ALTERNATIVE FEDERAL BUDGET 2007

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STRENGTH IN NUMBERS

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Preface

Federal government budgets are developed in secret and "sold" to the public with elaborate public relations campaigns.

Part of the reason for this obfuscation is that budgets are highly political documents that reflect the priorities of the governments that put them together. In our democracy, governments are supposed to govern on behalf the people. But too often they govern first and foremost on behalf of powerful élites or for purely electoral reasons.

From its beginnings, the fundamental premise of the *Alternative Federal Budget* (AFB) has been that budgets are about *choices.*

The AFB starts from a set of social justice values — human dignity and freedom, fairness, equality, environmental sustainability, and the public good — embraced by representatives of a broad spectrum of civil society organizations: labour, environment, anti-poverty, faith-based, students, teachers, education, health care, cultural, social development, agriculture, child development, women, international cooperation and development, disability, Aboriginal, think tanks, etc.

AFB participants then proceed to collectively develop a set of taxation and spending measures that reflect these values, and create the sophisticated and workable budgetary framework within which they are met. This framework, which acknowledges political and economic realities, produces a dramatically different result than the federal government's budget or various party platforms.

The *Alternative Federal Budget* is a "what if" exercise: what a government could do *if* it were truly committed to an economic, social, and environmental agenda that reflects the values of the large majority of Canadians. It demonstrates in a concrete and compelling way that another world really *is* possible.

The goal of the AFB is in part economic literacy — to de-mythologize budget making — but it is also to build policy consensus among civil society organizations and fuel popular mobilization. It is in part an exercise in public accountability. For example, the AFB was the first to expose — with its very accurate forecasts of budget surpluses — how the Liberal government was deliberately hiding the fiscal surplus in order to dampen public expectations and shut down democratic debate about what to do with the surplus.

The federal government's budget process continues to be highly secretive and undemocratic. Few people understand how the annual budget process really works, let alone have any influence over it. In contrast, most other democracies, including many in Western Europe, have a much more transparent and participatory budget process, allowing for open discussion, real debate, and substantive amendments in their democratic chambers. Only rarely, in minority government situations, is it even possible for this to occur in Canada, as shown by the 2005 Liberal-NDP budget, which reversed corporate tax cuts and increased funding for education, public transit, housing, and the environment.

The current Conservative government, while promising greater accountability and transparency, has made the budget process even less transparent: It slashed programs for women, health care, youth employment, and Aboriginal Canadians in a period of huge fiscal surplus, with no warning, let alone public consultation. It has made public access to fiscal information even more difficult.

It introduced a centralized *Expenditure Management System* to review (and cut) program spending not in line with its priorities; but tax expenditures (or loopholes) are excluded from the review process. Furthermore, government contracts, especially massive defence contracts, are less than transparent, often restrict bidding, and raise questions of conflict of interest, waste, and perhaps even patronage.

Finance Minister Flaherty's budget deliberations have been inaccessible to all but the most influential Bay Street interests. The Canadian public is left with gimmicky online questionnaires in lieu of real participation in budget-making; witness the February 7 announcement of another online consultation on the 2007 Budget despite the likelihood that budget priorities are already set.

With a view to making the budget process more democratic, the AFB will:

- introduce a more transparent, participatory and democratic budget process: this involves early disclosure and consultation of budget proposals, with full information about impacts and options, comprehensive and transparent public consultation, and the ability to allow substantial amendments to budget bills without automatically being considered confidence votes;
- require that all new budget and regulatory initiatives involve a comprehensive and publicly available impact assessment by the newly established Parliamentary Budget Office, covering social, economic, and environmental impacts, modeled on and expanding on methods such as gender budget analysis;
- require that budgets establish goals and targets such as: eliminating child poverty; narrowing the wage gap between men and women; bringing the social conditions of Aboriginal Canadians up to developed world standards; reducing income inequality; eliminating the municipal infrastructure deficit; improving health care coverage and outcomes for all Canadians; investing in the arts and cultural sector; and reducing toxic pollutants and greenhouse gas emissions; and
- require that the Treasury Board and the Parliamentary Budget Office monitor and publicly report on our overall progress — and the progress of specific programs, policies, and initiatives — at achieving these goals.

Introduction
Strength in Numbers

This year's *Alternative Federal Budget* is called *Strength in Numbers* for a very specific reason: Canadians thrive when we work together. When it comes to solving the challenges life throws at us, we understand the inherent advantage of strength in numbers. We know that we're better off calling on friends and families during personal crises than trying to handle them alone. We know that pooling our buying power gets us lower prices. And we know that an active federal government that provides cost-effective, transparent programs and services is worth every penny we pay in taxes.

Canadians recognize that the most feasible, cost-effective, and fairest method of ensuring that our society and institutions serve and improve the quality of life of all Canadians is to pay for them collectively, through a progressive tax system. We know that the collective pooling of resources is the best way of ensuring that we all have access to high-quality services, regardless of our personal financial or social situation.

But in spite of this awareness on the part of the vast majority of Canadians, we had 13 years of a Liberal government that prioritized debt repayment, tax-cutting, and spending reductions over program creation and enhancement, with the unfortunate and, in many cases, devastating effect of straining social programs and public services to the breaking point. In the cases where additional funding was put toward certain programs (the Health Accord, for example) it was frequently allocated with few or no strings attached, and, consequently, without accountability.

The "new" Government of Canada

"Accountability" became a national catch-phrase as the Conservatives were elected in early 2006 in the wake of the Sponsorship Scandal. But in spite of its minority status, the "New Government of Canada" took the election as a clear mandate to implement a national vision at odds with the one held by most Canadians. Instead of implementing policies that drew on and reinforced our strength in numbers, the Conservative government undertook a "program review" that reduced — and in some cases eliminated — the very programs that help ensure a more equitable society for all Canadians, particularly the most vulnerable among us.

The Conservative government's first phase of program cuts provides us with an example of this disconnect — and of how their government's priorities are driving policy and funding decisions. On the same day that a $13 billion surplus was announced, then-Treasury Board President John Baird slashed programs for women, health care, youth employment, and Aboriginal Canadians.

And the policy shifts and funding reallocation did not end with those cuts. When they were first elected, the Conservative government repudiated Canada's commitment to the internationally-supported **Kyoto Agreement**. And even with their recent conversion on the issue of climate change they have indicated no intention of meeting those obligations.

They broke the federal government's commitment to our **First Nations** by scrapping the widely hailed Kelowna Accord, allowing our First Nations to dangle in dangerous economic winds.

They dramatically cut program funding to the **Status of Women** — programs which help ensure Canadian women get the tools they need to become economically independent, safe, and secure. Remaining grants for women's groups are being used to muzzle recipients, who are now forbidden from engaging in any "advocacy" activities.

The Conservative government cut funding to the internationally-recognized **Court Challenges Program**, robbing vulnerable Canadians of the legal support they need to have a voice in this country.

They reversed the first tangible steps taken towards implementing a **National Child Care program**, depriving thousands of Canadians of affordable, quality universal care for their children.

Their **cut to the GST** compromised Canada's ability to invest in vital new programs such as child care, literacy programs, and access to affordable post-secondary education.

They have started a process that will strip farmers of their remaining market power and their ability to operate collectively by firing the farmer-chosen CEO of the **Canadian Wheat Board** — one of the last bastions of farmer market power — as part of their campaign to destabilize that institution.

They also compromised the nature of Canada's stellar **international reputation** by focusing on a heavily militarized agenda (especially in Afghanistan) and enthusiastically playing a bit part in what is now being described as the biggest foreign policy mistake in American history.

Perhaps most insidiously, the federal government has continually suggested that we should stop practicing the Canadian value of sharing our wealth — through taxes — to help each other fund social programs that help us. Using the rhetoric of "tax relief" and "individual choice", the Conservatives are on the verge of emptying the fiscal cupboard to permanently undermine Canada's ability to continue to fund initiatives in health care, education, child care, employment support, and the environment — initiatives which overwhelmingly benefit and are cherished by Canadians.

The government is beginning to implement a highly centralized **Expenditure Management System** to review all program spending to ensure that all federal spending programs follow the government's own priorities — priorities which are increasingly at odds with those of most Canadians. Meanwhile, tax loopholes and incentives are not included in the review process: dozens have been introduced with almost no consideration of their effectiveness.

And accountability — an oft-used Conservative catch-phrase — is clearly being applied selectively. Some accountability rules have been strengthened, but not those for federal government private contracts or for tax measures. Finance Minister Flaherty has pretended to engage in public consultation on the budget, but it has been a highly selective and opaque windowdressing designed to support the Conservative government's agenda.

The 2006 *Economic and Fiscal Update* provided a grab-bag of tax cuts and tax credits that completely undercut Canada's strength in numbers by squandering our collective fiscal capacity.

The government's slate of cuts and credits consisted of token handouts — for example, a $100-per-month (taxable) child care allowance at a collective cost of over $2 billion rather than a national plan to make child care universally accessible and affordable — instead of pooling our resources to strengthen those public services that increase our capacity to provide for each other and from which we collectively benefit.

In less than a year, the Conservative government, largely through ill-advised tax cuts, poorly-targeted handouts, and an increase in military spending, is well on its way to emptying the fiscal cupboard. As previous AFBs demonstrated, this money could instead have been spent on a variety of programs that would have strengthened Canada's economic, social, and environmental position immeasurably.

This means that, if there is a SARS health crisis or other unforeseen health crisis (which experts say is a matter of when, not if), the government has no answer, because our fiscal capacity has been squandered.

It means that, lacking financial capacity, any promises Stephen Harper makes on the environment will be full of hot air.

The Conservative government has left no room for mistakes, disasters, new programs, or new challenges.

There is no strategy in place to address the two most pressing problems of our time: income inequality and the environment.

This is what happened within one year of a minority government. It is short-termism at its worst. And it is irresponsible.

At a time of growing public uncertainty about financial security and stability, the Conservative government is enacting policy shifts and funding choices that will do nothing to address this unease. In fact, these decisions will only exacerbate the concerns and the problems that already exist for Canadians who are keenly aware of the growing disconnect between their priorities and those of the government.

It is a dangerous road we're on — one that creates the conditions for massive economic, environmental, and social insecurity.

The growing gap

Canadians cherish the social programs which distinguish us from Americans. In fact, the majority of Canadians worry that an unchecked growing gap between the rich and the rest of us will make Canada more like the U.S. — and they reject that vision.

Unfortunately, in spite of record low unemployment, strong growth, improved debt-to-GDP ratios, and a string of federal budget surpluses, more than one in ten Canadians lives in poverty — over one million of them children. And, although the number of Canadians living below Statistics Canada's after-tax low-income cut-off has declined, inequality is rising — between regions, between men and women, between younger and older workers, and between the rich and poor. On average, the top 100 Canadian CEOs make 240 times the income of the average Canadian worker. In every Canadian jurisdiction, minimum wages are so low that working full-time for a full year at those rates still can't get a family out of poverty.

Canadians know something is seriously amiss and express considerable worry about what lies ahead for our families, our neighbours, our community, our country, and the global environment.

In November 2006, the Canadian Centre for Policy Alternatives released polling results revealing that:

- 76% of Canadians believe Canada's gap between rich and poor has grown compared to 10 years ago;
- 49% say they are always just one or two missed paycheques away from being poor;
- 65% say most people have not benefited from Canada's economic growth and that benefits have mostly gone to the very rich; and
- 76% worry that a growing gap will lead to more crime and, if left unchecked, they also believe Canada will end up being like the U.S.[1]

This growing sense of unease was reinforced by a December 2006 Statistics Canada report which confirmed that the gap between the rich and the poor has indeed been widening, and that "the top 20% of families held 75% of total household wealth in 2005, compared to 73% in 1999 and 69% in 1984".

Meanwhile, "the median net worth of the families in the bottom fifth stagnated between 1984 and 2005. In fact, the value of their assets never exceeded the value of their debts during the 1984-to-2005 period".[2]

While this sense of financial insecurity may be limited to all but the very wealthiest Canadians, concerns over the state of the environment transcend income bracket and postal code. Recent public opinion polls show the environment has become as important an issue to Canadians as health care.

But, in spite of data and opinions polls clearly showing an increase in and awareness of financial insecurity among Canadians, and a real concern over the state of the climate — social, economic and environmental — in which we all live, the federal government continues to demonstrate its very different priorities: cutting taxes for the wealthiest Canadians, which also reduces the national fiscal capacity to fund programs used by all Canadians; the elimination of programs designed to protect the most vulnerable among us and ensure a basic standard of access, equality and opportunity; and a focus on security — *military* security.

There is no question that security is fundamental to a healthy, vibrant, just, productive, and innovative society, and that it is *absolutely* the responsibility of elected representatives to ensure the security of its citizenry. But Canadians recognize that the best way to create the real conditions for security — social, economic and environmental — is to take advantage of our strength in numbers.

And, furthermore, as a CCPA-commissioned poll has revealed, Canadians are keenly aware of the role governments are expected to — and, in fact, *must* — play in ensuring that this happens:

- 86% say government should reduce the gap between the rich and the poor;
- 85% believe that, if government took concrete action, poverty in Canada could be drastically reduced;
- 90% believe the best way to reduce poverty is to make sure everyone has access to post-secondary education and training;
- 88% believe increasing the minimum wage would help;
- 80% believe creating more affordable child care spaces would help;
- 85% believe creating more subsidized affordable housing would help; and
- 82% believe in closing tax loopholes so wealthy Canadians and corporations pay more tax.

We are not alone in this recognition of the benefits of stable and well-funded public programs — or of the role government plays in ensuring their continued existence. International comparisons demonstrate that a healthy tax base and adequately-funded social programs makes good financial sense, and say everything about the health and well-being of a nation and its citizenry.

