AFB 2006

Alternative Federal Budget 2006

Moving Forward

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Preface

For over a decade the Alternative Federal Budget has been providing Canadians with a new way to look at federal budgets. We start from the premise that budgets should first be about people, and provide an alternative approach to handling the nation's finances that is both fiscally and socially responsible.

The AFB was launched at a time when Canada was emerging from a recession and the government's response to handling the massive deficit on its books was to offload it onto lower levels of governments, Canadian families, and individuals via massive spending cuts — as recommended by Canada's business leaders. The Alternative Federal Budget took a more equitable approach, demonstrating that it was possible to fund health care, education, and unemployment insurance, improve the environment, and provide other essential services, and still balance the books, eliminate the deficit, and pay down the debt.

Today a new government is in power, the second minority government in 18 months, and Canada is in a very different position. Strong economic growth, fuelled by a long period of low interest rates, has delivered the lowest unemployment rate in over 30 years, and a string of federal budget surpluses going forward. This government inherits an unrivalled opportunity to make a difference in the lives of Canadians at home and to build our reputation abroad.

Working together with other parties in the House, minority governments have often been responsible for moving the country forward on issues that deliver net benefits for all citizens — among them universal Medicare and public pensions. The recent 2004–05 minority Parliament worked together with the opposition to provide new help to cities and the environment, support students and workers, and increase international aid. Working with the provinces, it laid the groundwork for a Canada-wide child care plan; and with the provinces and First Nations, the Métis and Inuit, it signed landmark agreements to end a history of neglect.

The challenge for today's minority government will be to build consensus on issues that unite Canadians and their representatives in the House. Once again, Canada's business leaders have weighed in with their agenda, focused on more tax cuts, decentralization, and leaner government — which means, among other things, reducing federal ability to set national standards, reduce tuition fees, or help the unemployed in Canada's poorer regions. That strategy would lead to further rounds of program cuts and abandoned initiatives. Is this what Canadians want?

In the upcoming federal budget, the new minority government will signal whether it intends to lead by "governing as though it has a majority" — the approach that failed the last Conservative minority government in 1979 — or by building consensus among Canadians on the challenges of a new era. This Alternative Federal Budget provides a strategy for building that consensus.

Our process starts with the participation and support of researchers, activists, and leadership from a broad spectrum of civil society organizations representing millions of Canadians — and includes representatives from labour, environment, anti-poverty, religious, students, academics, education workers, culture, social development, child advocates, women, international development cooperation, immigration, housing, health care, think-tanks, and Aboriginal peoples.

The AFB works to develop consensus on policy decisions and directions, and in the process helps to empower popular mobilization, promote economic literacy, and demystify the process of budget-making.

Over the past several years, the AFB has provided a responsible fiscal framework in which the budget is balanced, the debt burden falls, and the overall tax level as a share of GDP remains constant. And, within these constraints, the AFB meets the aspirations of a wide range of civil society organizations.

The AFB would like to acknowledge the invaluable financial assistance provided to this project by the Canadian Labour Congress, the Canadian Auto Workers, the Canadian Union of Public Employees, the National Union of Provincial and General Employees, the Public Service Alliance of Canada, and the Communications, Energy, and Paperworkers Union, who together make this project possible. And we would like to thank the following organizations for their participation and support:

Participating Organizations

Assembly of First Nations (AFN)

Canadian Auto Workers (CAW)

Canadian Conference of the Arts (CCA)

Canadian Council for International Cooperation (CCIC)

Canadian Federation of Students (CFS)

Canadian Feminist Alliance for International Action (FAFIA)

Canadian Housing and Renewal Association (CHRA)

Canadian Labour Congress (CLC)

Canadian Research Institute for the Advancement of Women (CRIAW)

Canadian Union of Public Employees (CUPE)

Centre for Community Study

Child Care Advocacy Association of Canada (CCAAC)

Communications, Energy and Paperworkers Union (CEP)

Green Budget Coalition

Hugh Mackenzie Associates

Make Poverty History

Monica Townson Associates

National Anti-Poverty Organization (NAPO)

National Association of Friendship Centres (NAFC)

National Organization of Immigrant & Visible Women of Canada (NOIVMWC)

Polaris Institute

Registered Nurses' Association of Ontario (RNAO)

United Steelworkers of America (USWA)

Most of all, we are indebted to the many participants in the AFB project, who volunteered their time, expertise, and enthusiasm to this project, drafting sections of the document, providing constructive input throughout the process, and helping to shape the AFB approach by their participation in the steering committee. We would like to sincerely thank the following individuals for their contributions: Yuri Artibise (AFN), Jim Stanford (CAW), Armine Yalnizyan (CCPA Research Fellow), Alain Pineau and James Missen (CCA), Brian Tomlinson (CCIC), Ian Boyko (CFS), Sharon Chisholm and Alex Munter (CHRA), Andrew Jackson, Salimah Valiani, and Teresa Healy (CLC), Lise Martin (CRIAW), Toby Sanger and Corina Crawley (CUPE), Paul Shaker (Centre for Community Study), Monica Lysack and Lynell Anderson (CCAAC), Nancy Peckford (FAFIA), Keith Newman and Julie White (CEP), Andrew Van Iterson, Pierre Sadik, and Dale Marshall (Green Budget Coalition), Hugh Mackenzie (Hugh Mackenzie & Associates), Joe Gunn, (Make Poverty History), Monica Townson (Monica Townson & Associates), Dennis Howlett and Sandra Bender (NAPO), Alfred Gay (NAFC), Anu Bose (NOIVMWC), Steven Staples (Polaris Institute), Sheila Block (RNAO), and Charles Campbell (USWA).

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Judy Randall
AFB 2006 Coordinator

Executive Summary

For the second time in 18 months, Canadians voted in January 2006 to send a minority government to Parliament. It is hard to argue that Canadians were voting in favour of any particular platform. If the election demonstrated anything conclusively, perhaps it was only that Canadians were unwilling to entrust any party with a majority, and expect their legislators to work together. Minority governments have certainly done so in the past, and in the process have built a better Canada. The last minority government launched a Canada-wide child care plan, negotiated landmark agreements with First Nations, and made critical new investments in post-secondary education and training, affordable housing, urban infrastructure, and foreign aid.

In this minority Parliament, it will again fall to the four parties represented in the House to broker a plan that reflects the broad consensus of Canadians, and helps to move Canada forward. But it's hard to move forward if you start in reverse. And despite its election pledge to "Stand up for Canada," several Conservative promises involve repudiating critical commitments made during the last Parliament — to child care, to First Nations, to Kyoto, to young people, Canadian workers, affordable housing, cities and communities.

The new government inherits an underlying "status-quo" fiscal surplus of at least $15 billion a year over the next five years ($74.8 billion over five years is the total available fiscal room as indicated in the *Economic and Fiscal Update*). Few of the choices to be made in the upcoming federal budget, therefore, are about affordability.

How will this room be used? The Conservative platform outlined an ambitious agenda of tax cuts, debt repayment, new spending, and new surplus accumulation totaling $112.7 billion over 5 years. Some questions occur. How do they fit a $112.7 billion program into a $74.8 billion surplus? What spending cuts are being contemplated to fill the $37.9 billion gap? And will the era of budget surpluses evaporate in a new round of multi-billion dollar tax cuts, undermining Canada's fiscal capacity and providing a rationale for a new round of spending cuts, like the Liberal cuts of a decade ago?

The Alternative Federal Budget believes the current minority government has ample fiscal room to honour commitments made in the last Parliament: to hold on to progress and use our vast fiscal resources to improve the lives and prospects of Canadian citizens at home, while also meeting our international obligations abroad. Few governments inherit as enviable an opportunity to lead their country forward.

The focus of this year's Alternative Federal Budget is to demonstrate that Canada can maintain the progress made in the 2004–05 minority Parliament, use the substantial discretionary fiscal resources remaining to move Canada forward on a progressive agenda, and still give the new government "room to govern." Our plan for moving forward is divided into two parts: "Not Going Backward" and "Moving Forward."

Not Going Backward

The Alternative Federal Budget highlights five policy areas in which significant progress was made in 2004–05. The AFB regards these commitments as cornerstones of progress and calls on the government to honour previous funding commitments made to these policy areas:

1. **Child Care:** Deliver the National Child Care money promised in bilateral agreements.
2. **First Nations:** Honour the commitments made to First Nations, Métis and Inuit peoples during the First Ministers' Meeting in November 2005.
3. **Environment:** Continue funding for the Climate Change Fund.
4. **Young Canadians and Workers:** Implement the training plan and Wage Earner Protection Fund announced in the *Economic and Fiscal Update*. Honour plans for post-secondary education made as part of Bill C-48, and implement the training plan announced in the *Economic and Fiscal Update*.
5. **Cities and Communities:** Maintain the planned progress on transit and affordable housing made as part of Bill C-48 (the Liberal-NDP Budget agreement).

Moving Forward

The AFB will sustain and build on these key priorities, and promote new measures to —

- reduce health care costs with a national Pharmacare program;
- promote conservation and energy efficiency, and "green" the economy;
- make poverty history by setting and meeting targets on foreign aid;
- tackle inequality at home with help for families, students, the elderly, and immigrants;
- restore workers' rights to a living wage, training, and employment insurance;
- honour Canada's international commitments to women;
- support Canadian cultural institutions and artistic excellence;
- create a fairer tax system to promote fiscal stability and societal equity;
- expand sector-specific supports to stimulate investment and jobs; and
- freeze defence spending pending a full public review of Canada's international role.

Canada has a great opportunity to move forward to create better lives for all of us. The Conservatives want to solve every problem with a tax cut. We offer a better choice — use our tax dollars to invest in services that matter to people, like education, child care, health, clean air, safe drinking water, affordable housing. These are necessities for all of us, and no tax cut could deliver them so equitably.

Introduction

For the second time in 18 months, Canadians voted in January 2006 to send a minority government to Parliament. As outlined in the AFB's *Minority Report* in January, we believe minority governments have traditionally been very positive for Canada, delivering historic and valued programs and legislation — such as Medicare and public pensions — that have served Canadians well, defined a distinct and proud Canadian identity, and stood the test of time.

The minority Parliament elected in June 2004 was no exception. In fact, it made significant progress in addressing several long-standing problems in Canada:

- the need for national support for early childhood care and development across the country;
- restitution to Canada's First Nations for decades of harm and neglect;
- recognition of the central role of Canada's cities and the importance of a cleaner environment, renewed physical infrastructure, and affordable housing to the growth and sustainability of healthy communities; and
- action on our overdue obligation to young Canadians and workers to provide the support and tools they need to advance their education and develop the skills demanded by a vibrant and growing economy.

During the last minority Parliament, Prime Minister Paul Martin also made the unexpected but critical decision to reject U.S. overtures to have Canada participate in Ballistic Missile Defence — a decision supported by two of the three opposition parties in the House, and a two-thirds majority of Canadians.

With the January 2006 election, Stephen Harper's Conservatives came to office with the support of just over a third of the electorate (36% of the popular vote). Based on the proportion of seats it holds in the House of Commons, the current government constitutes the weakest minority government in Canada's history. The biggest challenge facing this government will be to determine exactly what its mandate is — and to gauge its decisions accordingly.

Mandate

With nearly two-thirds of Canadians voting in favour of other parties, the election results hardly convey an endorsement of the Conservative policies of decentralization, major tax cuts, expenditure restraint, or smaller government. Nor can Harper's victory be read as a mandate to repudiate signed agreements with provincial governments, renege on commitments to children and youth, reject landmark agreements with First Nations, jettison Canada's support for Kyoto, or re-open discussions with the U.S. on missile defence.

Indeed, the majority of Canadians might agree with the Alternative Federal Budget that the investments and achievements of the last minority Parliament represent crucial cornerstones of progress, which the new minority government should not be allowed to dismantle.

This minority Parliament has a mandate to build on these cornerstones — not to take this country backwards.

Accountability

For a tenuous new Conservative government whose watchword for years has been "accountability," reneging on negotiated commitments made in good faith by the government of Canada to its citizens would be a violation of that faith, and a misunderstanding of the contingent nature of the mandate it received from Canadians on election day, January 23rd. It would be a prescription for certain defeat — first in Parliament, and then in the subsequent election.

The first steps of the Harper Conservatives have given Canadians little hope that they are taking this reality into account.

During the election campaign, a key Conservative slogan was "The time for accountability has arrived." The Throne Speech emphasized that theme, and presumably so will the 2006 Federal Budget. The focus is on keeping Conservative promises on five key priorities: accountability legislation; a one percentage point cut in the GST; funding for a $100-per-month child allowance for children under 6 (the "Choice in Child Care Allowance"); a patient wait-time guarantee; and a $100 million-per-year fund to put more police on the streets, aid victims of crime, and prevent youth crime.

On the broader "accountability" agenda, however, Prime Minister Harper:

- appointed a non-elected party worker to the Senate, and handed him Cabinet responsibility for Public Works, the accountability-challenged department whose new Minister will not be answerable in the House;
- denied voters of Vancouver Kingsway their democratic choice of a Liberal MP by persuading David Emerson to cross the floor and sit as Conservative Minister of International Trade;
- announced on the day he was sworn in that he was cancelling the signed agreements Canada had negotiated with the provinces on child care, effective March 31, 2007;
- initially refused to consider a Parliamentary debate on the Canadian mission to Afghanistan despite widespread confusion about why Canadian troops are there and who they are fighting in a long-term war without a foreseeable resolution. (He later relented under pressure and grudgingly agreed to allow such a debate.)

Conservatives may now attempt to define "accountability" as applying mainly to civil servants and Ministers of the Crown via a new piece of legislation governing behaviour, reporting, and relationships within the federal government. But Canadians will wonder why Prime Minister Harper's argument that Canada made a commitment and "Canadians don't cut and run" applies to supporting a military role in Afghanistan, but not to the development and future of our children, which was also a commitment of the prior government.

Across Canada, parents, educators, students, community groups, social and labour organizations, premiers and federal opposition parties are urging the Prime Minister to honour the multi-year commitment to the provinces to support early learning and child care. Stable long-term funding is critical to creating needed child care spaces. To millions of Canadians, Harper's ultimate decision on this issue will be the litmus test of his own readiness to respond to the electorate.

Fiscal Room and "Not Going Backwards"

The new government inherits an underlying "status-quo" fiscal surplus of some $47 billion over the next three years — and a possible additional windfall of $7.6 billion, according to a recent forecast.[1] Few of the choices to be made in the upcoming federal budget, therefore, are about affordability. In fact, the current minority government has ample room to honour the commitments made in the last Parliament — to hold on to progress — to use our vast fiscal resources to improve the lives and prospects of Canadian citizens at home, and still meet our international obligations abroad. Few governments inherit as enviable an opportunity to lead their country forward.

As outlined in the Fiscal Framework (page 17) there are legitimate concerns about how the government intends to use the fiscal room. Over five years, (with a $74.8 billion surplus) the Conservatives estimated the cost of their proposed tax cuts, spending plans, and debt repayment at a total of $90 billion. In addition they expect to accumulate a cumulative unallocated surplus of $22.7 billion, bringing the total to $112.7 billion. This raises some important questions: How do they fit a $112.7 billion program into a $74.8 billion surplus? What other spending cuts are being contemplated? And will the era of budget surpluses evaporate in a new round of multi-billion dollar tax cuts, undermining Canada's fiscal capacity and providing a rationale for a new round of spending cuts, like the Liberal cuts of a decade ago?

It is hard to move forward if you start in reverse. And, despite its election pledge to "Stand up for Canada," some Conservative promises involve repudiating critical commitments made during the last Parliament: to child care, to First Nations, to Kyoto, to young people, to Canadian workers, to affordable housing, to cities and communities.

The Alternative Federal Budget starts from the premise that the most urgent priority is to honour these very affordable obligations and ensure that Canada is "not going backwards."

We regard these commitments as cornerstones. And, whatever their differences, the three opposition parties share our position on these priorities. They all support a national jointly-funded child care program. They all support the previous government's accord with First Nations. They all support meeting the Kyoto targets, and providing assistance for Canadian cities. They all support increasing transfers for students. And they all oppose participation in missile defence and the weaponization of space.

Holding on to these cornerstones is what the AFB is calling "Not Going Backwards." In the Fiscal Framework (page 17), we itemize the cost of these commitments at $8.75 billion over the next three years (Table 4), and show how the government can honour these undertakings and still retain substantial fiscal room ($38.4 billion over three years) for additional initiatives.

These initiatives would best be focused on expanding Ottawa's commitment to addressing the most crucial shortfalls in federal government programs and activities — including additional funds for child care and housing, expansion of the Child Tax Benefit, supporting Canada's cultural institutions, international development, training, and sectoral support, dedicated social transfers for education and social services, environmental protection, and other measures outlined in later sections of this document.

