innovation Foundation (U.S.) suggests that a broadband subsidy of $10 billion will directly create or retain or 500,000 jobs.[10]

In Canada, the only recent federal program to address connectivity (in 2009) allocated a scant $225 million over three years to fund the expansion of rural broadband infrastructure.[11] Broadband connectivity is defined as "access to Internet service that supports data transmission at a minimum speed of 1.5 Mbps to a household."[12] In reality, 1.5 Mbps is not enough to support applications such as e-health, e-education, or e-commerce. At this speed, Canadians in rural areas, and pockets of them in urban areas, will remain effectively disconnected and disabled for a long time to come.

In contrast, in April 2009 the Government of Australia announced it would build a national high-speed broadband network to deliver up to 100 Mbps to 90% of its citizens. The eight-year, AU$43-billion project will be one of the world's largest state-sponsored Internet infrastructure upgrades. The Australian Prime Minister has suggested the project will support up to 37,000 jobs at the peak of construction.[13]

Canada must similarly bring its communications infrastructure up to world standards. To that end, the AFB ramps up to $1 billion per year to bring world-class broadband a reality for all Canadians. The decade-long infrastructure project will start in 2012–13 and will be guided by the recommendations of the National Communications Strategy. Because it is such a major commitment of public funds, Canadians will retain majority ownership of the resulting infrastructure.

- *The AFB ramps up to $1 billion annually over 10 years to modernize Canada's digital communications infrastructure*

Building Capacity and Generating Demand With a National Public Access Program

National programs that provide access, education and support for effective use of ICT in communities are considered essential in countries — such as Korea — that rank high in their use of online tools. Such programs are considered investments that generate demand and build human capacity to meet that demand.[14] The question of digital literacy also came up at the CRTC hearings on basic service. Concerns were raised about the 25% of Canadians who have no Internet service — even where service is available — and other questions arose about programs that might address that gap.[15]

Luckily, Canada already has such a program in its national network of 3,500 community technology centers, which every day help more than 100,000 people[16] 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 diverse areas, from video editing to website-building. Along the way, thousands of youth gain valuable job experience. Internal and external evaluators agree that this program has been successful and cost-effective for years.[17] This network must not be allowed to collapse in the current telecom policy vacuum. Support for existing centres must be expanded and a program to restart funding for new centres must be established.

- *The AFB allocates $40 million to support new and existing National Public Access sites in the 2011–12 budget year.*

This investment will boost local economies by encouraging technology use for community development and by offering collaborative tools that promote the effectiveness of the community sector. When Canadian communities suffer because of major job losses, these programs provide essential support in times of economic downturn.

Notes

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Health Care

The past year has seen a rise in the number of voices claiming health spending is out of control, and that publicly funded health care is the problem. The critics' focus has been on wait-times, and raising discontent with the status quo. They have ignored or obscured the spiralling costs of privately funded health care and declining access to essential services experienced by many lower-income Canadians and people living outside large urban centres.

Some privatization advocates even argue for repeal of the Canada Health Act. But greater use of for-profit care will not save medicare, nor will it speed up access — except for those who pay to jump the queue. Rather, it will make others wait longer, add costs to the system, and further erode the principle of equality — service based on need, not ability to pay — which is the foundation of the Canadian approach to universal health care.

The push towards more user-pay health care is occurring at the same time that Canadian society is under growing pressure from rising inequality. Rich people generally demand faster health care, and poor people generally need more health care. We have more of both. The economic crisis has made things harder for the middle class too.

About half a million full-time and permanent jobs vanished in the recent economic crisis. Many Canadians lost their health, dental, and retirement benefits — if they had them to begin with. About 62% of Canadians were covered for dental care before the economic crisis erupted.[1] About half of Canadian employees had health benefits in 2005,[2] and even in the wake of the Chaoulli decision, which was supposed to open up the market for private insurance in Quebec, there has not been a surge in the number of people covered. This is likely due to the reluctance among employers to pay ever-rising premium costs.[3]

Employer-sponsored private health and dental insurance benefits rarely reach the people most in need of affordable access to care. Female workers, single parents, part-time, and non-unionized workers, people with disabilities, those who reside in rural or remote communities, and those with lower wage and education levels are significantly less likely to be covered by extended health benefits. Those who depend on pension benefits for supplementary health coverage are also more vulnerable since there is no legal obligation for unions to negotiate or defend these benefits or for employers to maintain them.

Yet, as provinces remove services from the public system, more Canadians are being forced to turn to the marketplace for needed health benefits. This, at a time when many are coping with flat-lined or shrinking household budgets. And that's before the long-term effects of the crisis kick in — rising poverty and stress are major contributors to poor health.

The challenge facing governments is how to improve access and contain costs. The AFB health strategy will enable the government to meet those goals.

Pharmacare: Time For a Universal, Publicly Insured Drug Plan

If the primary healthcare concern of Canadians is spiralling costs, our eyes should be firmly fixed on better managing our expenditures on drugs. Drug costs have risen while governments have cut back on public funding. Today provincial governments pay less than 39% of the total drug bill, and consumers pay up to 16% of drug costs out of pocket.

We can do better using a single, public system[4] that manages costs through four levers: universal public insurance; a national formulary of essential drugs; independent evidence-based drug evaluation; and bulk purchasing. And one that can save more than $10.7 billion in annual costs for prescription medicines — or an estimated 43% of Canada's $25.1-billion drug bill.[5] The largest cost reductions would come from evidence-based drug reviews and price negotiations for bulk purchasing.

These basic ideas have been in play for decades. In 2006, Canada's First Ministers agreed to a National Pharmaceutical Strategy which recognized that "affordable access to drugs is fundamental to equitable health outcomes" for all Canadians. The 2011 AFB will restart this process by offering the provinces a cost-shared strategic approach to control costs and improve access.

Currently private spending is estimated to total $13.9 billion a year ($9.3 billion by insurers; $4.6 billion out of pocket). The Canadian Health Coalition estimated that about a third, or $3.1 billion, of private insurance costs are paid for by governments who, collectively, are the largest employer in Canada. In addition, governments spend another $11.2 billion to purchase drugs for those covered by provincial pharmacare plans.[6]

The AFB will initiate a phased-in National Pharmacare Program over 3 years to replace private spending on prescription drugs and significantly reduce public expenditures. It will allocate $2 billion plus 10% of private expenditures, or $1.39 billion, in the first year towards a National Pharmacare Plan for a total expenditure of $3.39 billion. In Year II, the AFB would increase the allocation by 13% for a total of $3.83 billion. Year III of the phase-in would raise this amount by 20% to $4 billion.

An equitable formula and conditions for provincial participation in the national formulary would be negotiated to ensure that provinces — both as employers and as public payers — benefit from bulk purchasing strategies. Similarly, a taxation strategy would be developed to determine the appropriate contribution from private sector employers, who would benefit by significant reductions in insurance premiums.

The goal of a National Pharmacare Plan is to establish a universal program for all Canadians. During the phase-in stage, the AFB will fund first-dollar coverage for seniors, children under 18 years and people with disabilities. The program will be expanded within a determined time-line to cover all residents.

The Patented Medicines Price Review Board will be directed to revise the list of comparator countries it uses to establish Canadian drug prices to ensure we are more in line with the OECD, for an estimated saving of $1.95 billion annually.[7] The Canadian Agency for Drugs and

Technologies in Health (CADTH), set up by federal, provincial, and territorial governments to review the clinical evidence and cost effectiveness of drugs and medical devices, is currently underfunded. About 30% of CADTH's $23-million budget comes from the federal government. Of that amount only $5 million is allocated to review evidence of drug safety, efficacy and cost effectiveness.

The AFB will boost funding for the drug review process by another $5 million to strengthen CADTH's ability to independently and fairly evaluate evidence of drug safety and effectiveness. CADTH will train and hire academic educators to provide patients, doctors, pharmacists, and other health professionals evidence-based information about medicines and the rational use of drugs.

Community-Based and Dental Services

The report of the 1964 Royal Commission on Heath Services (Hall Report) presented compelling evidence that community-based provision of convalescent, rehabilitative, and therapeutic care could reduce hospitalization, contain costs, and improve health. The Commission recommended that federal funds be provided to build outpatient facilities, and that provinces be required to provide outpatient services "as a condition of any further payment in respect of in-patient benefits…". Recent research echoes the enduring wisdom that non-physician, non-hospital care can improve recovery and health: higher use of community health centres leads to lower use of hospital emergency departments.

Until 1995, approximately 10% of Health Canada's federal health transfers, about $51 per capita, was allocated to what were described as "extended health services": nursing homes, residential care, home care, and ambulatory (outpatient) services such as physiotherapy.[8] In return for these funds, the provinces were required to report to the federal Minister of Health about their activities in this growing area of health services delivery. This condition of funding ended in 1995, when the federal government introduced the Canada Health and Social Transfer (CHST) and greatly reduced cash transfers to the provinces.

Since then, virtually all provinces have divested from an array of non-hospital and non-physician services, such as, community-based rehabilitation. By 2001, private auto insurers were the largest single funder of community-based physiotherapy in the country,[9] a development that occurred over a period of only 15 years.[10]

Dental care is another health reform issue that could pay big dividends on small public investments. Almost six out of ten Canadian children and youth have dental caries, as do a stunning 96% of adults. Yet tooth decay is a preventable disease. Research shows poor oral health is also an indicator of other health problems like diabetes and cardiovascular disease.

In the late 1970s and early 1980s, Saskatchewan created a school-based program of preventative and basic curative care that eventually reached almost all children aged 5 to 14 in Saskatchewan. A forthcoming CCPA report estimates revitalizing this approach would cost under $600 million if implemented Canada-wide today.[11] A good proportion of the $12.8 billion[12] spent annually on dental care in Canada would become unnecessary, as would some other health expenditures. Improving oral health is low-hanging fruit for any government seeking to contain the spiralling costs of health care.

It is time to bring these non-hospital, community-based services fully within the purview of the *Canada Health Act,* as was initially contemplated when medicare was introduced.

The AFB will re-establish federal transfers for continuing care services (nursing homes, residential care, home care, community-based health and outpatient services) at the 1995 levels, at a cost of $100 per capita or $3.4 billion which the AFB ramps up to over 3 years. These funds will help improve access to home care for the elderly and people with disabilities, as well as access to long-term care and community-based health services.

The AFB also seeks to improve access to basic dental-care needs by putting a strategic focus on prevention. A good place to start is through a cost-shared school-based program that provides children and youth preventative and basic curative dental care, as per historic precedent. The AFB will offer $90 per capita to any province undertaking such an initiative which, if fully implemented across Canada, would cost the federal purse $280 million.[13] The AFB allocates $50 million to start up the program, and doubles that contribution in the next two years of the AFB plan.

Health Human Resources (HHR)

Good health care means making sure Canadians needs are met by the right person, in the right place, at the right time.

Demands by some for faster care is colliding with a crisis in health human resources, not only in Canada but internationally. Competition to attract and retain skilled professionals is pushing costs and adding pressure to the system. Poor HHR planning is deploying human resources to reduce wait lists in so-called priority areas, but causing wait times to increase in other areas. We may be facing labour shortages, but we are also not effectively deploying the full capacities of the health human resources we already have.

The time is long-overdue to articulate a pan-Canadian plan for educating and training replacements for the massive wave of retiring health care workers about to crest. And we must learn to better utilize the full complement of existing health service providers.

A forward-looking health human resource plan also needs an "innovations" plank, one that tests different approaches to delivering health care. Such studies can help develop new ways of aligning and allocating the time, skills, efforts and the knowledge of our health workforce, with the goal of achieving greater productivity and better health outcomes. Dr. Robert Evans has outlined just such a process in a paper written for the Canadian Health Services Research Foundation in 2010.[14] The first step, he has written, would be to identify practices that have successfully enhanced productivity. The second step would be to research the impact on health outcomes.

The AFB would allocate $150 million to the Canadian Health Services Research Foundation to identify innovations that have improved productivity and to support pilot studies to test new approaches to the organization of service delivery within the health system. This was the amount allocated in the Health Transition Fund to support pilot studies in primary care across the country.

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 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 existing health-care labour force and improve capacity within the public system. Additional funds will be committed to expand seats in medical, nursing, and other health-care education programs. The AFB 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 part because of a shortage of health-care workers. Aboriginal peoples are underrepresented in health-care occupations. 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.[15]

Enforcement of the *Canada Health Act*

The foundation of our publicly funded system is threatened by provincial violations of the Canada Health Act, as well as the reinterpretation of this federal law. The ability of Health Canada to ensure that the health system is adhering to national standards depends on accurate information and enforcement.

Private payment for publicly insured hospital and physician services is prohibited by the Canada Health Act and subject to both mandatory dollar-for-dollar deductions in cash transfers and discretionary penalties. The federal government's enforcement of the statute is weak to non-existent. Where mandatory penalties have been imposed, they are inadequate. Discretionary penalties have never been applied. In 2008–09, Health Canada reported that it had made its concerns about patient charges and queue-jumping at private surgical and diagnostic facilities "known to the provinces that allow these charges".[16] But much more needs to be done.

Enforcement depends on the monitoring of provinces and territories — based on a proactive collection of information — and political will. Currently Health Canada relies on public complaints, the media and provincial reports. But many provinces (notably Quebec, Ontario, Alberta and British Columbia) routinely fail to report any details about the activities of private facilities, including how much private and public funding for publicly insured services such enterprises receive.

In 1999, the federal budget allocated $43 million to the Federal Accountability Initiative, a move that committed Health Canada to becoming more accountable and more transparent to Canadians. But three years later, in 2002, the Auditor General reported that while Health Canada had taken some steps in the right direction, it had not gone nearly far enough. For example, the department had not "fully developed performance expectations and reported against them". The annual budget for the Canada Health Act Division, which administers and monitors compliance with the Act, was $4 million at the time, but the division's staff were unable to even collect enough information from the provinces and territories to determine compliance.[17]

By 2009, the Division's budget had only increased to about $4.2 million, and the concerns expressed by the Auditor General had not yet been adequately addressed.[18]

The AFB will increase the annual budget of the Canada Health Act Division to $10 million, to enable it to develop sources of information in every province that include, but are not limited to, provincial ministries of health. This will enable Health Canada to establish and meet performance targets regarding the collection of information about and evaluation of provincial programs, and support a speedier resolution of provincial violations. In addition, Health Canada will be better able to monitor the activities of the country's growing private health sector rather than rely on patient complaints of illegal billings and on provincial reporting. Provinces may or may not know about user charges that place them in violation of the Act, and many may be reluctant to intervene. For example, as recent court documents indicate, private surgical facilities in British Columbia have required patients to sign waivers that purportedly prevent them from disclosing to government officials the amount they have paid in "facility fees". Funding will also support a more robust and comprehensive reporting system through the annual Canada Health Act report.

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 million 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 multibillion profits, while many Canadians struggle to find affordable, adequate housing.

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. About double that number (more than 3.1 million households or about 8.4 million people) are paying 30% or more of their income on housing and this, according to Statistics Canada, puts them in the affordability danger zone. More than 3.3 million households (almost nine million people) live in substandard housing that requires major or minor repairs, according to Statistics Canada — and many of them are also living in unaffordable homes. 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). Further, because of the 2008 recession and concomitant job losses, the incidence of homelessness could increase, as homelessness as an indicator tends to lag behind that of job losses, and as individuals and families exhaust all other resources before finding themselves in a situation of homelessness. As well, there is no 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, lone parents, persons with disabilities 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 spending in the health, justice and social service systems. 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 hadhave 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 federal investments in affordable housing as a percentage of the GDP dropped sharply.
- In the time since the interim report in 2009, the federal government has suggested that all or most of the housing investments from the 2009 stimulus budget have been allocated. But since almost all the money flows through provinces, territories, municipalities or other entities, it has been impossible to track the spending. The lack of reliable national numbers on various dimensions of housing need combined with the lack of proper accountability for government investments creates a great many questions and offers few answers.
- **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.

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

FIGURE 12 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

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, leaving 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 interest 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 a one-time fund of $500 million annually for social housing repairs over two years and $128 million annually through to 2013 for the residential rehabilitation assistance program, or RRAP) 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, municipali-

FIGURE 13 **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%**

ties, 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. In December of 2010, Bill C-304 once again received the backing of a majority of MPs in a Commons' vote. It has been sent back to committee for final review, and it is due back in the Commons in its amended form early in 2011.

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 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.