A December 2006 study released by the CCPA[3] compared tax-cutting countries like Canada and the U.S. to countries like Finland and Norway, which collect significantly more taxes from their populace. It found that Nordic countries with adequate tax rates had:

- lower rates of poverty, more equal income distribution, and more economic security for their workers;
- a higher GDP per capita;
- higher rates of household saving and net national saving;
- greater innovation, including a higher percentage of GDP spent on research and development;
- a higher ranking in the World Economic Forum's competitiveness scale;
- higher rates of secondary school and university completion; and
- less drug use, more leisure time, and higher life satisfaction.

In contrast, the tax-cutting United States falls near the bottom of the 21 industrialized countries in a strikingly large number of social indicators, and ranks as the most dysfunctional country by a considerable margin.

So, in spite of the claims of the tax-cut lobby, there is no evidence that taxes are damaging to the health and economic prosperity of a nation or its citizens: to the contrary, societies with a healthy tax base are among the most competitive and equitable and provide more financial security for individuals.

The evidence, then, is clear:

- Canadians want a federal government that is actively solving the problems we face as a nation and internationally.
- Tax cuts deter rather than help people to stay healthy and prosperous; in fact, countries with an adequate tax base score much higher on key economic and social indicators than those that pursue a policy of tax cuts.

Creating the conditions for real security: AFB 2007

In response to and in recognition of the ways Canadians demonstrate their commitment to strength in numbers each and every day, the 2007 AFB charts a path of hope. It demonstrates — in a comprehensive and fiscally prudent manner — how to harness our collective resources, and outlines the programs that must be funded accordingly. Unlike the current federal government's trajectory, it provides hope for the future, drawing on the values that make us uniquely Canadian and reaffirming the advantage of our strength in numbers.

The *Alternative Federal Budget 2007* provides a strategy for achieving social, economic, and environmental security through a reduction in poverty and inequality. It provides a range of social and economic policies, including community economic development and job creation strategies, education and training programs, tax policies, and improvements to social programs.

It sets out a plan that will enable **Canada's Aboriginal Peoples** to assume their rightful place in Canadian society and the economy — and will confront the current loss of economic opportunity, loss of labour force potential, and escalating health and social costs. In addition to meeting the framework of the First Nations Action Plan set out at Kelowna and providing funding dedicated to addressing concerns and needs unique to Aboriginals living in urban centres, the AFB also commits to the protection and expansion of the highly effective network of Friendship Centres.

It reverses the Conservative government's **agricultural policies** — policies that have stripped farmers of their market power — to ensure the survival of a food system that serves Canadian interests.

While taking a cooperative and pragmatic approach to relations with the **United States,** as befits interdependent nations with many common interests and values, the 2007 AFB halts deep-integration with the U.S., curbs international corporate power in order to enhance the power of citizens, and challenges NAFTA where fundamental Canadian priorities are at stake. It develops a made-in-Canada resource security policy that conserves energy production and use, minimizes its environmental impact, bans bulk water exports, and encourages domestic processing.

The AFB will put Canada on a path towards quality **Early Learning and Child Care (ELCC)** services for all children (non-profit, directly-funded and accountable) through national legislation which guarantees secure funding through a dedicated child care social transfer.

The AFB will get the urban agenda back on track with a National Communities Strategy, a dedicated department to oversee Community Development, appropriate legislation, and adequate investment and inclusive economic planning for **cities and communities** of all sizes.

In addition to implementing taxation measures to provide some financial assistance to Canadian artists, the AFB will increase and stabilize funding for federal **arts and culture** programs and the Canadian Television Fund, prioritize the Department of Canadian Heritage's "Tomorrow Starts Today" programs, and reverse Conservative cuts made in 2006 to a number of arts and culture programs.

The AFB is committed to re-defining the role of the military in order to shift the focus from combat roles to peacekeeping, sovereignty support, and disaster relief. Much of the proposed run-up in **defence** expenditures currently being implemented by the government is focused on combat, and thus would not be required. The AFB commits to ensuring that salaries of military personnel are not adversely affected (on the contrary, if expenditure review yields savings in excess of these targets, these savings could be redeployed to increasing wages in the military), and that expenditures required to ensure the health and safety of all military personnel will be made.

The AFB recognizes that cuts made to **Unemployment/Employment Insurance** a decade ago have resulted in a program that falls short of what Canadians need. It will lower barriers to qualifying for EI, increase benefits, maintain premiums, and raise maximum insurable earnings. The AFB will also increase training for the unemployed and improve access to EI services.

The AFB implements a plan for the **environment** to address challenges, generate important economic, social, human health, and environmental benefits, and advance Canada towards being an international environmental leader once again.

The AFB recognizes that, while **women** have equality rights on paper, much more work needs to be done to ensure that those equality rights are a reality for all women in Canada. As a first step, the AFB will reinstate the $5 million operational budget cuts to the Status of Women and increase project funding for the Women's Program.

The AFB will address the issue of the **fiscal imbalance** with increased federal funding in critical areas of public policy to strengthen the foundation of Canadian public policy. The federal government must reassert its role as a leader in establishing and promoting national standards for important public services.

In addition to rigorous enforcement of the Canada Health Act and the protection of our nation's **publicly-funded health care system**, the AFB will implement a national Pharmacare program and make significant investments in education and training to deal with the impending labour crisis in the health care system and its impact on the efficiency, quality, and accessibility of Canadian health care.

Canada still does not have a long-promised national **housing** framework — at a time when nearly 1.5 million Canadian families are in desperate need of decent affordable housing. The AFB will deliver on the promised investments in housing and will further help meet the need for increased and extended funding to give communities the stability and predictability to participate as full partners in building affordable housing.

Canada's industrial landscape is changing, and recent cutbacks to federal program spending designed to help improve the skills and mobility of workers suggests that the current government has chosen to ignore those most in need, particularly disadvantaged youth and adult workers with literacy challenges.

The AFB takes a new approach to **sectoral and industrial development**, and commits to a reinvestment in government capacity and government policies to support Canadian workers in the midst of a rapidly changing economy. This comprehensive industrial strategy will help integrate the various sectors in our economy, push Canada to take a leading role on environmental issues globally, and help us create new sustainable industries as well as new "green" jobs.

The AFB also recognizes the need to invest in workplace training programs to ensure that all Canadians gain practical knowledge and skills in workplaces that promote learning as part of their culture.

Currently Canada's **international development** assistance is only at 0.32% of GNI (Gross National Income), or less than half of the UN's target of 0.7% by 2015. The AFB sets Canada on a firm schedule to reach the 0.7% target by the year 2015, with spending expressly devoted to eradicating poverty, consistent with Canada's human rights obligations, and in consideration of the perspectives of civil society and the poor, both in Canada and overseas.

The AFB will build on Parliament's 2005 program to reduce tuition fees, in order to lower the up-front costs of a **post-secondary education** and student debt over time. The AFB will also 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, accountability and quality.

The AFB recognizes that public delivery of public services is almost always more efficient, less expensive, higher-quality, and more accountable than privatized delivery. What's more, decent public services ensure that everyone has an opportunity to contribute to society, thereby reducing inequality and improving the economy. High-quality public services increase our overall and collective economic, social, and environmental security. Yet the current Conservative (and previous Liberal) government continues to promote (in part through funding mechanisms) and implement **public-private partnerships and the contracting-out** of public services.

The AFB will redirect federal funding to support public, not privatized, services, and reduce the use of contracting-out in the federal public service. Furthermore, the AFB will make the budgetary process more transparent and democratic by ensuring full analysis by an independent Parliamentary Budget Office of the broad financial, economic, environmental, and social impacts of proposed budget measures — including analysis of the gender impact.

One-fifth of single older women are living in poverty, even after taking government transfers and tax credits into account. The AFB will undertake a major review of the **retirement income system** to ensure that it meets the needs of the changing work force and that it addresses the concerns of those groups who face the most uncertainty and insecurity as they move into old age — particularly older women left on their own.

* * *

There is no question that the 2007 Alternative Budget launches an ambitious plan. It tackles years of neglect — neglect of the most vulnerable among us, and of the social programs that benefit us all as a society and that take full advantage of our strength in numbers. But, continuing in the tradition of more than a decade of Alternative Federal Budgets, *AFB 2007: Strength in Numbers* provides sound financial decisions to address the most pressing social issues, to create the conditions for economic growth, and to ensure real security for all Canadians.

While in previous years the AFB was able to fund social programs and priorities out of accumulated surpluses, recent policies of the Harper Conservatives have changed the fiscal landscape significantly. Ill-advised and poorly-targeted tax cuts have drained the surpluses of previous years: there is simply not enough fiscal room for Stephen Harper to meet his commitments to make additional tax cuts without also making massive cuts to spending.

Both these policy directions — tax cuts and program cuts — will make it impossible for the federal government to address the problems that concern Canadians: growing inequality, health care, the environment. In other words, the Conservatives are enacting policies that completely undercut our strength in numbers and will only increase the growing sense of insecurity that is felt by all but the wealthiest Canadians.

The AFB reverses the most problematic of the Conservative tax cuts — cuts which do little to help those most in need, and which represent the squandering of our collective fiscal capacity — in order to put our tax dollars to more efficient and equitable use. And we are committed to redefining the role of the military to shift the focus from combat roles to peacekeeping, sovereignty support, and disaster relief.

The plan outlined in this year's *Alternative Federal Budget* will ensure access to high-quality, affordable, and accountable higher education, and begin to address the crushing debt-loads with which many of our young people are saddled. It will bring Canadians a national Pharmacare plan, a National Housing Strategy, and a truly Universal Child Care program. By meeting the terms established at Kelowna, it will begin to address our obligations to our First Nations and Aboriginal peoples. It will create a real new deal for cities and communities that addresses crumbling infrastructures and years of financial neglect. It will strengthen the Employment Insurance system so that it meets the changing needs and realities of our workforce. It will address the real fiscal imbalance: the one between the federal government and provincial and municipal governments and our First Nations. And, most importantly, it will tackle the two biggest issues of our time: inequality and the state of our environment.

The AFB builds on our strength in numbers to reinforce policies and institutions that ensure our prosperity, our productivity, and our standard of living. And it sets out a plan that will make Canada a far more equitable, prosperous, sustainable and secure society—one that takes full advantage of our most valuable resources as a nation: collective commitment and collective action.

The AFB Fiscal Framework
Towards a Bare Fiscal Cupboard: The Great Transformation in the Federal Fiscal Debate

Canadians have become accustomed to large federal budget surpluses for the past several years. These budget surpluses fuelled public debate about how Ottawa should use this fiscal room: should it be allocated to pay down debt, cut taxes, or increase spending?

Now this debate is rapidly becoming moot.

In its first few months of office, the federal government introduced a budget that enacted an estimated $9.9 billion in tax cuts in its first year. Those tax cuts, plus a promise to repay $3 billion in debt each year, consumed the lion's share of projected future budget surpluses. There were only two new spending measures worthy of note in the 2006 Budget: 1) a taxable monthly cash payment in lieu of the national child care program that was in the early stages of implementation under the previous government, and 2) increases in defence spending.

Based on the measures introduced in Budget 2006, the Finance Department indicated that future budget surpluses have all but disappeared. Without the tax cuts and other measures introduced in the 2006 Budget, the government would be looking forward to a "status quo" budget surplus of $17.8 billion in 2006–07 and another $19.4 billion in 2007–08. Following the measures introduced in Budget 2006, however, the government indicated that there was only $600 million in fiscal room in 2006–07, and $1.4 billion in 2007–08.

This is certainly not enough fiscal room to support any large-scale initiatives. And it should be recalled that the Conservative government has also done away with the Liberal government's practice of incorporating contingency reserves and economic produce funds into its federal budgets. Thus the surplus estimates now made by the Finance Department are not supplemented by this particular form of padding.

More recent news suggests the fiscal cupboard is not bare yet. The government's November 2006 *Economic and Fiscal Update* projected surpluses in the order of $2–$3.6 billion per year in upcoming years.[4] If the government does not pay down further debt, and abandons the commitment to make personal income tax cuts funded out of savings produced by debt reduction (as the AFB recommends), the available surpluses will be between $6.1 and $7.3 billion per year. A recent report by TD Bank economist Don Drummond indicates even more fiscal room: about $1.8 to

$2.8 billion more than was indicated in the government's November projections.[5]

The Conservative government has transformed the fiscal situation in just one budget. Despite budget surplus estimates that are considerably higher than was previously indicated the federal government will be hard-pressed to pay for the promises it has already made, never mind funding new spending on Canada's social and physical infrastructure.

The federal government has promised to fix the fiscal imbalance, change the taxation of capital gains, increase military spending on top of the substantial increases already implemented in the 2005 and 2006 budgets, and reduce health care waiting times. The *Economic and Fiscal Update* did illustrate how the government plans to pay for the GST cut, although its argument strains credibility (as discussed later in this chapter).

Will there be enough money to pay for these promises, as well as any new promises contained in the 2007 Budget? The CCPA fiscal forecast (Table 3) indicates that — even with more optimistic budget surplus projections — there will not be adequate fiscal capacity to pay for the Conservative government's outstanding promises — let alone any new promises to be unveiled in the 2007 Budget.[6] We are not alone in this assessment. As the TD Bank's previously cited report concludes, "it is hard to see how the Government could deliver on everything that has been discussed in the context of the 2007 Budget and remain fiscally responsible".

The obvious implication is that Canadians can expect to see substantial spending cuts if the government wants to avoid a deficit in upcoming years.

The fiscal debate has been turned on its head. Instead of debating how to use the budget surpluses to rebuild social programs and infrastructure, we will soon be debating what new spending cuts will be required to pay for the next round of tax cut promises.

How will the Conservative government pay for its promises?

By largely dissipating forthcoming "planning surpluses"[7] in just one budget, the government has handed itself a political problem. As a minority government, it is eager to make further promises in preparation for the next election. Since it is politically taboo to run a budget deficit (despite the strong economic rationale for deficits during economic downturns), the Conservative government is in a bind.

This problem is made more acute because the macroeconomic outlook has deteriorated since the November *Economic and Fiscal Update*. If the projected slowdown in economic growth materializes, the government will face further downward pressure on its fiscal room. Canadians who do the math will begin to realize that substantial spending cuts will be necessary if the government proceeds with further tax cuts.