Tax Cuts

In Paul Martin's 2000 budget, massive tax cuts were presented as a reward to Canadians for sacrifices made to pay down the federal deficit. That $100 billion tax cut delivered more than 30% of the benefits to the highest income 5.3% of taxpayers,[2] leaving little room to deal with critical issues like building affordable housing or reducing poverty. Six years later, many Canadians recognize that a $200 or $300 tax cut is small compensation for being unable to get medical help when you need it, or send your child to university, or afford decent housing. Yet this is the promise that never goes away. In the current debate, it is scarcely a matter of whether there will be a tax cut — 74% of net Conservative promises in the recent election campaign took the form of tax cuts — it's more like which tax cuts, and how many would you like?

From a fiscal perspective, there is little difference between the income tax cuts announced by former Finance Minister Ralph Goodale in the November 2005 *Economic and Fiscal Update* and a Conservative reduction of one percentage point in the GST. Either one would cost approximately $15 billion over the next three years. And a pitched partisan debate over which $5-billion-a-year tax to cut is hard to take seriously since party positions — on the GST in particular — could most charitably be described as "flexible."

Over the past decade, the Liberal record of cutting taxes as a share of GDP, and slashing government spending (relative to GDP) back to the levels of the 1950s has left Canada with an increasingly unequal income distribution, weaker public services, and crumbling infrastructure — a legacy of neglect incomprehensible in a nation that boasts eight consecutive budget surpluses. The Alternative Federal Budget takes a different approach. We offer better choices within a responsible fiscal framework, which means investing in things that matter to people, like health care, education, clean air, safe drinking water, and affordable housing. These public goods are necessities, paid for by our tax dollars, and no tax cut could deliver them so equitably.

In the 2004–05 minority Parliament, the opposition brokered a compromise on the 2005 Budget via Bill C-48 (the NDP Budget Amendment), which shifted $4.5 billion from corporate tax cuts to support post-secondary education and training, improve public transit and air quality in cities, build affordable housing, protect workers' wages in corporate bankruptcies, and increase Canada's contribution to international development.

The AFB's recent *Minority Report* showed how that public reinvestment — along with other new initiatives such as the child care agreements with the provinces and the landmark agreement with First Nations — were starting to make a difference to the lives and hopes and prospects of millions of Canadians.

Prime Minister Harper has made it clear that his upcoming federal budget will contain tax cuts. This is not the approach of the Alternative Federal Budget. As our recent AFB Technical Paper *Standing up for Which Families*[3] reveals, the tax measures proposed by Harper, including the cut to the GST, would disproportionately benefit the top 5% of families, those with incomes over $150,000.

The decision of the voters on January 23 was to send another minority government to Parliament. It is hard to argue that Canadians were voting either in favour of tax cuts or against, since for the most part no other offer was on the table.

If the election demonstrated anything conclusive, perhaps it was only that Canadians were unwilling to entrust any party with a majority, and expect their legislators to work together. Minority governments have certainly done so in the past, and in the process have built a better Canada.

In this minority Parliament, it will again fall to the four parties represented in the House to broker a fiscal plan that reflects the broad consensus of Canadians, and helps to move Canada forward.

Moving Forward

In the aftermath of the recent election, the immediate public agenda, both for politicians and the public, is "How to Make Parliament Work."

The focus of this year's Alternative Federal Budget is to demonstrate that Canada can hold on to the progress made in the 2004–05 minority Parliament, use the substantial discretionary fiscal resources remaining to move Canada forward on a progressive agenda, and still give the new government "room to govern."

Our "Moving Forward" agenda (Table 5, page 24) would build on key AFB priorities and introduce progressive measures which would allow Canada to:

- reduce poverty with increased support for children, students, and the elderly;
- meet our commitments on international development;
- introduce a national Pharmacare program;
- preserve the principles and character of Canada's public health care system;
- promote conservation and energy efficiency, and "green" the economy;
- enhance support for Canadian cultural institutions and artistic excellence;
- provide the infrastructure and training to support negotiated child care agreements;
- grant students the support they need to access post-secondary education;
- fund First Nations governing institutions to promote economic development and improve environmental and social conditions in First Nations, Métis and Inuit and urban communities;
- support programs to advance women's equality;
- ensure workers' rights to a living wage, training, and employment insurance;
- remedy ongoing immigrant concerns on accreditation of foreign credentials;
- expand sector-specific supports to stimulate new investment and jobs in Canada;
- create a fairer tax system;
- improve physical and environmental infrastructure in Canadian cities and communities; and
- build affordable housing.

Overall, these initiatives will cost $36.4 billion over the next three years, effectively using most of the available fiscal room to advance progressive goals.

There is room for the parties to work together to achieve a number of common objectives. For example, the Alternative Federal Budget believes it is both possible and essential to renew the child care agreements with the provinces for five years, *and* to offer additional support to families with young children. We propose that the new $100 a month allowance for children under six be delivered through the Canada Child Tax Benefit (as outlined briefly in this report), and would welcome the additional help for children and families.

In this budget, as in earlier years, we have not allocated separate funds to go to debt repayment. Canada's debt-to-GDP ratio compares very favourably in international terms while our levels of child poverty and treatment of women and First Nations have been the subject of international concern. We are less concerned about making specific appropriations to get to a target debt-to-GDP ratio a year or two early than we are about squandering the early and critical development years of our children — or allowing them to grow up in a fractured society that has lost its sense of purpose and collective responsibility.

While the term of this minority Parliament may be brief, it poses substantive policy and economic challenges to Canadians. This AFB addresses some of the major policy issues confronting Canada. It puts squarely on the table the question of whether market-based solutions are an adequate response to our major social policy challenges. It challenges current proposals to sink billions of dollars into defence spending without adequate public debate about the current mission and future role of our armed forces. It raises the issue of whether Canada should (or can) chart its own course on international threats such as climate change. It rekindles the debate about the role and choices open to women and families in Canadian society. And, in two critical chapters, it poses important questions about fiscal credibility and tax fairness.

In further sections of this report, we provide an overview of the programs and investments needed to help Canada and Canadians prosper from early childhood, through their school and working years, to retirement. We find fiscal room to meet our international commitments on climate change and on international development, and outline measures to make poverty history at home and abroad.

Our Fiscal Framework takes a probing look at Conservative spending plans, and sheds a critical light on the real costs of the Conservative platform of tax cuts, debt repayment, increased military spending, and the alleged need to cut other programs like child care and the Climate Change Fund to pay for the proposed tax cuts.

In the Tax section (page 60), the AFB examines the implications of proposed Conservative tax cuts on families at different income levels, and on government's overall fiscal capacity.

Overall, the Alternative Federal Budget project is designed to present clear choices in public policy, and to explain the tradeoffs involved in taking one course of action rather than another. The partners in the AFB comprise a coalition of community, equity, social justice, labour, environmental, student, and cultural organizations, who represent millions of Canadians anxious to sustain and strengthen the vision we share of a caring and inclusive Canada.

To govern is to choose. Given the size of the projected fiscal surplus and the expectation that an additional windfall of some $2-to-$3 billion a year may be available, the new minority Parliament has the means and responsibility to use these resources in ways that build a better country for all of its citizens. These resources belong to all of us. It is up to Parliament to deliver the budget that will move Canada forward.

A More Hopeful Vision

The federal government enjoys a fiscal situation of unparalleled prosperity and flexibility. The government has ample fiscal room (in the form of 'status-quo' surpluses of $15 billion per year or more) to fund a range of important initiatives to enhance the quality and security of Canadians' lives. But the Conservative Party plans to allocate all of that fiscal room — and then some — to tax cuts. In fact, their own estimates indicate that the federal government would actually have to cut program spending, in order to pay for the full Conservative slate of tax cuts.

In contrast, this Alternative Federal Budget argues that Canadians will be much better served by the reinvestment of surplus funds into a range of public services and programs that directly address the most important problems facing our society: poverty, housing, infrastructure, jobs, the environment. We show that not only can Ottawa afford to preserve the most important achievements of the past minority Parliament (including the child care agreements, aboriginal funding, Kyoto implementation, jobs and training initiatives, and support for urban infrastructure), but the government could also finance a significant expansion of programs and services. Moreover, Ottawa can do this all within the constraint of balanced budgets.

The Alternative Federal Budget has argued (in our publication, *Minority Report*) that minority Parliaments can be the most effective government for Canada. They demand greater flexibility, compromise, and accountability from our elected officials. This minority Parliament could continue that tradition. We show that there is ample fiscal room to fully preserve the most important and cherished cornerstones from the last Parliament (including the national child care program), while financing a significant portfolio of additional initiatives to address other unmet needs. In our view, those additional initiatives should emphasize the federal government's responsibility to invest in public programs and services which enhance the quality, security, and environmental sustainability of Canadians' lives — not tax cuts.

At the end of the day, any budget in a minority Parliament will likely need to reflect (if it is to be passed, at any rate) some combination or compromise of the priorities of the various parties which will eventually need to vote for it. The Conservative government clearly has fiscal room both to preserve key cornerstones from the last Parliament (like the bilateral child care deals), and invest in new initiatives needed and wanted by Canadians — including some of the Conservatives' own proposals (such as the proposed child allowance). The Conservative Party received just over one-third of the votes of Canadians on January 23, and holds barely 40% of the seats in the House of Commons. It is essential that the budget that Mr. Flaherty eventually presents to the Commons reflects the continuing support of the majority of Canadians for the federal programs and services that contribute so much to our lives.

Fiscal Framework
The New Context of Federal Fiscal Debate

Since the mid-1990s, the federal Liberal government has chronically underestimated its financial resources by low-balling forecasted federal budget surpluses. By misrepresenting the true extent of Ottawa's fiscal capacity, the government could deflect pressure to use these financial resources to re-invest in the public services and infrastructure that had been neglected in the decade since the fight against the federal deficit in the 1990s.

The failure of the government to use these surpluses to repair the consequences of a decade of neglect is visible in the problems affecting everything from health care and post-secondary education to highways and water treatment facilities. People from all walks of life — from children living in poverty to First Nations, Métis and Inuit, to low-income seniors — have borne the brunt of this neglect in both deteriorating public services and rising inequality.

This situation has now changed. On the eve of its defeat, the Martin government provided the first plausible estimate of the government's fiscal capacity in recent memory.[4]

The presentation of a plausible federal forecast last November was a watershed in federal fiscal politics. The AFB hopes that this more realistic forecast represents a change in policy rather than a pre-election anomaly. A new office created to monitor the government's fiscal forecasting may compel the Finance Department to provide realistic assessments of the government fiscal position, provided that this office is granted sufficient resources and authority. If Canadians have access to better official forecasts, this would eliminate the need for arcane debates over the accuracy of forecasts and instead allow the public debate to focus on budget priorities.

Given the substantial size of the government's forecasted budget surpluses, there is now no longer any need to debate whether the federal government has sufficient funds to afford AFB priorities. This fact is acknowledged by both the previous Liberal government and the new Conservative government, which based its own platform costing on the Liberal government's new fiscal outlook.

Based on this more realistic forecast and the general acceptance it has received, the AFB departs from past practice and relies on the official fiscal framework rather than generating an independent forecast. Whatever adjustments would

TABLE 1 Conservative Base Case Derived Via *Economic and Fiscal Update*

(Millions of Dollars)	2006–07	2007–08	2008–09	2009–10	2010–11	Cumulative 2005–06 to 2010–11
Revenues						
Budget 2005	210,102	220,377	228,425	237,758		
Adjustments Indicated in *Economic and Fiscal Update* (p. 85)	7,260	6,449	5,618	5,865		
Total Revenue	**217,362**	**226,826**	**234,043**	**243,623**		
Program Spending						
Budget 2005	169,517	177,934	185,803	194,527		
Adjustments Indicated in *Economic and Fiscal Update* (p. 85)	1,521	2,299	2,077	1,975		
Total Program Spending	**167,996**	**175,635**	**183,726**	**192,552**		
Public Debt Charges						
Budget 2005	35,600	36,400	36,100	36,200		
Adjustments Indicated in *Economic and Fiscal Update* (p. 85)	1,208	1,638	1,512	1,655		
Total Public Debt Charges	**34,392**	**34,762**	**34,588**	**34,545**		
Base Case in Conservative Platform (Fiscal Room Available Prior to New Initiatives)	**14,974**	**16,429**	**15,728**	**16,526**	**19,800**	**83,457**

NOTE The table used to derive adjustments (page 85 of the *Economic and Fiscal Update*) does not include adjustments for 2010–11, since that year was not covered by the 2005 budget. Total fiscal room for 2010–11 is portrayed on page 79 of the *Economic and Fiscal Update*.

be made in an updated fiscal forecast would not alter the undeniable fact that the government has sufficient resources to re-invest in Canada's social and physical infrastructure.

It is possible that the federal government will have even more fiscal room than was set out in the November *Economic and Fiscal Update*. A recent report by Don Drummond of the TD Bank indicated that the budget surpluses in the current and upcoming fiscal years will be greater than was previously projected.[5] The possibility that forthcoming budget surpluses will be even higher than those reflected in the analysis below serves to underline the extent of the fiscal capacity at the government's disposal.

With so much fiscal room, Canadians have an historic choice: should these sizeable financial resources be used to rebuild public services and infrastructure, or should the federal government use this opportunity to cut taxes?

How Much Money Will Ottawa Have? The Conservative "Base Case" vs. the Economic and Fiscal Update

The Conservative platform provides a somewhat different assessment of the "base case" budget surplus projections than the assessment presented in the government's November *Economic and Fiscal Update*. The *Economic and Fiscal Update* estimated that the federal government will have

TABLE 2 Reconciliation Between the Conservative Base Case and The *Economic and Fiscal Update*

(Millions of Dollars)	2006–07	2007–08	2008–09	2009–10	2010–11	Cumulative 2005–06 to 2010–11
Fiscal Room Available Prior to New Initiatives (Base Case in Conservative Platform)	14,974	16,429	15,728	16,526	19,800	83,457
Less Initiatives Proposed Before *Economic and Fiscal Update* (p. 79)	1,775	1,833	1,851	1,611	1,507	8,577
Total Available Fiscal Room as Indicated in *Economic and Fiscal Update*	**13,199**	**14,596**	**13,877**	**14,915**	**18,293**	**74,880**

budget surpluses of $74.8 billion between 2006–07 and 2010–11 (prior to subtracting the Liberals' typical reserves for contingency and economic prudence). In other words, the federal government could afford to pay for all promises made prior to the publication of the *Economic and Fiscal Update*, and still expect to have $74.8 billion over five years for other purposes.

However, the Conservative base case, as presented in their platform, is $83.4 billion over 5 years. What accounts for this discrepancy?

Table 1 presents the information contained in the *Economic and Fiscal Update* as it was used to arrive at a base case that is almost identical to the base case used in the Conservative platform.[6] The "status quo underlying surplus" of $83.4 billion between 2006–07 and 2010–11 is the private sector's projection of forthcoming federal budget surpluses.

However, the $83.4 billion figure does not take into account new spending announced between February 2005 and the November *Economic and Fiscal Update*. This $83.4 billion figure is adjusted downward by $8.6 billion to reflect the new spending announcements made prior to November 14, 2005. This leaves $74.8 billion over five years as the amount available to a government to fund new promises regarding taxation, spending or debt repayment.

The Conservative Platform: From Budget Surpluses to Spending Cuts

The Conservative platform presents a 5-year plan to use the federal government's upcoming budget surpluses. Most of the fiscal room in the Conservatives' platform is devoted to paying for tax cuts. They estimate the costs of their personal and corporate tax cuts at $44.9 billion over five years. In addition, their plan to repay debt will absorb $15 billion of the government's five-year fiscal capacity. On the spending side, the Conservatives list plans amounting to slightly over $30 billion. Thus the Conservatives estimate that the total cost of their platform promises is just under $90 billion.