FIGURE 14 **Federal Housing Investments** ($millions)

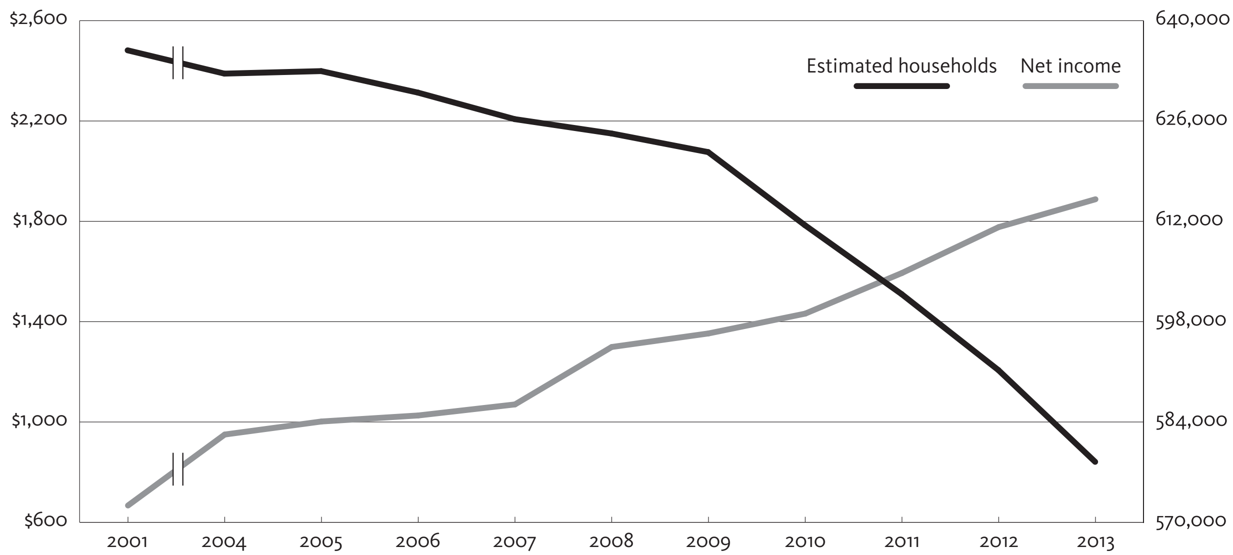
Investments Targeted to Low, Moderate, Middle-Income Households	
Housing Program Expenses[2]	$2,247
Affordable Housing Initiative[8]	$164
Homelessness Partnering Strategy[3]	$134
Renovation of Social Housing[4]	$500
Housing For Low-Income Seniors[5]	$200
Housing For Persons With Disabilities[5]	$25
First 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

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 $1.5 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 Partnering Strategy, doubling the 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 includes 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 Partnering Strategy provides services for homeless individuals and families however, 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. The federal government has renewed funding for these programs in fits and starts over the past decade. Currently, they are set to expire at the end of fiscal 2013. The funding levels for these initiatives have not changed over the past decade, even though inflation has eroded the value of the funding.

FIGURE 15 **CMHC's Surplus Will Rise as Number of Assisted Households Drops** ($billions)



SOURCE Canada Mortgage and Housing Corporation, 2009

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.

FIGURE 16 **AFB 2010 Housing Initiatives**

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

The AFB will utilize housing rehabilitation, retrofit 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, reduce energy consumption 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.

In 1996, when the federal government announced its plan to download most national housing programs to the provinces and territories, it set in place an automatic "step-out" of federal housing expenditures that coincides with the expiry of long-term federal affordable housing operating agreements. This policy sets in place an annual cut in federal housing funding that grows larger with each passing year. If the federal government doesn't reserve this policy decision, then housing investments will shrink to zero over the next two decades. Stabilizing federal housing investments by eliminating the growing annual cuts and, instead, investing the "step-out" funding either in ongoing support for existing affordable housing or in new affordable homes is emerging as a key issue for affordable housing advocates.

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

In Canada, families from immigrant and racialized communities are always among the first to suffer every time there is a recession;.but the economic plight of these communities has definitely become worse in recent years.

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 prolonged economic recession on immigrants and racialized communities is often being 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 conducted In 2008 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]

In November 2008, 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 (also see the Employment Insurance chapter) so that it more adequately meets the needs of Canadian workers, particularly members of racialized communities, including women, immigrants and refugees:

- 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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3 Ibid, p.7.

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18 http://www.hrsdc/gc.ca/eng/workplaceskills/publications/fcr/pcf.shtml.

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20 Reitz, Jeffrey G. October 2001. Immigrant Skill Utilization in the Canadian Labour Market: Implications of Human Capital Research. Toronto: Center for Industrial Relations and Department of Sociology.

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 2009 and Fall 2010, average undergraduate tuition fee rose by 4% in the same period, reaching $5,138.10.

Combined with 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 financing of post-secondary education has been increasingly downloaded onto students and their families. Between 1986 and 2008, government grants as a share of university operating revenue plummeted from 80% to nearly 50%. As a direct result, the share of university operating budgets funded by tuition fees more than doubled during the same period, from 14% to 35%. 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 brimming 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. Further, the Budget 2010 barely mentioned post-secondary education and provided no increase to the grants system or increases to the social transfer to the provinces.

The Alternative Federal Budget makes 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 apex 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 0.15% 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 0.20% for 2008–09.

When the Canada Health and Social Transfer (CSHT) was introduced in 1996, it removed the accountability of transfers to the provinces for post-secondary education. CSHT– renamed the Canada Social Transfer (CST) after health-care funding was changed to a dedicated transfer payment – lumped all social transfers from the federal government to the provinces together, giving no guarantee that federal monies intended for post-secondary education would reach students and their families. The 2007 federal budget took a step in the right direction by earmarking funds for post-secondary education, but while the earmark seemingly added some degree of transparency, provincial governments are still 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 payments 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 contribution is at least $1.2 billion short of 1992–93 levels when inflation and population growth are factored in. 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 $5,000 in 2010. 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 will introduce a new dedicated post-secondary education cash transfer, to be guided by federal legislation based on principles of accessibility, comprehensiveness, collegial governance, public administration, and academic freedom. This new cash transfer will return post-secondary 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 assume 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 loans have pushed student debt to historic highs. Monies owed to the federal government alone for student loans surpassed $15 billion in September 2010. 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 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-related volunteer experience, or take lower-paying work in order to get a "foot in the door."

In fall 2009, the federal government replaced the Canada Millennium Scholarship Foundation with the Canada Student Grants Program (CSGP). This new program greatly increases accountability, but, in order to meaningfully reduce student debt, a larger investment is required. The CSGP will distribute roughly $523 million this year, while the Canada Student Loan Program expects to lend just over $2.1 billion. Although a substantial amount of funds is being distributed through the CSGP, it pales in comparison with the $2.52 billion the government will spend on education-related tax credits and savings schemes. Despite their large price tag, federal tax expenditures are a 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, and by redirecting funds currently used on education-related tax credits and savings schemes into up-front 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. It is estimated that between 2001 and 2006, over 10,500 students were denied funding, with roughly 3,000 more students per year denied funding since.

- *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 (see the Aboriginal chapter of the AFB).*

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 comparatively little to basic research. By funding a narrow range of research disciplines – mostly in science, engineering, and business — these funding decisions have led to a deterioration of a comprehensive research environment 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, Canada's 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 innovation 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. In addition, the AFB will increase the number of Canada Graduate Scholarships to 3,000 — consistent with the average growth of the program since 2003 — to be distributed proportionally among the research granting councils according to enrolment figures. In order to support both research and the general functioning of PSE institution the AFB is devoting $800 million a year to addressing deferred maintenance.

Notes

1 The Daily (2010). University Tuition Fees. Ottawa: Statistics Canada.

2 Canadian Federation of Students (2010). Post-secondary Education Tax Credits: Billions in misdirected "financial aid". Ottawa: Canadian Federation of Students.

Poverty Action and Income Inequality

Everyone is eyeing Canada's fragile recovery with concern: 59% of the country's economy depends on consumer spending, but Canadian consumers face record levels of indebtedness and 60% of Canadian workers[1] live from paycheque to paycheque. Going into the recession, the average Canadian household owed $1.40 for every dollar of disposable income. By the end of 2010 that figure had reached $1.49, placing millions of households in jeopardy should they lose a job or face rising interest rates.

For those who have lost their jobs or find themselves working for less, things are harder than ever. Historically low levels of income support and a growth in insecure, poor-paying jobs led an estimated 867,948 individuals to food banks across Canada in March 2010, an increase of 28% over the same month in 2008.[2]

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, the Council of Canadians with Disabilities, and others.

The political momentum to tackle poverty is growing. Seven provinces and two territories — Quebec, Newfoundland and Labrador, Ontario, Nova Scotia, New Brunswick, Manitoba, P.E.I., Yukon and Nunavut — have poverty-reduction plans in place or in development. At the federal level, however, the Harper government has ignored repeated calls for action. In November 2009, the House of Commons passed a motion with all-party support directing it to "develop an immediate plan to eliminate poverty in Canada for all". In December 2009, a report from the Senate Subcommittee on Cities also urged the federal government to adopt a poverty-eradication goal."[3] Most recently, in November 2010, the House of Commons Standing Committee on Human Resources, Skills and Social Development, and the Status of Persons with Disabilities (the HUMA Committee) released its excellent and long-awaited final report on the federal role in poverty reduction. Its core recommendation: "That the federal government join with the provinces to introduce an action plan for reducing poverty in Canada."[4]

Clearly, the political terrain is shifting.

While most provincial governments have taken the lead, the job cannot 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 poverty among Aboriginal people, seniors, children, recent immigrants and people with disabilities. The economic security of Canadians should not depend on the part of Canada in which one resides.

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 (modestly) the incomes of the poorest Canadians through the GST credit and Working Income Tax Benefit. But much more needs to be done.

There is nothing inevitable about poverty in a society as wealthy as ours. Evidence from other countries demonstrates how governments that commit to bold action plans get results.[5] 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.

The Case For a Federal Plan

The need for a pan-Canadian poverty action plan is urgent. The latest year for which we have income statistics is 2008. That year, the measure most commonly used to define Canada's poverty rate — Statistics Canada's after-tax low-income cut-off — was 9.4%, up from 9.2% in 2007. The recession took hold in October of 2008, and there is every reason to believe that the poverty rate has risen since. As CCPA economist Armine Yalnizyan has calculated, "if past recessions are any guide, between 750,000 and 1.8 million more Canadians will be counted as poor before recovery is complete."[6]

Regardless of the poverty measure used, in 2008 over three million Canadians — more than 600,000 of them children — lived in poverty. In First Nations families, one in four children lives in poverty. The 2008 numbers also show the number of elderly living below the poverty line spiked by 25%, the first major increase in decades.

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 overcome, but evidence shows that the depth of poverty is deepening and that its duration lengthening, leaving a scarring legacy on individual lives and communities across the country. Persistent poverty represents a violation of economic and social rights as enshrined in international law, and a squandering of human potential.

For millions of Canadians, the crisis is far from over. Hundreds of thousands of the unemployed are exhausting their EI coverage and discovering a provincial social assistance system that is a shadow of what it was during the recession of the early 1990s. Real social assistance benefit rates are generally much lower, while new rules have made assistance much less accessible, often forcing people to liquidate their savings before help is provided.[7] Those in desperate need of income support — due to a job loss, 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. The reality is much changed from past recessions.

Thus far during the recovery, job creation has been marked by rapid growth in temporary positions and self-employment, and job expansion has been dominated by public sector employment and stimulus spending. But as federal and provincial governments turn to reducing their deficits, it's questionable if the private sector will pick up the slack and add enough well-paying jobs to fill the breech. It's an uncertain recovery, possibly pointing to a double-dip recession or an increase in the number of working poor. "Recovery" or not, tough times are ahead.

Inequality

Without question, reducing poverty is a matter of urgency. But inequality shapes our view of that urgency. Decades of international research reveal an important link between poverty and inequality: the higher the rate of inequality among people, the higher the rate of poverty that is tolerated.[8] That could explain why high poverty levels have continued to be politically abided 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.[9] By 2008, the average after-tax income of the richest 10% of non-elderly households was 20 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. By 2008, the richest 1% of Canadians had doubled their share of total income from a generation before, in the mid-1970s.

The trend-line shows no sign of plateauing. The richest 1% held 14% of total income, the same level as during the Roaring Twenties. Two recessions in as many decades (1981–82 and 1990–91) caused many well-paying secure jobs with benefits to disappear. This one is no different, with the newly emerging jobs providing less pay, less reliable hours and fewer or no benefits. These trends are shrinking the middle class, and creating a Canada of greater extremes.

A recent UN report notes that high levels of inequality "make it difficult to reduce poverty even when economies are growing; and poor countries are generally more unequal than rich ones. Poverty and inequality are part of the same problem."[10]

Canada needs a plan that prevents and reduces poverty and 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.

We All Pay For Poverty

Many Canadians don't like poverty and homelessness, but too often they accept the claim that we cannot afford to do more 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 Canada to be between $72.5 to $86.1 billion (or about 6% of Canada's GDP).[11] Clearly, refusing to act doesn't save us money. Doing nothing is a false economy, and an increasingly unaffordable posture as we look to 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 action 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 2016), and by 75% within a decade.
- Ensure the poverty rate for children and youth under 18, lone-mother households, single senior women, Aboriginal people, people with disabilities, and recent immigrants likewise declines by 25% in five 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 ten 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 2016.
- 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.

To achieve these targets, the AFB will take action in the following key policy areas:

1. Establish the legal framework by which the federal government will provide leadership on poverty and inequality issues.

Embed the above targets in law, and pass Bill C-545 to mandate (1) "the establishment of a Government of Canada strategy to eliminate poverty and promote social inclusion"; and (2) "establishing the Office of the Poverty Elimination Commissioner independent of Government.

2. Provide adequate and accessible income supports

- Legislate an Act to reinstate minimum national standards for the adequacy and accessibility of provincial income assistance.
- Double the refundable GST credit.
- Increase the Canada Child Tax Benefit to $5,400 per child.

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

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

4. 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.

5. Address homelessness and the lack of affordable housing

- Pass a National Housing Strategy (as proposed by Bill C-304) (*see the AFB Housing chapter*).

6. Provide universal publicly funded child care

- 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 (*see the AFB Child Care Chapter*).

7. Provide support for training and education

- Immediately increase the availability of post-secondary grants for low-income students (*see the AFB Post-Secondary Education chapter*).
- As part of a Green Skills Initiative, provide apprenticeship, so that they gain skills in the higher paid jobs that will be in high demand as we take action of climate change (*see the AFB Sectoral Development chapter*).

8. Reduce inequality

- Establish a federal Task Force to investigate the role of the federal tax system in offsetting continuously rising income and wealth inequality among individuals and assessing tax fairness between individuals and corporations.

The AFB also introduces 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 (as recommended in the recent HUMA report). This innovative transfer will be worth $1.8 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.

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

Notes

1 http://www.theglobeandmail.com/report-on-business/economy/six-in-10-live-pay-to-pay/article1705096/

2 Food Banks Canada. November 2010. Hungercount 2010. Toronto.

3 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. Ottawa: Report of the Subcommittee on Cities.

4 The House of Commons Standing Committee on Human Resources, Skills and Social Development, and the Status of Persons with Disabilities. (November 2010). Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada. Ottawa: Report of the HUMA Committee. p. 249.

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

6 Yalnizyan, Armine. (2010). The Problem of Poverty Post-Recession. Ottawa: CCPA. August.

7 For a full review of provincial social assistance rates and eligibility rules, see: National Council of Welfare. (2010), Welfare Incomes, 2009. Ottawa: NCW.

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

9 Statistics Canada. (2010). Incomes in Canada 2008, Catalogue No.75-202-x; and Yalnizyan, Armine. (2007). The Rich and the Rest Of Us. Ottawa: Canadian Centre for Policy Alternatives, March.

10 UNRISD Research and Policy Brief 10, Combating Poverty and Inequality, October 2010

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

Seniors and Retirement Security

Canada's Pension System

Canada's current pension system rests on what are commonly referred to as "three pillars" — public universal systems, workplace pension plans, and private individual savings (including vehicles such as Registered Retirement Savings Plans and home equity).

Benefits from the Canada Pension Plan, established in 1966, were deliberately set at a modest level in the expectation that private pension plans would fill the gap. They have not. More than two-thirds of Canadian workers have no workplace pension plan, and only about one-third of those eligible to contribute to an RRSP actually do so. After 44 years, the social-policy success of the public universal systems[1] is just as clear as the failure of private-sector workplace pension plans and private-sector individual solutions offered by banks and insurance companies.

However, the public universal systems are not generous enough to provide decent retirement income for Canadians, and the current federal government has not committed to a specific plan to reform the CPP. The AFB will make substantive social-policy change in Canada with respect to retirement security by implementing CPP expansion in this legislative session, providing the provinces sufficient time to pass enabling legislation over the next three years.

Old Age Security and the Guaranteed Income Supplement

The basic building blocks of the public universal system are Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), which make up the "anti-poverty" part of the system. Together, they provide a guaranteed annual income for seniors aged 65 or older and do not depend on the recipient's participation in the work force. In addition, a program known as the Allowance is an income-tested benefit available to low-income people aged 60–64, but only if they are married to a low-income pensioner or widowed. Low-income men and women in this age group who are single, separated, or divorced are not eligible for benefits.