Indeed, dramatic spending cuts were foreshadowed in the Conservative election platform of 2005. The Conservatives' platform indicated that they intend to save $22.5 billion between 2006–07 and 2010–11 by "moderating spending on grants and contributions and in government departments and agencies".[8] These spending cuts are over and above the "reallocations" made when the Conservative government cancelled the national child care plan and the climate change fund that the former Liberal government had incorporated into previous spending estimates.

Yet no minority government relishes entering another election campaign with mounting suspicion that it is obliged to embark on a wholesale downsizing of the government to pay for tax cuts. We expect the government to devise other means to create fiscal room (or to create the impression that it has fiscal room), so that it can create the impression that it can afford the measures that are likely forthcoming in the next federal budget.

Ways the Conservative government may pay for further tax cuts

1) Creative forecasting

The federal government will be at pains to make the fiscal room appear generous, particularly in future years when the full costs of its promises hit. A particularly stunning example of this was evident in the government's surplus projections in the *Economic and Fiscal Update*.

For some time, it has been clear that cutting another percentage point in the GST is not affordable any time soon (without incurring a deficit). Yet the *Economic and Fiscal Update* promised to bring the GST cut on-stream starting in 2010–11. Coincidentally, the budget surplus jumps precipitously as the GST cut starts coming on-stream.

This provides for some fascinating budget forecasting. The projected underlying surplus jumps by over 50% (from $6.1 billion in 2009–10 to $9.4 billion in 2010–11) — just in time to begin paying for the beginning of the impact of the GST cut. The following fiscal year, when the full brunt of the $6.4 billion cost of the GST cut will be felt, the budget surplus jumps another 45% to $13.7 billion. It strains credibility that the government "knows" of some good news that will cause projections of a relatively stable underlying budget surplus to more than double between 2009–10 and 2011–12 — the very year that it has an expensive promise coming due.

2) More aggressive use of expenditure reallocation

Cutting public spending is politically risky, and the government would prefer to delay public debate on spending cuts until after the next election. However, the need to generate fiscal room may force the government to become more aggressive in its expenditure reallocation. Since expenditure reallocation is a rather opaque process, the political downside to making cuts in this manner may be more acceptable than subjecting such cuts to full parliamentary debate.

Last fall, the government announced the results of its first expenditure review: a long list of cuts to the Status of Women Canada, literacy groups, arts organizations, and others.

3) Privatizing Assets

The government can generate cash inflow by selling assets. For example, discussions about the sale of various government properties, including Atomic Energy of Canada and Canada Mortgage and Housing Corporation's (CMHC) lucrative mortgage insurance activities, have been reported in the press.

Privatizing assets, however, is a short-term solution to the problem of fiscal capacity. It often leads to fiscal squeezes in the future, as the government must forgo the ongoing revenue produced by the asset (for example, CMHC's mortgage insurance activities generate roughly $1 billion per year for the government) or must incur costs in the future to purchase the services provided by the asset (this happens when buildings owned by the government are sold and rented back for the government's use).

In the case of office space, privatizing assets will ultimately cost the government more than would be the case if it retained ownership of these buildings. Based on the rationale that the buildings require expensive renovations, the government may sell the buildings on the understanding that the new landlords will incur these expenses. In that event, rents will be increased to cover the cost of the renovations (plus whatever profit mark-up is taken by the landlord).

How to pay for what we say

In an honest, legitimate and mature fiscal debate, all options must be on the table. It is not sufficient to make promises and then keep Canadians in the dark about how these promises will be financed.

This year's AFB takes on this challenge. We clearly state that our AFB measures cannot be fully funded by forthcoming budget surpluses, and we propose a fiscally responsible approach to paying for our program of public services and infrastructure.

Below we present an updated forecast of federal finances. Given the fiscal room that we anticipate, together with some tax increases and an AFB "Expenditure Review and Reallocation" process, we demonstrate that a substantial rebuilding of Canada's social and physical infrastructure is feasible and affordable — *if we make fiscally honest decisions based on a realistic fiscal evaluation.*

The AFB macroeconomic outlook

Since the Conservative government's first federal budget in May of 2006, the outlook for real GDP growth has progressively worsened. Table 1 shows the deteriorating economic growth conditions. The "current CCPA consensus" macroeconomic projections in Table 1 were generated by consulting several publicly-available forecasts.

In the May 2006 federal Budget, real economic growth for 2006 was projected at 3.0%. Currently, our CCPA consensus projections are at 2.7%. This lower real GDP growth, together with lower inflationary expectations produces a projected nominal GDP growth of 4.8%. This is a considerable downgrade in economic growth projections compared with 6% nominal GDP growth projected in the 2006 Budget, and 5% nominal GDP growth projected by the November 2006 *Economic and Fiscal Update*

The outlook for economic growth in 2007 has also worsened. In the last *Economic and Fiscal Update*, real economic growth was projected at 2.7%. Only a few months later, our CCPA consensus projections have been lowered to 2.2%. Nominal GDP growth has been revised downward from the 4.6% that appeared in the 2006 Budget to 3.7% in our consensus forecast.

The more pessimistic economic growth outlook for 2007 is largely a consequence of the incipient slowdown in the U.S. economy. Canadian economic growth is also being affected by the high exchange rate of the Canadian currency (vis-à-vis the U.S. dollar), which has led to a deterioration of the trade balance.

In the longer term, we make the assumption that the U.S. economy will rebound towards the end of 2007 and start expanding again in 2008. This will stimulate growth in the Canadian economy. Hence nominal GDP growth is projected at 4.9% for 2008. Since most of the forecasts consulted in the preparation of the CCPA consensus forecast do not extend beyond 2008, we follow the government in assuming a 4.7% nominal GDP growth thereafter.

There are significant downside risks to these projections, including the possiblity that the U.S. economy grows more slowly that projected. To the extent that any of these more pessimistic scenarios materialize, economic growth could be lower than is indicated in Table 1, and thus the projected budget surpluses would also be smaller.

Despite the downgraded economic growth projections for 2007, increased monetary stimulus does not appear likely. The Bank of Canada recently decided not to cut the discount rate for the fifth time in a row and seems unlikely to revise its stance in the near future.[9] In the November *Economic and Fiscal Update*, when real GDP growth was projected to be 2.7%, short-term interest rates were projected to be 3.9%.[10] Since this time, the outlook for real economic growth has been downgraded substantially, yet the CCPA consensus forecast indicates that short-term interest rates will decline only to 3.8%, and rise even more swiftly in 2008. Long-term interest rates are projected to rise throughout the projections depicted in the CCPA consensus forecast.

The Bank of Canada's justification for its refusal to lower interest rates is worthy of note. The Bank argues that Canadian productivity growth

TABLE 1 CCPA consensus macroeconomic forecast compared to 2006 Budget and November 2006 *Economic and Fiscal Update* (EFU)

(Percent)

Real GDP growth	**2006**	**2007**	**2008**
May 2006 Budget	3.0	2.7	2.9
November Economic and Fiscal Update	2.8	2.7	3.0
Current CCPA consensus	2.7	2.2	2.8
GDP inflation			
May 2006 Budget	2.9	1.8	1.6
November Economic and Fiscal Update	2.1	1.9	1.9
Current CCPA consensus	2.1	1.5	2.1
Nominal GDP growth			
May 2006 Budget	6.0	4.6	4.6
November Economic and Fiscal Update	5.0	4.6	4.9
Current CCPA consensus	4.8	3.7	4.9
3 month treasury bill rate			
May 2006 Budget	4.0	4.1	4.3
November Economic and Fiscal Update	4.1	3.9	4.2
Current CCPA consensus	4.2	3.8	4.3
10 year government bond rate			
May 2006 Budget	4.4	4.5	5.1
November Economic and Fiscal Update	4.3	4.3	4.6
Current CCPA consensus	4.0	4.2	4.7
US real GDP growth			
May 2006 Budget	3.4	3.0	3.1
November Economic and Fiscal Update	3.4	2.5	3.1
Current CCPA consensus	3.3	2.5	3.0

is so disappointing that it could not possibly lower interest rates for fear of fuelling inflation. Such logic leads to a Catch-22. Lower interest rates would encourage the investment that is necessary to enhance productivity growth, yet the Bank argues that it dare not lower interest rates since productivity growth is not high enough. One wonders how this cycle could be broken, unless of course the government intends to dramatically step up its investment in infrastructure as a means to stimulate productivity.

This Catch-22 compounds worries that Canada may be suffering from a so-called "Dutch disease", whereby the boom in one sector of the economy (in this case, energy) contributes to difficulties in other sectors (notably manufacturing). A rapid rise in the prices of energy exports has put upward pressure on the Canadian dollar, thus decreasing the competitiveness of manufacturing. Proponents of this viewpoint worry that the current situation could be damage Canadian real GDP growth in the medium and long run, particularly if oil and other commodity prices were to rebound. In light of the Bank of Canada's posture vis-à-vis interest rates, which is deterring investment in the manufacturing sector, Canada's "Dutch disease" could become more severe.

The AFB status quo federal Budget projections

The macroeconomic outlook does indeed look more pessimistic than it was just a few months ago when the government's *Economic and Fiscal Update* was published. Lower projected economic growth puts downward pressure on budget surpluses (tax revenue declines when the economy slows). On this basis, we should expect forthcoming budget surpluses to be smaller than were projected in the November *Economic and Fiscal Update*.

Yet pundits, led by the TD Bank report cited previously, are anticipating federal budget surpluses that are *higher* than those projected in November. In large part this optimism has been fuelled by the preliminary budget results for the first nine months of fiscal year 2006–07 as published in the Finance Department's *Fiscal Monitor*. CCPA budget projections regard these preliminary results with great caution since preliminary results can be substantially restated. And as recent experience has demonstrated, much can happen in the final months of the fiscal year and in adjustments made before final results are published.

This section provides an AFB estimate of the fiscal room available to the government as we approach Budget 2007. It is based on the macroeconomic outlook presented above, and proceeds on a "status-quo" assumption, meaning that it incorporates only explicitly confirmed information concerning the government's revenues and expenditures. We do not attempt to second-guess what the government "might" do.

Our status quo federal budget surplus can be interpreted as the amount of fiscal room available for the government to fund new measures in its 2007 Budget (and the measures in the AFB).

Revenue

The TD Bank report (among others) credit strong growth in personal income tax (PIT) revenue with increasing revenue projections relative to those in the *Economic and Fiscal Update*. The preliminary results the first nine months of the fiscal year do indicate strong PIT revenues. Much debate has occurred as to why this is the case. Since tax cuts reduce revenue, we would expect downward pressure on PIT revenues, thanks to Budget 2006 tax cuts. On the other hand, it may be that the growth of incomes among higher-income individuals — both from wages and salaries and capital gains — is pushing up PIT revenues.[11] The TD Bank even conjectures that there may be some problems with Statistics Canada's measurement of personal income growth that is contributing to this puzzle.

In light of this controversy concerning the behaviour of PIT revenues, we have elected to proceed cautiously. We anticipate PIT revenues that are stronger than was indicated in the *Economic and Fiscal Update* for 2006–07, but in coming years we follow the government's analysis of PIT revenues as presented in the *Economic and Fiscal Update*. Given the ongoing debate about the reasons behind strong preliminary estimates for PIT revenues in this fiscal year, we would find it imprudent to assume that unexpectedly high PIT revenues will continue indefinitely. The Finance Department should be in the best position to distinguish between the "noise" and the trends in PIT revenues (although the informational advantages enjoyed by the Finance Department do not necessarily always translate into more accurate forecasting because political considerations intervene). Thus our forecasted PIT revenues are the same percentage of GDP as were those in the *Economic and Fiscal Update*, although they

TABLE 2 AFB projected tax revenues

Tax revenues ($billions)	Actual 2004–05	Actual 2005–06	2006–07	2007–08	2008–09	2009–10
Personal Income Tax	98.5	103.7	111.8	116.1	122.0	127.8
Corporate Income Tax	30.0	31.7	32.8	35.0	33.9	33.7
Goods and Services Tax	29.8	33.0	30.9	30.8	32.3	33.9
Other	36.4	37.2	37.9	38.4	39.2	40.0
Employment Insurance revenues	17.3	16.5	16.2	16.1	16.7	17.1
Total budgetary revenues	**211.9**	**222.2**	**229.5**	**236.5**	**244.0**	**252.5**
Percent of GDP						
Personal Income Tax	7.6	7.6	7.8	7.8	7.8	7.8
Corporate Income Tax	2.3	2.3	2.3	2.3	2.2	2.1
Goods and Services Tax	2.3	2.4	2.2	2.1	2.1	2.1
Other	2.8	2.7	2.6	2.6	2.5	2.4
Employment Insurance revenues	1.3	1.2	1.1	1.1	1.1	1.0
Total budgetary revenues	**16.4**	**16.2**	**16.0**	**15.9**	**15.6**	**15.4**

NOTE Numbers may not add due to rounding.

are somewhat lower in dollar terms given that GDP growth estimates are revised downward. Nevertheless, a PIT/GDP ratio of 7.8% remains 0.2% higher than either 2005–06 and 2006–07 PIT/GDP ratio.

Projections concerning future corporate income tax (CIT) revenues are driven largely by expectations about corporate profitability. Unfortunately, the Finance Department does not disclose these expectations are. Private sector forecasters consulted by the CCPA in the preparation of our macroeconomic forecast generally anticipate corporate profitability to trend downward, although there is substantial variation in opinion among these forecasters. Moreover, the CIT projections are further complicated by uncertainty concerning the rate at which income trusts will convert back to a form which is taxable in the CIT system. We assume that the Finance Department's estimates of CIT revenues contained in the *Economic and Fiscal Update* are generally credible, so we adopt these for our CCPA forecast (adjusted downward somewhat to reflect deteriorating economic growth projections). Readers should note that CIT revenue projections also reflect scheduled decreases in the CIT rate in coming years.