There are indications that these costs are understated. The Conservatives claim that they will address potentially expensive issues such as the federal-provincial fiscal imbalance and health care wait times, yet the platform does not reflect any expenditures to accomplish these objectives. Moreover, it has been argued that the cost of some measures, such as their GST cut and the cut in capital gains tax, have been seriously under-estimated.[7]

This $90 billion in tax cuts, spending, and debt repayment are not the only commitments in the Conservative platform. In addition, they promise a cumulative surplus of $22.7 billion

TABLE 3 The Conservative Platform (2006–07 to 2010–2011)

(Billions of Dollars)			
Conservative Promises			
Tax Reductions	44.9		
Spending Plans	30.1		
Debt Repayment	15.0		
Total New Measures		90.0	
Declared "Unallocated" Surplus		22.7	
Total Conservative Promises			**112.7**
Fiscal Room to Accommodate Conservative Promises			
Fiscal Room Available Prior to *Economic and Fiscal Update*		74.8	
Spending Cuts Required to Achieve Conservative Platform			
Reallocations	6.8		
"Moderation" in Spending	22.5		
Repudiate Spending Initiatives Proposed Before *Economic and Fiscal Update*	8.6		
Spending Cuts Required to Achieve Conservative Platform		**37.9**	
Total Fiscal Room Required in Conservative Platform			**112.7**

over the next five years (this promise is explicitly over and above the debt repayment promise). Thus the total fiscal room required for the Conservative platform is $112.7 billion between 2006–07 and 2010–11.

How will the Conservatives fit a $112.7 billion platform — including the surpluses to which they are committed — into $74.8 billion in fiscal room? There is a $37.9 billion gap that must be made up by spending cuts.

Conservative Spending Cuts: Filling the $37.9 Billion Gap

In order to find the $37.9 billion over five years required in their electoral platform, the Conservatives build in both explicit and implicit spending cuts. Two avenues through which the Conservatives plan to realize savings on the expenditure side were acknowledged in their platform:

1. The Conservative platform indicates that $6.8 billion over five years will be reallocated. They promised to terminate the National Child Care Plan, thereby saving $4.8 billion over five years.[8] They also promised to take $2 billion from the Climate Change Fund, a program that is integral to the attempt to bring Canada into conformity with the Kyoto targets. These two proposed cuts have met with strong resistance, especially from provincial governments whose own spending plans had incorporated federal child care funding.
2. The Conservative platform also promises to "moderate spending," thereby saving $22.5 billion over five years. A recent report by the TD Bank's Don Drummond has confirmed suspicions that this is a very ambitious target for spending restraint.[9]

The Conservatives explicitly promise to reduce spending by $29.3 billion over five years, ($6.8 billion in "reallocations" and $22.5 billion in "moderation"). In effect, the net new spending in the Conservative platform is negligible since the $30 billion in new spending promises is almost entirely cancelled by the $29.3 billion in cuts to existing programs.

The two explicit avenues through which the Conservatives plan to realize savings on the expenditure side do not go far enough to enable the Conservative platform to balance. These avenues free up $29.3 billion in fiscal room, but they are still $8.6 billion short of generating the full $37.9 billion of fiscal room they require.

How do they fill the remaining gap? A third aspect of their spending cuts that is implicit in their platform, but is massaged into their costing in such a way that it is not obvious:

3 The Conservatives claim that the base case fiscal room is $83.4 billion, rather than the $74.8 billion set out above. It is clear from the critical table on Page 79 of the *Economic and Fiscal Update* that they derived this base case by ignoring the $8.6 billion over five years in spending initiatives proposed by the Liberal government between the 2005 Budget and the *Economic and Fiscal Update*.

This implies that the Conservatives do not intend to honour all of the promises made by the Liberal government prior to the *Economic and Fiscal Update*.[10] The Conservative platform states that it will honour some of these commitments (such as monies for operations in Darfur and Afghanistan), but its presentation of just what they will honour is unclear.[11] What is clear is that somewhere the Conservatives will have to cut an additional $8.6 billion if they intend to adhere to their platform costing.

The fact that the Conservative platform has omitted expenses equivalent to all of the spending announced prior to the *Economic and Fiscal Update* is confirmed via another source. Paul Darby of the Conference Board of Canada was asked by the Conservative Party to evaluate its platform. He produced a report which the Conservative Party refuses to make available. However, in the letter published alongside the Conservative platform costing document, Darby states: "This analysis required an appropriate base case economic outlook that does not incorporate any new fiscal measures beyond the 2005 Budget, except for a few exceptions detailed in this report."

The three aspects of spending cuts implied (explicitly or implicitly) in the Conservative platform will require the Conservative government to make spending cuts in the neighborhood of almost $38 billion over five years. At an average of over $7.5 billion in spending restraint per year, this represents a dramatic roll-back in government spending.

The Irony of this Watershed Moment: We Acknowledge Our Sizeable Fiscal Capacity Only to Usher In Dramatic Spending Cuts

The irony of our current situation is striking. At the very moment that the government finally concedes that it has large budget surpluses for the foreseeable future, the Conservative government is likely to usher in an era of spending restraint reminiscent of the painful cuts of the mid-1990s.

In the 1990s, the fight against the deficit provided a rationale (credible or not) to legitimize draconian spending cuts. With no deficit and a constantly diminishing debt/GDP ratio, there is no plausible fiscal emergency that justifies the Conservatives' forthcoming austerity.

This austerity will be created only as a result of a Conservative strategy to radically undermine Ottawa's fiscal capacity through tax cuts. Ottawa has sufficient fiscal room to re-invest in public services and infrastructure without deep spending cuts elsewhere. But by intentionally undermining this fiscal capacity via expensive tax cuts, the Conservative government will de-

TABLE 4 Cost of "Not Going Backwards"

(Millions of Dollars)	2006–07	2007–08	2008–09	3 year total
First Nations, Métis, and Inuit				
FMM Commitments to First Nations, Métis, and Inuit	236	254	488	977
Cities/Communities				
Transit (Bill C-48 Transit Measures Are Continued to 08/09)	400	400	400	1200
Housing (Bill C-48 Housing Measures Are Continued to 08/09)	800	800	800	2400
Young Canadians and Workers				
Training (Implement Training Program Outlined in *Economic and Fiscal Update*)	476	553	798	1827
Wage Earner Protection Fund	32	32	32	96
PSE (Maintain Bill C-48 Commitment and Continue to 08/09)	750	750	750	2250
Total Cost of "Not Going Backwards"	**2694**	**2789**	**3268**	**8750**
Monies Already Budgeted That Will be Preserved for "Not Going Backward" (i.e. Monies That Conservative Platform Planned to Cut)				
Child Care				
Retain National Child Care Money Promised in Bilateral Agreements	700	1200	1200	3100
Environment				
Retain Climate Change Fund	400	400	400	1200

liberately empty the cupboard and subsequently sound the alarm that the cupboard is bare.

It appears that the Canadian public is not aware of the extent of the downsizing in government spending that will be required if the Conservative government is to avoid a deficit. Certainly the media did not explore this in depth during the campaign. Although it should be noted that the Conservative platform costing was only released a little more than a week prior to Election Day, so little time was available for detailed examination of their financial plan.

An AFB Agenda: Preserving Progress and Moving Forward

Canadians are on the verge of being denied an opportunity to use forthcoming budget surpluses to recover from a decade of depletion of public services and infrastructure. Not only may we fail to "move forward" by using this fiscal capacity to re-invest in the many urgent public services and infrastructure needs, but we are also likely to go "backwards" if the Conservative government reverses existing commitments that have been hard-won in recent years.

This section of the AFB presents our agenda for using the forthcoming budget surpluses. It illustrates the progress that is possible if our full fiscal capacity is deployed to rebuild our fraying public services and infrastructure.

The AFB proposals are grouped into two parts. First, it is imperative that we honour our existing commitments to many critical public policy areas (we call this "Not Going Backward"). In addition, there is sizeable fiscal room remaining over which the various parties in Parliament can form a compromise. We present our agenda for this money (we call this "Moving Forward").

Our analysis proceeds as follows. We provide a detailed costing of both fiscal capacity and the AFB's proposed measures over a three-year time horizon. We begin with the same base case that the Conservatives use: $83.4 billion over five years.

This is adjusted for our three-year time frame. Thus the AFB works with a base case of $47.1 billion over three years.

This is the base case that the Conservative platform has indicated they will employ, so we also use this base case in order to provide numbers that are more easily comparable with those of the Conservatives.

However, we acknowledge that the Conservatives' base case factors in the implicit cuts discussed in point #3 above.[12] Our analysis departs from that of the Conservatives in that we immediately factor in the costs of the several key commitments that have been previously promised by the government. This is our commitment to "not going backward."

Once the costs of "not going backward" are factored in, we derive the fiscal room left for "going forward." This is the money the federal government is projected to have *after* it honours these important previous commitments. Thus it forms the fiscal room available to fund the priorities that the AFB sets forth. Our AFB agenda illustrates the substantial progress that could be made — provided that the government's fiscal capacity is not undermined by the Conservatives' tax cuts.

Not Going Backwards

The Alternative Federal Budget highlights five policy areas in which significant progress has been made recently. We call on the government to honour previous funding commitments made to these policy areas:

1. **Child Care:** Deliver the National Child Care money promised in bilateral agreements.
2. **First Nations, Métis and Inuit:** Honour the commitments made to First Nations, Métis and Inuit during the First Ministers' Meeting in November 2005.
3. **Environment:** Continue funding for the Climate Change Fund.
4. **Young Canadians and Workers:** Implement the training plan and Wage Earner Protection Fund announced in the *Economic and Fiscal Update*. Honour plans for post-secondary education made as part of Bill C-48, and implement the training plan announced in the *Economic and Fiscal Update*.
5. **Cities and Communities:** Maintain the planned progress on transit and affordable housing made as part of Bill C-48 (the Liberal-NDP Budget agreement).

Table 4 presents the total cost of honouring these five priorities at $8.8 billion over the next three fiscal years. Two items — the National Child Care Program and the Climate Change Fund — were part of the 2005 Budget, hence they are already accounted for in the "status quo underlying budget surplus" of $47.1 billion over 3 years. These do not represent new cost items, since the AFB would simply continue with these items as planned rather than cutting them as the Conservatives have promised to do.

The remaining three items are expenditures that are not built into the Conservative base case, either because they were part of Bill C-48 (the Liberal-NDP Budget deal), or because they were announced in the *Economic and Fiscal Update* or thereafter. Measures that were funded as part of Bill C-48 were negotiated for 2005–06 and 2006–07 only. We have extended these measures for the three full years of our AFB pe-

TABLE 5 Cost of Moving Forward

(Millions of Dollars)	2006–07	2007–08	2008–09	Total Over 3 Years
Aboriginal Peoples				
Capable governing institutions	774	770	797	2341
Economic development	142	147	152	441
Environmental stewardship	91	91	94	276
Improving First Nations, Métis, and Inuit health and social conditions	62	62	62	185
Headstart	30	30	30	90
Friendship centres	10	10	10	30
Culture				
Commitment to artistic excellence	63	112	167	342
New Canadian museums policy	75	75	75	225
CBC: Implement "Enhancing regional connections" strategy	34	61	83	179
Cities				
Gas tax to 5 cents immediately	1000	800	600	2400
Childcare				
Funds required to meet "From patchwork to framework goals"	400	900	1900	3200
Environment *Spending*				
Energy efficiency, conservation, and green mobility	300	600	900	1800
National renewable energy expansion program	42	42	42	126
Conservation fund	83	83	83	250
Strengthening CEPA	15	15	15	45
Environment *Savings*				
Phase-out subsidies to oil and gas industry	-300	-600	-900	-1800
Company car tax shift	-2	-4	-5	-11
Shifting mining incentives to recycling (Net cost=0)	0	0	0	0
Health				
Pharmacare	2662	2795	2795	8252
Skills upgrade for health care workers	83	83	83	249
Housing				
New affordable housing units		700	700	1400
Overseas Development Assistance				
Increase ODA to reach 0.7% of GNI by 2015	500	850	920	2270
Poverty				
Increase social transfer	600	600	800	2000
CCTB *	2000	2500	5000	9500
PSE				
Increase PSE transfer	1200	1300	1400	3900
Retirement				
Increase GIS	0	824	857	1681
Women's Program Budget	90	90	90	270
Sectoral Development				
Sector development councils	50	50	50	150
Sector specific supports	500	500	500	1500
Total	**10504**	**13486**	**17300**	**41290**
Tax Fairness (2008–09 only)				
Capital gains			-2400	-2400
Stock options			-250	-250
Meals and entertainment			-484	-484
Foreign affiliates			-400	-400
RRSP			-630	-630
Income trust			-750	-750
Total			**-4914**	**-4914**
Net Costs of Moving Forward	**10504**	**13486**	**12386**	**36376**

* This includes the money that the Conservatives would allocate to the "Choice in Child Care Allowance" as well as additional funding

TABLE 6 The Alternative Federal Budget

(Millions of Dollars)	2006–07	2007–08	2008–09
Revenues			
Base case	217,362	226,826	234,043
CCTB and tax fairness measures	-2,000	-2,500	-86
Total	**215,362**	**224,326**	**233,957**
Program Spending			
Base case	167,996	175,635	183,726
AFB measures	11,198	13,774	15,568
Total Program Spending	**179,193**	**189,409**	**199,294**
Public Debt Charges			
Base case	34,392	34,762	34,588
Balance	**1,776**	**154**	**75**

NOTE To make numbers comparable to the government's presentation of revenues and expenditures, Table 6 presents the revenue side of the tax fairness package, as well as increases to the Canada Child Tax Benefit, as part of revenue base. Table 6 also presents the expenditure side of the income security package as part of program spending.

riod to reflect the need for ongoing funding for these priorities.

Moving Forward

Table 5 presents measures proposed by the AFB as making a substantial steps towards "moving forward." For the first two fiscal years (2006–07 and 2007–08), this table illustrates the important public services that could be funded, provided no new tax cuts are implemented.

It is expected that this Parliament will be short-lived, it is impossible to know the composition of the next Parliament. Our hope is that public debate will evolve beyond the fixation with tax cuts towards a consideration of tax fairness (*see the Taxation section on page 60*). In the third year of the AFB, we implement some tax fairness measures designed to close some of the tax loopholes used by high-income earners and corporations. This provides additional revenue that we can reallocate to reduce inequality, both via the Canadian Child Tax Benefit and the Guaranteed Income Supplement for seniors.

The AFB in Summary

The federal government's overall revenue, program spending and debt charges under the AFB are depicted in Table 6.

By using both forthcoming budget surpluses supplemented by a modest amount of tax fairness proposals in the third year of the Alternative Federal Budget, the AFB could fund over $50 billion in new measures over the upcoming three fiscal years (Table 7).

The AFB's proposals for preserving progress and moving forward are premised on the assumption that we do not undermine Ottawa's fiscal capacity with profligate tax cuts.

Conclusion

The Conservatives' promise of $44.9 billion in tax cuts would make the AFB's agenda impossible. As was discussed above, these tax cuts, together with the Conservative spending, debt reduction, and unallocated surplus goals, will more than exhaust Ottawa's forthcoming fiscal capacity. Instead, the Conservative agenda will require spending cuts of almost $38 billion.

TABLE 7 Summary of AFB Measures

(Millions of Dollars)	2006–07	2007–08	2008–09	Total Over 3 Years
Fiscal Capacity				
Base case	14974	16429	15728	47131
Tax fairness	0	0	4914	4914
Total Fiscal Capacity	**14974**	**16429**	**20642**	**52045**
AFB Expenditures				
Cost of Not Going Backwards	2694	2789	3268	8750
Cost of Moving Forwards	10504	13486	17300	41290
Total Cost of AFB measures	**13198**	**16274**	**20568**	**50040**
Balance	**1776**	**154**	**75**	**2005**

The ramifications of the Conservatives' platform may be even more dire than has been argued above. It is likely that the Conservatives' spending cuts will have to be deeper than $38 billion since 1) they have underestimated the costs of their tax cuts (as is clearly the case in their GST and capital gains tax cuts); and 2) they have omitted attaching a price tag to key spending items, such as their promise to address health care waiting times and the federal provincial fiscal imbalance. In instances in which the Conservatives' platform is more expensive than they have acknowledged, spending restraint will have to be even more severe if they are to fulfill their other promises.

This foretells an ominous trajectory. Implementing tax cuts that are more expensive than the government claims sets the stage for intensified fiscal pressure in the future. Because the true fiscal impact will remain hidden until Public Accounts are available — in the Fall of 2007 — Canadians will likely not be aware of the real cost of the Conservatives' tax cut promises until after the next election. And if the Conservatives win the majority they seek, by then it will be too late to reconsider the tax cuts. The federal government will be obliged to pay for the legacy of these tax cuts via spending austerity.

When the spending restraint does accelerate, we are likely to see a large shift in the composition of government spending. Some areas of government spending are either priorities of the Conservative government or are difficult to cut for other reasons (defence spending, Old Age Security, and equalization transfers, to list only a few). Thus the remaining areas in the federal budget — often related to public services and infrastructure — will have to be cut quite deeply to achieve the Conservatives' targets for spending reduction and reallocation.