OAS is an important source of income for today's seniors — and particularly women. In 2007, for example, women aged 65 or older received almost 21% of their income from OAS, whereas men of the same age only received 15% of their income from OAS.

More than 95% of Canadian seniors qualify for the OAS, and in 2009, 4.5 million of them received OAS benefits. In 2011, pensioners with an individual net income above $67,668 will be ineligible for the full OAS benefit and will have parts of their monthly payments "clawed back" before issuance. The full OAS pension is eliminated when a pensioner's net income is $109,607 or above.

OAS pays a monthly benefit to individuals who meet residency requirements. That means a prospective recipient must be a Canadian citizen or legal resident on the day before 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 their 18th birthday (although there are exceptions to this rule — for example, for people who were 25 or older on July 1, 1977.) Non-residents aren't completely shut out from benefits, however. Those who don't meet the stipulated 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.

The 40-year residency requirement means many immigrants cannot qualify for full OAS benefits. However, low-income immigrants receiving only a partial OAS benefit may qualify for an enhanced GIS benefit.

- *The AFB commits the federal government to examining ways in which immigrant seniors living in poverty who do not necessarily benefit from OAS payments can be better supported.*

The maximum income a single individual could receive from OAS in January — March 2011 was $524.23 per month, or $6,290.76 annually. The average OAS payable in September 2010 was only $490.47 per month, or $5, 885.64 annually[2]

In 1967, the Canadian government also created the Guaranteed Income Supplement (GIS) as a temporary measure before retirement benefits through the CPP were established. The GIS is a form of social assistance, or "welfare", for the poorest of Canadian seniors, and a significant form of income for well over a million elderly Canadians.[3]

In 2011, no one with an annual income of $15,888 — excluding OAS benefits — will be eligible to receive the GIS. Individuals must re-apply each year to receive benefits, and in November 2010 more than 1.6 million Canadian seniors were receiving them. That same month, the percentage of Canadian seniors who drew both OAS and GIS benefits was 33.94%. The number in Newfoundland and Labrador, where 58.03% of OAS recipients were also entitled to GIS benefits, was particularly high.[4]

The maximum annual income a single individual could receive from GIS in the January — March 2011 quarter was $661.69 per month, or $7,940.28 annually. The average amount payable in September 2010 was only $452.04 or $ 5,424.48 annually.

The total maximum combined OAS and GIS that a single individual could receive was $14,237.04 annually in the January — March 2011 quarter. Clearly, this amount isn't enough, considering that — in 2008, three years ago — Statistics Canada's 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.

Recommendations:

- *The federal government estimates the GIS portion of OAS expenditures for 2010–11 to be $8 billion.5 The AFB increases the monthly GIS benefit for single individuals from $658.40 in 2010 to $758.40 (a $100, or 15.1% monthly increase — to a total of $9,100.80 annually). This benefit, added to the 2011 OAS maximum benefit of $6,290.76 will bring the maximum annual OAS/GIS* *benefit to $15,391.56. This approximates the after-tax low-income cut-off for a single person in a small urban area. The total cost of this measure will be approximately $1.2 billion.*

- *The net cost in lost tax revenues of subsidies to owners of RRSPs is projected to be $16.8 billion in 2010. The AFB proposes to limit tax subsidies to RRSPs to free up funds to improve GIS benefits (see the AFB Tax chapter).*

These measures should help to eliminate poverty among older women alone, recent immigrants, First Nations people, and seniors with disabilities. Since GIS payments are targeted to low-income individuals, who are more likely to spend every additional dollar provided to them, this will be a direct economic stimulus to the communities, large and small, where Canadians seniors live and spend their money. [6]

The Canada Pension Plan

The Canada Pension Plan constitutes another pillar of the public system. The CPP provides earnings-related pensions for retirees who have participated in the paid work force or have become disabled, and benefits for the dependants of disabled or deceased contributors. In 2010, approximately 7 million Canadians received monthly CPP benefits.

Contributions to the CPP are made by working employees and their employers on an equal cost-shared basis, and paid in their entirety by self-employed persons. Each year Canadian workers, including the self-employed, and employers provide about $6 billion in CPP contributions. The federal government provides a tax credit for CPP contributions through the tax system.

No direct government funding is involved in the CPP, but the federal government administers the payments of benefits. Since 1998 the funds have been managed by the CPP Investment Board (CPPIB), an arm's-length professional investment organization. As of June 2010, the CPPIB was responsible for assets of $129.7 billion. Starting around 2020, a portion of investment returns will be added to contribution revenue to pay for the benefits. The total operating costs for the CPPIB in 2009 were tiny, totalling 0.198% of the total assets invested, or 19.8 cents for every $100 of invested assets.

The plan is well managed. The Organization for Economic Cooperation and Development (OECD) has confirmed the CPPIB reserve fund had one of the best-performing investment returns during the 2005–09 boom-and-bust period. In November 2010, the plan's Chief Actuary gave the CPP another clean bill of health, saying that despite the expected increase in benefits that will be paid to Canada's aging population in coming years, the CPP should 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."

While this is somewhat reassuring, the problem with the CPP is that it is simply not generous enough. It only entitles working Canadians to up to 25% of their pre-retirement earnings upon retirement. (This percentage is called the "replacement rate".) However, contributions are not permitted on earnings greater than the average annual wage — $48,300 for 2011 — regardless of the actual salary of the individual employee. Benefits are based on the wages received for an entire working career.

When the CPP was established, the federal government deliberately set a low 25% replacement rate because employers promised to set up workplace pension plans to supplement the public system. Banks and insurance companies also promised to establish innovative private-sector solutions to allow Canadians to save individually for their retirement.

The basic CPP personal exemption is $3,500, which allows for maximum contributory earnings in the amount of $44,800. The contribution rate is currently 4.95% of pensionable earnings for employees and employers (self-employed persons pay the total amount of 9.9%). What that means in practice is that in 2010, no Canadian worker or employer paid more than $2,217.60 annually for CPP contributions. Anyone earning less than $48,300 paid less than this amount in annual contributions, as did their employer. All CPP contributions are tax deductible.[7]

Because of the low level of "covered earnings" — that is, replacement rate and contributions — the maximum CPP benefits for 2011 will be only $960.00 per month (or $11,520 annually) for a 65-year-old who enjoyed maximum work force participation and maximum earnings.[8]

However, as of November 2010, the average Canadian benefit payable was only $501.81 per month or $6,021.72 annually. The average monthly CPP retirement pension paid to women in September 2010 was even less — $412.38 ($4,948.56 annually) compared with an average monthly payment of $594.02 for men (or $7,128.24 annually). This reflects the wages of the many people who work for less than the "average" industrial wage, and the number of part-time workers, most of whom are women.[9]

- *The AFB continues to support — as it did in 2009 — a proposal to double the CPP's replacement rates from 25% to 50% of a retiree's pensionable earnings.10 The change will be phased in over a seven-year period.*

Under the AFB's proposed changes, it will take longer than seven years for a person to qualify for a full doubling of maximum CPP benefits over a lifetime of work. The reform will primarily benefit younger workers and will require an increase in contribution rates — including matching employer contributions, from 4.95% of covered earnings in 2011, to 7.8% of the Year's Maximum Pensionable Earnings (YMPE) — in 2016.

The 2009 AFB also proposed to 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, which is the current basic exemption). These changes will require the consent of two-thirds of the provinces having two-thirds of the population, but no government funding.

It should be noted that an increase in CPP contributions is not a "payroll tax". The contributions do not go into general federal government revenues — rather, they increase the retirement benefits of the employees upon whose behalf they are made. The CPPIB invests workers' contributions in the economy, and the CPP benefits are re-spent in the community by retirees.

As outlined earlier, since CPP benefits are related to earnings from paid employment, 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.

Indexing To Prices Increases the Gap Between Seniors and the Rest of the Population

Benefits in the first pillar of the retirement income system — and retirement pensions from the CPP — are indexed for inflation using the Consumer Price Index (CPI). Inflation indexing is particularly important for female seniors because, on average, they spend longer in retirement than their male counterparts. They must 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. Therefore,

- *The AFB will phase in a new regime of indexing for public pensions (OAS, GIS and CPP) based on wages instead of prices.*

Workplace Pension Plans

Some 84% of public-sector workers have a workplace pension plan, compared to only 25% of paid employees in the private sector. Pension coverage is closely related to union membership: almost 80% of workers in unionized jobs have pension plan coverage, compared with only 27% in non-unionized positions. Coverage is also related to employer size, with smaller employers less likely to provide a workplace pension plan than larger firms. But most working Canadians have no workplace pension plan at all.

The demise of once-mighty Canadian companies such as Nortel and Abitibi Price, and the consequent breaches of their pension obligations, focused attention on the continuing deterioration of workplace pension plans. The stock-market meltdown affected the solvency of many pension plans, although many of their troubles could usually be traced back to the failure of employers to make sufficient pension plan contributions when their balance sheets were full — "pension contribution holidays", as they are affectionately known.

Today, as a consequence of the recession, low interest rates, and pension-fund investment losses, workers are being asked to absorb benefit cuts, increase their contributions, or switch their defined benefit pension plans to defined contribution plans. With the latter, employees assume the investment risk, without indexing or risk-sharing with other members of a large pension plan.

Smaller employers typically refuse to establish workplace pension plans, claiming that the expense of hiring lawyers, auditors, actuaries and investment managers, and the long-term liability of paying for the defined benefits, is beyond their business capabilities. Other employers are converting defined benefit pension plans to defined contribution schemes, where the value of an employee's pension contributions depends on the value of the stock market on the date of retirement and the cost of converting that plan value into an annuity or Registered Retirement Income Fund.

Ultimately, workers are really the ones who bear the brunt of broken pension promises. If a pension-plan sponsor with unfunded liabilities goes under, workers may lose their pensions or receive only a portion of what they had expected.

The 2010 AFB proposes no changes to government policies regarding workplace pension plans. The net cost of tax subsidies to registered pension plans in 2005 was $13.3 billion, an amount that is projected to increase to $16.8 billion by 2010, although the figures are not yet published. The net cost in lost tax revenues of tax subsidies to registered pension plans and RRSPS in 2010 ($28.9 billion) is greater than the total cost of OAS benefits, estimated at $27.6 billion for the 2009–10 fiscal year.[11] Put another way, even if the 50% replacement rate for CPP was achieved, people would still need workplace pension plans and private savings to achieve a 70% replacement rate of pre-retirement earnings.

Private Savings

The empirical evidence since RRSPS were first created by the Canadian financial services industry in 1957 makes it clear that these much-vaunted investment vehicles fail to help Canadians save for retirement to the extent that they are advertised. One reason why is that Canadian banks and insurance companies charge some of the highest "management expense ratios" in the world — fees that RRSP owners pay regardless of the market performance of their investments.

If you invested $10,000 at a 5% annual rate of return compounded for 45 years, you'd end up with an asset worth $72,000 if the fund's management charged you 0.5% of your assets each year to manage it. If you made the same $10,000 investment and the fund's managers charged you a management fee of 2.5% — the average in the Canadian financial services industry — your asset would only be worth $29,500 after the same 45 years. The missing $42,500 would have been lost to "management fees".

Aside from the speculative nature of the investment markets and high management fees, private-sector solutions provide neither "indexing" nor inflation protection nor provide sufficient resources if an individual exceeds "average life expectancy".

In reality, RRSP ownership is shrinking. In 1997, 41 per cent of employed tax filers participated in an RRSP; by 2008, this proportion had declined to 34 per cent.[12] And these are some of the richest Canadians. For example, 86% of the top 20% of income earners in Canada purchased RRSPs. The RRSP tax breaks to the richest Canadians cost the federal government more than $12 billion in lost revenue in 2010.

For those Canadians who do own RRSPs, the median value of the RRSP was only $60,000 in 2005. Vast discrepancies in RRSP value existed depending on the after-tax family income. Families with an after-tax income of $36,500 or less had RRSPs (or registered pension plans) with a median value of only $16,300. In contrast, the RRSPs (or registered pension plans) of families with after-tax income above $85,000 had a median value of $224,100.[13]

The value of an RRSP fluctuates greatly, according to when the plan's owner wishes to retire and transfer the RRSP funds into an "annuity", which is not protected from inflation.

It is exactly this market fluctuation that makes RRSPs a risky proposition. If you retire at the "wrong" time — that is, when markets are down — your pension fund is severely affected. When retirement assets are pooled in an employer- or government-sponsored pension plan, retirement dates are spread over a much longer period, which insulates individual retirees from market gyrations.

For example, an individual who had $100,000 invested in an RRSP which was invested in TSX indexed funds would have the following vastly different results depending on whether they retired on May 15, 2008 or February 15, 2009:

The value of a $100,000-RRSP or defined contribution pension (TSX indexed funds)

Date of retirement	*Expected pension income*
May 15, 2008	$7,659.20/year (or $**638.26** per month)
February 15, 2009	$3,937.33/year (or $**312.11** per month)

- *The AFB would cap RRSP contributions at $20,000, a level which would affect only those making $110,000 or more (see AFB Tax chapter).*

Notes

1 Empirical data demonstrates the overwhelming social policy success story of the CPP/OAS/OAS Allowance and the GIS. In 1971, the poverty rate among Canada's seniors was as high as 36.9%. By 2007, that rate had dropped to 4.9%. The rate increased significantly in 2008, to 5.8%. It is time to bolster the GIS and enhance the CPP contribution and benefit rates, the parts of Canada's pension system that have proven their worth since 1966.

2 http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml

3 Statistical Bulletin, Canada Pension Plan/Old Age Security (November 2010, Table 31: http://www.servicecanada.gc.ca/eng/isp/statistics/pdf/statbulletin1110.pdf

4 Statistical Bulletin, Canada Pension Plan/Old Age Security "Number of persons receiving Old Age Security benefits, by province and by type", Table 31 (November 2010): http://www.servicecanada.gc.ca/eng/isp/statistics/pdf/statbulletin1110.pdf

5 : http://www.servicecanada.gc.ca/eng/isp/statistics/rates/janmar11.shtml

6 The AFB's proposals for changes to the OAS and GIS are supported by the November 2010 report of the House of Commons Standing Committee On Human Resources, Skills And Social Development And The Status Of Persons With Disabilities, "Federal Poverty Reduction Plan: Working In Partnership Towards Reducing Poverty In Canada": which recommended in part, as follows:

Recommendation 4.3.1

The Committee recommends that the federal government make changes to the Guaranteed Income Supplement (GIS), in particular by increasing benefits (especially those to persons living alone), increasing or indexing the basic exemption for employment income, and excluding Canada Pension Plan benefits from the income calculation for the GIS, and that the federal government systematically verify eligibility of pensioners to the GIS and allow an individual to apply for a pension and the GIS by adding a question to that effect in the tax return.

http://www2.parl.gc.ca/Content/HOC/Committee/403/HUMA/Reports/RP4770921/403_HUMA_Rpt07_PDF/403_HUMA_Rpt07-e.pdf

7 http://www.servicecanada.gc.ca/eng/isp/statistics/rates/janmar11.shtml

8 http://www.servicecanada.gc.ca/eng/isp/statistics/rates/janmar11.shtml

9 Statistical Bulletin, Canada Pension Plan/Old Age Security (November 2010): Tables 3, 8 and 10: http://www.servicecanada.gc.ca/eng/isp/statistics/pdf/statbulletin1110.pdf

10 The proposal was originally suggested by the Canadian Labour Congress and its 3 million members in affiliates across the country. Since the proposal was launched in September 2009, many organizations, individuals, experts and academics have supported the campaign including Canada Without Poverty, the Canadian Federation of Students, Jonathan Kesselman, and the former Chief Actuary of the CPP (1992–98), Bernard Dussault.

11 Service Canada, 2009.

12 "*Participation in private retirement savings plans*, 1997—2008" by Karim Moussaly of the Pension and Wealth Section Income Statistics Division, Statistics Canada: http://www.statcan.gc.ca/daily-quotidien/100326/dq100326a-eng.htm]

13 November 2010 report of the House of Commons Standing Committee On Human Resources, Skills And Social Development And The Status Of Persons With Disabilities, "Federal Poverty Reduction Plan: Working In Partnership Towards Reducing Poverty In Canada": http://www2.parl.gc.ca/Content/HOC/Committee/403/HUMA/Reports/RP4770921/403_HUMA_Rpt07_PDF/403_HUMA_Rpt07-e.pdf; footnote 575 Wendy Pyper, "RRSP investments," *Perspectives on Labour and Income*, Vol. 9, No. 2, February 2008, Statistics Canada, Catalogue No. 75–001-XIE, ttp://www.statcan.gc.ca/pub/75–001-x/2008102/pdf/10520-eng.pdf.