GST revenue projections take into account the cut of one percentage point of GST that has already come into effect. Based on the information presented in the latest *Economic and Fiscal Update*, we follow the government in assuming that the further one percentage point cut in the GST will begin part way through 2009–10.

Employment insurance revenues (as well as Employment Insurance Benefits on the expenditure side) are adopted as stated in the *Economic and Fiscal Update*.

Other revenue categories have been adapted from those found in the *Economic and Fiscal Update*, but in some instances they have been adjusted to reflect new GDP growth estimates.

Total revenues are presented in Table 2. For 2006–07, the AFB revenue forecast is very like that of the *Economic and Fiscal Update.* However, by 2007–08 and 2008–09, declining growth prospects are evident in total revenues. For 2007–08, the AFB projects revenues that are $1.6 billion lower than those projected in the *Economic and Fiscal Update*. For the remainder of our forecast period, AFB revenues are lower than those in the *Economic and Fiscal Update*.

Expenditures

Overestimating expenditures is a time-honoured tactic for governments to low-ball their budget surplus projections. This form of padding is also notoriously difficult to detect by forecasters who do not have access to insider information: only the government knows the impacts of the discretion it exercises on the many expenditure categories within the federal budget.

In our assessment, the government projections of its expenditures is on the high side. Given that our projected expenditures are lower than those of the government, the fiscal room available to the government in upcoming years is increased. (Note that funds announced for the $1.5 billion Ecotrust, that will be taken from the 2006–07 budget surplus, are dealt with separately below.)

Debt service costs are a budget category in which padding is typically concealed. The government's estimates of public debt charges appear to be following in this tradition.

We assume that the government will pay down $3 billion in debt annually, as they have promised. If so, we foresee debt service charges that are considerably lower than those projected by the government. Public debt service charges were $33.8 billion in 2005–06. Unaccountably, the *Economic and Fiscal Update* depicts debt service charges as jumping by $800 million in 2006–07 — despite the fact that the government made $13.2 billion in debt repayment last year and no increase in interest rates could account for such a jump in debt service costs.

The AFB status quo budget balance

The AFB status quo budget balances are depicted in Table 3. While consulting this table, readers must be careful to distinguish between "underlying surpluses" and "planning surpluses". In the government's terminology, "underlying surpluses" are the budget surpluses *prior* to deducting expenses associated with government promises to repay debt, set aside trust funds, cut the GST or fund their planned PIT cuts to be paid for out of savings on debt service costs. "Planning surpluses" are the monies the government has at its discretion to use for spending, debt repayment or tax cuts *after* all previously made promises are paid for.

In 2006–07, we project a $9.2 billion underlying budget surplus. However, once previous promises paid for out of the underlying budget surplus are taken into account, the planning surplus drops to $4.7 billion.

In 2007–08, we foresee an underlying budget surplus that drops almost $1 billion to $8.1 billion. Once all previous promises are taken into account, the planning surplus drops to $4.2 billion. In future years, the underlying budget surplus hovers between $7.7 and $8.3 billion, but the government's outstanding promises reduce the planning surplus to between $3.7 and $4.2 billion per year.

Overall, CCPA projections indicate that there will be a somewhat higher planning surplus than was indicated in the 2006 *Economic and Fiscal Update*. This is the product of two opposing forces. On the revenue side fiscal room is squeezed, in that we expect tax revenues to be considerably less than those projected in the *Economic and Fiscal Update* because economic growth forecasts have been revised downward. On the expenditure side, fiscal room is augmented in that we believe the continued existence of padding in both program expenditures and debt service costs means that the *Economic and Fiscal Update* has "high-balled" the expenditure estimates.

Despite having between $3.7 and $4.2 billion in discretionary fiscal room in upcoming years, the government will have difficulty funding the

TABLE 3 CCPA status quo projections for federal government

($Billions)	Actual	CCPA Projections			
Summary Statement of Transactions	**2005–06**	**2006–07**	**2007–08**	**2008–09**	**2009–10**
Budgetary revenues	222.2	229.5	236.5	244.0	252.5
Program expenses	175.2	186.7	195.1	203.4	211.7
Public debt charges	33.8	33.5	33.2	32.9	32.6
Underlying surplus	13.2	9.2	8.1	7.7	8.3
Debt reduction	13.2	3.0	3.0	3.0	3.0
Eco-Trust Fund		1.5			
Interest savings dedicated to PIT reductions			0.9	1.0	1.2
Planning surplus	0	4.7	4.2	3.7	4.1
Federal debt	481.5	478.5	475.5	472.5	469.5
Percent of GDP					
Budgetary revenues	16.2	16.0	15.9	15.6	15.4
Program expenses	12.8	13.0	13.1	13.0	12.9
Public debt charges	2.5	2.3	2.2	2.1	2.0
Accumulated deficit	35.1	33.3	31.9	30.2	28.7
Nominal GDP ($billions, calendar year)	**1,371**	**1,437**	**1,490**	**1,563**	**1,636**

NOTE Numbers may not add due to rounding.

promises it has not yet costed. The TD Bank guestimates that its list of the government's outstanding promises (concerning fiscal imbalance, capital gain tax changes, a working income tax benefit and further environmental measures) would cost between $4.1 and $5 billion per year when fully phased in.

Risks to these projections

These projections are produced using fairly optimistic assumptions. If any of these assumptions prove overly optimistic, the budget surplus will be affected accordingly.

These projections assume a relatively short-lived reduction in real and nominal GDP growth rates in the near term. A more serious downturn in the U.S., or any number of other adverse shocks, could create both a more pronounced decrease in GDP growth rates in 2007 and 2008, or could prolong this drag on economic performance farther into the future.

Creating the fiscal room for the AFB: Adjustments to the base case

Despite the existence of surplus projections that are higher than those indicated in the *Economic and Fiscal Update*, there is still not sufficient fiscal room within upcoming budget surpluses to accommodate all of the measures proposed in the AFB. Thus, the AFB must enact measures to create the fiscal capacity to pay for the AFB's slate of program.

To this end, we make the following adjustments to the status quo budget surplus projections depicted in Table 4:

1. No further debt repayment

The AFB will not engage in the $3 billion in annual debt repayment, and we will not implement

TABLE 4 **AFB fiscal room after adjustments**

Levels ($billions)	CCPA Projections 2007–08	2008–09	2009–10
Budgetary revenues	236.5	244.0	252.5
Program expenses	195.1	203.4	211.7
Public debt charges (assumes no debt paydown)	33.2	33.1	32.9
CIRA interest expense	0.1	0.2	0.4
AFB underlying surplus	8.0	7.3	7.5
Adjustments to underlying surplus			
AFB Expenditure Review and Reallocation	7.3	9.3	10.5
Revenue from environmental measures	3.0	3.0	3.0
Increase CIT	0.6	0.7	0.8
AFB total revised fiscal room	19.0	20.0	21.4
AFB new spending measures	18.8	20.0	21.6
Remaining surplus	0.2	0.0	0.0
Federal debt	475.5	475.5	475.5
New CIRA debt*	4.0	4.0	5.0

* Includes purchase of ice breakers (see Defence and Development chapter) **NOTE** Numbers may not add due to rounding

any PIT cuts that the government has linked to interest savings produced via debt repayment. This implies that the AFB base case has slightly higher projected debt service costs than does the CCPA status quo projections for federal government. Interest expenses associated with the Canadian Infrastructure Renewal Agency (CIRA) are depicted separately and reflect the purchase of ice breakers (*see Defence and Development chapter*).

2. Increase CIT rate
(See Industrial Restructuring, Sectoral Development chapter)

The AFB will increase the CIT rate by 0.5 percentage points (the manufacturing sector will be exempted from this increase). This will generate slightly more than $600 million in the first year in revenue that will be used to fund sectoral development as part of our industrial restructuring plans.

3. AFB Expenditures and Reallocation *(See Expenditure Review and Reallocation chapter)*

In recent years, several tax and spending measures have been announced that the AFB will reverse. The savings generated by these reallocations will be available to fund measures proposed in the AFB.

The AFB expenditure review and reallocation process targets the following areas:

- the reversal of several tax cuts announced in the 2006 federal Budget;
- limiting federal government contracting-out;
- abolishing the cash payment started under the Universal Child Care Program and directing these funds towards the Child Tax Benefit;

- reversing the preferential oil and gas treatment in the corporate income tax system; and
- reversing and reallocating certain defence expenditures.

The AFB estimates that this process will generate new fiscal room in the order of $7.3 billion in 2007–08, $9.3 billion in 2008–09 and $10.5 billion in 2009–10.

4. Environmental measures

The AFB is implementing a number of environmental measures which will raise revenue by taxing environmentally damaging activity. Based on our adherence to the principles of ecological fiscal reform, new revenues garnered by taxing environmentally damaging activity will be used to fund environmentally beneficial initiatives only. These environmental measures are incorporated in Table 4 in the interests of transparency.

Table 4 illustrates the impact of adjustments to the status quo base case presented in Table 3.

The AFB has a tax fairness package, which is described in full in the Tax Fairness chapter. This tax package contains a number of changes to the taxation system in order to promote greater equity among Canadians. The intent of the tax fairness package is to channel funds from the affluent and corporations towards the neediest Canadians. Overall, this tax fairness package is revenue neutral, so we do not incorporate it into Table 4 above. (*See the Tax Fairness chapter for details.*)

The AFB: Funding the future we want

Through a combination of using the forthcoming budget surpluses, expenditure review and reallocation, new environmental measures and refraining from debt paydown, the AFB is able to generate sufficient fiscal room to pay for a variety of spending measures (*see Table 4*).

This marks a departure from previous AFBs, in which the forthcoming budget surpluses were able to fund the vast majority of any measures proposed in the AFB. A new era is beginning in federal fiscal politics, since dwindling budget surpluses will preclude making substantial re-investments in Canada's social and physical infrastructure out of discretionary fiscal room alone. The more the government enacts tax cuts, the less fiscal room remains.

The dwindling budget surpluses force the question: how will we pay for the Canada we want? Every tax cut that further erodes fiscal capacity makes this question more pressing. If, as expected, the federal government enacts more tax cuts in the upcoming 2007 federal Budget, in all likelihood the days of sizeable federal budget surpluses will be over. And, as this juncture approaches, it signals the need to have a serious debate about how we will make the choices that are necessary to pay for the future we want.

TABLE 5 **AFB spending measures** (Increases from current proposed spending)

($ Millions) **Aboriginal peoples**	**2007–08**	**2008–09**	**2009–10**	**Total**
Kelowna				
Health	125	200	285	610
Housing	420	230	245	895
Education	200	360	410	970
Economic opportunities	38	40	42	120
Beyond Kelowna				
Child welfare	125	129	134	388
Fiscal sustainability	801	28	29	858
Environmental stewardship**	110	114	118	342
Land claims	500			500
Urban Aboriginal social infrastructure				
Total measures	30	40.7	50.9	122
Agriculture				
Input production coops	50	50	50	150
Organic, sustainable agriculture initiatives	200	200	200	600
Canada US Relations	0	0	0	0
Child care				
National child care program	1750	2750	3750	8,250
Cities				
Reach 5 cents gas tax transfer immediately	800	1,000		1,800
Green Public Transit Supplement**	400	400	400	1,200
CIRA amortization	75	175	300	550
Culture and the arts				
Increase to the budget of the Canada Council for the Arts	0	50	50	100
New Canadian museums policy	75	75	75	225
CBC regional Programming	42	52	52	146
Canadian television Fund	50	75	100	225
Reverse cuts made via expenditure reallocation	12.3	12.3	12.3	37
Defence and development				
Ice breakers (amortized cost)	24	24	24	72
GNI goal for international developmnet	460	802	1218	2,480
Environment* **				
Renewable energy production incentives	312.5	312.5	312.5	938
Transfers to provinces, municipalities and First Nations (for housing, transit etc.)	462.5	462.5	462.5	1,388
Energy efficient buildings and lighting programs	165	165	165	495
Mackenzie Valley, NWT	5	5	5	15

* See Tax chapter ** See Environment chapter *** Does not include environmental measures discussed in other chapters
NOTE Numbers may not add due to rounding

TABLE 5 *CONTINUED* **AFB spending measures** (Increases from current proposed spending)

($ Millions) **Environment***** *Continued*	**2007–08**	**2008–09**	**2009–10**	**Total**
Species at Risk Act	55	55	55	165
AFB Environment Fund	290	286	132	708
Green energy tax refund	1000	1000	1000	3,000
Equality for women				
Reverse Status of Women's cuts	89.2	89.2	89.2	268
Operational budget Status of Women Canada	5	5	5	15
Fiscal imbalance				
Proposals mentioned are in other chapters				
Health care				
NIHB	405	463	527	1,395
Pharmacare	2500	2750	3000	8,250
Skills upgrade for health care workers	200	200	200	600
Tuition relief	200	200	200	600
Housing				
Homelessness Partnering Initiative			150	150
Residential Rehabilitation Assistance Program**			150	150
Reverse cuts to CMHC programs budget	45	45	45	135
Affordable housing initiative	1300	1300	1300	3,900
Energy efficiency for low income households**	100	100	100	300
Industrial restructuring				
Canadian Literacy Initiative	10	10	10	30
Workplace skills strategy	41	42	42	125
Training and Education Centre Infrastructure Fund	8	8	9	25
Labour market participation agreements	700	700	700	2,100
Investment tax credit	500	500	500	1,500
Sectoral development councils	50	50	50	150
Sector specific investment supports	600	600	600	1,800
Just Transition Fund**	100	100	100	300
Post-Secondary education				
Increase PSE transfer 3.9 over 3 years	1000	1300	1600	3,900
Poverty/inequality				
Redirect "Universal Child Care" payments to CCTB*	2,355	2,426	2,498	7,279
Retirement				
See Tax chapter				
Total expenditures	**18,785**	**19,981**	**21,553**	**60,319**

***** See Tax chapter ****** See Environment chapter ******* Does not include environmental measures discussed in other chapters
NOTE Numbers may not add due to rounding

Expenditure Review and Democratic Accountability

Part of the prudent management of federal finances includes a continuous review of government expenditures to ensure that policy priorities are being pursued in the most cost-effective way. Money freed up by eliminating inefficient or low-priority expenditures can be reallocated to finance higher priority expenditures.