Fiscal Imbalance

The key priority of the new Conservative government is not on the short list of five promises every Canadian expects to see in the upcoming federal budget. The nation's "fiscal imbalance" — now the central issue for Prime Minister Harper — has been the key agenda item for provincial premiers, corporate lobbyists, and think-tanks, and a number of studies and consultations across the country.

Does it exist? And, if so, what will "fixing" it do for Canada and Canadians?

Defining the "fiscal imbalance" is in itself a problem. Essentially, it refers to the gap between a government's capacity to raise revenues and its ability to meet its public responsibilities. And the way the debate is framed is central.

As currently argued, fiscal imbalance is seen as a problem of the federal government having too much money on its hands, and the provinces too little — a notion of "imbalance" that suggests its own solution. The cause of redressing the fiscal imbalance therefore has been taken by up a number of groups who find the notion of fiscal imbalance a perfect vehicle for pushing their own agendas. In Quebec, it is used to argue for a new division of tax powers within the federation and to create more scope for Quebec independence. Business lobby groups see it as another opportunity to cut federal taxes and eliminate any federal role in social programs across the country. Prime Minister Harper finds in it the essential rationale for his vision of decentralization, tax cuts, and a diminished role for government in the lives of Canadian citizens.

Much of this sounds like an echo and intensification of the "permanent revolution"[13] launched by then-Finance Minister Paul Martin in 1995, which cut federal spending back to 1950 levels; offloaded programs, responsibilities and deficits to lower levels of government; hid surpluses to fund tax cuts; created growing inequalities between regions and individuals; and in the process ended an era of cooperative federalism.

Five years later, with federal coffers bulging, and provincial governments under severe pressure to cover the costs of health care, education, social insurance, and public infrastructure, Martin announced, on the eve of the 2000 election, some "found" money — enough surplus revenue over the next five years to finance a $100 billion federal tax cut.

Message to provinces: "You're on your own."

Fiscal Imbalance and Tax Cuts

Today, even the "haves" are complaining. Ontario, long a net contributor to equalization across the country, has recently been one of the most vocal provinces in its complaints about fiscal imbalance, arguing that the province suffers a $23 billion gap between what it sends to Ottawa and what it gets back.

This is a different definition of fiscal imbalance — and an argument that glosses over the fact that the province contributes a higher per-capita share to federal revenues "because Ontario has higher per-capita income than the rest of Canada, and higher income…generates proportionately more revenue." [14] It also conveniently obscures the fact that tax cuts in the province, roughly concurrent with the 1995 federal transfer cuts, are at the root of Ontario's current shortfalls.

There is no question that provincial finances were devastated by the 33% cut in federal transfers to the provinces in the 1995 Liberal budget, and that a decade later some are just starting to balance their books while the federal government is set to post its ninth consecutive budget surplus. Less recognized is the fact that the impact of those cuts on provincial revenues was exacerbated by the provinces themselves in a competitive round of tax cuts that followed the cut in federal transfers.

Without the post-1995 tax cuts (led by Ontario), provincial governments would have had an additional $30 billion in personal and corporate tax revenues in 2005, according to the federal Department of Finance.[15] This is an amount substantially larger than the loss of transfer payments over the same period.

While it is politically easier for provinces to go after a federal government with deep pockets for more money, it is seldom acknowledged that, despite differences in revenue sources, "provincial governments have almost identical powers of taxation as the federal government — (and thus) have the capacity to meet their revenue needs (and balance their budgets) by raising taxes." [16]

On that basis, (the gap between a government's capacity to raise revenues and its ability to meet its public responsibilities), the presumed vertical "fiscal imbalance" between the federal and provincial governments does not exist.

Horizontal Fiscal Imbalance

This is not to say there are no inequalities to be concerned about. The Ontario case against the federal government is indicative of another tension in the federation: rising disparities between resource-rich provinces like Alberta, which is booming, and other provincial economies where key industries, like manufacturing, are faltering.

Such disparities highlight a different imbalance: the horizontal fiscal imbalance among provinces that is subject to change over time as economies grow or decline, and provincial revenue generating capacity rises and falls. A "have-not" province today can become a "have" province tomorrow, and vice-versa. In fact, much of the history of fiscal federalism has been about past attempts between federal and provincial governments to mitigate regional disparities and/or to share resources to meet national objectives through the use of federal spending power. Delivered principally through federal transfers to the provinces to help fund health care, education, and welfare, and through the Equalization program, which was designed to allow provinces to deliver reasonably comparable services at reasonably comparable levels of taxation, these programs have helped Canada build a strong economy, and an enviable international reputation on most measures of human development.

As in other nations, however, regional disparities persist. Dealing with them equitably is still a challenge for the country, and the current debates on equalization and fiscal imbalance are intended to address it. Unfortunately, some proposals for addressing a spurious vertical fiscal imbalance could make the problems of horizontal imbalance worse.

Federal tax cuts, for example, combined with cuts to program-related transfers, would force poorer provinces to raise taxes by larger amounts to generate as much revenue as rich provinces. This would add to pressures on the Equalization program. Further cuts to transfers for social programs (CHT and CST) could also have a profoundly negative effect on local governments, which have fewer sources of revenue and are still struggling from the last round of shortfalls when provinces offloaded federal cuts onto them.

Fixing the "Problem"

Revenue-raising capacity, however, is not the focus of public attention. Key participants in this debate are focusing on one central issue: the undeniable fact that — at the moment — Ottawa has more money, and the provinces want it. The current situation is presented as the "problem"; it is also a convenient cover for a much broader and more permanent agenda to promote further tax cuts, limit the scope of the federal government with respect to social programs, and decentralize the federation.

Those looking to solve this "problem" argue for the elimination of federal cash transfers to the provinces (e.g., the Canada Health Transfer and the Canada Social Transfer), and the transfer of new revenue sources, such as GST, or more federal tax points on the grounds that provinces deliver social services in Canada, and having direct control of this additional revenue capacity would increase accountability.

This is very misleading. Unconditional transfers would put no onus on provinces to deliver anything. Unilateral decision-making, instead of a coordinated federal-provincial strategy, would leave the door wide open to more private health care options, as proposed in Alberta, B.C., and Quebec, and remove the federal government's role in maintaining public health care.

Substituting new revenue sources, such as the transfer of federal tax points to the provinces, assumes that provincial governments would step in if and when the federal government steps out. This is not at all a certainty. It could as readily launch a new round of tax competition at the provincial level, reducing the role of government overall, both directly at the federal level and indirectly through further tax cuts at the provincial level.

The most serious impacts would be felt by the poorer provinces, which have less capacity to raise the revenues they need — and for whom the effect of fixing a phantom fiscal imbalance would be to worsen regional inequalities.[17]

The assumption buried in these proposals to "fix the problem" is that more of the same — more offloading, more decentralization, and more tax cuts — will fix the "imbalance" and the federal provincial tensions that were generated by Martin's permanent revolution a decade ago.

Harper's case on the "fiscal imbalance," like that of the provinces, appears to rest mainly on the observation that the federal government has surplus revenues and most provinces do not. His plan to fix the fiscal imbalance is short on details, but it promises a "permanent" solution: the right for provinces to opt out of any shared cost program in areas of provincial responsibility with full compensation; and permanent changes to the equalization formula to ensure that non-renewable resource revenue is completely removed from the Equalization formula.

This is pure gold for Alberta — whose black ink is entirely the result of black gold.

But Harper's position raises key questions about the kind of Canada he wants to see. In the 1930s, Alberta was a poor province, resentful of the exploitation of Alberta farmers by tariff-protected Ontario manufacturers. For many years, it was a recipient of equalization payments. Today, oil revenues account for 40% of Alberta's budget expenditures; it is the only province without a provincial sales tax, and it is spearheading a competitive race to the bottom in tax rates.

This puts pressure on other provinces and pushes Canada into a process of levelling down rather than sharing the wealth or levelling up.

Sixty-five years ago, the inability of the provinces to cope with the fiscal burden of the Depression led to a serious re-examination of federal-provincial relations. The report of the Rowell-Sirois Commission argued for minimum national standards for education, public health, and care of the indigent. It made a special plea for economically distressed areas, saying:

> "Not only duty and decency, if Canada is to be a nation at all, but equity and national self-interest demand that the residents of these areas be given average services and equal opportunities — equity because these areas may have been impoverished by the national economic policies that enriched other areas and were adopted in the general interest... National self interest...because the existence of areas of inferior educational and public health standards affects the whole population." [18]

This was a vision shaped by a "political sense of a common membership in a national community... The longer-term question is whether a sense of national community can survive the barriers of geography, political decentralization, Quebec nationalism, regional alienation, the louder voices of the global entertainment industry, and the pervasive marketization of social policy" [19]

Solving the fiscal imbalance generally means "empowering the provinces" by turning over more resources and narrowing federal involvement in key areas of national importance. It is a view that appears to unite the Bloc Québecois and the new Conservative government. The issue for Canadians is whether further retrenchment and disengagement of the federal government in key issues of national importance would strengthen the national community or weaken it.

Last year, when the previous minority federal government "came back to the table" in terms of support for health care, education, training, affordable housing, and new agreements to support child care and early child development, many saw it as a positive sign that the federal government and the provinces could work together and that their sense of Canada as a strong national community still mattered.

Moving Forward

Overall, Canada has been well served by the fiscal federalism of the past half-century. Much of Canada's social infrastructure to this day is rooted in a few decades of productive cooperation, when the federal government used its taxing power to set a national social agenda, including bringing in cost-shared programs in health, post-secondary education, and social welfare, as well as tax-sharing agreements with the provinces.[20]

Despite lingering resentment from the provinces over the past decade of cuts and offloading, there are good reasons to believe that such cooperation is still possible, and the bilateral agreements reached last year on a new program for early child care and development attest to that.

Ultimately, it will be up to Canadians to decide how important national standards, equality of outcomes, shared public programs, and regional equality are to their pride and sense of this country.

This Parliament has the best opportunity in a generation to answer that question.

Several proposals in this year's Alternative Federal Budget are designed to strengthen the bonds of federal-provincial cooperation and rebuild the sense of common membership in the national community. Most rely to some degree on using federal revenues to fund or support services under provincial jurisdiction. We believe these proposals also touch a number of areas of common ground on which parties in the House can work together. These include:

Stable Funding for the New Deal on Cities: Local governments suffer from a real fiscal imbalance. Cities and municipalities have huge responsibilities in terms of delivering services, but their revenue sources are restricted to user fees and property taxes, and many local governments are required to raise taxes annually to keep up.

The recent transfer of a portion of the gas tax to cities provides another revenue source and greater stability in their financing.

The AFB will provide an immediate transfer to Canada's municipalities of the full 5 cents per litre of federal gas tax revenues and make this transfer permanent.

Public Pharmacare Program: In 2004, provincial premiers recommended that the federal government use some of its fiscal room to take responsibility for Pharmacare — a sensible proposal since the federal government has a stake in controlling costs in health care (and the cost of pharmaceuticals is the highest cost-driver in the system); is in a better position to make efficiency gains through bulk purchasing; and has control over patent legislation, which means it could promote more generic production for the Canadian market.

The AFB proposes that the federal government take the premiers up on their offer, and create a national, publicly-funded and controlled Pharmacare plan to provide equal access to prescription drugs and cover essential drug costs.

A New Post-Secondary Education Transfer: The 2006 AFB will create a separate stand-alone transfer for post-secondary education, and introduce a Canada Post-Secondary Education Act (modelled on the Canada Health Act) to govern use of the fund and to ensure accessibility and quality.

The AFB will build on the 2005 budget amendment to reduce tuition fees, and increase support to the PSE Fund over three years, making transfers conditional on provinces freezing tuition fee levels and initiating measures to reduce tuition fees over time.

Improving the Canada Social Transfer's Standards and Conditions: A new Canada Social Transfer (with post-secondary education separated from it) must have clear designations attached to it. Monies from this transfer will be designated for supports and services such as social assistance, civil legal aid, shelters for battered women, women's centres, and other specified social services. Expenditures on each program and service will be accounted for regularly and publicly by the recipient provinces and territories.

The AFB will ensure that the CST transfers provide adequate funding for the programs and services that are designated for funding under it.

Federal-Provincial Child Care Agreements: The AFB supports the federal-provincial child care agreements signed in 2005 and will honour agreements with the provinces to build the desired Canada-wide system rather than cancelling the agreements in March 2007, as the new Harper government has proposed to do.

Canada–U.S. Relations

Since the signing of the Canada-U.S. Free Trade Agreement in the mid-1980s, the signing of "free trade" agreements has become Canada's *de facto* industrial policy. Free trade was supposed to protect us from U.S. protectionism and create more and better jobs. Its real legacy has been to elevate corporate rights over those of citizens and governments.

In exchange for "secure access" to the American market, Canada ceded conditions on foreign investments in Canada and control of our resources, especially energy and water. And under NAFTA, Canada gave extraordinary rights to foreign corporations to sue Canadian governments if their policies adversely affect future profits.

As the interminable struggle over softwood lumber demonstrates, "secure" access to the U.S. market was a pipe-dream. The US ignores NAFTA panel rulings at will; and continental economic integration has made Canada more vulnerable to U.S. coercion. Our energy reserves are being depleted by excessively large exports of relatively cheap oil and gas, and Canada as a result has become even more dependent on these and other resource exports.

The new government came to power on a platform promising to "Stand up for Canada," but instead it supports closer integration with the U.S. on security and military policy, as well as a "deep integration" in North America that would see an even stronger "resource-security pact," lowest-common-denominator harmonization of food and drug safety laws, and environmental and health regulations standardized to those in the U.S.

Conservative spending priorities involve increasing military spending by another $5.3 billion to improve "interoperability" with U.S. military forces, and extending Canada's military presence in Afghanistan. Prime Minister Harper has also indicated his willingness to reopen talks with the U.S. on Canadian participation in U.S. missile defence. He has been largely silent on the impact of the U.S. "war on terror" in terms of its violations of human rights and indifference to international law and UN conventions. The Alternative Federal Budget will:

- freeze further increases in defence expenditures pending a full public review of Canada's defence and military role;
- restructure and refocus military resources on enhancing an independent military capability;
- refuse to reopen the issue of Canadian participation in U.S. missile defence;
- stop security and intelligence harmonization initiatives until judicial (Arar) and parliamentary (Bill C-36) reviews make recommendations on protecting civil liberties;
- take stronger measures to respond to the U.S. on softwood lumber, by withdrawing investment and energy benefits under Article 1905 of NAFTA, and putting the U.S. on notice that we will be scaling back exports of oil and gas to meet Canadian national energy security needs.

Child Care and Early Learning

Part 1 — Protecting the Recent Progress on Child Care

Early Learning and Child Care (ELCC) is a priority for the AFB, as we recognize its vital role in supporting women, children, families, communities, and the economy. In 2003, after 30 years of research and community advocacy, the federal government began to acknowledge that lack of child care is a major gap in Canada's family policy. This was reflected in the bilateral agreements on high-quality, affordable, inclusive child care signed with all of the provinces in 2005.

The new federal government has now advised the provinces that the Bilateral Agreements on Early Learning and Child Care will be terminated on March 31, 2007. These Agreements will be replaced with a universal taxable allowance of $1,200 per child, per year, payable directly to families beginning July, 2006.

While income supports for families are a valid public policy goal, they are not a replacement for a national child care system. Transferring money directly to parents does not provide child care "choice," nor does it create more child care spaces. We expect the new minority Parliament to honour the existing commitments made to children, women, families, and child care workers across the country through the 2005 bilateral agreements. To protect the recent progress on child care, the AFB includes the $700 million in 2006–07 and $1.2 billion in each of 2007–08 and 2008–09 required to maintain the 2005 Budget commitments to provinces and territories (through the bilateral Agreements), as well as the commitment to First Nations on reserve and enhanced accountability ($25 million each, in each year, included above). This represents the AFB's commitment to "Not Going Backward."

Part 2 — Implementing a Community-based Child Care System

The Bilateral Agreements on Early Learning and Child Care provide a foundation on which a community-based child care system *can* be built. However, they lack the coordinated policy, funding, and accountability commitments required to ensure that high-quality, affordable services are available in communities across Canada. In order to move forward, the AFB will strengthen these agreements by developing legislation that ensures standards, universal access, expansion in the non-profit sector, and direct public funding of services with affordable user fees. Accountability will be improved through public reporting to legislatures and provincial and territorial action plans, with timelines and targets.

Based on the 15-year plan of child care advocates established in 2004, funding for child care must reach $5 billion at the end of five years, and $10 billion at the end of 15 years (to reach the goal of 1% of GDP established by peer nations). In addition to the funding required to protect the progress on child care outlined in Part 1, the AFB will incrementally increase federal funding for child care by $400 million in 2006–07, by $900 million in 2007–08, and $1.9 billion in 2008–09. Funding will be provided through a dedicated child care social transfer. Additional resources and supports will also be required to meet the child care needs of school-age children and children from First Nations, Métis and Inuit and rural and remote communities.