Women's Equality

Roots of Crisis, Roots of Growth

In the wake of the global economic crisis, the world has praised Canada for its fiscal and monetary policies. Yet Canada's response to the recession within Canada has not provided security for most women. A meaningful response requires an analysis of the distinct roles of women and men within the economy, and of the distinct impact of the crisis and its recovery strategies on both women and men.

Canada's Economic Action Plan focused on short-term stimulus spending and investment in physical infrastructure, but contained no parallel investment in social infrastructure. It has foregone revenues in favour of tax cuts and credits that exclude low-income earners. The result has been more than a missed opportunity to support the equal participation of women and men in the country's economy. It has been an increase in the gap between men and women.

Much has been made of the increased presence of women in the labour market in Canada and internationally. However, women's employment is more likely to be insecure, part-time, and temporary.[1] Women are among the first to return to a post-recession labour force, because the jobs initially available are more likely to be part-time or temporary.

This early re-entry does not translate into increased well-being or increased economic stability for Canadian women, whose average income is $31,949, compared to $51,043 for men.[2] Some 26.1% of women, compared to 10.8% of men, engage in part-time work.[3] Some 40.4% of women have incomes so low that they have no tax liability and therefore do not benefit from tax cuts.[4] Fully 6.5% of women, compared to 6.9% of men, are unemployed, yet only 33% of unemployed women qualify for employment insurance, compared to 44% of unemployed men. Moreover, women perform 4.3 hours of unpaid work per day, compared to 2.5 hours of daily unpaid work by men.[5]

Women in all social groups face inequalities compared to men, but there are also significant differences among women. The erosion of social rights is particularly pronounced among single mothers, racialized women, Aboriginal women, and women with disabilities. Overall, 9% of Canadians live in poverty.[6] However, the poverty rate for female single-parent families is 23.6%, compared to 10.8% male single-parent families.[7]

Other groups of women face similar challenges: 23% of immigrant women, 26% women with disabilities, 29% of racialized women, and 36% of Aboriginal women (including Métis, Inuit, First Nations) live in poverty.[8]

Tax Relief Is No Relief For Women

The federal government has attempted to provide economic stimulus through tax cuts and to deliver services through tax policy. Examples of inequitable provisions in the personal income tax system include:

- the exclusion of 50% of capital gains from income for tax purposes (at a cost to the national treasury of $3.2 billion in 2009, down from the pre-recession figure of $5.9 billion in 2007);
- the Stock Option Deduction ($830 million);
- the tax deduction for business meals and entertainment (cost to tax system of $195 million); and
- Tax Free Savings Accounts ($45 million).[9]

Why don't women benefit from these tax breaks? The reasons are clear: two-thirds of capital gains exemptions go to those with income in excess of $100,000, and only 33% of this group is female. Women received only 38% of the $10.8 billion spent on GST tax cuts in 2010, and even less of the $10.5 billion spent on corporate tax cuts largely because those tax cuts benefit wealthier Canadians whose ranks are less likely to be filled by women.[10] But most significantly, 38% of women tax filers have no income tax payable, and therefore receive no benefit from tax breaks of any kind.[11]

- *The AFB eliminates inequitable tax breaks, which are actually reverse tax measures that differentially benefit the more privileged members of society.*

Spend Better, Spend on Women

Globally, the increase in female employment in the developed world has contributed more to GDP growth than the rise of the combined economies of China and India.[12] In the private sector, major corporations, such as PricewaterhouseCoopers, have recognized that gender equality increases their productivity and competitiveness.[13] Yet, while Canada is spending on physical and defence infrastructure, there has been no concomitant investment in social infrastructure — spending that would reach more than the 20% of women employed in, for example, the construction industry.

Social infrastructure projects have a threefold benefit.

First, they provide jobs in sectors where women are well represented — such as health care, education, and child care. The lack of safe, affordable child care is one of the most significant impediments to women's participation in the formal economy.

Second, they increase the accessibility of these services for those hardest hit by the economic crisis.

Third, there is significant evidence that investments in early learning and child care have a significant multiplier effect on economic growth by improving the educational achievement of all children (and low-income children in particular), boosting high-school graduation rates, and increasing the likelihood that students will go on to college or university — all of which contribute to a more competitive workforce in the future.

Where funding is allocated to physical infrastructure, the AFB prioritizes universal access to safe, affordable housing, which is essential to women's well-being and to their capacity to contribute to the economy. The federal government has committed $2 billion to affordable housing; half of which has been spent to renovate existing stock. The other half will create more affordable housing once agreements with provinces and territories are reached. However, the allocation does nothing for people in chronically critical housing situations, nor those whose risk losing their homes because of the recession or job losses. It also fails to address the longstanding housing crisis in northern communities.[14]

Statistics Canada reports that many women experience housing affordability problems, especially single women and single mothers who rent homes.[3] The latter risk having their children apprehended by child-protection agencies for reasons of neglect if their housing is inadequate, yet the 23.4% of these women who live in poverty are typically unable to afford adequate housing. Further, if a mother's children are apprehended, her social assistance rate decreases, making it even less likely that she will be able to provide adequate housing for them. Another reality of the affordable housing shortage is that women who flee intimate-partner violence can usually access shelters for only a few weeks. Without sustained access to safe and affordable housing, many of those women are more likely to return to their abusive partner.

- *The AFB fully funds the National Housing Strategy outlined in Bill C-304, with particular emphasis on providing adequate, safe housing for Aboriginal and Northern populations. The AFB also invests $20 million annually to ensure that housing supports are adequate so that no woman fleeing intimate-partner violence will be forced to return to a violent household.*

Security

Personal security is necessary to well-being and productivity. Although evidence exists to suggest that some forms of violence against women are decreasing, for many women violence remains endemic. One in two women in Canada over the age of sixteen will experience violence during her lifetime.[15] Girls are also at high risk of violence, both within and outside of the home. According to police-reported data in 2007, more than half (58%) of sexual assault victims were under the age of 18, with children under twelve accounting for 25% of cases.[16] Up to 75% of sex-crime victims in Aboriginal communities are female and under 18. Half of those victims are under 14, and almost 25% of those are younger than seven.[17]

The World Health Organization and other national health agencies have demonstrated that domestic violence has a significant impact on the economy.[18] The Centers for Disease Control and Prevention estimates that the cost of intimate- partner rape, physical assault, and stalking in the U.S. exceeds $5.8 billion each year.[19] The equivalent percentage of Canadian GDP would suggest an annual cost in 2009 of $726,088,300.

Violence against women in Canada varies significantly across different groups and regions, with Aboriginal women being disproportionately subject to violence. More than 600 Aboriginal women in Canada have gone missing or been murdered over the last 40 years, the majority of whom have not been found or identified in the last decade.[20] The federal government has not formally recognized these disappearances and murders as a human rights violation. The government did support the Sisters In Spirit Initiative led by the Native Women's Association of Canada — which researched the root causes and trends related to the disappearance and death of these women and girls and educated Canadians about these tragic losses — but funding for the initiative ended in 2010. This was an important effort to address the issue, but the federal government must take leadership to comply with its obligations.

Women and Poverty

Women and girls living in poverty currently rely on welfare incomes so low that the National Council of Welfare called the levels "cruel" in its 2006 report.[21] Poverty and lack of social assistance to women in Canada has been red-flagged by virtually every United Nations body that reviews Canada's human rights performance,[22] and the U.N. has asked the Canadian government to establish minimum standards for social assistance to be applicable at the federal, provincial and territorial levels.

This has not happened. Under the current federal block-funding scheme in place since 1995[23], provinces and territories receive money for social assistance through the Canada Social Transfer (CST). However, while the 2009 federal budget provided for annual 3% increase in the CST through 2011, it did not address the adequacy of social assistance benefits provided by the provinces and territories.[23]

According to the Department of Finance, the money provided by the CST is "notionally earmarked" for post-secondary education, child care services, and social assistance programs. Of these, social assistance received the smallest funding increase from 2007 to 2010.[24] No conditions were attached to ensure that social assistance is more than "notionally" funded by the CST, or that incomes delivered by the provinces and territories adequately met the needs of the most vulnerable women.

Provinces and territories alone can't address these human rights violations. Social assistance rates have remained unchanged in seven provinces and territories in the past year, and have risen by only 1 - 3% in four provinces and territories. For only a few family types in a handful of jurisdictions do social assistance rates reach the Statistics Canada Low-Income Cut-Offs. Most social assistance incomes in Canada remain well below the poverty line, and no federal mechanism ensures that women and girls living in poverty receive support adequate to meet their basic needs.

Cuts to welfare rates and erosion of the value of benefits through inflation have had a harsh impact on women in need. Women who are more likely to have to turn to welfare, including single mothers and Aboriginal women, must now rely on welfare incomes so low that the Chair of the National Council of Welfare recently called them "shameful and morally unsustainable in a rich country."[25]

This cycle of poverty has a deeply negative impact on the rights of vulnerable groups such as single mothers, Aboriginals, Afro-Canadians, immigrants, elderly, and disabled women who rely on social assistance for an adequate standard of living. Although it is not a purely a budgetary measure,

- *The AFB attaches common standards of adequacy for social assistance to the CST to ensure that rates in all jurisdictions meet the current real costs of food, clothing, and housing.*

Working Women

Women typically work in a small number of traditionally female occupational categories including health care, teaching, clerical, administrative, and sales and services jobs. They dominate the lowest-paid occupations, such as child care, retail, and food services.[26] A high and rising proportion of women work in professional occupations that require higher levels of education and provide better salaries, but these are still relatively concentrated in public and social services.[27] The wage gap is greater between women and men with university degrees than between those without a degree.[28] Men still hold a big lead in management jobs: 11% of men, compared to 7.1% of women.[29]

The gender wage gap exists in all OECD countries, where the median hourly pay of female full-time workers averages 18% less than that of men. In Canada, the gender pay gap measured by this key international indicator is well above average, with women with full-time jobs earning 23% less than men. The Canadian gender pay gap is now the fifth-greatest among twenty-two OECD countries.

Despite protests from human rights organizations, labour unions, and women's organizations, the 2009 federal budget made pay equity for federal public servants a matter for collective bargaining and subject to "market forces."[4] This has removed 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 implements the recommendations of the Pay Equity Task Force and takes pro-active measures to ensure that federal public servants receive equal pay for work of equal value. To that end, the AFB allots $10 million to create the proposed Pay Equity Commission and the Pay Equity Tribunal.*

Follow the Money

Without a full account of progress on ending women's poverty, closing the wage gap, and increasing the well-being of all Canadians, we cannot measure the effectiveness of spending. Gender-disaggregated data must be collected. Beginning in 2010, Statistics Canada will no longer collect data on unpaid work. The long-form census is no longer mandatory. Moreover, there is clear evidence that federal departments and agencies, including the Department of Finance, have failed to provide gender-based analysis of spending and its impact on women.

- *The AFB fully implements the recommendations of the 2009 Report of the Auditor General on gender-based analysis. Implementing the report's recommendations as they pertain to the budget process and all other fiscal and economic policy will provide an evidential base for more effective spending that provides results women and men.*

Notes

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SECTION 2

Protecting Our Climate, Nature, and Water

Environment

Canada's environment is central to Canadians' prosperity and health. It provides clean air and water for daily living, natural resources that power our lives and economy, and globally envied wild spaces and species.

The AFB will preserve the federal government's capacity to protect Canada's environment, natural heritage, and the health of its citizens. This protective capacity includes species at risk protection and science programs that help protect biodiversity, the core of the Clean Air Regulatory Agenda — including the EcoEnergy program — and the Chemicals Management Plan, both of whose funding is set to end in March 2011.

The AFB will take the most important first step — putting a price on greenhouse gas (GHG) emissions — by introducing

- *A national Harmonized Carbon Tax (HCT) in July 2012, combined with strategic measures to protect Canadians and vulnerable trade sectors from adverse financial impacts. More than half of HCT revenue will fund a progressive annual green tax refund of $300 per adult and $150 per child.*

Eligibility for the tax refund will start on January 1st, 2012, preceding implementation of the HST, to ensure that all middle- and low-income families are reimbursed with a credit equal to the direct impact of the carbon tax for an average family.

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

- **Conservation**: The AFB will allot $10 million annually for two years to develop an ambitious, integrated Conservation Plan aimed at protecting Canada's remarkable ecosystems, wildlife, and wilderness heritage. The AFB will also provide $50 million per year to continue progress on currently proposed national parks, marine conservation areas, and other federal protected areas, while this plan is being developed.
- **Energy efficiency:** The AFB will help Canadians save money by renewing and expanding the ecoEnergy energy efficiency programs. Priority attention will be given to a national green homes retrofit strategy that includes low-income support and easy

access to capital for efficiency upgrades. Total cost: $1.75 billion over 5 years.

- **Air quality:** The AFB will invest $65 million annually to develop and implement regulations to improve air quality in Canada and to fund complementary research and monitoring.
- **Renewable energy**: The AFB will create jobs and spur growth in the clean-energy sector by committing $42 million per year for 3 years, followed by $25 million for the next 2 years, to Canada's solar hot water industry and to mapping Canada's geothermal resources. The funds will also support hybrid wind systems in Arctic and remote communities.
- **Global climate finance:** The AFB will support climate action in developing countries, as committed under the Copenhagen Accord, with funding coming from the HCT and any border carbon tariff. Canada's commitment will consist of $400 million in 2011 and rise by $400 million per year to $1.6 billion in 2014–15.[2]
- **Natural capital indicators:** To provide better information to federal decision-makers and advance implementation of the Federal Sustainable Development Act, the AFB will commit $9.5 million for first year, and $6.5 million in each of the following 2 years, to expand the existing indicators of Canada's natural capital.

To help finance the above recommendations, the AFB will save over $800 million annually by ending the following counterproductive subsidies:

- **Tax Subsidies for Oil:** The AFB will honour Canada's G-20 commitment and save over $761 million annually by removing four tax preferences for the oil industry, particularly the 100% Canadian Exploration Expense and the 30% Canadian Development Expense.
- **Nuclear Power:** The AFB will safeguard Canadian taxpayers from expensive nuclear-industry subsidies and liabilities. It will require nuclear reactor operators to cover the full costs and risk of reactor operation, construction, and repair; end the federal government's backstopping of Atomic Energy of Canada Limited (AECL); raise the minimum nuclear accident insurance; and remove the cap on reactor operator liability.
- **Mineral sustainability:** The AFB will save an estimated $65 million annually through support for environmentally sound, closed-loop metal and mineral recycling. This innovation will be achieved by harmonizing the tax benefits for primary extraction and recycling, and by supporting new material stewardship initiatives.
- **Chrysotile Asbestos:** The AFB will end the annual federal $250,000 contribution to the Chrysotile Institute, which promotes the use around the world of chrysotile asbestos, a known carcinogen.

The above measures will help transform the Canadian economy into a world-leading, environmentally restorative economy that creates jobs and preserves the enviable quality of life of its citizens. Delaying action further will result in missed business opportunities, increased financial and economic costs for future environmental protection, and greater risks to Canadians' collective health and climate.

Solving 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 plan to address Canada's complex environmental challenges and make Canada an international environmental leader.

Two fiscal strategies are of particular importance:

- **Subsidy reform for natural-resource exploration and development**

Governments need to "level the playing field" for natural-resource exploration and development (including recycling and conservation options) so that the fiscal treatment of different natural resources is equitable, or so that fiscal policies favour resources whose life-cycle and human health impacts are more positive.

The first step in such reform is to end preferential treatment ("subsidies") for energy sources that are non-renewable or whose development or use is significantly environmentally damaging.

- **Ensuring that market prices "tell the environmental truth" through environmental pricing reform**.

Canada's economy will be truly sustainable only when market prices for goods and services reflect the true value of the resources they consume, and the full costs to the environment and human health created by their development, production, transportation, sale, use and disposal. This approach is often called ecological fiscal reform (EFR), and the AFB will implement it using a mix of market-based instruments such as taxes, fees, rebates, credits, tradeable permits, and subsidy removal.

Such policies will reward environmental business leaders, preserve natural resources for higher-value uses, stimulate environmental innovations with global export potential, and expedite the development of economies where success leads to concurrent environmental and human health 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 matching Canada's economy with a healthy environment, because it will set a price on pollution that spurs emission reductions throughout the economy. But market-based economic instruments alone cannot do the job. They must be combined with government leadership, strong regulations, education and R&D, pro-active industrial policies, and significant public investment. The necessary change will lead to job losses in some sectors, and gains in others. Full-cost pricing to protect our climate and other resources will impose proportionately greater costs on lower-income families, who are less financially able 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 the UN's Climate Change Conferences in Copenhagen and Cancun caused many Canadians to lose hope of making further progress on global warming. But such despair is unwarranted. The conferences underscored the difficulty of achieving an accord based on an international cap-and-trade system, which is the underlying framework for the Kyoto Accord and subsequent negotiations.