Unfortunately, Ottawa's expenditure review and reallocation process has become highly politicized. And given the present government's challenges concerning fiscal room (*see Fiscal Framework chapter*), the expenditure review process may become even more controversial.

Unlike the open debates about expenditures and taxation that take place in the House of Commons, the expenditure review process happens with very little public debate. This might not be so troublesome if expenditure review was only routine fine-tuning. But the expenditure review process raises issues of democratic accountability when it is used to shield the government from political debate about large or politically controversial cuts to popular government programs.

For example, last October the Conservative government released a long list of budget cuts to important programs such as funding for women's groups, arts groups, literacy groups, and others as a *fait accompli*. We do not know what ranking system determined that these programs were of lesser importance than any number of other programs funded by the federal government. It appears that the government chose this approach to spending cuts specifically because it avoided the public scrutiny that would have accompanied such proposals had they been made in a formal budget document.

The federal government will be hard pressed to find enough money to pay for the promises it has already made, much less any further promises coming forward in what is likely to be an election year (*see Fiscal Framework chapter*). It is in the government's political interest to keep the focus on its budgetary promises rather than on the program cuts that will be required to pay for them. Given this government's desire to avoid public debate about the character of these cuts, the AFB expects it to take the politically expedient approach of relying heavily on the expenditure review process to make cuts that might be too unpopular to withstand full public scrutiny.

The AFB contends that expenditure review is about choices — just as budgets as a whole are about choices. Politicians must be accountable to the public for how they tax and spend, and this includes the decisions made as to how expenditures are "reallocated". It is not acceptable to create a two-track process: budget reallocations that are deemed to be politically saleable are debated in Parliament, while reallocations that are politically controversial are decided upon in the murky mechanisms of "expenditure review" and are simply announced as they are being implemented.

AFB Expenditure Review and Reallocation Process: A spending and taxation review

The AFB takes a new and transparent approach to expenditure review and reallocation. Unlike the government's current practice of announcing an amount that it plans to "reallocate" but providing no detail as to where the money will come from, the AFB expenditure review and reallocation states up front our priority areas for expenditure reallocation.

The AFB will undertake two types of expenditure review. The first considers direct expenditures on government programs. (This is likely what the public thinks of when the phrase "government spending" is used.) The second type of expenditure review considers expenditures made through the tax system. These tax expenditures are also a form of spending (instead of spending money directly through programs, the federal government may provide money to Canadians via the tax system.)

This second type of expenditure review — the scrutiny of tax expenditures — is currently neglected. The previous government at least reported annually on tax expenditures, although it never took the next step of subjecting these expenditures to any routine formal review. Even this level of accountability appears to be slipping: no tax expenditure report was issued in 2006, and as of the time the AFB went to press this report has not yet been issued.

Both spending and taxation must be constantly reviewed to ensure that they are congruent with the democratically determined priorities of the government. While spending is subjected to an expenditure review process as well as oversight by the Auditor-General, by Parliamentary Committees, and by ongoing departmental evaluations, tax expenditures are not subjected to anything like this level of scrutiny.

This neglect of tax expenditure review compromises democratic accountability. It is illogical to require that spending programs be effective in furthering public policy priorities, while allowing tax measures to remain in force years after priorities have changed or research has demonstrated that a tax measure does not achieve its stated goals. Tax cuts, in particular, should be constantly re-evaluated to determine if they are worth the drain they impose on the Treasury.

Tax expenditures should be considered on the same footing as direct program spending. They should be subjected to review before the fact in the departmental expenditure estimates process; and reviewed by the Auditor-General after the fact.

Priority areas for Expenditure Review and Reallocation

The following list states our priority areas for review and reallocation.

Program expenditures:

1. reversing certain future defence expenditure;

2. limiting federal government contracting-out; and

3. redirecting the cash payments started under Harper's "Universal Child Care Program".

Tax expenditures:

4. reversing preferential oil and gas treatment in the corporate income tax system; and

5. reversing Conservative government tax expenditures.

Spending Reallocation

1. Defence expenditures:
savings of $6.4 billion over three years.
The defence policies of the AFB include a reorganization of the Canadian military to move away from combat roles to focus exclusively on peacekeeping, disaster relief, and associated functions. Combat is expensive, and we expect major financial savings to be realized as a result of the reorganization of the military.

Given the limited financial disclosure of the federal government, it is hard to estimate what savings will be realized as the Canadian Forces are reoriented to non-combat activities. Some military spending will continue to be necessary to support our ability to deliver humanitarian relief and engage in peacekeeping, but much of the run-up in defence expenditures currently being implemented by the government is focused on combat, and thus would not be required.

The AFB proposes the creation of an expert panel to review defence expenditures with a view to discontinuing expenditures that are oriented primarily towards combat. We are particularly interested in stopping all expenditures associated with increasing the interoperability of Canadian and U.S. forces.

The review and reallocation of military spending will be instructed to generate savings in a manner that is not detrimental to salaries of military personnel, and to ensure that expenditures which protect the health and safety of military personnel are not cut.

The AFB Expenditure Review and Reallocation will immediately suspend announced expenditures on strategic airlift and medium-to-heavy-lift helicopters. We will also scale back our expenditures on medium-sized trucks and support ships where these items have exclusively combat applications. In addition, we will review increases in troop levels. We expect that current additional recruitment targets can be revised downward, given that our combat role in Afghanistan will be discontinued.

We anticipate that a review of defence expenditures will hold the growth of the military budget to 5% per annum — still an amount far in excess of the rate of inflation. This will produce savings of close to $6.4 billion over three years, since a substantial portion of the new expenditures announced in both the 2005 and 2006 federal budgets would no longer be necessary.

Savings produced by the review of defence expenditures will be applied towards the AFB's international development proposals and other priority spending areas.

2. Limiting contracting-out:
savings of $1.7 billion over three years.
Over recent years, the federal government has expanded its reliance on contracted services purchased from the private sector. As part of our comprehensive AFB expenditure review, we will undertake a transparent and comprehensive review of all contracting-out practices and costs. Initially, we will freeze contracting-out at its current level and begin to reduce the government's reliance on for-profit service delivery.

In some cases, we expect that these contracted-out services will be found to be unnecessary (for example, advertising government programs are often a thinly-veiled attempt to woo voters on the public's tab). In other cases, we will realize savings by not having to cover the overhead and profit expectations of private contractors.

We intend to examine several categories of expenditure pertaining to contracting-out that totalled about $9.5 billion in 2006–07. We expect that about one-third of these contracts can either be discontinued or delivered by the federal public service, with comparable or better quality and at less cost. We assume that Ottawa will ultimately realize a savings of 30% from this review of contracting-out. Thus, when one-third of currently contracted-*out* services are contracted-*in*, Ottawa will save $946 million per year.

However, the AFB assumes that these saving will be realized gradually, given that not all contracting-in could be achieved instantly. We expect that a 5% saving will be realized in the first year, and this saving will increase by five percentage points per year until the 30% savings are realized by 2009–10.

3. Reallocate the Universal Child Care Allowance: savings of $7.3 billion over three years.

The last federal budget introduced a taxable allowance of $1,200 per year, per child under six years of age. This taxable allowance has no necessary connection to child care: it is actually an income support program by a different name.

As an income support program, however, it is highly inefficient. A mechanism already exists to deliver income support to parents: the Canada Child Tax Benefit. The CCTB is efficiently administered through the tax system — unlike the Universal Child Care Allowance (UCC), which has required the creation of a new bureaucratic structure. An enhanced CCTB can be delivered with no additional costs, while the UCC is delivered in the form of separate monthly cheques which must be processed and mailed each month.

Moreover, the CCTB is better targeted than the UCC to benefits to families in the most need, and it provides benefits to families with children up to 18 years of age. The UCC is paid to all families with children under six years of age. However, because the UCC is both taxable and possibly counted as income for other program purposes, varying proportions of the benefit are recovered from almost all recipients. Virtually no one actually receives the $1,200 per year per child that the Conservatives initially promised with such fanfare.

The AFB expenditure review and reallocation will cancel the UCC program and re-invest these funds in an enhanced CCTB.

Tax expenditures

1) Eliminate tax and other subsidies for the oil and gas sector: savings of $4.2 billion over three years.

A number of subsidies are delivered to the oil and gas sector via the tax system. For example, the oil and gas sector benefits from capital cost allowance provisions that are much more generous than those provided to other industries. This is a violation of the principles of ecological reform which indicate that we should be taxing heavily polluting activities rather than subsidizing them through preferential tax treatment.

The Pembina Institute has estimated that these subsidies total in the order of $1.4 billion per year. Based on this estimate, the AFB expects its review of the various forms of preferential tax treatment provided to the oil and gas sector to generate annual savings of $1.4 billion.

These savings will be reinvested in the AFB's "green economy" measures (*see Environment chapter*).

Tax Cuts Review and Reallocation: savings of $7.5 billion over three years.

In general, the AFB is committed to the ongoing review and possible reallocation of tax expenditures. Since this has not been the practice of the federal government, a large number of tax expenditures are candidates for review. We undertake this process incrementally. In this AFB, we re-examine a number of the tax expenditures introduced in the 2006 federal Budget

The 2006 federal Budget introduced a number of "designer" tax cuts: piecemeal tax breaks motivated more by electoral expediency than by

TABLE 6 Tax reallocation: Reversing selected Budget 2006 tax cuts

($ Millions)

PIT measures	2007–08	2008–09	2009–10	Total
Removal of excise tax on jewellery	35	36	36	**107**
Capital gains of fishers	60	61	62	**184**
Textbook tax credit	125	128	130	**383**
Scholarship and bursary income	45	46	47	**138**
Children's fitness tax credit	160	163	166	**490**
Pension income credit	405	413	421	**1,239**
Large corporation dividends	310	316	323	**949**
Pension income splitting	675	710	745	**2,130**
Business income tax measures				
Small business limit and tax rate	80	82	83	**245**
Federal capital tax	225	230	234	**689**
Minimum tax on financial institutions	30	31	31	**92**
Apprenticeship job creation tax credit	200	204	208	**612**
Capital cost allowance for tools	65	66	68	**199**
Total revenue from tax cut reversals	**2,415**	**2,485**	**2,555**	**7,455**

some consistent public policy purpose. These designer tax breaks needlessly complicate the tax system, and introduce new sources of horizontal inequity (the different tax treatment of similar taxpayers based on arbitrary characteristics). To make matters worse, these designer tax cuts are expensive. Although they deliver only small amounts of money per qualified taxpayer, in aggregate they constitute a large drain on the Treasury.

Table 6 presents the tax cuts which the AFB will reverse.

While these tax cuts sound like they are pursuing some laudable public purpose—with names chosen for maximum political effect—they are in reality a costly and poorly designed way to achieve their apparent goals.

For example, some of these tax breaks are presented as helping retirees. It is evident that only a small group of relatively privileged seniors will benefit from these measures. To benefit from an enhanced pension income credit, for example, one must have pension income, which is not the case for the poorest seniors. Pension income-splitting is only advantageous to seniors who are in relationships in which one partner has a high income and the other a low income. Single seniors — who make up the vast majority of poor seniors — and senior couples with relatively equal incomes do not benefit from these measures. We will eliminate the tax expenditures that favour upper-income seniors and divert the money saved into increased program support for the neediest seniors (*see Retirement chapter*).

Not only are many of these tax cuts poorly targeted, they are also needlessly complicated. Budget 2006 introduced two new tax cuts aimed at post-secondary students: the textbook tax credit, and the tax credit for bursary and scholarship income. These measures join a patchwork of previous programs (registered education savings plans, the Canada Education Savings Grant, Learning Bonds, the Millennium Scholarship, and so on). Each of these programs has its own

TABLE 7 **AFB Expenditure Review and Reallocation**

Levels ($millions)			
Spending Review	**2007–08**	**2008–09**	**2009–10**
Defence	973	2330	3108
Reduce Contracting Out	158	630	946
Reallocate UCC	2355	2426	2498
Taxation Review			
Reverse preferential Taxation of Oil and Gas Sector	1400	1400	1400
Reverse Budget 2006 Tax cuts	2415	2485	2555
AFB Expenditure Review and Reallocation total	**7301**	**9271**	**10507**

idiosyncrasies, but taken together, they are expensive, poorly targeted, and bewildering for students and families.

Similar issues arise for the other tax cuts set out in Table 6. The fitness tax credit is a classic example of the gratuitous and politically motivated complication of the tax system and serves no coherent public policy purpose. Several other tax cuts favourably treat some type of industry or individual over other comparable industries or individuals. We see no justification for such favouritism unless it is explicitly part of a larger government policy (such as an industrial policy). Absent this sort of rationale, the tax system becomes a vehicle for handing out political goodies for no purpose other than buying votes with other taxpayers' money.

Table 7 presents the total fiscal room generated by the expenditure review and reallocation.

Tax Fairness: The Tax System Under Strain

A well-designed tax system accomplishes many important public policy goals. It generates the fiscal capacity required to pay for the many public services which benefit all Canadians. It also helps to create a more fair and equitable society. The AFB believes the tax system should be designed to be progressive, meaning that affluent Canadians should pay somewhat higher taxes per dollar of income than lower-income Canadians. Additional revenue generated through the progressivity of the tax system can be used to fund programs that reduce inequality by providing support to the neediest Canadians.

Canada's tax system is becoming increasingly frayed as the cumulative impact of tax cuts enacted since 2000 takes its toll. For example, the barrage of tax cuts (about $11 billion in 2007–08 alone) contained in the last federal budget was vastly expensive. In addition, many of these tax cuts undermine the fairness of the tax system.