Conservative "Choice in Child Care" Allowance

One of the five priorities of the new Conservative government is to implement the campaign promise of a "Choice in Child Care" Allowance, and to have it in place by July 2006. The AFB welcomes the idea of additional income support to parents with young children and believes that this proposal could find common ground among parties in the House. But we have concerns about how the Conservative proposal would be implemented.

The proposed Conservative payment of $1,200 a year per child under age 6 is not directly tied to child care and does not do away with the need to honour agreements with the provinces for child care funding — a key AFB priority. If the government's intention is to recognize the additional costs families incur when they have young children and provide some social support to help with these expenses, then it needs to ensure that this payment will be available to all families, especially the poorest.

There is a real danger that, depending on how the payment is delivered, it could be clawed back from families on social assistance. As a recent commentary paper from the Caledon Institute of Social Policy — *The Choice in Child Care Allowance: What You See is Not What You Get* — explains, these payments could be treated as income. In that case, social assistance benefits could be reduced by the equivalent amount. Welfare families could get no allowance. Low- and middle-income working families would get a net benefit of only one to two dollars a day after federal and provincial taxes and transfers are deducted.

A better way to deliver this allowance would be through the existing Canada Child Tax Benefit. The CCTB (the base amount) is a non-taxable benefit that is exempt from being counted as income by provincial welfare programs. (The National Child Benefit Supplement, the additional benefit to support low-income families, is "clawed back" from families on social assistance in eight out of 10 provinces.) If the government wants to target an additional benefit to children under 6, rather than to all children up to age 18, or make this additional benefit universal (available to all families regardless of income), minor adjustments could be made to the CCTB.

The Child Tax Benefit is a proven program that has helped to reduce child poverty, so an increase in benefits would be a welcome and efficient way to deliver income support to families with children. The Canada Child Tax Benefit system is already in place; 90% of families with children are registered; and it delivers monthly cheques. Setting up a whole new program and sending out two separate cheques each month to families with children would be more costly and unnecessary.

The Alternative Federal Budget would:

- honour Canada's commitment to families and to provincial and territorial governments to support child care and continue to provide funding for a national child care system;
- ensure that a new allowance for children is not clawed back from families receiving social assistance; and
- use the Canada Child Tax Benefit as the delivery vehicle for new financial resources directed to families with young children.

Cities and Communities

Our cities are the engines of our economy. They are where the vast majority of Canadians — more than 75% — live, work, study, learn, and grow. Our urban economies are essential to regional and national economies, and they need a strong network of physical and social public infrastructure in order to thrive. They are the primary destination of immigrants, sites of great social diversity — and of great social inequality. They are where the benefits and the failures of our public services are most apparent.

Despite the reality that Canadian cities are becoming the engines of our economy and the source of rapid population growth, years of underfunding of transit and municipal services have left city infrastructures crumbling, facilities overcrowded, and services inadequate.

Federal and provincial transfers to municipalities have declined by 37% in the past decade, even as the needs are growing. As a result of this downloading of costs and responsibilities, municipal infrastructure and services have become overloaded and property tax bills have increased. Even the federal government has acknowledged that the infrastructure shortfall amounts to between $23 billion and $126 billion.

In 2005, a portion of the federal gas tax was transferred to municipalities to start to address this infrastructure deficit. But the funding would have only amounted to $600 million this year: not even enough to offset the growth in the infrastructure deficit. Bill C-48, the budget amendment, added an additional $2.4 billion over two years for public transit, affordable housing, and a housing energy retrofit program.

The AFB will build on this by continuing to provide the extra $400 million per year to the municipalities to improve public transit and the $800 million for affordable housing in 2008–09. The AFB will also increase the value of the transfer to 5 cents and make the gas tax transfer permanent.

Our community infrastructure — public transit, roads, water and waste-water systems, libraries, recreational and other community facilities — badly needs to be rehabilitated. Municipalities don't have the money, can't rely on steep property tax increases or user fees to pay for this investment, and can't afford to wait five more years for the Conservative promise of a gas tax revenue transfer to kick in. They also shouldn't be forced to engage in costly and unaccountable public-private partnerships, contracting-out, and other forms of privatization.

Across Canada, 1.5 million households are in desperate need of decent affordable housing, and many communities face increasing problems with neighbourhoods in decline. Delivery of the long-promised comprehensive national housing framework with a long-term funding commitment to produce 25,000 new and renovated units of affordable housing a year would give communities the stability and predictability to participate as partners in building affordable housing. Safe, sustainable communities lead to better health, better school performance, successful immigration settlement, and improved social cohesion and integration. Healthy communities are worth the investment.

Culture and the Arts

Culture is at the very foundation of who we are as Canadians, and it is through the creators of culture that we come to know ourselves as a country. To preserve cultural diversity and promote a wide range of cultural expression, federal budget measures should help to ensure distinctive creative voices in Canada, and a strong cultural voice for Canada in the world.

Commitment to Artistic Excellence

Just days before the federal election was called, the Government of Canada, with the support of opposition parties, announced its ratification of the UNESCO Convention on the Diversity of Cultural Expressions as part of a commitment to artistic excellence, which included a multi-year increase in federal funding for the arts.

The Alternative Federal Budget would honour the $342 million "Commitment to Artistic Excellence" announcement in its entirety, which includes a multi-year increased funding investment in the Canada Council for the Arts, as well as increases to the cultural programs in the Department of Foreign Affairs, the National Arts Centre, and national training institutions.

The February 2005 federal budget also included a historic fiscal investment in culture, as the "Tomorrow Starts Today" (TST) program was extended through March 2010. The AFB supports this investment and would recognize that commitment with stable, multi-year funding.

New Canadian Museums Policy

In 2005, the Minister of Canadian Heritage was developing a new Canadian museums policy, which proposed a substantive commitment to honouring and preserving Canada's heritage, a solid financial base for our museum and heritage communities, and increased access by Canadians to our national cultural treasures.

The AFB supports this initiative and would invest $75 million a year over the next three years to make this a reality.

CBC — Implement "Enhancing Regional Connections" Strategy

CBC/Radio-Canada submitted an integrated local/regional strategy to government in February 2005, which takes into account the differing operational requirements of radio and television and the differing realities of the anglophone and francophone markets. This strategy will enable CBC/Radio-Canada to improve all Canadians' access to local public broadcasting services and increase the availability of distinct public broadcasting coverage of local and regional news, culture and public affairs.

The AFB supports the implementation of the proposed "Enhancing Regional Connections" Strategy of the CBC and sets aside $178.4 million over three years for its development.

Defence

Missile Defence

In the minority Parliament of 2004–05, the Liberal government made a significant and popular decision, when Prime Minister Martin rejected Canadian participation in U.S. Ballistic Missile Defence. Under the new Conservative government, this decision could be revoked. During the election campaign, party leader Stephen Harper announced his willingness to reopen missile defence talks with the U.S., and subsequently reiterated this position as Prime Minister. For the two-thirds majority of Canadians who approved the decision to stay out of the U.S. program, such a decision would be a major step backwards.

One of the key challenges of opposition parties in this Parliament will be to hold the Conservative government to account on Canada's earlier decision, rather than handing the initiative to the U.S. to reopen talks on the matter, as Harper has suggested.

Canada could also become entangled in missile defence through the back door, since the August 2004 amendment to NORAD opens the door for increased NORAD — and therefore increased Canadian — involvement in missile defence. The AFB is committed to preventing the reopening of missile defence talks between Canada and the U.S., and to ensuring that the Harper government honours the popular commitment made to the Canadian people by the previous government by refusing to participate in any way in U.S. missile defence.

Military Spending

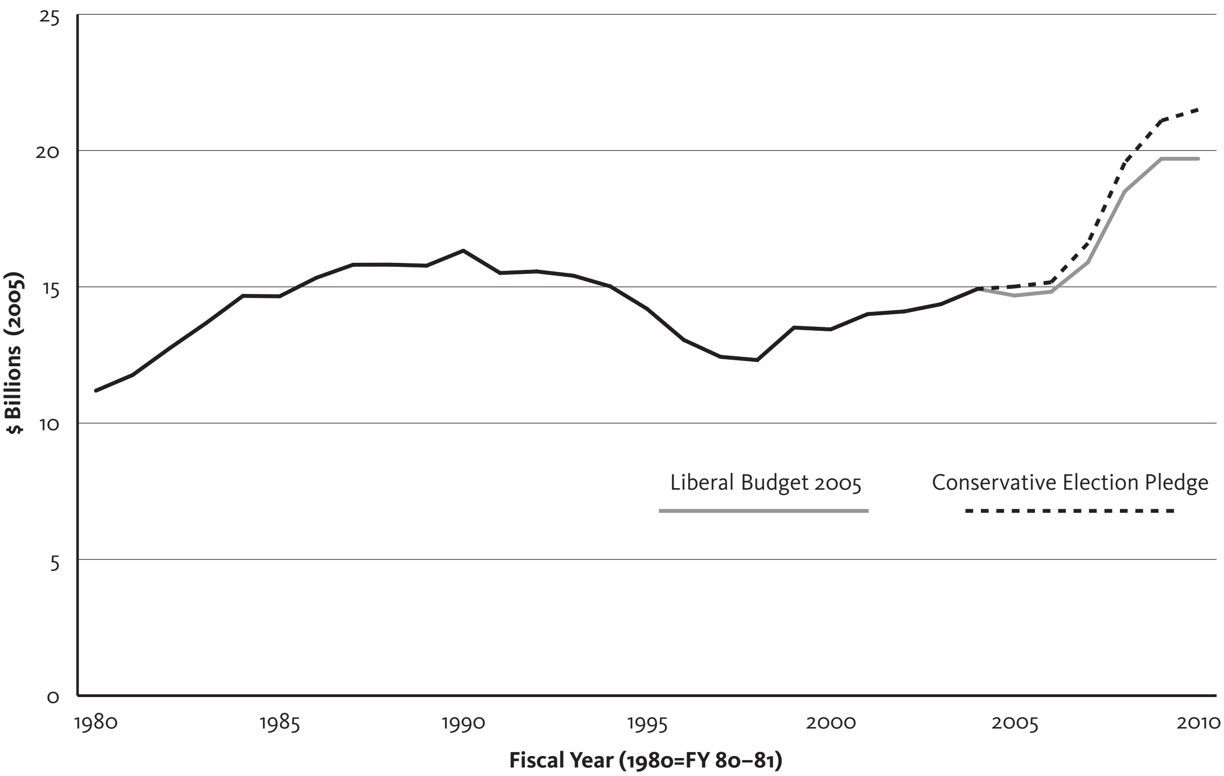
Despite the popular — and U.S.-promoted — perception that Canada is a laggard in military spending, Canada is the seventh highest military spender among NATO's 26 member nations, has been adding hundreds of millions per year to its military spending since 1999, and in 2005 committed another $12.8 billion over five years to the pot — the largest increase in defence spending in the last 20 years. That increase would bring military spending to $20 billion by 2009–10 — its highest level since the Second World War. The Harper Conservatives have pledged to ramp that up by another $5.3 billion.

Meanwhile, Canada refuses to commit to devoting 0.7% of GDP to foreign aid — and is spending $4 on defence for every dollar we commit to reducing global poverty and supporting international development. At home, this means 1,000 families go without adequate housing so we can purchase one more military helicopter.

The drive for the ramp-up in military spending to assist in U.S.-led wars is closely related to the goal of making Canada's forces "interoperable" with the U.S. military — and the increase in Canada's military spending is following the rise in defence spending in the U.S.

A decade ago, for every $10 Canada spent on foreign missions, $9.27 was devoted to UN-led peacekeeping missions. Today, for every $10 spent on foreign missions, only 31 cents is devoted to UN-led peacekeeping missions, with more and more money and resources being di-

CHART 1 Canadian Military Spending (1980–81 to 2010–11)



verted to U.S.- or NATO-led missions abroad. The shift — never the subject of a real political debate — has been dramatic.

As the 2005 Defence Policy Statement states, "With a few exceptions, most of the Canadian Forces' major operations (in recent years) have borne no resemblance to the traditional peacekeeping model of lightly-armed observers supervising a negotiated ceasefire." Nearly 70,000 soldiers around the world are still conducting vital peacekeeping missions under the UN, but Canada, once among the top ten participants, has fallen to a dismal 36th place as a contributor of soldiers to UN peacekeeping efforts.

A strong majority of Canadians celebrated their government's decision not to participate in either the Iraq war or missile defence. Today, Canadians have a number of questions about why Canada is in Afghanistan, what role our forces are playing vis-a-vis the U.S., and whether our increasing cooperation and interoperablility with the U.S. military compromises Canada's longstanding commitments to international treaties, obligations, and beliefs.

Like most Canadians, the AFB wanted to see a full public debate in Parliament on Canada's mission in Afghanistan, and appreciated the government's response to public and opposition demands for such a debate. We are calling on all political parties to engage Canadians in developing a defence policy based on Canadian values and interests. In the interim, the AFB believes the government of Canada should conduct a full public review of Canadian defence policy and freeze further spending increases pending the outcome of that review.

Employment Insurance

Employment insurance is Canada's most important income support program for workers. It was intended to reduce poverty and insecurity for the unemployed, help communities through economic downturns, and facilitate economic adjustment.

The program was severely cut in the early 1990's, to the extent that only half as many of the unemployed qualify for benefits today — roughly 40% compared to 80% in 1990 and in major urban centres, like the Greater Toronto Area and the lower Mainland of B.C., the number qualifying for benefits is as low as 20–25%.

As a result the current EI program provides inadequate or no protection to many unemployed workers, especially women, recent immigrants, and live-in care givers, young workers, and seasonal workers.

In 2005, the House of Commons Standing Committee on Human Resources, Skills Development, and the Status of Persons with Disabilities recommended a list of proposals which the AFB views as key initial reforms needed to secure better coverage and benefits for unemployed workers in Canada.

These are: a uniform EI entrance requirement of 360 hours; an increase in the benefit rate to 60% of earnings; benefits based on the best 12 weeks of earnings; and an increase in the maximum benefit period to 50 weeks. The Committee also supported an independent Commission and Fund, and the repayment of the EI surplus and interest (currently worth approximately $50 billion).

Testimony by a senior HRDC official to the Standing Committee on December 7, 2004, indicated that the annual cost of a uniform entrance requirement of 360 hours would be $390 million; that basing benefits on the best 12 weeks of earnings would cost $320 million; and that raising benefits from 55% to 60% of insurable earnings would cost $1.2 billion, for a total of about $2 billion. To cover these costs, the AFB will raise the maximum insurable earnings under EI from $39,000 to $45,000. Gradual raises to maximum insurable earnings will increase net premium revenues, to cover program improvements. Employment Insurance reforms will be made within the framework of the Employment Insurance account.

Equality for Women

2006 marks the 25th anniversary of Canada's ratification of the most comprehensive treaty on women's human rights: The UN Convention. Canada was among the first countries to sign the treaty in 1980.

During the last federal election, leaders of the four major federal parties, including Prime Minister Harper, pledged their support to uphold women's human rights in Canada during the next Parliament. These leaders said that, once elected, they would take immediate and concrete measures, as recommended by the United Nations, to ensure that Canada fulfills its equality commitments to women.

In 2003, the United Nations committee which reviews Canada's performance under the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) made 23 recommendations to governments in Canada regarding this country's treatment of women. It strongly urged Canada, among other things, to expand affordable child care facilities, modify the eligibility rules for Employment Insurance to reflect women's non-standard employment patterns, increase its efforts to combat poverty among women, and reconsider the current fiscal arrangements between the federal government and the provinces and territories so that national standards of a sufficient level are re-established and women will no longer be negatively affected in a disproportionate way in different parts of the country.

In light of the public commitment made by our political leaders regarding the significance of the United Nations recommendations, we expect all of the parties in the upcoming Parliament to work towards their implementation.

Women's Programs

With women holding only 21% of the seats in the federal Parliament, issues of significance to women do not always get the attention they deserve. Women's organizations in Canada thus play a vital democratic role.

To keep these organizations strong, the AFB will increase the budget of the Women's Program of Status of Women Canada to $100 million annually. As well, in addition to project funding, core funding will be restored to equality-seeking groups, including women-centered services.

Attachment of Standards and Conditions for the Canada Social Transfer

To improve transparency and accountability for the Canada Social Transfer, the AFB will create separate transfers for Post-Secondary Education and Social Assistance and Services.