This doesn't mean that Canada should stop trying to achieve an effective international agreement based on a cap-and-trade framework to reduce global emissions. Nor does it mean immediate action can't be taken using alternative methods.

The simplest and most effective alternative to cap-and-trade is a price-based carbon tax — a measure that noted economists and climate experts[2] say would be more efficient and effective than a quota-based cap-and-trade system.

A carbon tax doesn't guarantee specific emission reductions, but it does allow businesses to plan for the future. It also eliminates the speculation, windfall profits, and false savings that accompany a cap-and-trade system. Another advantage of a carbon tax is that it can be introduced almost immediately.

Because of the failure at Copenhagen, it will now take at least several more years for Canada to implement a continental cap-and-trade system with the United States. But Canada can still act. So:

- *The 2011 AFB introduces a national Harmonized Carbon Tax (HCT), set at $30 per tonne, which will commence on July 1, 2012 (see AFB tax chapter).*

Detailed analysis by Marc Jaccard, Canada's foremost climate-change economist, has shown that to meet the 2°C target to prevent significantly damaging climate change, Canada needs to introduce a carbon price of $30 a tonne immediately and raise that price to $200 a tonne by 2020.[3] If the federal government invests HCT revenues in renewable energy and tax refunds for individuals, Canada can achieve deep reductions in greenhouse gas emissions, maintain strong economic growth, and generate jobs. The HCT will be integrated with and consistent with provincial carbon taxes — such as B.C.'s, whose carbon tax is set to rise to $25 a tonne on July 1, 2011, and to $30 a tonne by 2012 — with half the revenues going to provincial governments. The HCT will apply to all non-renewable fuels based on their CO_2 emission factors.

For large emitters, which emit close to 50% of Canada's greenhouse gases, the HCT will be integrated with any cap-and-trade system that may eventually be introduced. Companies will be able to claim a HCT credit against their emission-reduction costs through the cap-and-trade system.

A border carbon tariff adjustment will accompany the HCT and cap-and-trade systems to ensure that domestic producers will not experience a competitive disadvantage with 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. The tariff will include an exemption for impoverished and developing countries. Revenues from the measure will support a Green Climate Fund designed to help poorer countries reduce emissions and adapt to climate change.

- *In 2011, the AFB will fulfil Canada's $400 million commitment to the Global Climate Fund (agreed to at the Copenhagen conference), increase this commitment to $800 million in 2012, and by an additional $400 million per year through 2014–15.*

These funds will be new, and in addition to, existing official development assistance. Canada's adaptation contribution will target the poorest and most vulnerable countries, and the government will report transparently to Parliament about these contributions. Funding for these measures will 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 to reach $80 per tonne by 2015. At that time, the HCT's effectiveness in reducing emissions would be reviewed, and scheduled price increases adjusted accordingly. The HCT may reach the $200 per tonne level in 2020, which the Jaccard study found would be necessary to meet the 2% target. However, other complementary measures, including renewable energy investments, energy efficiency programs, building and fuel efficiency standards and investments in public transit and energy retrofits may accelerate emission reductions and reduce reliance on carbon-pricing mechanisms.

From the public's point of view, a carbon tax of $30 per tonne of CO_2 emissions translates into a tax of about 7 cents a litre for gasoline, 8.5 cents a litre for diesel and fuel oil, and 6 cents per cubic metre for natural gas. The HCT will raise about $7.5 billion in the first full year (minus 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 a matter of great importance.

- *The AFB will transfer half of HCT revenues to provinces to fund tax reductions — including direct payments to individuals — and further climate-change abatement measures.*

The federal share of the revenues raised will be directed towards four priority areas: [4]

- A Green Energy Tax Refund, to compensate Canadians, particularly those with low incomes, for the additional costs they face, without reducing the incentive for behavioural change
- Meeting 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
- Meeting Canada's international obligations to support climate-change mitigation and adaptation efforts in developing countries, particularly through the Global Climate Fund.

Green Energy Tax Refund

To complement the HCT, the AFB will introduce a Green Energy Tax Refund to ensure that a majority of Canadians are fully compensated for the additional direct costs they bear from the federal portion of the HCT and a prospective cap-and-trade system.

The tax refund will be set at $10 per adult and $5 per child annually for every $1 per 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 increases, the tax credit will also be increased proportionately to ensure that middle- and lower-income households are not adversely affected. This refund will be 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 HCT revenues will finance public programs and investments to help households, businesses, and workers reduce their emissions and transition to a greener economy. These will include renewable energy and energy efficiency investment — 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 ensure that households, workers, and other vulnerable Canadians make a smoother transition to a greener economy.

Sustainable Energy

The ecological and economic realities of climate change 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 Canada's air and water.

Canada should increase its support for renewable power, to meet the target of 90% non-GHG-emitting electricity by 2020, and create new jobs in the sector that keep pace with progress in the

United States and overseas. In particular, Canada must focus on renewable electricity[6] to replace many power plants nearing the end of their working lives, meet the potential electricity demand from electric and plug-in hybrid cars, and reduce emissions from existing power stations.

The AFB will invest in clean electricity by:

- *Replacing the expired ecoENERGY for Renewable Power (eERP) program with a capital grant program, including a specific set-aside for northern and remote communities; and*
- *Establishing Green Energy Bonds to ease access to capital and reduce borrowing costs for renewable-energy developers. The bonds will also enable individual Canadians to directly support the development of renewable electricity.*

Energy Efficiency

Government programs that help individuals and business improve their energy efficiency are equivalent to a tax cut. By reducing monthly energy costs, they increase disposable income or the ability to grow business. Efficiency measures also create jobs in retrofitting projects, equipment manufacturing, and the retail sales of efficiency equipment and installation materials. Most of the government's ecoEnergy programs are scheduled to end in March 2011, but the AFB will renew and expand them to include national sectoral targets, a national green homes retrofit strategy with low-income support, and easy access to capital for efficiency upgrades.

Conserving Nature

The AFB will develop an ambitious, integrated Conservation Plan for Canada to protect Canada's ecosystems, wildlife, and wilderness for future generations. This proposal is directly linked to implementing the Speech from the Throne commitment to "*build on the creation of more than 85,000 square kilometres of national parks and marine conservation areas as part of its national conservation plan.*"

Developing an effective Conservation Plan require strong federal leadership to bring together federal, provincial/territorial, and Aboriginal governments, conservation organizations, industry representatives and individual Canadians to develop a shared conservation vision, goals and strategy.

- *The AFB will continue to fund current conservation programs — including programs supporting federal protected areas, species at risk, migratory birds, ecosystem science and other areas of federal responsibility for conservation — as the new, more integrated plan is developed.*

Notes

1 According to the World Bank, Canada's GDP in 2009 was $1.3 trillion. The Third World Network reports that G77 countries and China are calling for Annex 1 countries to commit at least 1.5% of GDP annually toward G77 climate-change mitigation by 2020. Others estimate that global South countries will need up to 6% of Annex 1 countries' GDP annually to adapt to the effects of climate change. Using these estimates, Canada would need to allocate between $20 and $80 billion for Global South Climate Financing. The UN Department of Economic and Social Affairs' 2009 UN World Economic and Social Survey estimated that $500–$600 billion annually in public funds is needed for adaptation and mitigation in developing countries.

2 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.

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.

Water

Introduction

Canada needs a national water policy based on the principles of water as a human right and a public trust. Water 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 2010, 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. On July 28, 2010, the UN General Assembly unanimously passed a resolution recognizing the right to water and sanitation. Although the Canadian government abstained, 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 and abstained in the UN General Assembly vote in July. The AFB will implement policies and practices that recognize water as a human right.

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 December, Health Canada reported 117 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 as 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 $5 billion in 2011–12 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 $4 billion in 2012–13 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 Public-Private Partnership (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.

Last year, Indian and Northern Affairs Canada reviewed its approach to funding for First Nation reserves and are exploring alternative funding sources. Reduction in funding has resulted in water privatization on some reserves. The AFB allocates $1 billion to build, upgrade and maintain water and wastewater infrastructure on First Nation communities (see AFB Aboriginal chapter).

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;
- research and funding for environmentally friendly sewage treatment methods; and
- nation-wide ban on hydraulic fracturing.

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. Tar sands oil is even traveling to the Great Lakes through a network of pipelines and refinery expansions. 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 litres 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

Although Canada holds nearly 20% of the world's freshwater, only 1% of our water is renewable, or replenished by rain or snowfall every year. Yet we use more than what is replenished each year. A recent Statistics Canada study even showed that renewable water in southern Canada has declined 8.5% since 1971. Despite the increase in competition among agricultural, industrial and residential uses, there is no strategy or coordination among levels of government to prioritize water use. In 2007, Liberal water critic Francis Scarpaleggia said he would call for a new junior minister to coordinate the over 20 departments that set federal policies affecting water. The AFB will allocate funds to create this position.

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.

Protecting the Great Lakes

The Great Lakes hold the majority of Canada's freshwater. 45 million people depend on the lakes for drinking water. However, the Great Lakes face significant threats including pollution, extraction, wetland loss and invasive species. The 2010 budget allocated a mere $16 million to Environment Canada for the next two years to "implement its action plan to protect the Great Lakes." In contrast, at the end of 2009, the U.S. Congress authorized $475 million to be spent on cleaning up the Great Lakes. The AFB will implement a comprehensive action plan to protect to the Great Lakes and other lakes in Canada. The funding will be used towards cleaning up areas of concern and priority zones, invasive species, inventory of how much water is in Canadian lakes, research/calculation of total water withdrawals, wetlands protection, and research and inventory on pollutants that are not covered by Great Lakes Water Quality Agreement and the National Pollutant Inventory.

Freshwater resources

Using $1 billion in existing funding from the Building Canada Fund (BCF) and Green Infrastructure Fund (GIF), plus $3.375 billion in new funding over 5 years, the AFB will invest in cleaning up of areas of concern and *zones d'intervention prioritaire*, and protecting Canada's waterways from invasive species.

Water efficiency product labelling

The AFB will help reduce Canadians lower their utility bills by instituting a labelling program for water-efficient fixtures and appliances, similar to the U.S. WaterSense program. Cost: $5 million over 5 years.

Nation-wide ban on hydraulic fracturing

Some provincial and municipal governments are issuing permits for hydraulic fracturing, or "hydro-fracking," a controversial method used to extract shale gas. Fracking fluids have contaminated residents' drinking water and with toxic chemicals. Approximately 2 to 9 million gallons of water are required for a single "fracking" job. Many projects are approved without environmental assessments. The AFB will allocate $2 million to fund nation-wide environmental assessments on the impacts of hydraulic fracturing.

A climate change plan

The 2008 report by the Intergovernmental Panel on Climate Change highlighted the varied effects of climate change on water in Canada. Decreases in precipitation in the Central Rockies and prairies are resulting in droughts. Increase in intense precipitation is causing floods in some regions. Decreased precipitation and increased temperatures are causing lake levels to drop. 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 several 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.

Virtual water exports: The government currently does not track how much virtual water is exported. Virtual water is the amount of water used to produce or process a good or a service. On average, Canada exports 95.3 Bm^3/yr of virtual water in agricultural and industrial commodities. Imports amount to 35.4 Bm^3/yr. This makes Canada a net exporter of 59.9 Bm^3 of virtual water each year[4]. The AFB will allocate funds to complete a comprehensive review on virtual water use in Canada.

Exclude water from NAFTA and all future trade agreements: Under the North American Free Trade Agreement (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. Last fall, under a NAFTA challenge, the government paid at least $157 million to AbitibiBowater for water rights. Only a clear exclusion of water from NAFTA and other trade agreements will avert threats to Canada's water and costly NAFTA challenges.

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 2011 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.

Environmental Assessments: The government is in the process of drastically reducing funding for environmental assessments. Last October, Federal Environment and Sustainable Development Commissioner, Scott Vaughan, discovered that at least two-thirds of the projects received a green light without an environmental assessment. Overall, the audit found that 93 per cent of the thousands of infrastructure stimulus projects went ahead without a federal environmental assessment of their impacts. The lack of stringent environmental assessments significantly threatens Canada's water sources.

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.

Notes

1 2003. WHO. Right to Water. Health and human rightspublications, series no. 3.

2 WHO: http://www.who.int/water_sanitation_health/rightowater/en/

3 Health Canada: http://www.hc-sc.gc.ca/fniah-spnia/promotion/public-publique/water-eau-eng.php#how_many

4 January, 2007. Legislative Study Committee of Groundwater Regulation and Funding. Legislative Council State House, Vermont.

5 Barlow, Maude. Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water. (Toronto: Mclelland and Stewart, 2007) 184

6 2008. Canadian Medical Association Journal. Investigative Report: 1,766 boil-water advisories now in place across Canada: http://www.cmaj.ca/cgi/content/full/178/10/1261

7 Barlow, Maude. Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water. (Toronto: Mclelland and Stewart, 2007) 184

8 Barlow, Maude Barlow, Maude. Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water. (Toronto: Mclelland and Stewart, 2007) p.179

9 Barlow, Maude. Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water. (Toronto: Mclelland and Stewart, 2007)

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 $22.297 billion on its military forces in fiscal year 2010–11,[1] 5.2% more than it did last year and about 21% 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 $30.2 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 10 years from FY2001–02 to FY2010–11 has been about $8.3 billion.[3] However, Parliamentary Budget Officer Kevin Page's 2008 report 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 through 2010–11 were similarly underestimated, the incremental costs for the Afghanistan mission are probably closer to $14–17 billion to date, equivalent to about half of the $30.2 billion extra spent during the FY2001–02 to FY2010–11 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 maintained 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. Despite budget caps with 0% growth on other departments in Budget 2010, the department of National Defence emerged relatively unscathed. It will continue to grow by 5% in 2011–12 and by 2% a year thereafter.

The Federal government has also announced its desire to purchase 65 F-35 Lightning II Joint Strike Fighters for $9 billion. This purchase would be the largest military purchase in Canadian history. It would also occur without a competitive bidding process and without an examination of what capabilities the Canadian Air Force needs. Once maintenance costs are included the total bill will sky-rocket to $18 billion or more.

The AFB would cancel the F-35 deal, establish a commission to determine what our military needs over the next 20 years and purchase military equipment through an open and competitive bidding process.

Global Comparisons

Actual level of spending

Worldwide military spending is estimated to have been $1.56 trillion in 2009 (U.S. dollars), the latest year for which reliable figures are available.[5] 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 56% of world military. 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.[6]

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"[7] 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.[8] The shutdown took effect in June 2009.

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 November 2010, there were 99,245 UN peacekeeping troops.[9]

Canada contributes just 197 military personnel to these operations, making Canada 53rd on the list of 118 military contributors (up from 63rd last year). These personnel are divided among seven operations, for an average Canadian contribution of 8 military personnel per operation.

Our personnel contribution ranks between that of Slovakia (200 soldiers) and that of Uganda (182). Even Rwanda, with an annual military budget of just $US75 million, contributes 19 times as many military personnel (3,712) as Canada does.

The only Canadian contribution that remains substantial is a non-military one: our cash contribution to the UN peacekeeping budget, currently $286 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.[10]

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.[11]

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 U.S./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 2010–11 the figure has topped $22 billion. In order to return to the pre-2001 level, the AFB will shrink the defence budget by $7 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 $3.9 billion in 2008, Canada's current level of Official Development Assistance (ODA) is the fifteenth largest in the OECD.[12]

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.[13] 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 0.3% 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.[14]

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 Budget 2010, the federal government decided to halt the growth the aid envelope at $5 billion a year. The result of which will be a slow decline Canada's Aid to GNI ratio.

In contrast to last year's federal budget, the AFB will double current development spending to reach the 0.7% of GNI target over the next 10 years.

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 $440 million in respendable revenue. National Defence 2010–2011 Report on Plans and Priorities, Department of National Defence, 2010.

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 2010 dollars.

3 National Defence 2010–2011 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 SIPRI Yearbook 2009, http://www.sipri.org/research/armaments/milex/research/armaments/milex/milex_database.

6 "Financial and Economic Data Relating to NATO Defence," June 2010, http://www.nato.int/cps/en/SID-755CF964-7BBAEF62/natolive/news_64221.htm.

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

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

9 Monthly Summary of Contributors of Military and Police Personnel, http://www.un.org/en/peacekeeping/contributors/. Accessed January 11, 2011.

10 Foreign Affairs and International Trade 2009–2010 Report on Plans and Priorities, Department of Foreign Affairs and International Trade, 2009.

11 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.

12 World Bank, http://siteresources.worldbank.org/CFPEXT/Resources/299947-1266002444164/index.html.

13 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.

14 Beyond aid: ensuring adaptation to climate change works for the poor, Oxfam Briefing Paper No. 132, Oxfam International, 2009.