The 2006 federal Budget also established a new high-water mark in the partisan politicization of the tax system. "Designer" tax cuts, based more on political calculus than on economic rationale, were introduced to impress various sub-groups of voters, regardless of their expense, their arbitrary unfairness, and the needless complexity that they create within the tax system.

The AFB is concerned that tax measures may be included in the upcoming 2007 federal Budget that will further undermine the coherence, fairness, and revenue-generating capacity of the tax system. For example, extending income-splitting to all couples would create a new source of unfairness in the personal income tax system. Income-splitting allows couples to reduce their taxes by dividing their combined income between both partners. The catch is that it only creates tax savings when the couple consists of a high-income partner and a low-income partner. Income-splitting is both enormously costly and unfair in that it provides benefits only to relatively affluent couples where there is a substantial income differential between partners. Non-couple households, low-and-moderate-income couples, and couples whose incomes are similar get little or no benefit from income-splitting for tax purposes.

Canada's system of taxation is on the front line in the battle to revamp the role of government in Canadian society. Years of tax cuts are undermining the ability of the tax system both to generate fiscal capacity and to promote equality. As a result, the government's ability to pursue equity-enhancing programs and to provide public services and infrastructure is compromised. Indeed, as fiscal capacity shrinks, there is every indication that even more spending cuts are coming (*see Fiscal Framework chapter*).

The AFB's Expenditure Review and Reallocation chapter addresses the erosion of fiscal capacity by reversing a number of inefficient tax cuts which are draining government revenues and contributing to the pressure to cut public spending. This tax expenditure review and reallocation is only a beginning, in that it addresses only the most recently implemented tax cuts. A strong case can be made that all of the tax cuts made since 2000 should be subjected to review.

This chapter considers another dimension of the tax debate: tax fairness.

Tax fairness

To enhance tax fairness, the AFB will make changes to the tax system in order to generate more revenue from the affluent and corporations, and use these funds to support low-income Canadians. By targeting revenue-raising measures to those who have the ability to pay more — affluent individuals and profitable corporations — we are able to generate sufficient fiscal capacity to finance measures that would improve the living standards of low- and moderate-income Canadians. Taken together, these measures will also serve to offset the growing inequality of market incomes in Canada. We generate revenue in our tax fairness package from a combination of higher tax rates on high-income individuals and closing loopholes that primarily benefit high-income individuals or profitable corporations.

In effect, the AFB tax fairness package takes a little more from those who have received the lion's share of the benefit from many years of relatively good economic times, and gives to those who were passed by during these good times.

Estimates of the impacts of proposed changes are displayed in Table 8.[12]

Measures to increase revenue

Introduce a new tax rate on incomes above $250,000.

Income inequality has increased significantly in Canada over the past decade. The CCPA's recent report concerning the immense gap between the compensation of CEOs and ordinary workers illustrates the explosion of incomes at the very top of the pay scale. Meanwhile, a variety of tax cuts have meant that the highest income earners are taxed more lightly (at the same time as they are benefiting from exiting loopholes which enable them to avoid even this lighter taxation).

The AFB will increase the federal income tax rate from the current rate of 29% to 31.5% on income in excess of $250,000. This applies to a very small segment of the highest income Canadians (only about one in every 200 taxpayers earns $250,000 or more) and would apply only to that portion of their income that exceeds $250,000.[13] However, this would generate an additional $1 billion in revenue. In subsequent years, we will increase the current rate on top income earners to 32.5% in 2008 and to 33.5% in 2009.

This measure will make a modest contribution towards reducing income inequality, and will ensure that those who benefit most from economic prosperity make a greater contribution to programs that support the least privileged Canadians.

Reduce the maximum RRSP and RRP contribution level.

Tax expenditures supporting the tax deductibility of RRSPs and RPPs are among the largest in the personal income tax system. They are also very regressive. While the cost of this program is borne by all Canadians, those with high incomes derive the most benefit from these tax-sheltered savings plans. Contribution ceilings are geared to income (up to a maximum ceiling), and higher-income individuals are eligible for more tax breaks. Low- and moderate-income Canadians simply don't have enough cash left over after meeting their living expenses to maximize their contributions.

The AFB will reduce the maximum contribution amount by $4,000, thus producing tax expenditure savings of approximately $600 million in 2007–08, $750 million in 2008–09, and $900 million in 2009–10.

Increase the inclusion rate for capital gains income (corporate and personal).

Income from sources other than wages and salaries ("unearned income") should not receive preferential tax treatment relative to income earned from wages and salaries. In particular, the AFB opposes any attempts to tax capital gains income (i.e., selling assets at a profit) more lightly than income received from employment.

In the last years of its mandate, the Liberal government cut taxes on capital gains to the point that they are taxed at half the rate of earned income. Because most capital gains income is received by high-income Canadians, it is largely the affluent that benefit from this tax expenditure. Indeed, the reduction in the capital gains inclusion rate in the early 2000s was the single most regressive change in the personal income tax system in 30 years.

The AFB is greatly concerned that this inequitable treatment for capital gains may be made worse in the upcoming 2007 federal Budget. The Conservatives' campaign promise was to "eliminate the capital gains tax for individuals on the sale of assets when the proceeds are re-invested within six months". This change in the treatment of capital gains is a campaign promise that faces considerable practical obstacles, as the TD Bank has confirmed.[14] As the measure is described in the Conservative platform, it is very likely that this measure will result in the de facto elimination of taxation on capital gains. The Conservative government's requirement that capital gains be re-invested within six months to avoid taxation would be so easily evaded that only the least sophisticated of taxpayers would still pay tax on capital gains.[15]

The Conservative platform valued its capital gains tax promise at $900 million over five years — but, by neglecting to inform us when and how it would be implemented, the Conservatives made it impossible to project a true yearly cost for this promise. The government's estimate is undoubtedly low. In the words of the TD Bank's Don Drummond: "It seems to us that the costs of the proposal to defer capital gains taxation on investment rollovers has been grossly understated".[16]

The AFB will restore the inclusion rate for capital gains income so that it will be taxed on a more equitable basis with other forms of income. It will be adjusted for inflation that has occurred since the time that the capital investment was made. This measure will increase tax revenue by more than $2.2 billion in each future fiscal year.

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. Together these deductions annually cost the federal government over $450 million in lower revenues.

Eliminate special treatment of employee stock options.

One of the most superfluous benefits for high-income executives involves the special treatment of employee stock options. Not only are employee stock options taxed at the lower rate applied to capital gains, but tax on the shares can also be deferred until they are sold. The AFB will tax the proceeds of stock options, when realized, at the same rate applicable to earnings from employment. We estimate that the elimination of this tax expenditure will save the government at least $300 million per year.

Close the income trust loophole (flow-through entities)

After one false start by the previous government (in November 2005), the Conservative government has taken action on income trusts.

We commend the Finance Minister for acting to end this gratuitous tax loophole that was making a mockery of the corporate income tax system. However, we have several criticisms of the government's handling of this file.

First, income trusts have been allowed to continue until 2011 before losing their special tax status. This in effect provides income trusts with an unwarranted four-year tax holiday. The AFB will end the preferential tax treatment of income trusts in 2007–08, thereby increasing federal revenues immediately instead of waiting until 2011 to receive the revenue impact from closing the income trust loophole.

The revenue loss attributable to the income trust loophole is subject to debate. The Finance Minister has indicated that the revenue loss due to income trusts was $500 million in 2006. Others have estimated that the revenue loss was well in excess of $1 billion. We simply adopt the government's estimate, and project that the immediate closure of the income trust loophole will produce $500 million in additional revenues.

Secondly, the Finance Minister packaged the elimination of income trusts with other tax cuts, presumably to make the income trust announcement more politically palatable. He announced an increase in the age credit, pension income-splitting, and a reduction in the corporate income tax rate in 2011 (the year in which the new rules concerning income trusts take effect).

At over $1 billion dollars per year (more when the CIT cut takes effect), this was a rather expensive dose of sugar to help the income trust medicine go down. Moreover, the timing of these measures is illogical. Income trusts can continue to enjoy special tax treatment until 2011, yet pension income-splitting and age credit increase take place immediately. Thus the particular way the Finance Minster addressed income trusts made short-term fiscal capacity worse by increasing tax expenditures immediately while allowing the hemorrhaging of tax revenues through the income trust loophole to continue for several more years.

Thirdly, the failed attempt to address income trusts in November 2005 included an enhanced tax credit for dividends from large corporations, in a bid to make the tax advantages of income trusts less compelling. This measure did not sufficiently level the playing field between income trusts and other corporations, as is evidenced by the continued conversions of businesses to income trusts that ultimately compelled the government to close the income trust loophole entirely.

Since this increase in the dividend tax credit did not serve its intended purpose, we see no rationale for continuing to spend over $300 million per year on it.

The Expenditure Review and Reallocation included the reversal of many of the tax cuts included in Budget 2006, including the enhanced dividend tax credit for large corporations and pension income-splitting that were introduced in conjunction with the government's announcements on income trusts. Since the other measures are accounted for elsewherein the AFB, Table 8 includes only the impact of the closure of the income trust loophole.

Expenditures

Increase the Canada Child Tax Benefit (CCTB) by more than $1500 by 2009–10.

The Canada Child Tax Benefit is an important tool for reducing child and family poverty. Unfortunately, benefit levels have been too low to produce a meaningful reduction in poverty lev-

TABLE 8 Summary of measures in Tax Fairness Chapter

($ Millions)

Costs	2007–08	2008–09	2009–10
Increase the Canada Child Tax Benefit (CCTB also increased by reversal of "Universal Child Care" program)	4,202	4,828	5,476
Increase the value and threshold of the GST credit by 25%	1,200	1,236	1,273
Increase GIS benefits by 8%	800	816	832
Total	**6,202**	**6,880**	**7,582**
Revenues			
New rate on taxable income of more than $250,000	1,000	1,430	1,880
Reduce maximum RSP/RPP deduction	600	750	900
Increase the inclusion rate for capital gains, personal	1,118	1,143	1,168
Increase the inclusion rate for capital gains, corporate	1,120	1,173	1,227
Meals and entertainment expense deduction	455	466	478
Employee stock options	300	309	318
Redesign of Canada Employment Tax Credit	1,110	1,110	1,110
Income trust loophole	500	500	500
Total	**6,202**	**6,880**	**7,582**
Funding of Canada Child Tax Benefit			
Monies generated in Tax Fairness Chapter	4,202	4,828	5,476
Reallocation of "Universal Child Care" Program	2,355	2,426	2,498
Total increase to Canada Child Tax Benefit	6,557	7,254	7,975

els. Over a million Canadian children still live in poverty.

The AFB would increase the maximum benefit level by increasing the money allocated to the basic level of CCTB by $6.5 billion in 2007–08. This is funded in part by tax fairness measures, and also by the reallocation of funds currently used for the Universal Child Care Program (*see Expenditure Review chapter*). Each year we would increase the allocation to the CCTB, until in 2009–10 we will increase the money flowing via CCTB by almost $8 billion. We expect that this will increase the CCTB by more than $1,500 in 2009–10.

Increase the GST credit and threshold by 25%. The GST credit is one of the most effective means in the tax system of benefiting lower-income people. However, the value of the credit was reduced by about 12% between 1992 and 1999 because it was not indexed to inflation at that time. The AFB will increase the value and the thresholds for the GST credit by 25%, both to compensate for the loss in the value of the GST credit and to increase incomes of low- and middle-income families. This measure will cost approximately $1.2 billion per year.[17]

Redesign the Canada Employment Tax Credit.
Federal Budget 2006 introduced an employment tax credit that is projected to cost $1.8 billion in 2007–08 alone, and a similar amount each year thereafter.

While we agree with the principle of providing tax reductions for low-income workers, the Canadian Employment Tax Credit as currently designed is a very costly and inefficient way to deliver this relief.

As it now stands, any qualified taxpayer will receive about $155 annually from this tax credit. However, very-low-income workers (those who earn the Basic Personal Exemption or below) do not earn enough to qualify for the Canada Employment Tax Credit. Moreover, since all taxpayers with taxable earnings qualify for this tax credit, the benefits of this tax credit will flow to many high-income taxpayers who are not in need of a further $155 tax break.

To remedy these flaws, we will redesign the Canada Employment Tax Credit to make this tax credit refundable, thus allowing very-low-income workers to benefit from it. However, we will begin to phase out the tax credit for workers earning more than $30,000, until workers who earn more than $40,000 cease to be eligible.

These changes will both reduce the cost of the tax credit and better target support to the low-income workers who are its intended beneficiaries. We estimate that these changes will reduce the cost of this program to about $750 million, saving the Federal Treasury $1.1 billion per year in forgone revenue.

Fiscal Imbalance

The issue of fiscal imbalance has emerged as one of the weakest points in the Conservative government's agenda. The promises that looked like clear political winners in the election campaign are now coming back to haunt a government that is trying to patch together a majority by building gains in Quebec on top of its 2006 election base in Ontario, Atlantic Canada, and the West. It is now obvious that there is no possible reconfiguration of the federal-provincial fiscal relationship that will make every province happy. Indeed, about the only thing that is certain about the Conservative government's approach to fiscal federalism is that it will further reduce the role of the federal government, pave the way for more cuts in programs at the provincial level, and ratchet up the competitive pressure on provinces to cut their taxes even further.

Shamefully, it also fails to address the one fiscal imbalance it does have concrete control over: eliminating the gap in government program funding between First Nations and the average Canadian citizen (*see Aboriginal chapter for more information*).

Building on the decentralist and budget-cutting pattern of Paul Martin's tenure as Finance Minister, the current federal government has tried to mix into the debate its own ideological and decentralist view: that the federal government should restrict its spending to its areas of jurisdiction and leave the provinces to raise the revenue needed to pay for programs in their areas of jurisdiction.