The new Canada Social Assistance and Services Transfer must have clearly designated responsibilities attached to it; adequate funding to meet its mandate; and regular and public accounting of expenditures on each designated program by the recipient provinces and territories.

Funds from this transfer will be designated for social assistance and a number of other services, including civil legal aid, shelters for battered women, women's centres, and other specified social services. The AFB will provide adequate funding to support the designated programs and services.

Environment

Kyoto: Embracing Opportunities to Reduce Climate Change

As part of its commitment to not going backward, the AFB believes Canada must maintain its commitment to reducing climate change and implementing the Kyoto Protocol. Climate change is already causing severe impacts on ecosystems worldwide, and thus on the millions of people who depend on them for survival. There is a scientific consensus that these effects could become more devastating without substantial reductions in greenhouse gas (GHG) emissions. Canada must take urgent steps to reduce the risks posed by climate change, and now has a special opportunity to do so in providing the current President of the Conference of Parties to the United Nations Framework Convention on Climate Change.

The Canadian government should begin with four important steps to reduce domestic GHG emissions, while advancing economic and health objectives:

1. Enhance current programs for promoting and implementing energy efficiency and conservation in homes and small businesses, and advance green mobility.
2. Establish a National Renewable Energy Expansion Program by expanding support for low-impact renewable electricity generation and establishing a 100,000 Solar Roofs Program (Solar PV).
3. Phase out the $1.4 billion in annual federal tax expenditures to the oil and gas industry, starting in 2006.
4. Implement a company car tax shift, modelled on a successful program introduced in the United Kingdom, to encourage employees to drive more fuel-efficient company vehicles by shifting some of the tax burden from green cars to gas guzzlers.[21]

These actions would combine to redirect Canadians' tax dollars towards a healthier economy and healthier environment; protect Canadians from higher fuel prices; reduce Canada's long-term energy dependence; and increase supplies of low-impact, renewable energy. Furthermore, they would reduce air pollution and related health problems, lowering the incidence of respiratory illnesses, and saving health care dollars and human lives.

Prosperity and Environmental Sustainability

Going forward, Canada's current environmental funding must be maintained as the basis for our future prosperity, quality of life, and cherished environmental heritage. In helping to preserve the quality of our air, water, land, parks, and ecosystems, these programs also promote recreation, stimulate rural economies, and preserve our natural capital.

The previous Conservative government took major steps forward on the environment, introducing the Green Plan, achieving real progress in reducing acid rain, phasing out CFCs, and creating both the National Round Table on Environment and the Economy and the International Institute for Sustainable Development.

For the new Conservative government, addressing climate change and reducing greenhouse gas emissions should be key priorities. But environmental sustainability also requires a commitment to implement ecological fiscal reform and improve the stewardship of our natural capital.

Ecological fiscal reform (EFR) involves using the government's taxation and expenditure tools to create economic incentives to encourage environmental sustainability. This involves making revenue-neutral fiscal adjustments so that prices and taxes better reflect the full societal and environmental costs of goods and services. It encourages pro-active innovation and improves our long-term economic prosperity. It simply makes economic sense.

A government-wide Natural Capital Framework would be an important means of advancing EFR and integrating the value of environmental goods and services into its decision-making processes. The following four proposals would involve a modest cost, each of which could be funded by phasing out taxes and subsidies that encourage environmentally harmful activities:

- Create a *National Conservation Fund* to engage Canadians across the country in local conservation initiatives. Experience suggests that a federal leadership investment of $250 million could be leveraged to create $1 billion in natural capital preservation and enhancement, through matching funding from all levels of government, non-governmental organizations, community groups, and others.
- Move towards more sustainable patterns of mining and mineral resource use by not renewing the flow-through-share program for mining exploration in Canada and cancelling the Investment Tax Credit for Exploration (ITCE). These tax savings would be used to increase the capacity of Environment Canada to undertake analysis of the full environmental and social costs of mining and to evaluate the alternatives of metal recycling and conservation.
- Increase funding for the Canadian Environmental Protection Act (CEPA). CEPA is an important policy instrument that has been ineffectively implemented. Mounting exposure to toxic substances in our air and water is linked to serious threats to human health, especially for children. A "toxins charge" is a prime option for generating consistent funding for CEPA, and deserves a commitment from Environment Canada and Health Canada to build the necessary capacity.

These recommendations offer a prime opportunity to make substantial progress towards genuine prosperity for current and future generations of Canadians.

First Nations, Inuit and Métis

Given Canada's current and projected fiscal outlook, there is simply no excuse for ongoing First Nations poverty. It is time for the federal government to fulfill its outstanding moral and lawful obligations to First Nations. Should Canada fail to respond, this critically important opportunity will be lost, the credibility of our political process will be placed in doubt, and First Nations citizens, including women and youth in Canada will lose sight of the purpose of trying to affect positive change through cooperation, negotiation and political means.

In November 2005, Canada reached historic agreements with Canada's First Nations, Métis and Inuit to close the gap in the quality of life with other Canadians within ten years. These agreements were the result of years of hard work and negotiation involving all provincial and territorial governments, the federal government, First Nations and other Aboriginal organizations and represent unprecedented national consensus on difficult issues.

All parties came out of the First Ministers Meeting with a plan to move forward — based on an agreement with the government of Canada, not any one party.

For the government of Canada to walk away from these commitments would be to take a giant step backwards. This is an issue on which all parties can work together to honour Canada's commitments to First Nations — including the agreement on residential schools — and move on to discuss the next steps on a new agenda for progress and prosperity for all Canadians.

Kelowna Accords

First Nations, Métis and Inuit view the agreement reached at the First Ministers Meeting last November as the first tangible progress made in addressing the issues raised by the Royal Commission on Aboriginal Peoples.

This agreement represents a consensus agreed to at the culmination of 18 months of discussions between federal, provincial, and territorial governments of all political stripes and 5 National Aboriginal Organizations. It sets in place a framework for progress that will enable First Nations to assume their rightful place in Canadian society and the economy. An integral part of the agreements was the commitment of $5.1 billion dollars in federal funding over the next five years in the areas of education, health, housing and economic opportunities as well as a commitment to developing increased opportunity for self-government.

The cost of not engaging this effort, of turning the clock back, is far too great and will mean lost economic opportunity, lost labour force potential and escalating health and social costs. The financial commitments are an integral part of this package, as was the development of indicators to track progress and measure results. Without substantial and immediate investment, progress towards the targets that were agreed to, as well as the ultimate objective of reducing poverty will not be obtained.

Reconciliation and Compensation Agreement for Residential School Survivors

The proposed Residential Schools settlement represents a potential watershed in First Nations-Government relations. During the election campaign Prime Minister Harper promised that he would honour the agreement and we are here holding him to that commitment.

We are seeking the full implementation of the agreement, including the ex-gratia payment for eligible survivors 65 years or over as soon as possible so this issue can finally be put to rest. By dealing with the past, we can get on with the future.

Moving Forward

Addressing the root causes of poverty and other disparities affecting the quality of life in order to 'close the gap' demands a holistic approach that targets social, economic and political development determinants of well-being; including the important role of First Nations rights and jurisdiction. The Kelowna Accord and Residential Schools Agreement are only part of this approach; the following investments must also be made in order close the gap in the quality of life between First Nations people and Canadians and invest in a future that strengthens First Nations and their place in Canada:

- $774 million in the upcoming budget, and the development of an appropriate escalator clause to ensure that future investments keep up with the rate of inflation and First Nations population growth.
- $441 million over three years to fund a strategic First Nations economic framework, including funding for building economic infrastructure and capacity, strengthening local and regional economies and engaging the First Nations workforce and build human capacity.
- $276 million over three years to build core capacity and assist First Nations in responding to the impacts of climate change, including emergency preparedness and rising transportation costs.
- $185 million over five years in new investments for public health, telehealth and First Nations child welfare. This is in addition to the global health escalator already committed to by the Government of Canada.

First Nations, Métis and Inuit Friendship Centres

Moving forward, the AFB would also increase resources allocated to First Nations, Métis and Inuit Friendship Centres by $10 million per year, and invest an additional $30 million per year in Headstart programs.

Health Care

In September 2004, the federal government signed a deal with the provinces to provide an additional $41.3 billion in health care funding over 10 years. This accord was supposed to "fix health care for a generation." Now — only 18 months later — three provinces are making proposals that could lead to a fundamental disintegration of our public Medicare system. All federal political parties have said they are committed to the Canada Health Act and its core principles. But, increasingly, these principles are being re-interpreted to accommodate a range of political agendas.

Some provinces have used the Supreme Court decision on wait times as an excuse to expand the role of the private sector in health care delivery. In Quebec, the province is set to allow hospitals to sub-contract private clinics for certain surgeries; British Columbia is pledging to reform health care with a larger role for the private sector; and Alberta pledged to allow doctors to practise in both the public and private systems at once, throwing open the doors to two-tier medicine in Canada, but was forced to withdraw that proposal in recent days under pressure from the citizens of Alberta.

The federal Conservative government has promised to "allow for a mix of public and private health care delivery, as long as health care remains publicly-funded and universally accessible." This implies no impediment to for-profit medicine — as long as it is being paid for with public dollars — a direct contravention of the spirit and principles of Medicare. These proposals are being made despite overwhelming evidence that for-profit health care costs more, compromises on quality, and results in higher mortality rates.

As the AFB pointed out last year, the 2004 Health Accord was flawed because it didn't include: a) steps to curb and reverse the privatization of health care in Canada and to enforce the Canada Health Act; and b) measures to expand Medicare to include home care and prescription drug care.

The AFB believes there should be firm conditions attached to the transfer of all federal money to the provinces for health care, and that the Canada Health Act should be rigorously enforced. This would prevent public money from promoting commercial delivery of health care, and compel provinces to provide information on how public money is being used. Federal funds should be used exclusively to support provincial capacity to deliver medically-necessary and publicly-delivered health care in a timely, universally-accessible, and not-for-profit basis.

Further, there should be no increase in tax points as a share of total federal health transfers to the provinces, as a mechanism to address wait time guarantees, emerging demands on provincial health care systems, or the "fiscal imbalance."

Public Pharmacare Program

Employers, provinces, hospitals, and individuals all agree that the skyrocketing costs of pharmaceuticals are the biggest cost driver in public health care. The AFB proposes that the federal government act to limit the costs of pharmaceuticals by establishing a national formulary, establishing bulk purchasing arrangements, introducing progressive patent reforms, and supporting the use of reference base pricing, compulsory licensing, or similar cost-containment techniques.

The AFB will create a national, publicly-funded-and-controlled Pharmacare plan that will provide equal access to prescription drugs. It will cover essential drug costs in the way that Medicare now covers hospitals and physicians. Costs will be controlled by restricting new, more expensive drugs to situations where they offer a therapeutic advantage, and by ensuring drugs are used for appropriate and tested therapeutic reasons. A public single-payer Pharmacare system will also reduce costs through reduced administration and bulk buying. Enforcement of the prohibition on advertising and a review of patent laws will also be required.

Prescription drug coverage will be funded on the same basis as federal-provincial cost-sharing for other health care services. This means the federal government will contribute 25% of the public share of drug costs, providing financial relief to the provinces. Using 2002 figures, at 25% of public costs, the federal government share would have been $1.7 billion for that year.

The introduction of very strict controls in a wide variety of areas must be a prerequisite for Pharmacare. In the absence of controls, the public plan will be unsustainable and constitute a public subsidy to the pharmaceutical drug industry.

Additional costs to the federal budget will be as follows: $2.6 billion in the first year; $2.9 billion in year two, and $3 billion in year three.

In 2006, initial spending for the Pharmacare program represents 25% of CIHI projection of total public expenditures on pharmaceuticals in 2004, increased by 12% per annum to 2006. In 2007, we anticipate a 10% increase in costs. In 2008, we anticipate a 5% increase due to the effect of strict controls on costs, advertising, and patent law changes.

Training Health Care Professionals: Job Laddering

To begin dealing with skills shortages in the health care sector, the AFB will commit $250 million over three years for a pilot program in skills upgrading for health care workers. This pilot program will eventually become training insurance funded out of the EI fund, but initial funding will come from HRDC. The program will combine on-the-job practical experience and formal training for health care workers to upgrade their skills to develop greater competencies and advancements in certification. Following a period of piloting in these job areas, short and long-term courses could be developed in other areas, and the program could be expanded to included 5% of the total health care workforce annually (excluding doctors), and including health support workers and lab technicians. Given the high proportion of immigrants in the health care sector working below their skill levels, this program will help in the recognition of international credentials.

Housing

More than 1.5 million Canadian households are in desperate need of decent affordable housing. The spectre of homeless Canadians dying on the streets of one of the most prosperous economies of the world is a national disgrace. Yet hundreds of millions of dollars announced for affordable housing in the years since 2001 remain unspent or have yet to be allocated.

In June 2005, Parliament approved $800 million in 2006 and $800 million in 2007 to go to affordable housing as part of Bill C-48, the NDP budget amendment. The proposal was that the money would be allocated to three priorities: on-reserve and off-reserve First Nations, Métis and Inuit housing; urban redevelopment projects; and new supply. These funds have yet to be allocated, and it is critical to ensure they are spent on building affordable housing, not diverted to tax breaks for developers.

The Liberal minority government also extended the Supporting Community Partnerships Initiative (SCPI) for homelessness projects for one year only to the end of March 2007, at a cost of $134.8 million, and extended the Residential Rehabilitation Assistance Program for a year at a cost of $128.1 million. These programs need predictable, long-term funding.

Delivering on a long-promised national housing framework requires a stable, long-term commitment to see 25,000 new and renovated units of affordable housing open their doors annually. The AFB calls for a commitment to retain the legacy savings of $1.7 billion annually to expand the social housing stock and repair the existing stock and keep it affordable to low-income households.

The AFB will deliver on the promised investments and will further help meet the need for increased and extended funding (to the level of $1.5 billion per year) to give communities the stability and predictability to participate as full partners in building affordable housing.

Immigration

Canada admits approximately 240,000 new immigrants to this country each year, and our immigration policy places a high priority on meeting this country's labour market needs. In 2004, 57% of those admitted as permanent residents were economic class[22] immigrants and their dependents. Most new residents settle in our larger cities.

But for the men and women who come here, recognition and accreditation of professional qualifications earned in their countries of origin or abroad is a huge barrier to their integration into the labour market, to the effective use of their talents and capabilities, and to their economic security and well-being.

This applies to medical personnel (physicians, dentists, medical technologists, physiotherapists, and nurses) and engineers (excluding high-tech), and, to a lesser extent, lawyers and PhDs in various disciplines. Their efforts to find employment in their fields are frustrated by the gate-keeping role of provincial self-regulatory bodies in most professions, inadequate access to resources needed to re-qualify, lack of a "one-stop shop" where all information on accreditation is available, and limited resources in immigrant-serving agencies to engage effectively on their clients' behalf.

A considerable majority of the immigrant intake are from non-regulated professions. There has been no attempt by previous governments nor by the present government to address the problems faced by immigrants from these professions.

Immigrant-serving agencies have been calling for a stronger co-ordinating role for the federal government, and the new government is creating a central agency — the Canadian Agency for Assessment and Recognition of Credentials (CAARC) — to provide pre-assessment of international credentials and experience, and to work with the provinces and the professional associations to assure that Canadian standards are met.

Immigrant-serving groups see the creation of the CAARC as a step in the right direction. However, concerns remain that the agency could become a bureaucratic entity which excludes them, and that the problem of "systemic discrimination,"[23] which often prevents immigrant women and men from entering the Canadian work force, may not be adequately addressed.

To ensure this agency works to create a level playing field for immigrant professionals, including women, the AFB will: fund it for a trial period of three years; operate it as a "special agency" outside HRDC; include representation from foreign trained professionals, immigrant-serving agencies, and various self-regulatory bodies; and hold consultations between the relevant federal Ministers, ADMs, and foreign professionals in metropolitan areas to build understanding of their constituencies and their concerns.

Industrial Restructuring, Sectoral Development, Training, Protection for Workers

Growing Divide in Canada's Labour Market
In France, young workers and students recently took to the streets to protest increasingly precarious work and planned government legislative changes that would further impair their job security. Their protests succeeded in forcing the government to withdraw the labour law amendments. In Canada, however, the subject is not even on the radar screen despite a sharp decline in the security of employment for the bottom half of the workforce.

The reality here is that low unemployment levels (the March 2006 unemployment rate of 6.3% was the lowest in 32 years) mask rising inequality, increasingly precarious jobs for young workers, women, and visible minorities, and a growing divide between sectoral and regional labour markets.