Foreign Policy

The Global Economic Crisis

The worst global economic crisis since the Great Depression is now in its third year. The G20 countries and other nations responded quickly to reverse the market freefall with massive financial bailouts and major monetary and fiscal stimulus programs. Now that the danger has supposedly passed, G20 leaders, while acknowledging the still-fragile and uneven state of global economic recovery, are moving rapidly to eliminate their deficits — dubbing this "fiscal austerity" — thus repeating the same mistake governments around the world made during the 1930s.

Reneging on commitments made at earlier G20 meetings to give priority to recovery and job creation, delegates at the Toronto G20 in June 2010 agreed to halve their deficits by 2013. This commitment, the result of urging by the Canadian government, has raised the probability of prolonged stagnation and a possible backslide into global recession.

Even as the European debt crisis continues to send shockwaves through the global financial system, the financiers who caused the crisis and benefited from the trillions of dollars of taxpayer bailouts and guarantees are back to business as usual — reaping windfall profits and drawing exorbitant salaries and bonuses. Clearly, the reining in of their activities was largely symbolic.

Meanwhile, the ILO estimates that millions of jobs destroyed since the recession began will not be recovered until at least 2015, and that the recovery may take longer than that due to the global shift toward fiscal austerity. The organization reports that wage growth has slowed dramatically worldwide and wages have declined in many countries. Consumer debt and exports are not sustainable solutions to the problem of weak domestic demand. Bold fiscal policies aimed at achieving full employment must be the priority.

The AFB supports the following policy measures at the G20 and other international forums:

- Implementation of further stimulus measures until a real recovery gains traction, and of international recovery initiatives that place jobs at the forefront. Support for the International Labor Organization's Global Jobs Pact and its general framework to advance the social dimension of globalization.

- Do not compromise climate-change policies while confronting the economic crisis. Instead, treat the crisis as an opportunity to address economic stability and job creation while investing in measures to reduce greenhouse gas emissions. This should be an important component of stimulus spending. Further, 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.
- Creation of effective mechanisms for international policy coordination that go beyond the G20 to include more representative institutions such as the United Nations.
- Renewed efforts to abolish tax havens and, more generally, tax evasion, and the development of international cooperation mechanisms to avoid tax-competition wage deflation and social dumping.
- Implementation of a global tax on financial transactions to discourage financial speculation and serve as a source of revenue for governments. Such a tax would impose a tiny fee — a fraction of a one percent — on trades of financial and instruments such as stocks, over-the-counter (OTC) derivatives and credit default swaps.
- A reformed international dollar-denominated currency system, as the present system has created staggering financial imbalances and reduced global aggregate demand. Move toward a type of multilateral Special Drawing Rights (SDR) global reserve currency based on an expanded basket of currencies.
- Encouragement to countries that 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 that are destabilizing their economic recoveries.
- Creation of 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 that 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 IMF decision-making power 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 Comprehensive Economic and Trade Agreement (CETA)

Negotiations for a free-trade agreement between Canada and the European Union are far advanced and scheduled for completion by the end of 2011.

While most Canadians admire the European social model and its higher regulatory standards, and would like to see Canada wean itself from trade overdependence on the U.S., the CETA negotiation is a very narrowly focused commercial negotiation. The EU is not exporting its progressive social model, but merely pursuing the commercial interests of its largest firms.

Trade between Canada and the EU is already relatively open, although Canada has a consistent trade deficit with the EU and exports mostly unprocessed products while importing mainly higher value-added products. CETA aims to restrict government policies and regulatory authority that are only peripherally related to trade. EU negotiating goals include unconditional access to government procurement, and eliminating the flexibility for governments to use their purchasing power to enhance local benefits (e.g. purchasing policies such as those contained in Ontario's Green Energy Act).

EU demands for stronger intellectual property protections would increase Canadian drug costs by reducing the availability of cheaper generic drugs. The EU is targeting Canada's orderly marketing arrangements in agriculture while retaining its own agricultural export subsidies and GMO restrictions.

CETA is likely to expand on the investment rules in NAFTA Chapter 11, which investors have used to challenge a broad range of policies. The rules give excessive weight to investor concerns over legitimate public concerns such as environmental protection, progressive social policies and public safety. As such, CETA's expanded rules will erode the ability of European and Canadian governments to act in the best interest of their citizens.

The federal government must negotiate a deal for all Canadians. Ideally, such a pact will foster a broader diplomatic engagement with Europe that moves Canada toward the European social model and creates a race-to-the-top dynamic of regulatory standards and climate-change policies.

North American Security Perimeter

As of January 2011, the Canadian government expects to release a bilateral plan to create a common security perimeter around North America (excluding Mexico). It is entitled "Beyond the Border: A Shared Vision for Perimeter Security."

The goal is to fully integrate Canadian and U.S. border enforcement, particularly at the air and seaports that receive people and goods from outside North America, Considerably more personal information would be collected on Canadian citizens for handover to U.S. security agencies. The motivation for the perimeter deal is to recreate the border that existed between Canada and the U.S. before 9/11, but some observers predict that the pact would also pressure Canada to align its immigration and refugee policies with those of the U.S.

Canadian business lobbyists have long pushed the Canadian government to let the U.S. extend its borders to the edge of North America; and if Canada surrenders more sovereignty in the process, so be it.

Even if this agreement comes into effect, it won't achieve its goal of a free-flowing border. American legislators will never cede border sovereignty. The movement of goods and people across the border will not become significantly easier. And Canada will have given up yet another pillar of its sovereignty in the name of free trade.

SECTION 4

The Changing Nature of Work and the Economy

Employment Insurance

While prior AFBs have criticized key gaps in Canada's Employment Insurance program, there is no doubt that the EI program enhancements in the Economic Action Plan helped hundreds of thousands of unemployed workers and many hard-hit communities to weather a severe economic crisis. The number of regular EI beneficiaries peaked at over 800,000 in mid-2009. Some $17 billion in regular EI benefits will have been provided to unemployed workers in each of 2009–10 and 2010–11, even though the average benefit paid is well under $400 per week. The additional five weeks of EI provided as part of the Economic Action Plan benefited 900,000 workers, and another 120,000 workers benefited from the five to 20 weeks of additional benefits for displaced long-tenure workers. Special measures to work-sharing under EI, which expire April 2011, have covered 260,000 workers and prevented many layoffs.

That said, even at the peak of the recession, just over one-half of all unemployed workers qualified for regular EI benefits. Most women and younger workers fell through the cracks. The situation has become much worse in recent months, even though the number of new claims has been rising since March.

On October 12, 2010, the federal government announced that, under Pilot Project No. 15, it will continue to provide an additional five weeks of benefits for two years, but only in the 21 EI regions that had unemployment rates of over 10% in 2005 (when the Pilot Project began). This makes no sense at a time when many communities not covered by the Pilot Project have very high rates of unemployment.

Even though the jobs crisis is still a reality, special EI measures introduced as part of the Economic Action Plan in the 2009 Budget have ended. These included an extra five weeks of EI benefits for all regular beneficiaries to a 50-week regional maximum, and a further extension of regular benefits for some so-called long-tenure workers. Access to both measures expired for claims filed after early September. Access to extended EI training benefits ended for new claims after May.

With the end of the special measures, the basic parameters of Canada's notoriously ungenerous EI system are back in place. The benefit rate is low — just 55% of previous earnings averaged over the previous six months (which often include weeks of very low earnings.) A worker qualifies for benefits based on hours of work over the previous year, and depending upon the local unemployment rate. Fewer hours are needed to qualify in regions with high unemployment rates, and claimants in these regions receive more weeks of benefits. Benefits can last for as few as 14 weeks, up to a maximum of 50 weeks in a few high unemployment regions (part of the aforementioned Pilot Project, which expires this year). The qualifying level for new entrants and re-entrants to the work force is 910 hours.

In an average EI region with an 8% unemployment rate, a worker needs at least 595 hours — about 15 weeks of full-time work — to qualify for EI. That worker will be eligible for between 18 weeks and 42 weeks of benefits, depending upon how long they've worked over the previous year.

It's already apparent that the EI system is leaving more and more unemployed workers without benefits during a period of stubbornly high unemployment.

There are still 1.5 million unemployed workers in Canada. The national unemployment rate was 7.9% in October 2010, down somewhat from the recession high of 8.6%, but still almost two percentage points above the pre-recession level of 6.0%. The October 2010 Economic and Fiscal Update forecast that the national unemployment rate would remain close to present levels for a considerable time, averaging 7.7% in 2011, and 7.4% in 2012. Some forecasters are even more pessimistic. TD Economics forecasts an 8.1% unemployment rate for 2011.

Meanwhile, unemployed workers who have managed to find work have often found only temporary and part-time jobs. As of October 2010, there were 100,000 fewer permanent, full-time jobs available compared to the pre-recession period. A key problem with temporary and part-time employment is that, when the job ends, a worker is unlikely to qualify for EI, or may qualify for as few as 14 weeks of benefits.

Equally troubling is that the number of regular EI beneficiaries fallen more rapidly than the number of unemployed workers over the course of the recovery. Between June 2009 (when the recession was at its worst) and August 2010, the number of EI beneficiaries fell three times faster than the number of unemployed workers (down 17.8% compared to 5.1%). As a result, the proportion of all unemployed workers collecting regular EI benefits fell sharply over this period, from 51.3% to 44.4%. This is roughly the same level as before the recession, even though the unemployment rate is still about two percentage points higher than before the recession.

Unemployed workers find themselves increasingly ineligible for EI benefits for two key reasons. First, many (about 30% of all claimants) run out of benefits before they can find a new job. Second, as noted, many unemployed workers are laid off from temporary and part-time jobs that don't provide sufficient hours of work to qualify, or only qualify them for very few weeks of benefits.

The situation is especially grim in Ontario. Less than one in three (32.0%) of unemployed Ontario workers received regular EI benefits in August 2010. This is well below the national average of 44.4%, even though the Ontario unemployment rate is well above the national rate (8.8% compared to 8.0% in September). A number of hard-hit Ontario communities, including the City of Toronto, St. Catharines, Niagara, Windsor, and Oshawa, have unemployment rates at or near 10%. Many workers in these and other communities across Canada have exhausted their EI benefits at a time when secure jobs are still incredibly difficult to find.

To address these issues the AFB will:

- implement a universal 360 hours entrance requirement;
- continue the Support for Long Tenured Employees program;
- extend Training benefits; and
- add an additional 5 weeks of benefits until 2013–14.

Sectoral Development Policy

Why Mix Matters

Sector development policy refers to efforts by a government to foster investment, production, employment and exports in specified key sectors of the economy. The general motive for these types of policies is to attain a more desirable sectoral mix to win a greater share of output and employment in these sectors than would otherwise be the case.

An economy's sectoral mix matters to the performance of the overall economy because some industries:

- demonstrate a better quality of jobs (better compensation, better benefits, and more security) than others;
- are characterized by high and growing productivity and faster technological change and innovation, than others; and
- participate more intensively and successfully in international markets, and thus enhance Canada's overall trade position.

The goal of sector development policy is not to promote particular companies or specific, "cutting edge" high-tech industries. Rather, the goal is to nurture a whole *class* of industries that demonstrate:

- higher productivity and productivity growth;
- higher incomes;
- greater technology-intensity; and
- greater success in international and interregional trade.

In addition to promoting a class of innovative, high-productivity, export-oriented sectors, an even deeper goal of the AFB's sector development policy is to enhance Canada's capacity to engage in successful investment, innovation, and international trade.

The case for sector development is clear. Countries in Europe and Asia that have transformed their sectoral mix have experienced faster productivity growth, stronger trade balances, and higher, more equal incomes for workers. Their high-productivity, high-wage export industries have generated important revenues for their governments, and thus helped to fund public programs. In contrast, countries that have followed a more "market-driven" approach to economic development (including Canada), are seeing trade deficits, slower productivity growth, and growing income polarization between well-off investors and specialists and everyone else.

When considering sector development, it's important to keep in mind the distinction between "tradable" and "non-tradable" industries. Sectors that produce goods and services sold in far-off regions are called "tradable sectors." These tend to have higher productivity and incomes than other sectors. When successful, they contribute to a country's balance of payments position by generating export revenues that pay for imports. Countries with weak tradable industries experience either cumulative international debt — the result of chronic trade deficits — or, eventually, contractions in output and employment in order to forcibly reduce imports. This situation is known as "balance-of-payments constrained growth".

Most goods industries produce tradable output, including agriculture, resources, and manufacturing. (The exceptions are goods that are either highly perishable or too bulky to transport.) Some service industries also produce tradable output, including banking and business, telecommunications, and transportation. Some public-sector services, such as specialized medical and educational services, are also tradable, and people may travel long distances to use them. Typically, though, most services industries are not tradable. They serve the needs of customers located close to home. Of course, non-tradable industries — especially public services — play a key and positive role in national economic development and the creation of good jobs.

There is an important overlap, therefore, between sector development and international trade. The AFB seeks to promote progressive sectoral development strategies within an international trade regime that's more cooperative and balanced, and in which one country's efforts to promote the creation and retention of "good jobs" need not be accomplished at the expense of its trading partners. As it stands, one country's trade surplus must be inevitably reflected in another's deficit. The AFB does not promote "export-led growth", or the transfer of Canada's unemployment problems to our trading partners through sustained trade surpluses. The goal is to ensure that Canada exports enough to "pay our bills" in international trade, at adequate levels of domestic employment and income.

A preferred alternative to the current free-trade regime would feature multilateral efforts to stimulate global purchasing power and a more cooperative, balanced approach to managing trade relationships, such that every country could enjoy their fair share of good jobs in targeted, desirable industries. Needless to say, such an approach to world trade is a fundamental departure from policies embodied in today's bilateral free-trade deals and multilateral structures like the WTO. In a free-trade world, one country's large trade surpluses often translate into another country's equally large trade deficits. This "beggar-thy-neighbour" outcome is painfully obvious today. Some countries, such as like Germany and China, have utilized large, chronic trade surpluses to create jobs and generate incomes at home, effectively exporting unemployment to other countries — now including Canada — with large trade deficits.

Canada's Structural Regression

Since Confederation, policy-makers in Canada have tried to overcome the national economy's traditional dependence on natural resource exports. Initially, the effort to break free from the "resource trap" involved high-tariff protection for domestic value-added industries. Later policy initiatives included:

- strategic trade initiatives such as the Auto Pact or the Defence Production Sharing Agreement;
- active government support for high-tech industries such as aerospace and telecommunications;
- direct public investment in certain key industries to ensure their continuing presence in Canada (such as aerospace and, more recently, the auto industry); and
- the use of public procurement to leverage Canadian content in key tradable sectors (like defence, public transit, and information technology).

Since 1989 and the implementation of the Canada-U.S. free trade agreement, however, these pro-active initiatives to determine the sectoral direction of Canadian development have usually taken a back seat to free trade and unregulated foreign investment flows. This explains why Canada's high-technology industries have declined over the past 20 years and been replaced by an increasing reliance on exports of unprocessed or barely processed natural resources.

This qualitative regression in the structure of Canada's economy is visible in many different indicators:

- ***Increasing resource reliance***. Since the start of the new millennium, a global commodities boom, combined with the *laissez-faire* orientation of Canadian policy, has dramatically restructured Canadian exports. Primary products now account for 60% of Canada's total merchandise exports, with energy exports alone accounting for 20% (triple its share a decade ago). The importance of higher-tech, value-added exports—such as automotive, aerospace, and telecommunications equipment—has declined markedly.
- ***Deepening trade deficits***. The current account balance measures the difference between Canada's earnings in international dealings (through exports of goods and services, inbound tourism, and earnings on Canadian international investments abroad), and our payments to foreigners (for imports, outbound tourism, and investment income earned on foreign investments in Canada). Despite high commodity prices, Canada's trade balance has deteriorated steadily in recent decades. Over the last decade, a surplus of almost $40 billion in 2000 has evaporated into a record current account deficit now running at an annual rate of $65 billion. Next to the current account deficit of the U.S., Canada's is the second-largest of any G7 economy.
- ***Weak business investment in real capital and in innovation***. Business fixed-capital spending in Canada plunged by $50 billion during the recession and led the country's economy into decline. Meanwhile, business spending on R&D declined last year by another 3% in 2010, despite the economic recovery. As a share of GDP, business R&D spending fell below 1%—the lowest showing since the early 1990s and in contrast to Korea and Finland, innovation-intensive countries that invest as much as 4% of GDP in R&D. In Canada, across-the-board reductions in corporate income taxes and targeted loopholes like the generous R&D tax credit have done little to increase business investment in these crucial areas.
- ***Increasing foreign control***. Fueled by mega-takeovers of resource and steel companies in recent years, the inward stock of foreign direct investment (FDI) in Canada now equals 36% of GDP—the highest in Canada's postwar history. Some free-trade advocates say this inflow is balanced by an outflow of foreign

investment by Canadian multinationals, but this claim is misleading. Most outward FDI is by Canadian banks and destined for subsidiaries in tax-haven countries like Bermuda and Turks & Caicos. In the "real" (i.e. non-financial) economy, Canada's net foreign investment position is the worst since the 1970s, when the Foreign Investment Review Agency was created to address Canadian concerns about foreign control. In contrast, the current federal government celebrates foreign takeovers — except for rare exceptions (such as the Potash Corp. case in Saskatchewan) when it is forced by grass-roots political outrage to intervene. Growing foreign control imposes many costs on Canadians, including a $40-billion annual outflow of profits on foreign investments, a reinforced focus on resource extraction and export, and a vulnerability to blackmail by global corporations for whom Canada is just one line of business among many.