Conservative political pundits have weighed into the debate as well. They argue for changes in fiscal arrangements that would inevitably lead to a further shrinking of Canada's public economy. As more and more revenue-raising responsibility is shifted to provincial governments, they are not in a position to defend their tax bases from the downward pressure of interprovincial tax competition.

It's an unpleasant debate. And it is increasingly obvious that, if nothing is done to change the terms of the debate, it won't be a political winner for anyone.

Canadians understandably feel left out of this discussion. Every participant in the debate is speaking from a parochial or ideological perspective. No one seems to be speaking for Canada.

Lost in the zero-sum squabbling is any sense of commitment to the overall purpose served by federal-provincial fiscal arrangements. You would never know from the tone and content of the debate that the purpose of the equalization program is to ensure that all Canadians, wherever they live, are able to enjoy an acceptable standard of public services.

You would also never know that the fiscal weakness of local governments is both the most obvious example of fiscal imbalance in the Canadian federation and the underlying reason for Canada's infrastructure funding crisis.

The terms of the debate have to change. First, the federal government must reassert its role as a leader in establishing and promoting national standards for important public services. Regardless of constitutional jurisdiction, Canadians want their governments to work together towards the national projects that help to define this country.

Alternative Federal Budget proposals for increased federal funding in critical areas of public policy will begin again to strengthen the foundation of Canadian public policy: renewed funding for post-secondary education, a national child care plan, an expanded national Medicare system, and a resumption of federal funding for income security for working-age adults.

The AFB's approach to federal-provincial fiscal relations recognizes the need for special arrangements with Quebec that may not be open to the other provinces. We recognize that Quebec has primacy in its jurisdiction over social policy and the right to opt out of joint federal-provincial programs in this area; and, for the rest of Canada, we recognize joint federal-provincial responsibility, with a federal leadership role in funding social programs, as well as in setting and enforcing national standards.

The AFB will take the provinces up on their offer to the federal government of a direct role in Medicare through the establishment of a national drug insurance plan.

Second, the two most obvious cases of fiscal imbalance — between local governments and Aboriginal peoples and the other two orders of government in Canada — must be addressed.

The AFB will create a *real* new deal for cities and provide significant new funding for infrastructure renewal.

Through the endorsement and funding of the Kelowna Accord, we will re-start the process of addressing the fiscal needs of First Nations.

Third, it is time to refocus fiscal equalization on its original purpose: assuring access to public services of acceptable quality right across the country. That means re-defining the basis of equalization in terms of public services rather than in terms of fiscal capacity alone.

It also means putting equalization on a truly national basis, by reinstating the 10-province standard for equalization, regardless of the formula. It simply does not make sense to pretend that equalization is a national program when its calculation is not based on all provinces.

More fundamentally, we have to re-establish the fiscal equalization system on the basis of clearly defined and universally applied principles. Canadians will not and should not accept the unfair and unequal treatment that is the consequence of Paul Martin's "let's make a deal" approach to federalism.

Finally, our national government must take a leadership role in dealing with the corrosive effects on our public services of lowest-common-denominator tax competition among provincial governments. It is simply not good enough to note that competition is eroding fiscal capacity, as the March 2006 report to the Council of the Federation did, and then ignore the problem when it comes to recommendations for change. Ignoring the problem will not make it go away. Without a national response, it will simply get worse, and Canadians from coast to coast to coast will be the losers.

The *Alternative Federal Budget* takes a completely different approach to the issue of fiscal

TABLE 9 AFB fiscal balance investments

($ Millions)

Federal-Provincial-Local	2007–08	2008–09	2009–10	Total
National Pharmacare	2500	2750	3000	8250
Health Care Labour Measures	400	400	400	1200
Housing	1300	1300	1600	4200
Skills Training for Industrial Restructuring	759	760	761	2280
Green Public Transit Supplement	400	400	400	1,200
Post-Secondary Education Transfer	1000	1300	1600	3900
National child care program	1750	2750	3750	8250
Infrastructure Renewal	3000	4000	5000	12000
Gas Tax Acceleration	800	1000		1800
Urban Aboriginal Social infrastructure	30	41	51	122
Total Federal-Provincial-Local	**11939**	**14701**	**16562**	**43202**
First Nations	**2319**	**1101**	**1263**	**4683**

imbalance. We will make substantial new investments in national projects for health care, child care, post-secondary education, housing, and infrastructure renewal, all of which will involve substantial increases in federal transfer payments to provincial governments and, through provincial governments, to local governments.

These new investments are summarized in Table 9.

In total, this additional investment is larger than the total value of the current fiscal equalization program.

The AFB also highlights the fundamental issues that threaten the future of Canadian fiscal federalism: the absence of any real relationship between the design of the equalization system and its constitutional purpose of equalizing access to services; and the destructive impact on provincial fiscal capacity of interprovincial competition to reduce taxes.

Aboriginal Peoples

There are some unique challenges that arise from a history of subjugation and racism that Aboriginal peoples have endured from both government and their non-Aboriginal neighbours. This has created the need for special consideration and programs to address directly Aboriginal issues across the country. These issues include:

- health care, in particular diabetes, HIV/AIDS, SIDS, drug and alcohol programming;
- lifelong learning for Aboriginal peoples on and off-reserve, from early childhood development through to post-secondary education and skills development;
- employment creation and economic development; and
- accessible and affordable housing.

Because of the difference between those issues that can be addressed by First Nations governments and those which are constitutionally the responsibility of federal provincial or municipal non-aboriginal government, this chapter is divided into two parts addressing each set of issues in turn.

First Nations

Real and sustainable security for First Nations will require real and sustainable fiscal commitments to First Nations. The best choice Canada can make is to invest in change that will heal past injustices, eliminate First Nations poverty, and strengthen each and every First Nation and their place in Canada.

Over the past two years, First Nations across Canada have worked diligently to craft a comprehensive plan for a new agenda and a new approach. The First Nations Action Plan, agreed to as a part of the First Ministers' Meeting on Aboriginal Issues in November 2005 in Kelowna, is the first tangible outcome of this process. It sets in place a framework for progress that will enable First Nations to assume their rightful place in Canadian society and the economy. First Nations continue to see this Plan as a key instrument for improving the living conditions of First Nation citizens in Canada and look forward to working with the federal government to adequately fund its key components.

The cost of not engaging in this effort is far too great: lost economic opportunity, lost labour force potential, reduced economic health, and escalating health and social costs. The financial commitments are an integral part of this package. Without substantial and immediate investments, progress towards the targets and the ultimate objective of reducing poverty will not be achieved.

The First Nations Plan and associated requirements outlined below will have a concrete impact on First Nations throughout Canada by:

1. creating opportunities and building on our successes so that First Nations citizens contribute fully to Canada's economic prosperity;
2. achieving sustainability by ensuring that First Nations have adequate and equitable funding capacity to enable their citizens to reach their full potential; and
3. implementing structural changes that facilitate First Nations control over the content, design, delivery, and management of all our programs and services.

The Kelowna plan covers a five-year period. Since the AFB extends for three years only, we have costed these measures for the period between 2007–08 and 2009–10 only. However, in order to fully honour the Kelowna Accord, this funding must be extended a full five years.

Health

First Nations are facing an unprecedented health funding crisis that will see risks to patient safety and potentially drastic changes to service delivery. Some First Nation communities are closing health centres due to nursing shortages, and are being forced to reconsider the renewal of health transfer agreements due to a lack of price/volume increases in their budgets — fiscal pressures that could put their patients at risk. The Assembly of First Nations (AFN) has estimated an outstanding health funding shortfall of $2 billion over the next five years.[18] Funding is necessary to ease the uphill battle First Nations children, adults, and elders face in accessing basic health care needs. As a first step, the AFB would allocate the $610 million over three years to health initiatives for First Nations health care funding as per the Kelowna accord.

Education

Education at all levels is an inherent Aboriginal and treaty right that is recognized in the Canadian Constitution. The federal government has the obligation to adequately resource post-secondary education and support local jurisdiction and First Nations post-secondary education (PSE) institutions. While federal statistics consistently show an 18% gap between non-Aboriginal and First Nations PSE outcomes, Indian and Northern Affairs Canada (INAC) PSE programs have essentially remained frozen at the same level since 1996, subject to a 2% annual increase — well below cost of living increases, First Nations population increases, and the rising costs of tuition fees. To address this growing gap, the AFB will allocate $970 million over three years.

Housing

First Nations continue to project housing needs nearly double their current housing stock of 97,000 units, based on the growing population patterns of the young labour force and new family formations that include new in-community migration patterns. The AFN estimates that 44% of those 97,000 units needs repairs, while the need for new housing starts is 87,000 units nationally on-reserve.[19] As such, the AFB will deliver $895 million over three years to repair existing units, meet the shortfall and ensure the sustainability of existing and new First Nations housing stock, as well as to introduce new market based mechanisms.

Economic opportunities

The Government of Canada must commit to work with First Nations to eliminate the cycle of dependency and reform the welfare system so that First Nations have increased access to training, skills development, and economic development. New resources are required, along with mechanisms to ensure success. Important links between social assistance, employment and training, and labor market initiatives must be promoted and maintained. There also needs to be a stronger link between INAC's Income Security program and the HRSDC's Aboriginal Human Resources Development Agreement (AHRDA) program.

Income security reform could provide an important link between social assistance, employment and training, and other labor market promotion initiatives, providing for both personal and community development, especially in the area of literacy (basic, technology and communications) and cultural supports. The AFB is calling for an initial investment of $120 million over three years to begin work on these key issues.

Additional requirements

The measures negotiated in the Kelowna are key to improving the living conditions of First Nation citizens in Canada. But it is only a first step. The AFB believes more needs to be done in this budget.

Child welfare

On a per capita basis, First Nations children are over-represented within the child welfare system, roughly 15 times more than non-Aboriginal children.[20] Currently, 27,000 First Nations children are in the care of child welfare agencies across Canada. The main reason for taking children into care is physical neglect due to poverty. About 38% of such children have been exposed to family violence as the substantiated form of maltreatment leading to placement.

There is a recognized continuum between the child welfare system and the youth correctional system, as 40% of First Nations youth are either wards of the state at the time of conviction or have active files with a child welfare agency. The opportunity for rehabilitation and successful re-integration is limited. Justice Canada's *One-Day Snapshot of Aboriginal Youth in Custody Across Canada* reported that the over-representation of Aboriginal youth in the corrections system was "likely due to high rates of poverty, substance abuse and victimization in many Aboriginal communities, leading to family breakdown and serious criminal behaviour at a young age".[21]

The current formula drastically underfunds services that support families and allow them to safely care for their children in their homes and communities, meaning that for First Nations children removal is often the only option considered, not the last option. As such, the AFB will allocate $388 million over three years to support First Nations families and allow them to safely care for their children in their homes and communities.

Fiscal sustainability

First Nations governments are forced to get by on significantly less than provinces and territories. Government figures confirm that First Nations receive approximately $5.4 billion from the federal government in 2005–06. While this may sound like a significant amount, it is important to realize that this funding is for *all* services, including services that other Canadians receive from other levels of government, such as primary and secondary education (provided by provincial governments) and roads and infrastructure (provided mainly by municipal governments).

In fact, when compared to what the average Canadian citizen receives in programs and funding, First Nations government funding lags

TABLE 10 **The First Nations Plan**[26]

($ Millions)				
Kelowna*	**2007–08**	**2008–09**	**2009–10**	**Total**
Health	125	200	285	610
Housing	420	230	245	895
Education	200	360	410	970
Economic Opportunities	38	40	42	120
Beyond Kelowna				
Child Welfare	125	129	134	388
Fiscal Sustainability	801	28	29	858
Environmental stewardship	110	114	118	342
Land Claims	500			500
Total	**2319**	**1101**	**1263**	**4683**

* From the Agreement announced at the November 2005 First Ministers Meeting

significantly behind. Since 1996, the federal government has maintained an arbitrary 2% cap on spending increases for core services.[22] This is less than one-third of the average 6.6% increase that most Canadians will enjoy through the Canada Health and Social Transfers in each of the next five years. This 2% cap is almost equal to the average rate of inflation, but First Nations have the fastest growing population in Canada, with INAC reporting a population increase of over 21% since 1996.[23]

In fact, when adjusted for inflation and population growth, the total budget for INAC has *decreased* by 3.5% since 1999, and funding for core services such as education, economic and social development, capital facilities and maintenance has decreased by almost 13% since 1999.[24] The sustainability and equitability of funding levels has a significant impact on the ability of First Nations governments to provide adequate services to their citizens. It is also at the very heart of the gap in quality of life between First Nations and non-First Nations.

As a result of the 2% cap, it is estimated that the accumulated shortfall[25] through this fiscal year is $774 million. If nothing is done, the shortfall will continue growing every year. The AFB will therefore invest $801 million in the 2007–08 fiscal year to eliminate the shortfall created by the 2% cap over 10 years. The application and phase-in of this funding would be subject to negotiation between Ottawa and First Nations, and would be used to consequence of the cap such as infrastructure deficits in water treatment, road and other capital infrastructure in First Nations. The AFB would develop an appropriate escalator clause to ensure that future investments keep up with the rate of inflation and First Nations population growth.

Environmental stewardship

First Nations communities continue to struggle due to a lack of core capacity, informative research, adequate infrastructure, and effective participation in decision-making processes concerning the environmental stewardship of their lands and resources. Moreover, many First Nations communities face challenges that include poor-quality drinking water, water source degradation, chemical and biological contamination, disease and decline in traditional food sources, and inadequate waste management.

While First Nations are struggling with the daily challenges of environmental sustainability, new problems such as the impacts from climate change threaten their livelihoods and well-being. Furthermore, few have the capacity to raise funds to address these matters as they do not have access to — nor do they benefit from — natural resource development.

Enhancing First Nations capacity for environmental stewardship and improving access to natural resources would have key benefits: better environmental standards and enforcement and new sustainable development revenue sources to help re-emerging self-governing nations. These innovations would, in turn, support a cleaner environment, better health, and increased productivity over the long term.