The numbers paint the picture:

- real GDP per person has risen by 50% over the last 25 years, but workers' wages have remained virtually stagnant;
- during the 1990s, the share of national income going to the top 1% (those making $150,000 or more per year) rose from 9% to 14%;
- youth unemployment remains stubbornly high at 11.5%;
- the majority of new jobs created in 2005 were in self-employment and temporary work, not permanent payroll jobs;
- more than 200,000 jobs — roughly one in 10 of the manufacturing jobs in the country — have been lost since 2001, and the toll keeps rising;
- the rising value of the Canadian dollar (from 64¢ in 2002 to almost 90¢ today) threatens our share of both domestic and U.S. markets;
- North America is being flooded with high-quality products from Asia, mainly from low-wage China;
- almost half of new jobs created in 2005 were in B.C. or Alberta, where the resource sector is booming, creating an acute regional imbalance of employment opportunities; and
- far fewer good direct jobs are being created in oil and gas than are being destroyed in the labour-intensive manufacturing sector.

The implication of these changes is that industrial communities across the country face a massive adjustment crisis at a time when labour adjustment programs have largely disappeared.[24] Since the last bout of restructuring in the early 1990s, programs which offered retraining prior to layoff, mobility assistance, and ongoing income support to displaced older workers are no longer available. Instead, laid-off workers are offered on-line support, call centres, or a quickie course on how to fill out a resumé.

Employment insurance benefits may be available, but in low unemployment areas benefits will be quickly exhausted and at current levels are barely adequate.

The scale and severity of this industrial restructuring crisis call for a new approach to sectoral and industrial development, and a reinvestment in policies to support Canadian workers in the midst of a rapidly changing economy.

Sector Development Policy

Canada is becoming once again a raw-materials supplier to the global economy. Our high-tech, high-value industries are suffering.

Canada's production of high-value-added manufacturing products has faltered badly. 145,000 manufacturing jobs disappeared between January of 2005 and January 2006 alone. At the same time, driven by record commodity prices, production and exports of energy, minerals, and other primary commodities has expanded dramatically. This reverses progress made in previous decades to develop high-tech value-added industries, and reduce our historic dependence on primary resources.

Government policy could tolerate this structural remodeling of Canada's economy — accepting that our economic destiny will be determined by global markets, and the global hunger for our resources. Or policy could swim against the tide, trying to carve out a more diversified and sustainable sectoral mix.

Last year, the federal government became pro-actively involved in focused efforts to stimulate investment in targeted high-value sectors, (including forestry, auto, and aerospace), and increased public investment in a range of technology and productivity-enhancing initiatives, but more needs to be done to expand sector specific supports, stimulate investment, create jobs, and limit the power of unbalanced free trade agreements and global markets to control our economic destiny.

The Alternative Federal Budget will:

- Establish multi-stakeholder Sector Development Councils in two dozen identified sectors (including major resource industries, key manufacturing sectors, and strategic tradable services industries such as tourism, film and broadcasting, and software development) to identify major economic challenges, opportunities, and policy responses on a sector-by-sector basis. Each council must have participation from all key stakeholders, including business, suppliers, all levels of government, labour, and the research and academic communities. (Cost: $50 million per year in administrative and research support.)
- Sector-specific supports (such as those offered through the Technology Partnerships Canada program) will be expanded to stimulate more investment in Canada, tied to concrete employment commitments, and developed with input from the sector development councils. (Cost: $500 million per year over and above the TPC budget already included in the pre-election *Economic and Fiscal Update*.)
- Review and amend the Canada Investment Act to ensure that incoming foreign investment generates significant public interest benefits (such as real capital spending, job-creation, and Canadian procurement). (Cost: 0.)
- Cancel free trade talks with Korea and Japan, and replace these talks with efforts to negotiate more balanced trade relationships with these countries (and with China, whose $20 billion trade surplus with Canada has destroyed at least 60,000 jobs here). (Cost: 0.)

Skills Training

Despite record-high profits and growing complaints about skills shortages, Canadian employers spend less than 1% of total payroll on training — well below the OECD average. Lack of access to training leaves workers trapped in low-paid, dead-end jobs — especially the four in 10 Canadian adults who currently have literacy and numeracy levels too low to qualify for more than the most unskilled work. Meanwhile, a lack of opportunities for recent immigrants to improve language skills or have their credentials recognized leaves many highly-skilled workers badly underemployed. Barriers to post-secondary education mean almost half of young adults enter the workforce with no more than a high school diploma, if not less.

Compounding the lack of employer investment in skills training — which includes workplace-based skills development, apprenticeships, and literacy — are the federal government's cuts to spending on training. These cutbacks have amounted to more than $10 billion over the past decade. Finally taking modest steps to begin reversing this trend, the former Liberal government's *Economic and Fiscal Update* of November 2005 contained a promise to expand spending on post-secondary education and skills training to $3.5 billion over the next five years. A small portion of these funds — just over $1.6 million — has already been allocated through Labour Market Partnership Agreements (LMPAs) between Ottawa and the provinces of Ontario, Manitoba, and Saskatchewan.

Funds have been earmarked for the expansion of apprenticeship programs, literacy and essential skills programs, workplace skills development, and improving labour market integration of recent immigrants, First Nations, Métis and Inuit, and marginalized groups. Other provinces and territories have yet to sign such agreements with the federal government in order to access funds (on a per-capita basis).

To ensure Canada is not going backward on skills training, the AFB will ensure the full delivery of the $3.5 billion committed by the former government of Canada as a minimum step for increased public investment in post-secondary education and skills training, with a role for unions and community groups in shaping training programs.

Protections for Workers

The Alternative Federal Budget will:

- Re-establish an independent federal minimum wage (to cover workers in federally regulated industries) at $10 per hour, indexed annually to CPI inflation. (Cost: 0.)
- Enact the changes to the bankruptcy laws that were passed by Parliament before the election (including a fund to protect back wages owed by companies in bankruptcy, and provisions which explicitly indicate that collective agreements cannot be unilaterally rewritten by the bankruptcy court). (Cost: 0.)

International Development

In the context of a minority government, there is ample political agreement that Canada needs to do more to meet its international commitments to provide more and better aid.

On February 17, 2005, Stephen Harper, Jack Layton, and Gilles Duceppe signed a letter to then-Prime Minister Paul Martin, requesting steady increases to Canadian foreign aid spending, "beginning with a significant one-time increase."

On June 28, 2005, the House of Commons unanimously passed a resolution calling on the federal government to set out a plan to increase international development assistance spending to 0.7% of GNI by 2015.

Overseas Development Assistance (ODA)

The Conservative party election platform promised to be more generous than Liberal practice, by providing an additional $425 million over the next five years. The Conservatives promised to quickly reach the average spending of all OECD countries (which, however, is currently only 0.42%.)

The AFB sets Canada on a firm schedule to reach 0.7% of GNI by the year 2015, providing substantial increases to ODA over the next three years. The AFB believes that this spending should be expressly devoted to eradicating poverty, be consistent with Canada's human rights obligations, and strengthen partnerships with civil society, both in Canada and overseas. To ensure this, a legislated mandate for aid spending should be passed by Parliament, and regularly reviewed.

All parties in Parliament are officially committed to taking these steps. Over 200,000 Canadians have supported the Make Poverty History campaign, pressuring their governments to achieve the ODA commitments that have been promised. Eleven other wealthy countries have already agreed to meet or exceed these targets.

The AFB will meet the foreign aid goals already set by the Conservative government and supported by all the opposition parties — and we expect the Harper government in its 2006 Budget to do likewise, with the same all-party support in this minority Parliament.

Post-Secondary Education

Federal cuts to post-secondary education over the past 20 years have led to massive tuition fee increases; forced students to accumulate huge debt-loads; and prevented qualified Canadians from acquiring post-secondary education. Until last year, the federal response was largely characterized by gimmicks and saving incentives geared to the upper middle class.

During the tenure of the previous minority government, the 2005 federal budget was amended, thanks to pressure from the NDP, to include a $1.5 billion allocation to reducing tuition fees (Bill C-48). This promised cash infusion has started a much-needed dialogue about the federal government's role in the reduction of user fees for universities and colleges. The $1.5 billion allocation is sorely needed to curb a national trend towards higher student debt and élitism at Canada's universities and colleges.

Maintaining the commitment to reduce tuition fees is a critical component of the Alternative Federal Budget's priorities for 2007 (Not Going Backward), and extending that commitment is an essential element of Moving Forward.

Many organizations, including the Canadian Association of University Teachers, support the implementation of federally-sponsored tuition fee reductions as part of a piece of legislation for post-secondary education akin to the Canada Health Act. Such legislation would provide a permanent instrument with which the federal government could leverage accountability and tangible outcomes for federal dollars spent in the pursuit of an accessible, high-quality post-secondary education system.

The AFB will build on the 2005 program to reduce tuition fees, remove post-secondary education from the Canada Social Transfer, and create a new Post-Secondary Education Transfer governed by a Post-Secondary Education Act to ensure accessibility and quality. To move PSE forward, the AFB will increase funding to the PSE transfer by $3.9 billion over three years.

Poverty and Inequality

Over the past decade, Canada has had a strong record of growth, improved debt-to-GDP ratios, a string of federal budget surpluses, and a declining rate of unemployment. Poverty is declining because more Canadians are working—and because the National Child Benefit is making a difference in the lives of low-income families with children.

The stronger labour market along with the introduction of a significant new federal income security program for families with children has had a notable impact. Fewer Canadians are living in poverty today than a decade ago. After peaking in 1996 at 4.4 million, the number of Canadians living on low incomes (after tax) fell to 3.5 million in 2004.[25] The effect of the National Child Benefit is evident in the fact that the decline is concentrated among families with children.

While this is obviously better news on the poverty and income inequality front than we have had in nearly three decades, the fact that even in a period of record-low unemployment more than one-in-ten Canadians lives in poverty should give pause to those who have triumphantly declared the end of poverty on the basis of the Statistics Canada data. And the fact that nearly 900,000 children still live in poverty even with the National Child Benefit underlines the importance of continuing to build the NCB until it really reflects the costs of raising children.

Poverty and inequality have many dimensions. While the number of Canadians living below Statistics Canada's low-income cut-off incomes has declined, inequality is rising—between regions, between men and women, between young and older workers, and between rich and poor. The facts are:

- One in seven Canadians works full-time for less than $10 an hour.
- Only two provinces had median incomes above the national median—and Newfoundland was 25% below.
- Women remain twice as likely as men to work in low-wage jobs.
- Young workers—aged 16 to 24—are three to four times more likely than those over 25 to work for low wages.
- The share of national income going to the bottom 40% of Canadians has fallen from 15% to 14%, while their share of the tax bill climbed.

Both poverty and growing inequality are linked to an increasingly insecure labour market: too few jobs that pay a living wage, employment insurance that covers fewer than a third of unemployment workers in Canada's major cities; fragmented training programs; a just-in-time labour market that keep many families one layoff away from poverty; and few job ladders, even for qualified workers. One-third of those working for low wages today have some college or university education. Without a job, lifting yourself out of poverty is even more difficult. Many face barriers to employment—from escalating costs for post-secondary education or training programs to lack of accessible child care. And for many others income support programs such as social assistance and public pension income are simply inadequate. Poverty levels among Canada's First Nations, Métis and Inuit, both on and off reserve, are a national disgrace.

The Alternative Federal Budget has a strategy for reducing poverty and inequality with measures directed to improving conditions for those most in need.

First Nations, Métis and Inuit

- Honouring the November 2005 historic agreements with Canada's First Nations, Métis and Inuit to close the gap in the quality of life with other Canadians within ten years.
- Increasing resources allocated to Aboriginal Friendship Centres by $10 million per year, and investing an additional $30 million per year in Headstart programs.

Affordable Housing

- Building on the funding set aside for affordable housing under Bill C-48, and raising it to an annual level of $1.5 billion to build 25,000 units of affordable housing per year.
- Supporting the Community Partnerships Initiative for homelessness projects and extending the Residential Rehabilitation Assistance Program to the end of March 2007.

Canada Social Transfer

- Improving transparency and accountability for CST by creating separate transfers for Post-Secondary Education and Social Assistance and Services.
- Providing adequate funding to support programs designated under it, including income support programs such as social assistance, and services such as civil legal aid, shelters for battered women, women's centres, and other specified social services.

Child Care

- Honouring Canada's commitment to families and to provincial and territorial governments to support child care and continue to provide funding for a national child care system.
- Incrementally increasing federal funding for child care by $3.7 billion over three years, and providing additional resources and supports to meet the child care needs of school-age children and children from First Nations, Métis and Inuit, and rural and remote communities.

Child Tax Benefit Increase

- Increasing benefits under the CCTB over three years and using it as the delivery vehicle for new financial resources directed to families with young children.
- Ensuring that a new allowance for children is not clawed back from families receiving social assistance.

Employment Insurance

- Reforming EI to secure better coverage and benefits for unemployed workers in Canada, by introducing a uniform EI entrance requirement of 360 hours; increasing the benefit rate to 60% of earnings; basing benefits on the best 12 weeks of earnings; and increasing in the maximum benefit period to 50 weeks.

Federal Minimum Wage

- Re-establishing an independent federal minimum wage (to cover workers in federally regulated industries) at $10 per hour, indexed annually to CPI inflation.

Guaranteed Income Supplement

- Increasing GIS benefits by a further 8% on top of the 7% the Liberal government announced in its 2005 Budget, in order to provide a 15% increase over 2004–05. We estimate the cost of this measure to be approximately $2.2 billion over five years, or $500 million in the first year.

Programs for Women

- Increasing the Women's Program budget (of Status of Women Canada) to $100 million annually, and restoring core funding, (as well as project funding), to equality-seeking groups, including women-centered services.

Protection of wages against bankruptcy

- Enacting the changes to the bankruptcy laws that were passed by Parliament before the election (including a fund to protect back wages owed by companies in bankruptcy, and provisions which explicitly indicate that collective agreements cannot be unilaterally rewritten by the Bankruptcy Court).

Retirement and Seniors' Benefits

Ensuring financial security for older Canadians is the critical retirement issue — but public debate on pensions in recent years has centred more on the liabilities of employers and pension plan sponsors.

Workplace pensions, which play a key role in our retirement income system, are in decline; they now cover under 40% of employed Canadians — partly because of the growth of non-standard work, which rarely offers pension benefits, and partly because large employers increasingly demand concessions on pension benefits at the bargaining table. The trend is to shift the risk for pension provision to individuals with defined contribution plans or group RRSPs where no pension is guaranteed.

The AFB believes it is time for a major review of the retirement income system to address the needs of the changing work force and the concerns of Canadians who face the most uncertainty as they move into old age. This will require better legislative and regulatory protection of private pension plans, and improvements to public and contributory pension programs.

The long-term objective of the AFB is to establish a pension income guarantee that is above the after-tax low-income cut-off calculated by Statistics Canada. Our approach will pay particular attention to vulnerable groups, such as women who are twice as likely to be poor in old age as men, and immigrants who may be unable to benefit from social security agreements with their countries of origin.

Improving public pensions is a key priority. Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) provide a basic guaranteed annual income for seniors. But it is inadequate, leaving average incomes of poor women (aged 65-plus) who are on their own about $2,300 below the poverty line.

As a first step, we increase GIS benefits by a further 8% on top of 7% the Liberal government announced in its 2005 Budget, to provide a larger 15% increase over 2004–05. We estimate the cost of this measure to be approximately $2.2 billion over five years, or $500 million in the first year.

Secondly, the AFB will strengthen the Canada Pension Plan (CPP) by introducing a caregiver drop-out provision, similar to the CPP child-rearing drop-out provision, to ensure that time taken out of paid employment to care for family members or those with disabilities does not reduce pension benefits for caregivers;

Thirdly, the AFB will rescind recent increases in RRSP contribution room. RRSP contribution ceilings were raised in both the 2003 and 2005 federal Budgets, with the maximum now set to reach $19,000 in 2007 and $22,000 by 2010.

This program is costly (net tax expenditure on RRSPs alone is estimated at $8.8 billion in 2007) and overwhelmingly benefits high-income earners. In 2007, you would need to earn almost $106,000 to make the maximum RRSP contribution. (On average, women workers are currently earning about $25,000 a year.[26])

The AFB will limit the tax assistance for private retirement savings through RPPs and RRSPs to an annual dollar amount that is twice the average industrial wage — a maximum of $14,795. in 2006. The increased tax revenue from this change could be used to help fund the 15% increase in GIS benefits.

To protect workers' pensions, the AFB will change the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act to ensure that workers' retirement income expectations receive a secured priority creditor status.