- ***Stagnant productivity***. Neoliberal policy-makers claim that by enhancing incentives to work and invest and reducing barriers to trade and investment, the business sector will allocate resources more effectively and expand production and productivity. Of course, the parallel assumption that all Canadians will share in those gains was, and is, far-fetched. In reality, the pie has not been "growing" more quickly. Measured by output per hour of labour, Canadian productivity growth, which has lagged OECD averages for decades, has in fact disappeared entirely. Incredibly, average productivity in the third quarter of 2010 (the most recent data available) was no higher than it was three years earlier. Even a modest rebound in productivity (as employers expand output without hiring new workers) will still leave Canada at the bottom of the G7 pack in terms of productivity growth. Many factors contribute to the stagnation of productivity in Canada, including weak business investment in real capital and innovation, the growing sectoral focus on non-renewable resource extraction (which inherently demonstrates falling productivity due to the increasing costs of finding new reserves), and the concentration of new jobs in low-productivity, low-wage occupations like retail and hospitality. Again, the productivity rates in countries with pro-active sector development strategies are several times higher than Canada's.
- ***Vulnerability to financial hyperactivity***. With Canada's real economy developing so inadequately in qualitative terms, the national economy is left even more at the behest of financiers who identify ways to profit from swings in the paper markets rather than producing and selling actual goods and services. This is visible in the mania for mergers, acquisitions and foreign takeovers in the resource industry and by the rise of the Canadian stock market, which has soared by 70 percent since March 2009. Financial hyperactivity is most obvious in the behaviour of the Canadian dollar, which has been bid far above its fair value by financiers betting on expected future mega-profits of Canadian resource firms (especially petroleum). Trading recently at or above parity with the U.S. dollar, the loonie is now 20% or more above its purchasing-power parity, which means that all non-resource exports (including manufactures, services, and tourism) are priced artificially high in world markets.

Alternative Federal Budget Sector Development Proposals

Canada increasingly exhibits the structural features of a "Third World" economy characterized by resource dependence, very high foreign control, and chronic current account deficits. This structural regression casts a pall over Canada's future economic prospects, limits our ability to create "good jobs" in tradable industries, undermines national productivity growth, and pigeonholes the country into a narrow and unsustainable niche in global trade. For all these reasons, visioning and implementing a progressive, proactive sector development strategy must be a crucial element of an overall alternative economic program.

The major components of the AFB's vision for sector development are:

1. Establish a system of Sector Development Councils

The federal government will work with 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- and services-producing industries that demonstrate characteristics such as technological innovation, productivity growth, higher-than-average incomes, environmental sustainability, and export intensity. A partial list of these sectors includes: 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 transportation 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 utilize technologies developed in universities and other educational institutions for industrial applications; to invest in sustainable products and practices; and to better penetrate export markets. In this way, the councils would be the first step toward rebuilding Canada's national capacity for sector development planning. Each council will be asked to create 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 would be given an annual operating budget of $50 million to support their work, commission research, and perform other infrastructural tasks, while the actionable items arising from their recommendations would be financed through other policy vehicles (including those listed below).

2. Take immediate steps to enhance value-added production and investment in key sectors

The Sector Development Councils would develop medium-term strategies for key tradable sectors, but immediate measures can be taken in some sectors to address current challenges and opportunities. These include:

Green energy manufacturing: Current initiatives in electricity policy — such as Ontario's Green Energy Act — hold great potential to stimulate the Canadian manufacture of components for solar, wind, and other green energy systems. Federal policy can complement and support these initiatives with a 10% investment tax credit for new capital and tooling in green energy manufacturing, and support for skills development for newly hired "green-collar" jobs. These initiatives would be budgeted $50 million per year. In the area of international trade policy, the federal government can help, too, by making it clear that domestic-content requirements in green energy developments will be fully protected from trade sanctions on grounds of national energy and environmental security.

Automotive: Contrary to free-market critics who derided it as throwing good money after bad, the joint federal-Ontario support for restructuring GM and Chrysler's operations in Canada has helped to stabilize auto employment and protect Canada's manufacturing footprint. Instead of selling off the federal and Ontario government stakes in GM and Chrysler as quickly as possible, the Canadian government should maintain its shares to leverage continuing investments by those firms in Canadian plants and technologies. (It should be noted that as those auto-industry shares become more valuable, the gains can be captured in the federal government's income statement on the basis of conventional fair-value accounting rules. It is not necessary to sell those stakes, in order to represent their increasing value in federal financial reports.) A comprehensive new auto industry strategy would include support for product development and tooling for alternative fuel vehicles (including electric and hybrid vehicles); skills support to assist the industry through the coming demographic transition of its skilled workforce; and trade policy measures to address the debilitating one-way imbalances in automotive trade between North America, Asia, and Europe. The auto strategy would also feature a new Extended Producer Responsibility (EPR) initiative, consisting of investments in motor vehicle recycling, end-of-life conversion, and green motor vehicle components production. This EPR program would be self-financed from a new $200-per-vehicle Green Car Levy imposed on all sales of new motor vehicles in Canada (raising a total of $300 million per year).

Aerospace: The federal government has falsely touted its proposed mega-purchase of new fighter aircraft as a boon for Canadian aerospace producers. In contrast to previous major defence purchases, there is no guarantee that Canadian aerospace producers will win anything like a proportionate share of Canadian value-added through this contract. The first priority of a national aerospace strategy should be to maximize Canadian production of domestic civil aviation products (including commercial airlines, search-and-rescue, and fire-fighting equipment). This will require further active partnerships with Canadian aerospace producers (including Bombardier, Pratt & Whitney, and others), with special emphasis on supporting new product programs to improve fuel efficiency and reduce greenhouse gas emissions. Whatever defence purchases are eventually considered appropriate (that is, consistent with a progressive foreign policy and in recognition of other budgetary priorities) must be sourced through offset agreements that ensure dollar-for-dollar Canadian content in the final purchase.

Primary metals: No sector of the economy has been more damaged by foreign takeovers than primary metals. Longstanding Canadian companies which were pillars of our national development — Stelco, Dofasco, Algoma, Inco, Falconbridge, Alcan — no longer exist, and in every case the new owners have exacted a terrible toll on workers and communities since their purchases. The shutdown of steel production at U.S. Steel in Hamilton — which was replaced by new production from U.S. plants as the company attempted to extort concessions from its workers — is only the latest manifestation of the many downsides of foreign control. In other primary metals production (such as nickel and aluminum), Canadian employment and production have also been badly damaged by foreign takeovers that often left the new owner with excessive debt and capacity, and prompted layoffs, facility closures, and demands for belt-tightening. It is patently unfair for Canadian communities and workers to shoulder the burden of adjustment for these speculative takeovers. The new Canadian Ownership Agency (described below) will negotiate new commitments regarding maintenance and modernization of Canadian primary metal production with all the foreign owners who now control Canadian primary metals production. The U.S. Steel takeover of the former Stelco works will be retroactively annulled unless the company immediately lives up to the Canadian production commitments it made when it bought Stelco. The federal government's ability to impose this sanction would be clarified in the new Canadian Ownership Act legislation.

Forestry: Forestry and wood/paper products are important export industries and important employers in many regions of Canada. Sadly, the industry has been hammered by the decline in the U.S. housing market, the overvalued Canadian dollar, and by a vast insect infestation (the pine beetle) in Western Canada induced by global warming.

- *The AFB supports the forestry industry's sustainable recovery through a $300 million per year fund to enhance the production of value-added forestry, wood, and paper products; implementation of energy conservation and other sustainable practices; and investment in skills required for sustainable forestry and forestry products production.*

***Agriculture*:** As with forestry, the policy goal in agriculture is to manage the sector in order to maximize the potential for value-added production and innovation in Canada and address the requirements of environmental sustainability. The recession has devastated farm incomes in Canada and dramatically reduced the prices paid to farmers (despite the sky-high prices paid by consumers). Net farm income in Canada plunged from $12 billion in 2008 to just over $1 billion last year. Farm income supports in Canada must be restructured to place special emphasis on sustainable and organic production, and on production for local use, reducing much of the trade in foodstuffs that can and should be produced locally. Operating income supports must be capped at $250,000 per farm, to avoid making subsidy payments to large corporate farms. To achieve these aims,

- *The AFB will implement a $650 million annual Sustainable Farming Income Support program. Much of the cost of the program will be offset by the elimination of subsidies for biofuel crops (saving $200 million per year).*

3. National Green Skills Initiative

The AFB fully embraces the imperative of building a sustainable economy, and also recognizes that the transition to sustainability entails significant costs and transition challenges. But there are many potential upsides and opportunities associated with the greening of Canada's economy. In all sector development, pollution reduction, clean technology development, and the amelioration of existing environmental damage will top the list of criteria for ranking selected initiatives. To maximize the environmental upside of sector development strategies, and ease the associated transitions, the AFB's sector development strategy pays special attention to the creation of good green jobs across a range of specific activities.

- *To facilitate faster growth of green industries, the 2011 AFB will implement a $100 million per year National Green Skills Initiative, established under the umbrella of HRSDC, to support college and on-the-job training that will enhance the capacity of Canadian workers to perform high-level services in green industries.*

The program will operate in partnership with provincial governments, colleges, employer associations, trade unions, and other stakeholders. Its activities would include the development of new transferable certifications in identified green job skills — such as green energy systems, insulation and retrofit, and environmental management — to support the emergence of new green jobs and careers.

4. Control non-renewable energy developments (especially in the tar sands).
The energy boom of the last decade imposed immense economic and environmental strains on Canada — notwithstanding the jobs and other economic spin-offs that were generated by that boom. The collateral damage caused by the unregulated petroleum boom includes

- An over-valued exchange rate, and resulting damage to non-energy exports (including services exports and tourism)
- Immense fiscal imbalances within Confederation (Alberta's GDP per capita is now twice as high as the poorest province, PEI, and the only three "have" provinces in the country are oil-producers: Alberta, Saskatchewan, and Newfoundland)
- Creating enormous regional and global pollution, and undermining Canada's credibility to negotiate global climate change policies.
- *The federal government should implement a more sensible and sustainable framework for the development of these resources, in the interests of all Canadians and global environmental sustainability. To accomplish this, the AFB reinstates corporate income tax rates on petroleum production to the former 28 percent rate that prevailed prior to the series of corporate tax reductions which began in Canada in 2001 (see the AFB tax chapter).*

The federal government should also impose a new environmental approval processes on major energy developments to constrain new developments — especially in the tar sands — in a manner consistent with Canada's international treaty commitments. These measures (such as aligning corporate income tax rates and cross-border pollution regulations with international treaty commitments) fall clearly within federal jurisdiction (although provincial governments retain direct responsibility for energy resources). This deliberate effort to slow and regulate new energy development will ensure that it occurs in a more manageable manner, with fewer side-effects and greater net benefits for all Canadians.

5. Replace the Investment Canada Act
The continuing expansion of foreign ownership and control in Canada's economy reinforces Canada's resource dependence, further drives up the exchange rate, and places workers and communities under the thumb of huge global corporations that have little or no inherent commitment to Canada. The Investment Canada Act — introduced in 1985 to replace the former Foreign Investment Review Agency — has facilitated this process. It has approved 1,637 takeovers that it reviewed and turned down only two (solely because of political pressure). That tally excludes more than 12,000 other takeovers that weren't reviewed by the ICA process because they did not meet size thresholds. The Act's vague "net benefit test" is opaque and ineffective.

- *The AFB will replaces the Canada Investment Act with a new Canadian Ownership Act (COA), which will mandate a review of all large takeovers of Canadian businesses.*

The COA will specify a transparent cost-benefit test. For a takeover to be approved, a foreign investor would have to make binding commitments to production and employment levels; new investments in fixed capital and technology; and expand Canadian content in supply contracts and other inputs. Failure to honour those commitments would incur sanctions up to and including the retroactive revocation of the acquisition. Lower levels of government, community stakeholders, and workers' organizations would contribute to the evaluation and review of proposed foreign takeovers. Among other factors, the new cost-benefit test would consider the long-run cost of exported profits and dividends, and the potential economic and strategic implications of the loss of domestic control over key Canadian resources or technologies. Companies that invest in Canada to add real capital, technology, business expertise, and demonstrate a commitment to grow their real operations here, would be welcomed under this new Act.

6. Reduce the Canada-U.S. exchange rate

A true fair value for Canada's currency, based on comparisons of purchasing power, unit production costs, and other benchmarks, is approximately 80 cents (U.S.). The measures outlined in the AFB to rein in poorly planned development and foreign takeover of energy projects, and to regulate and limit foreign takeovers, will quickly lead to an immediate and substantial pullback in the Canadian currency. 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 the long-term price competitiveness of Canadian non-resource exports — should be taken directly into account in the setting of the Bank's monetary policy decisions and interventions. Ultimately, Canada must work with other countries to establish a global trade and exchange rate regime that is more cooperative and stable than the current system. This revamped system must promote an expansion of global demand (in contrast to the present system's deflationary bias), share of adjustment burdens between deficit and surplus countries, and limit financial markets' control of exchange rates.

7. A New Model for Trade Negotiations

The present federal government is pressing hard for new free trade agreements (FTA), including a proposed blockbuster deal with the EU. We can expect pressure for other agreements to grow in coming years, since the government's only answer to Canada's declining trade performance — marked by a 20% drop in exports since the recession, and a record-breaking current account deficit — is to sign more free trade deals. However, more FTAs will not solve Canada's trading problems. They exacerbate them. FTAs clearly reinforce the lopsided nature of Canada's international commerce, both in terms of quantity (importing more than we export), and quality (exporting resources, to pay for imports of value-added products and services). Historical evidence shows that imports from FTA partners grow *faster* than from non-FTA partners, while our exports to FTA partners grow more *slowly* than to non-FTA partners. On both counts, therefore, FTAs serve to make Canada's trade deficit larger, not smaller. The proposed deal with the EU would break dangerous new ground by further constraining the limited tools of policy intervention, such as public procurement, which Canadian governments still possess to stimulate the domestic development of desirable industries and sectors.

The 2010 AFB recommends that the federal government immediately cease FTA negotiations with Korea and the EU, and revoke its deal with Columbia. (The FTA with Colombia, given that country's murderous record on human and labour rights, is a horrible blow to human rights and justice.) Instead of more FTAs (with their built-in bias toward corporate mobility and privilege at the expense of democratic economic governance), the federal government should pursue a different model of trade agreement with key partners — including Europe, 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 domestic employment and incomes). The main goals of these alternative negotiations would be to commit to balanced two-way trade (reducing the lopsided deficits which characterize most of our trade relationships); to recognize the need for and the legitimacy of government policies to promote sectoral development and economic diversity; and to impose equal adjustment costs

FIGURE 17 **2011 AFB Sector Development Measures**

Policy Measure	Annual Impact ($million) Revenue	Expense
Sector Development Councils	-	$50 per year
Canadian Development Bank		$1,000 per year
Other Sector Initiatives		
• Automotive EPR program	$300	$300
• Aerospace Canadian content offsets	-	-
• Green energy manufacturing	-	$50
• Green skills initiative	-	$100
• Sustainable forestry and skills	-	$300
• Sustainable farm income supports	-	$650
• Eliminate biofuel crop subsidies	$200	-

resulting from trade imbalances on all parties (both surplus and deficit nations).

8. Establish a Canadian Development Bank

- *To provide financing for the ambitious development programmes prepared by the Sector Development Councils, the AFB will create and endow a new publicly owned economic development bank, the Canadian Development Bank (CDB).*

The CDB's capital will stem from higher corporate income taxes collected from the petroleum industry. Like other commercial and publicly owned banks, the CDB will leverage its capital into an expanded portfolio of loans and other financial placements (including equity) in new sector-development initiatives that promote the diversification of Canada's exports and stimulate and nurture desirable innovative industries. In other words, the CDB — like existing private banks — will have the power to create credit and allocate it to selected projects and enterprises in the real economy.

The main difference is in the criteria which will guide that financing activity. The CDB's mission is to foster innovative investment in targeted sectors of the economy, with the condition that the bank itself breaks even with its invested capital. (This implies charging relatively lower rates of interest for loans and other placements, combined with an appropriate cushion for loan losses.) This expansion of public lending capacity will reduce the vulnerability of key long-term economic development priorities to the cyclical whims of private finance. It will also allow potential projects to be evaluated and funded on the basis of broader criteria — including an integrated social cost and benefit analysis — than are utilized by private lenders. The broad economic and social benefits of a successful program to develop and expand innovative export industries, and the fiscal return to government from that progress, justify the government's role in this type of targeted lending.

One division of the new CDB will focus on allocating capital toward social enterprise, including micro-credit, community economic development, and co-operative initiatives. This division will work to implement the recommendations of the Canadian Task Force on Social Finance, including partnering with philanthropic and foundation investors to establish tax-supported pools of finance that support "impact investing" projects in the areas of community and environmental sustainability. Through an expansion of the existing Co-operative Development Initiative, the CDB will also provide start-up financing on favourable terms for the creation of new co-operatives in the areas of production, retail, housing, and credit unions.

Strengthening Public Services

Public Services

Strong and effective public services are essential if Canadians are to address the economic, social and environmental challenges that we collectively face now and in the future. Publicly owned and operated services are more efficient, less expensive, of higher quality, and more accountable than when they are privatized. All Canadians should benefit equally. Public services reduce inequality and promote economic, social, and environmental security. If unregulated market forces and private-sector incursion into the public sector were as effective as their proponents contend, the public sector would not have been called upon to manage and organize every major societal challenge over the last century from the Great Depression, to Second World War mobilization, to post-war reconstruction, and to the public "stimulus" measures provided to mitigate the effects of the current recession.

Attacks on Public Services are Part of a Broader Agenda

Government actions that facilitate privatization, contracting-out and deregulation are planned within a broad agenda based on a philosophy of the unregulated market and the idea that all citizens will ultimately benefit. In reality, only a very few end up being better off.[1] The increase in inequality in Canada is a direct result of this limited view of the world. The attack on public services systemically limits our capacity to create equality and instead makes the rich richer at the expense of the many.

Despite its assertions to the contrary, the Canadian government's financial accountability act has enabled it to govern in a less accountable fashion, in particular in the area of contracting. It has made federal policy making, once a result of rational internal departmental discussion, now completely dependent on the Prime Ministers Office.

Federal spending decisions don't just impact federal public services, but also the capacity of provincial and municipal governments to provide qualitative public services. Healthcare is a primary example.[2] Federal governments have a history of passing the buck to other levels of government, leading to a deterioration of services and downloading of costs through the system to individual Canadians. Boasts about low federal taxes divert the public's attention from the increased costs they pay in time and personal expenditures for diminished services.

Public services tend to be natural monopolies enabled by large-scale public investment. They are supposed to serve all Canadians as equally as possible. However, monopolies are a preferred tool for business interests that wish to reap record profits. From the private investor perspective, why provide Canadians with the public services they need most on a low-cost, non-profit, collective basis when it's possible to realize huge profits from the delivery of those same services?

Debt and Austerity

Canada's current net debt is comparatively small as a share of GDP. It is manageable, and can be addressed without aggressive cuts to public spending and public services.[3] In fact, the 2010 AFB showed that increases in public spending could actually increase the rate at which the deficit is paid down. Instead, governments are tackling debt through cuts to public spending and the public sector, a choice nourished by ideology, not economic necessity.

The Myth of Free Trade

There are relatively insignificant trade barriers between Canada and our largest trade partners. Where they do exist, they exist because elected governments have chosen to protect the public interest. Experience shows that trade deals have decreased foreign direct investment in our shrinking manufacturing sector while concentrating on staples (especially oil exports), undermining our economy as a whole.[4] Free trade deals tend to undermine public services and open the door to increased privatization and deregulation. They contain stipulations that limit the ability of governments to make decisions in the public interest. Investment provisions like those found in the North American Free Trade Agreement (NAFTA) — and which may be included in new agreements like the Comprehensive Economic and Trade Agreement (CETA) with Europe — effectively transfer decision-making authority about purchasing, economic development, public-service monopolies and environmental regulation from elected governments to unelected trade tribunals. Services that protect and distribute everything from financial, water, environmental, transportation, health, education and regional economic development services are compromised.

Privatization and Public-private Partnerships (P3s)

Privatization can be defined very simply as "the transfer of responsibility and control from the public sector to the corporate and voluntary sectors, or to families and individuals."[5]

Governments view public-private partnerships (P3s or PPPs) — also known as Private Finance Initiatives, Strategic Service Delivery Partnerships and Build Operate Transfers — as the form of privatization most likely to win public support. 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 consortia, and governments that hope to get re-elected by attempting to appear to be good fiscal managers. They are not. P3s result in higher costs, lower quality, and loss of public control.

Hidden Long-term Debt

Governments try to hide the long-term financial obligations inherent in P3s from the public. They claim that P3s enable them to build badly needed infrastructure without incurring more debt. This is false. Public-sector accounting processes are manipulated to conceal debt. P3 projects don't appear on balance sheets because they are governed by a build-now, pay-later basis. The government is running up the public credit card — the one they don't tell you about. P3 debt is securitised the same way that mortgages are. It creates the illusion that P3s are paid for by the private sector, when in fact the debt is only postponed to another time, another government and a future generation. For example, the 2009 year-end Public Accounts published by the B.C. Finance Department calculated government's contingencies and contractual obligations to its P3 partners to be more than $50 billion.[6]

P3 consortiums borrow money from international investment banks at higher interest rates than it costs governments to borrow.[7] Over the 25-to-30-year average span of a P3 contract, the public pays much more than it would have had the government borrowed the money directly to finance a traditional design/build contract.[8] The long-term outcomes of privatized, hidden long-term debt erode government's flexibility to provide public services as more and more public money becomes tied up in paying private providers, guaranteeing private profits and institutionalizing private for-profit monopolies.[9]

Because the details of private-sector contracts become the property of the contractor, the public isn't allowed to view the books of their P3 partner, even though it is ultimately responsible for the costs.

The public rightly expects governments to deliver services, regardless of whether P3 projects or their funders meet their obligations. Citizens and their governments bear the ultimate risk for the provision of public services. P3s fail regularly and must be bailed out by the public.[10] Business must make money for its shareholders, and as recent experience has shown, won't hesitate to take quick action, including bankruptcy and liquidation, to protect investor interests.

Federal Government Support For P3s

Successive federal governments have aggressively supported P3 growth by creating PPP Canada, a Crown Corporation dedicated to encouraging P3s at all levels of government, P3 funding criteria like that found in the Building Canada fund, and the P3 Canada fund, encourages P3 growth by subsidising the development of P3 projects in provinces, territories, municipalities and First Nations communities. PPP Canada actively encourages federal government departments and agencies to use P3 solutions for infrastructure and service renewal.

Sell-Off of Government Assets

Recent federal budgets have re-committed to ongoing reviews of federal corporate assets including Crown corporations, especially those that it believes compete with the private sector. The criteria for selling these assets are arbitrary, based on an ideologically driven interpretation of "core responsibilities". For instance, seven large properties that the government sold in 2007 and then leased back were sold for at least $350 million less than they will be worth at the end of their 25-year lease. Over the course of the lease the Canadian public will be liable for an estimated $165 million of extra capital and contract management costs.[11] Another failed sell-off attempt was wrapped into the 2010 omnibus Budget Implementation Act, which authorized the as-yet uncompleted sale of Atomic Energy Canada Limited (AECL).[12]

Privatization By Review: Expenditure Review Processes

All recent federal budgets have announced expenditure/program/strategic reviews that include criteria that eliminate public capacity. On the surface, these reviews sound reasonable: are programs achieving their intended results? Are they efficiently managed and aligned with the priorities of Canadians? Unfortunately, these reviews are not transparent, so Canadians have no way of knowing whether identified program cuts are in their best interests.

The federal government has made cuts to environmental enforcement, food inspection, arts and culture, and human rights-based programs including the Court Challenges program, Status of Women and Pay Equity. The decision to slash funds in these areas and many others were made with either no explanation or no reasonable explanation, undermining the ability of repected organizations like KAIROS, Rights and Democracy and the Canadian Council for International Cooperation to effectively carry out their mandate. When legislative change is required, the government simply buries the changes in voluminous omnibus budget legislation. In short, Expenditure Review is cutting jobs — and often quietly, through attrition.[13] Fewer public servants translates into fewer and less timely delivery of services for Canadians.

Privatization of Regulatory Oversight and Enforcement

Deregulation, the weakening, elimination and lack of enforcement of regulations have the effect of privatising the Government's responsibility for keeping Canadians safe. Citizens depend on regulations to protect our water, food, health and consumer goods, ensure the safety of the roads we drive on and the environment we live in, and suppress any predatory behaviour exhibited by the financial institutions, telecom companies and other businesses. Recent budgets have included measures to increase competitiveness and reduce "red tape". As a result, inspectors in all sectors who enforce regulations have seen both their numbers and their powers of enforcement diminished.[14] Their responsibilities have largely been transferred to individuals and businesses who sell goods and services or extract Canada's natural resources. The prescription "Buyer Beware" has been transformed from cautionary warning to a principle of governance.[15]

Meanwhile, polls show that 90% of Canadians believe the Canadian government should do much more to protect the environment and public health and safety, and 83% believe that inspectors who enforce regulations should work for government agencies, and not for the industries being regulated.[16]

Regulation has an important role to play in ensuring that private organizations and industries meet public-interest objectives of content, security and breadth of service. Free trade agreements and unrestricted foreign investment encourage further deregulation of those industries. Opening them to foreign ownership undermines government's ability to regulate. Previous governments have held the firm position that domestic ownership of Canada's media and telecommunication industries and infrastructure were essential to the public interest. This is still true.[17]

Contracting-Out, Marginal Jobs, and Temporary Staffing Agencies

The federal government has relied increasingly on contractors and temporary staffing agency contracts. There is no evidence that this saves money; rather, growing evidence suggests that it costs the government more money and undermines the intention and spirit of federal public service staffing legislation.[18]

Workers hired under these arrangements often feel marginalized. Some may prefer temporary employment relationships, but others become disillusioned and see little opportunity for job security, career advancement or equitable wages and benefits.[19] There are clear guidelines for staffing government jobs on a temporary basis when required. The current trend lacks transparency and is wasteful.

The 2010–11 Main Estimates indicate that the government plans to spend over $12 billion for contracted-out work and services.[20] Over $8 billion is earmarked for professional and special services alone, with generous payments to multinational consulting firms like Deloitte, CGI, and IBM, and hundreds of temporary staffing agencies and IT firms.[21] Therefore, the AFB commits to cutting $200 million from the contracting out budget in 2012–13 and $350 million in 2013–14.

AFB Budget Actions

The AFB is committed to public service renewal and to implementing steps to ensure transparent public spending and public spending decisions.

Examine the impact of trade deals on the public interest

The process for examining the benefits of existing and pending international trade deals will be examined through a rigorous cost-benefit analysis with respect to the broader public interest and through consultation with all elements of Canadian society.

Results will be used to recommend changes to existing trade arrangements and any arrangements currently being negotiated to protect the economic and democratic interests of all Canadians.

PPP Canada, the Crown Corporation created to promote P3s in the municipal, provincial and federal sectors, will be converted into a Public Assets Office that will:

- assist 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 that reflects the diversity of the Canadian public and is accountable to the public through Parliament;
- 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.

A transparent Program Review Process will be set up that will:

- explore how to improve programs 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, and more accountable and citizen-centred public services. Those savings can then be redirected into programs and projects in the broader public interest.

Existing purchasing and procurement should be leveraged to achieve social and environmental outcomes. Social impact "weighting" that includes a combination of price, quality, environment, and social impact criteria should be a part of all contract RFP's and program reviews. Federal procurement must create opportunities not more poverty. Community Benefit Agreements (CBA), including employment objectives, employment equity goals, and local content requirements should be mandatory on all federal government contracts above $1,000,000.

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;
- ensure that human and support resources are in place for pro-active and precautionary monitoring and enforcement of federal regulations by public officials; and
- review all current plans to open foreign investment, especially in the case of private industries that have a public interest impact against the long term collective public interest needs of all Canadians.

Notes

1 Economic principles based on greed are not inevitable or in anyway historically predetermined. "All types of societies are limited by economic factors. Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on the motive only rarely acknowledged in the history of human societies, and certainly never before raised to the level of a justification of action and behaviour in everyday life, namely, gain. The self-regulating market system was uniquely derived from this principle." Polyani, Karl The Great Transformation, Beacon Press, 1957 P. 30

2 See the Health Care Chapter in this year's AFB

3 Jackson, Andrew, Big Train Coming, Does Canada Really Have a Deficit and Debt Problem?, AFB Series, CCPA, Oct 2010

4 Stanford, Jim, The Ins and Outs of Foreign Investment, The Progressive Economics Forum, Nov 21, 2010 (also the Globe & Mail Web version. See also Stanford, Jim Out of Equilibrium : The Impact of EU-Canada Free Trade on the Real Economy, CCPA, Oct 27 2010

5 Whitfield Dexter, *Global Auction of Public Assets*, Spokesman 2010

6 $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.

7 Private corporations pay 200 basis points (2 percentage points) or more than government's pay to borrow over a 30 year term, increasing the cost of a 30 year P3 project by more than 25% compared to a traditional publicly financed project.

8 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

9 Whitfield Dexter, *Global Auction of Public Assets*, Spokesman 2010, p.36 "The UK currently has the world's largest PPP programme and the debt associated with this programme, in the form of contractual payments from public sector revenue budgets, is part of the debt crisis (Institute for Fiscal Studies, 2008). Between 2009/09 and 2033/34 the public sector will have to pay 216.5 bn Pounds to private companies on signed deals up to October 2008 — the 62.8 bn Pound signed deal figure only indicates the capital value (HM Treasury, 2009) Annual payments were forecast to peak at nearly 11 Bn Pounds in 2017/18, but this does not take account of the continuing stream of PPP deals Only 13% of PP projects, 43% of capital value are included in the public service balance sheet. The PPP commitments, particularly in a period of fiscal crisis and reductions in public expenditure, mean that cuts will be borne in service provision. PPP finance is not additional investment- it replaces public investment with frequently more expensive private investment built into contracts that virtually guarantee long-term profits to contractors and banks."

10 Mehra Natalie, *Flawed, Failed and Abandoned*, Ontario Health Coalition March 2005

11 McCracken Michael, Informetrica, Testimony to the Standing Committee on Government Operation and Estimates, December 5, 2007

12 McCarthy Shawn, Ottawa's plan to sell AECL threatens future of Canada's nuclear industry, Globe and Mail, Nov 10 2010 Bryne Purchase, a former deputy energy minister in Ontario, said that "The worst of all possible worlds is where you've privatized any upside but you've kept all the risk," he said. "We've seen that before."

13 Curry, Bill, Ottawa to rely on public service attrition for lion's share of spending cuts, Globe and Mail Nov 19 2010

14 The government appointed commission made 57 recommendations following the 2008 Listeriosis outbreak. The government appears unwilling to implement many of them. At the time of the outbreak the Canadian Food Inspection Agency employed 220 inspectors to verify compliance with meat preparation safety procedures. CFIA, despite the Commission's recommendation that more inspectors were needed now estimates it only needs 150 inspectors to do the same work. Kingston, Bob, Government Spins Food Safety, Press Release, Nov. 4, 2010

15 For a broader discussion of the government's deregulatory actions see Campbell, Bruce and Lee, Marc, Putting Canadians at Risk: How Deregulation Threatens Health and Environmental Standards Canadian Centre for Policy Alternatives, 2006 & Lee, Marc, Canada's Regulatory Obstacle Course: The Cabinet Directive on Streamlining Regulation and the Public Interest, Canadian Centre for Policy Alternatives, 2010

16 Lee, Marc, Canada's Regulatory Obstacle Course: The Cabinet Directive on Streamlining Regulation and the Public Interest, Canadian Centre for Policy Alternatives, 2010. see especially the Annex

17 A broader discussion on the impacts of foreign ownership of Canada's telecommunications industry and infrastructure can be found in "Increasing foreign control of Canada's telecommunications: No Evidence. No Need. No Support. Submission by the Communications, Energy and Paperworkers Union of Canada in response to "Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform, Industry Canada's Consultation Paper, June 2010

18 An investigative study prepared by the Public Service Commission of Canada shows that expenditures for temporary help services increased by 178% over the 10 year period ending 2009, form $108 M. in 1999–2000 to $299 M. in 2008–09, while overall government expenditures only increased by 35.5%.

Other research suggests that personnel contracting costs may actually be on track to rise to over $1 B. by 2011.

19 "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

20 The government estimates that the major areas where contracting for services in the federal public services occur are found in the Professional, Special, Purchased, Repair Maintenance and Information Services line estimates of the Main Estimates "Contracting Out costs see Contracting for Services An Overview" TBS Canada April 11, 1994.

21 May, Katheryn, Ontario law rewrites rules for temp firms, The Ottawa Citizen November 6, 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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