Taxation

The Conservative platform signals the Harper government's intention to address virtually any social or economic problem — from children's physical fitness to senior's income security — via a tax cut. One of the most frequent claims made by the Conservatives is that their tax cut agenda is intended to help "working Canadians." [27] The AFB contends that the Conservative tax cut agenda will not deliver meaningful assistance to those who need it most. On the contrary, the high cost of these tax cuts will undermine the government's capacity to take steps that would genuinely make progress on addressing poverty and worsening inequality in Canada.

How much do low income people stand the gain from the Conservative tax cuts? A recent AFB technical paper that modeled many of the Conservative tax-cut promises found that the overwhelming benefit of the tax cuts flow to high income families.[28] While high income families make up only a small proportion of Canadian families (5.4%), they would receive 27.9% of the value of the tax cuts modeled. Almost half of all families have incomes under $40,000, yet they would receive only 20.3% of the benefits of these tax cuts. While on average the high income households receive $2010 from the tax cuts modeled, the families with incomes under $40,000 would receive $163 on average.

The costs of the Conservatives' tax-cuts are high: the Conservatives estimate that their promised tax cuts will cost $44.9 billion over five years (although there is good reason to expect the cost of these tax cuts to be even higher). Thus Conservative tax cuts will do a very good job of emptying Ottawa's fiscal cupboard.

The costs of the Conservatives' tax cuts means that there is very little fiscal room to consider other important public policy priorities. Thus the historic opportunity to use the federal government's forecasted budget surpluses to rebuild from a decade of underinvestment in important government spending priorities will be lost.

Money spent in tax cuts is money that is not available to spend on public services. The $163 average tax cut benefit for families with incomes under $40,000 will make little impact on fighting poverty in comparison to the contribution of decent affordable housing, access to quality daycare, accessible post-secondary education and training and other public services. With so much to be done to repair public services, now is not the time for more tax cuts

Tax Measures in the AFB: This Parliament and the Next Parliament

It is clear that our aspirations for a Canada committed to equality are incompatible with a tax cut agenda. Rising inequality is the price we pay when the government abdicates its social responsibilities as its hands are increasingly tied because of costly tax cuts. Ultimately a commitment to battling growing inequality will demand that we reconsider tax policy. As has been the case in past AFBs, our commitment to tax fairness goes beyond merely opposing tax cuts that

TABLE 8 Tax and Transfers to Individuals as Budgeted in the Conservative Party Platform, 2006

(Millions of Dollars) Tax Measures	Conservative Party Estimate of Cost Over 5 Years
Personal Income Tax Measures	
Eliminate tax on capital gains if reinvested within 6 months	750
Dividend tax credit chances announced in November 2005	1,600
Textbook tax deduction and raise scholarship income exemption	400
Raise seniors' pension income amount	2,235
Transit pass tax credit	2,000
Tools tax deduction	150
Registration fees paid on sports programs for children up to 16 years of age	650
Exemption of capital gains tax on transfer of fishing assets	150
Elimination of capital gains tax on charitable contributions	250
Jewelry excise tax relief	120
Small business tax measures	1,800
Total Personal Income Tax Measures	**10,105**
Other	
GST rate reduction (to 6% immediately, to 5% over 5 years)	32,300
Corporate Tax Measures	2,500
Total Tax Measures Modeled	**44,905**
Transfers to Individuals	
Choice in child care allowance	8,250
Total Cost of Tax and Transfer Package	**53,155**

are regressive and inefficient. We must embrace revisions to tax policy that proactively promote tax fairness.

However at the moment Canadians are faced with a government whose agenda is focused on tax cuts. It may be relatively short-lived, and by 2007 Canada could have a new Parliament, possibly one more interested in promoting a more ambitious reform of the tax system to promote tax fairness.

Under these circumstances the AFB takes both a short term and long term view of tax issues. In the short term (2006–07 and 2007–08), the AFB focuses our attention on the Conservative tax cut agenda. In order to highlight the dire impact on fiscal capacity that the Conservative tax cuts will have, we illustrate the fiscal position of the federal government if no new tax cuts are forthcoming. This allows the AFB to illustrate the substantial progress that can be made if the Conservatives tax cuts were not implemented.

In the longer term, our aspirations for tax policy go beyond merely opposing the tax cuts. Canada needs a tax system that makes much more serious steps in fighting poverty and income inequality. These tax fairness principles have been articulated in the AFB since its inception

In this AFB we present several tax fairness measures that could be implemented in time to have a budgetary impact by fiscal year 2008–09, (the third year of the AFB budget). While certainly more ambitious measures to promote tax

TABLE 9 All Conservative Tax Measures Modeled (all families, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	48.6%	20.3%	$163
$40,000–100,000	35.8%	35.4%	$386
$100,000–150,000	10.2%	16.5%	$631
$150,000+	5.4%	27.9%	$2,010
All Families	**100.0%**	**100.0%**	**$391**

Total Cost of Measure in 2007 (millions): $6,115.5

fairness are desirable (indeed we have outlined many such measures in past AFBs), the measures listed below would mark a significant start toward enhancing tax fairness in Canada.

Closing Loopholes to Promote Tax Fairness

In the third year of the AFB, will enact tax changes that promote tax fairness by closing loopholes that are inordinately beneficial to the high income/high wealth individuals or corporations.

Increasing the Inclusion Rate for Personal and Corporate Capital Gains Income

We embrace the principle that income earned from investments should not receive preferential treatment over income earned from wages and salaries. In 2000, the inclusion rate for capital gains income was reduced, resulting in unearned income from capital investments being taxes at half the rate of earned income. We propose an increase in the inclusion rate for personal and corporate capital gains from 50% to 75%. This measure would reverse the loss of approximately $2.4 billion in tax revenue from the Federal Treasury in 2008–09.

Close the Income Trust Loophole

Corporations transform themselves into "income trusts" solely as a way of avoiding corporate income tax. Tolerance of this loophole is increasingly eroding the corporate tax base. We would eliminate this income trust loophole in 2008–09. The precise estimation of the value of this measure is not possible. (This estimate depends, among other things, on how many income trusts exist at that point.) We conservatively estimate that this will save the federal government $750 million in lost revenue in 2008–09.

Eliminate the Special Treatment of Employee Stock Options

One of the most gratuitous loopholes for high income executives is the special treatment of employee stock options in the personal income tax system. Not only are employee stock options given special treatment as capital gains and taxed at half the rate of earned income, but tax on the shares can also be deferred until they are sold. The savings produced by the elimination of the stock option loophole will vary, however as a rough approximation we expect this to save the Treasury a minimum of $250 million in 2008–09.

Eliminate 50% Deductibility for Meals and Entertainment Expenses

The AFB will eliminate the meals and entertainment expense deduction for both corporate and personal income tax. This will save the government about $484 million in 2008–09.

Tax Arrangements for Foreign Affiliates

The Auditor General, the Public Accounts Committee and the Technical Committee on Business Taxation have all pushed for closure of special loopholes that allow dividends from tax havens such as Barbados to return to Canada virtually tax-free. Closing this loophole would save the government in the neighbourhood of $400 million in 2008–09.

Reduce the Maximum Contribution Levels for Registered Retirement Savings Plans (RRSPs) And Registered Pension Plans (RPPs) To Link Them To Twice the Average Industrial Wage

The deductions for RRSPs and RPPs are among the most expensive in the personal income tax system, yet high income earners derive the most benefit from these tax sheltered savings plans. The AFB would limit the tax assistance for private retirement savings through RPPs and RRSPs to an annual dollar amount that is twice the average industrial wage. This measure would save $630 million in 2008–09.

The money saved from this measure can be used to enhance the Guaranteed Income Supplement, which provides additional money to low-income seniors living in Canada.

The AFB Opposes Measures That Exacerbate Inequality

Certain tax measures are notable by their absence in the AFB.

Reducing Corporate Income Taxes

The AFB would not engage in the "race to the bottom" contest to cut corporate taxes.

Canadian corporate income taxes have been reduced precipitously since 2000. No sooner has one corporate income tax break been announced, when a rationale is generated to justify the next corporate tax cut. Each round of corporate tax cuts is depicted as a necessity if we are to attract investment and generate jobs in Canada. Failure to deliver these tax cuts is portrayed as tantamount to provoking the wholesale departure of corporate investment in Canada.

Despite substantial tax cuts since 2000, there is no evidence to suggest that past reductions in corporate taxes have stimulated investment. On the contrary, the erosion of corporate tax revenues can jeopardize our capacity to attract investment. For example, the cost advantages of our public-provided health insurance provide employers a competitive advantage over employers in the United States who must shoulder the full expense of private insurance.

The money lost through corporate tax cuts could be better spent reversing the past decade of underinvestment in infrastructure and skills training, which also serves to undermine our competitive advantages, since employers face additional expenses when the roads, sewer and water systems decay, and skilled workers are in short supply.

Lowering of Taxation on Dividends

The income trust loophole has provoked efforts on the part of those who receive investment income to have tax treatment that is comparable to that of income trusts. In response to this pressure, the Conservatives have stated that they will implement the Liberal government's promise to cut the taxation of dividends. This measure exacerbates the preferential treatment of investment income over earned income. The AFB does not implement the changes in the dividend tax credit and dividend gross-up which the Conservatives are intending to implement.

"Choice in Child Care Allowance"

The Conservatives promised to provide a "Choice in Child Care Allowance" of $1200 for each child under six years of age. This transfer is misleadingly titled: there is no requirement that the money should be used for child-care related expenses. Thus it is really a form of income support for families with young children

The AFB would not implement the "Choice in Child Care Allowance," and would instead funnel the money that the Conservatives would use for this allowance to deliver support via the Canada Child Tax Benefit. (In fact the AFB enriches the

CCTB by an amount greater than the likely cost of the "Choice in Child Care Allowance.")

Because the "Choice in Child Care Allowance" is taxable, families will not keep the full value of the Allowance. The CCTB is preferable because it is not taxable, and families can keep the full value of the CCTB they receive. In addition, because the receipt of the "Choice in Child Care Allowance" increases the taxable income of the recipient, it can disentitle the recipient to other transfers. For some recipients, what is gained by receiving the "Choice in Child Care Allowance" is to a great extent lost as their eligibility for other transfer income is diminished.

The "Choice in Child Care Allowance" also varies arbitrarily according to the composition of family income. The Conservatives have indicated that this allowance will be taxable in the hands of the lower income spouse. Thus two families that have the same income and the same number of eligible children may receive very different benefits from the "Choice in Child Care Allowance." A family will benefit more if it is composed of one highly-paid spouse and a spouse with no earned income than will a family in which both spouses work at lower-paid jobs.

According to recent data from the Caledon Institute, the highest benefit per child would be received by high income one-earner families with income over $100,000. They would receive $1032 in net benefit from this plan, compared to the two earner family at $36,000 who would net only $388 from the allowance (about one third of the $1200 face value of the program). The single parent earning $27,000 (roughly the poverty line in a major Canadian city) would receive only $481 from the "Choice in Child Care" allowance, or 40 percent of the face value.[29]

Notes

1 "Will There Again Be a Revenue Windfall for the Federal Budget?" Don Drummond, TD Economics, March 29, 2005.

2 Mackenzie, Hugh. "Taxation: The Martin Record," from *Hell and High Water: An Assessment of Paul Martin's Record and Implications for the Future*, edited by Todd Scarth. Canadian Centre for Policy Alternatives, 2004.

3 Sheila Block and Ellen Russell (2006) *Standing up for Which Families? Who Benefits From the Conservative Tax Cut Promises*, AFB Technical Paper 4, Canadian Centre for Policy Alternatives.

4 Perhaps the AFB and other critics of the government's forecasting record played a role in the Finance Department's new-found candor. Certainly, the government's forecasts have received widespread critique, both in the financial media and in front of the House of Commons Standing Committee on Finance.

5 "Will There Again be a Revenue Windfall for the Federal Budget?" TD Economics, March 29 2005.

6 Readers can consult pages 79 and 85 of the *Economic and Fiscal Update* to obtain the information depicted in table 1.

7 For example, it is likely that the cost of the Conservatives promised cut in capital gains taxes was under-estimated in their platform. See Don Drummond's "Peering into the Conservative's Fiscal Plan: More Spending Restraint Required Than You Might Think". TD Economics Special Report, February 28, 2006, www.td.com/economics and Sheila Block and Ellen Russell's "Standing Up for Which Families? Who Benefits from the Conservatives' Tax Cut Promises". Alternative Federal Budget 2006, Technical Paper #4. www.policyalternatives.ca.

8 However, after meeting intense criticism the Conservatives have promised to continue child care funding for 2006–07.

9 "Peering into the Conservative's Fiscal Plan: More Spending Restraint Required Than You Might Think" TD Economics Special Report, February 28, 2006, www.td.com/economics.

10 All of the initiatives covered by this $8.6 billion category are described in detail on page 13 of the *Economic and Fiscal Update*

11 The platform lists among its spending plans "post-budget government funding plans to be honoured". Upon examination, this category includes a mixture of both items that predate the *Economic and Fiscal Update* (and therefore constitute part of the $8.6 billion in spending discussed above) and some items that are announced in the *Economic And Fiscal Update* or thereafter (and thus are not part of this $8.6 billion).

12 Implicit cuts total $8.6 billion over 5 years. Adjusted for our three year time frame, this is $5.5 billion in cuts in the first three years

13 Yalnizyan, Armine, *Paul Martin's Permanent Revolution*, from "Hell And High Water", CCPA, 2004.

14 Mackenzie, Hugh, *The Art of the Impossible: Fiscal Federalism and Fiscal Imbalance in Canada*, CCPA, forthcoming Spring 2006.

15 Ibid.

16 Lee, Marc , *Tax Cuts and the Fiscal Imbalance*, CCPA, BC, forthcoming , Spring 2006.

17 The above discussion is informed by Marc Lee's *Tax Cuts and the Fiscal "Imbalance,"* forthcoming.

18 Report of the Royal Commission on Dominion-Provincial Relations, Book 2, page 128 (Rowell-Sirois 1940).

19 Osberg, Lars. *Poverty Trends and the Canadian "Social Union"* paper presented at the Symposium on Fiscal Federalism, Queen's University, Kingston, April 1999.

20 Lee, Marc, *Tax Cuts and the Fiscal Imbalance*, CCPA, BC, forthcoming , Spring 2006.

21 It would be income tax revenue-neutral, and would reduce Canada's GHG emissions by one Mt of CO_2 per year, according to modeling by MK Jaccard and Associates Inc.

22 Economic immigrants are defined as 'those who are better prepared to adapt to Canada's Labour market needs'.

23 Teelucksingh, C and Grace-Edward Galabuzi (2004), Working Precariously: The impact of race and immigrant status on employment opportunities and outcomes in Canada, CRRF, Toronto. See also, Cheung, Leslie (2005) Racial Status and Employment Outcomes, CLC Research Report #34.

24 Andrew Jackson "A Tale of Two Economies," forthcoming.

25 Low Wage and Low Income, (Catalogue no. 75F0002MIE), Statistics Canada, April 06, 2006.

26 Statistics Canada (2005) "Average earnings by sex and work pattern" at http://www40.statcan.ca.

27 http://www.conservative.ca/EN/1091/40485

28 Shelia Block and Ellen Russell, "Standing up for Which Families: Who benefits from the Conservative Tax Cut Promises" Alternative Federal Budget 2006, Technical Paper #4, www.policyalternatives.ca.

29 Battle, Ken. *The Choice in Child Care Allowance: What you See is Not What You Get.*, Caledon Institute, January 2006.

About the Centre...

The Canadian Centre for Policy Alternatives is an independent, non-profit research institute funded primarily through organizational and individual membership. It was founded in 1980 to promote research on economic and social issues from a progressive point of view. The Centre produces reports, books and other publications, including a monthly magazine. It also sponsors lectures and conferences.

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It's hard to move forward if you start in reverse.

Despite its election pledge to "Stand up for Canada," several Conservative promises involve repudiating critical commitments made during the last Parliament — to child care, to First Nations, to Kyoto, to young people, Canadian workers, affordable housing, cities and communities.

The new government inherits a large fiscal surplus. Few of the choices to be made in the upcoming federal budget, therefore, are about affordability. Rather, they are about how this surplus will be used. The Conservative platform outlined an agenda of tax cuts, debt repayment, new spending, and new surplus accumulation. Will the era of budget surpluses evaporate in a new round of multi-billion dollar tax cuts, undermining Canada's fiscal capacity and providing a rationale for a new round of spending cuts, like the Liberal cuts of a decade ago?

This Alternative Federal Budget offers an alternative. The government has ample fiscal room to honour its commitments, to hold on to progress and use our vast fiscal resources to improve the lives of Canadian citizens, while also meeting our international obligations.

Few governments inherit as enviable an opportunity to lead their country forward.
What will be made of it?

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