In order for First Nations to participate effectively in environmental decision-making, and address and adapt to climate change issues, First Nations require an investment of $342 million over the next three years.

This plan represents only the first step in closing the gap. Next steps on a new agenda for progress and prosperity for all Canadians include:

1. ensuring that First Nations have adequate and sustainable capacity to enable them to reach their full potential;
2. ensuring that First Nations have control over the content, design, delivery, and management of programs and services; and
3. ensuring that First Nations citizens play an integral role in contributing to Canada's economic competitiveness.

Land claims

Canada has an estimated contingent liability of $15 billion or more to resolve comprehensive and specific claims regarding both lands and infringements in treaties with First Nations.[27] While the Government of Canada is vociferous in its insistence on paying down public debt, it continues to avoid resolving this debt owed to First Nations people.

It its first year the AFB will set aside $500 million toward the resolution of these claims. This represents only a "down-payment" towards the payment of this debt to First Nations. As the resolution process proceeds, the AFB commits to generating fiscal capacity to settle these outstanding claims or to resolving them by other means.

Aboriginals living in urban centres

Canada's off-reserve Aboriginal population experiences socio-economic conditions that fall well below the overall population average in key areas including education, employment, income and health status. Most urban Aboriginal children live in one-parent families, and the median age of the Aboriginal population is significantly younger than the median age of the non-Aboriginal population.

Off-reserve Aboriginals, especially in large urban centres, face a number of specific concerns including:

- the need for better educational opportunities from pre-school to post-secondary education;
- skills development;
- better access to health services;
- safe, affordable housing; and
- career opportunities, from entry level to managerial positions, and in the professions.

The AFB recognizes the unique challenges facing Aboriginal people, in particular those living off reserve in large cities. A key measure that begins to address Aboriginal challenges is fully honouring the agreement signed at the First Ministers' Meeting on Aboriginal Issues in November 2005 in Kelowna.

In addition, many chapters in this document (*Child Care and Early Learning, Housing and Neighbourhoods, Health Care, Industrial Restructuring and Sectoral Development and others*) include measures that deal with the issues mentioned above.

However, the AFB recognizes that this is still insufficient. Off-reserve Aboriginal peoples require a dedicated funding source for a Community Development strategy that reflects and meets of the needs of Aboriginal peoples in urban centres — a strategy designed and implemented by the Aboriginal community.

With labour shortages anticipated in many urban centres, programs and strategies designed to broaden the work force are more necessary and valuable than ever. Urban Aboriginal peoples have developed highly effective strategies for moving more people into employment. However, secure and dedicated funding is paramount to ensuring that these programs are effective, stable, and serve the needs of and are responsive to the communities in which they are based.

Existing cultural centres provide a wealth of collective education, awareness and knowledge that is fundamental to protecting and enriching the culture of urban Aboriginal peoples. Funding for these centres must be increased and made stable in order to reflect and reinforce the wide range of services they currently provide to Aboriginals in urban setting — services which attempt to mitigate some of the unique challenges experienced by this population.

Friendship Centres: A place to address the unique challenges of urban Aboriginal peoples

Throughout Canada, Aboriginal peoples have sought support and a sense of community through the 116 Friendship Centres for more than 40 years. Friendship Centres represent part of the social infrastructure that is uniquely focused on the needs and aspirations of urban Aboriginal peoples. The story of opportunity, determination and hard work is the story of the Friendship Centres. The countless lives transformed for the better continue to be the ongoing legacy of Friendship Centres.

The long-term sustainability of Friendship Centres requires enhancements to the funding levels that were established a decade ago. While the urban Aboriginal population over the past decade has more than doubled in some cities, funding from Canadian Heritage to support the core activities of Friendship Centres has not changed. In order to protect the federal government's investment, and to ensure the long-term sustainability of these institutions, these funding levels need to be examined in the context of today's realities.

Urban Aboriginal peoples face different challenges, depending on (among other things) the particular communities in which they live. No cookie-cutter solution will be applicable to all urban Aboriginal peoples. Therefore the AFB will dedicate an envelope of over $90 million over 3 years ($25 million in 2007–08, $30 million in 2008–09, $35 million in 2009–10) to allocate to urban Aboriginal peoples in urban centres. Community organizations would then allocate this funding in a manner that responds to the local concerns of urban Aboriginal peoples and acknowledges the linkages between and among community development, cultural centres and employment strategies in each urban centre.

To specifically assist Friendship Centres and ensuring that they continue their vital and cost-effective work, the AFB will invest an additional $31.6 million over three years for programs and infrastructure. The funds will be allocated as follows: $5 million in 2007–08, $10.7 million in 2008–09 and $15.9 million in 2009–10.

Total funding for urban Aboriginal peoples
2007–08: $30 million
2008–09: $40.7 million
2009–10: $50.9 million

Agriculture

Two-thirds of the farm families active in Canada in the 1950s have since been driven off the land, and the uprooting continues. The farmers who remain are in a desperate struggle for survival. It's a crisis fuelled by corporate greed and government neglect.

The big corporations involved in agriculture are thriving: the agri-business giants that provide farmers with fertilizers, machinery, and other inputs; the transportation companies that carry their crops; the firms that process the food; and the wholesale and retail grocery chains — all have increased their revenues enormously, dividing the profits from higher food prices among them.

The farmers, in stark contrast, are forced to grow and deliver their produce at prices that, in real dollars, have stayed at 1975 levels. The fact that farmers still receive just $.06 from the sale of a loaf of bread — even though the price has more than tripled from an average of $0.43 then to about $1.40 today—exemplifies the grossly unfair sharing of the food supply bounty.

Agriculture has come to be dominated by powerful private organizations. Just five transnational grain companies control 80% of the world grain trade. Two meat-packing companies control 90% of Canada's beef industry. And a few processors and grocery retailers hold sway over food sales.

On the input side, Canada's farmers have to purchase their seeds, chemicals, implements, and other materials from a handful of giant companies that keep growing even larger through mergers and takeovers. Farmers also buy essential rail transportation services from an oligopoly of two now foreign-owned railways.

To cope with these and other adverse conditions, farmers have relied on cooperatives to process and sell their grain, milk, animals, eggs and poultry and bargain with the railroads. But this cooperative strategy of offsetting corporate dominance has been fiercely opposed by both private agri-business and conservative-minded governments, who denounce it as interference with "market freedom".

Specifically targeted by the free-marketers in recent years has been the Canadian Wheat Board (CWB), one of the last bastions of farmer market strength. The Conservative government's efforts to undermine the CWB and strip it off its "single-desk" authority have so far been forestalled by farmers' resistance and public and media outrage. But the government's assault on the CWB — and on the other remaining farmer-controlled and supply-managed dairy, egg, and poultry sectors — seems certain to continue.

If free-marketers prevail, the end result will be to internationalize agriculture in a global private system with no regard for local producers, production methods, or the source of food.

Most people would prefer a food system that serves their interests as Canadians and consumers. But this would require a complete reversal of the free-market-based agricultural policies that have stripped farmers of their market leverage. Anything less will leave farmers without a fair share of the wealth they produce — still locked into a system that maximizes their costs and minimizes their income.

The following measures will be initiated in this *Alternative Federal Budget* to start to redress the market imbalance between farmers and agri-business and ensure that agriculture once again becomes a financially viable livelihood for family farmers:

1. All attempts to destroy or weaken the Canadian Wheat Board, and other cooperative agricultural market mechanisms, will cease. Instead, these agencies will be further strengthened and democratized so that farmers' interests are fully protected.

2. Farmers will be helped to lower their costs through the creation of both purchasing and input production cooperatives to help curb the now virtually unconstrained marketing power of the huge agri-business corporations. The AFB will commit $50 million annually to help establish these new co-ops.

3. To further assist farmers in reducing their dependence on input manufacturers, a conversion to organic, sustainable, energy-conserving, and other alternative production methods will be encouraged. Organic crops don't require artificial fertilizers or pesticide, both of which have negative environmental ramifications. The AFB will allocate $200 million per year in bridge financing to help fund the transition to these sustainable and organic alternatives.

4. Grain prices must be raised to meet production costs, but this will require joint action by all the major grain exporting nations to balance supply and demand and avoid storage gluts. Such a program would involve an annual 3% reduction in grain acreage that would eventually achieve the necessary price levels. Farmers would have to be offered short-term financial incentives to reduce their cropping intensity accordingly, but subsidies of that sort will have to await the negotiation of an international agreement to implement such a plan. In this budget, we make a commitment to open talks to this end with other grain-exporting countries.

5. Other reforms will include a) banning the privatization of seed stocks; b) making it mandatory for food labels to indicate the presence of genetically-modified ingredients; and c) launching a campaign to educate consumers about how food price revenues are shared among all the agricultural players, including farmers.

These measures would help make farming in Canada once again a financially viable industry. Farmers now struggling to survive would no longer need the massive direct government subsidies they have been compelled to rely upon, which would generate future savings to the federal Treasury. The substantial initial outlays we commit to make are therefore investments in sustainable and prosperous agriculture — beneficial to consumers and taxpayers as well as to family farmers.

Canada–U.S. Relations

Relations between Canada and the United States have historically been friendly. Given the differences in size and power between our two countries, the challenge for Canadian policy-makers has always been to maintain sufficient policy "distance" in order to chart a distinct course at home and in the world.

The Canadian economy has become highly integrated with the U.S. economy since World War II. The Mulroney government, however, dramatically changed Canada's policy approach to the U.S. — reinforcing continental integration instead of resisting market integration pressures. The FTA, NAFTA, and the post-9/11 security and military integration measures are primary manifestations of this change.

These "deep integration" policies (interacting with other policies) have had major adverse political, economic, and fiscal consequences for Canada. Prominent among them are:

- increased economic dependence on the U.S.;
- downward harmonization pressure on tax, social, and industrial policies, and on key institutions;
- reduced capacity to shape industrial development — reinforcing our position as a resource exporter and reducing our ability to foster movement up the value chain with domestic processing of our resources;
- downward pressure on wages, contributing to a more unequal society; and
- reduced control over national energy development and security, depleting conventional oil and gas reserves, with major economic and environmental consequences; most notable is the massive growth in CO_2 emissions from the Alberta tar sands, which is impeding our ability to meet our Kyoto treaty commitments.

Despite the unwillingness of most Canadians to see Canada more tightly bound to Fortress America, the political and economic establishment is moving Canada down this deep integration road. Plans include: a single unified continental market; monetary union; full integration of cultural, financial and agricultural sectors; a continental energy and resource security pact; a North American regulatory harmonization agreement; and a continental security perimeter. Many of these initiatives are proceeding under the *North American Security and Prosperity Partnership Agreement* (SPP) signed by the NAFTA leaders in March 2005.

Recent Conservative government actions reinforcing this approach include:

- military spending increases focused on the integration of Canadian forces with the combat-oriented American "war machine," and the expansion of NORAD to include sea-based approaches to continental defense;
- a Softwood Lumber Agreement that adversely affects workers and small and medium producers, and that further compromises sovereignty in forestry policy; and
- action to dismantle the Canadian Wheat Board against the wishes of Canadian farmers — something the U.S. has been demanding for years.

The Canadian government should take a co-operative and pragmatic approach to relations with the United States, as befits interdependent nations with many common interests and values. Nevertheless, it should act forcefully in disputes with the U.S. government rather than taking the appeasement approach of recent months, and challenge NAFTA where fundamental Canadian policy interests are at stake.

It should put a halt to the current deep integration path and, instead, focus on reclaiming national policy flexibility, disciplining or reshaping the forces of continental integration so as to curb corporate power and enhance the power of citizens, and should develop a strategy to diversify its international economic (and other) relationships.

Specifically, the AFB will:

- freeze further increases in military expenditures pending a full public review of Canada's defence needs, with a view to prioritizing sovereignty protection and supporting UN peace building and peacemaking activities;
- implement the recommendations of the Arar Commission to ensure that (economically motivated) security and intelligence harmonization initiatives do not trump civil liberties, but rather that security is *built* on a foundation of civil liberties;
- impose a moratorium on further harmonization initiatives (particularly those dealing with health, safety, and the environment) under the SPP and undertake a full Parliamentary review with public consultations;
- stop efforts to dismantle the Canadian Wheat Board and implement polices to offset the damage from the Softwood Lumber Agreement to workers, small and medium producers, and their communities; and
- develop a made-in-Canada resource security policy that conserves energy production and usage, minimizes its impacts on the environment, bans bulk water exports, and encourages domestic processing.

Child Care and Early Learning: Securing work/family balance for Canadians

Three-quarters of working women in Canada have young children. Yet Canada ranks last out of 14 OECD countries in terms of *public spending* on early learning and child care (ELCC) programs and last out of 20 OECD countries in terms of family access to ELCC.[28] Outside of Quebec, regulated child care spaces exist for less than 20% of Canada's children. No wonder work/family balance is a major cause of stress and insecurity for Canadians, and a drain on the Canadian economy.

Child care investment and services are key to the social and economic security of Canadians. They promote women's equality, healthy children and families, stronger, more inclusive communities, and a productive, well-performing economy. Prior to the January 2006 election, Canada was on the right path towards reaping the multiple benefits child care investment brings.

A lot has changed since then. The promises made to children, women, families, and child care workers across the country through the 2005 Bilateral Agreements signed with the provinces have been broken. These agreements provided committed and dedicated federal funding of $1.2 billion per year for child care services. Canada's current government has cancelled these five-year agreements, terminating them as of March 31, 2007.

The agreements are being replaced with a planned Child Care Spaces Initiative of up to $250 million each year over the next five years. This will put significantly less money into communities for child care services, as it represents a net annual reduction of $950 million. Next year, communities are facing a 79% reduction in the level of funding committed to improving families' access to quality, affordable child care services.[29] If 2007 unfolds according to the federal government's current policy and fiscal plan, it is likely that working parents will be even *less* able to secure a regulated child care space than they are now.

Even the ability of the Child Care Spaces Initiative to create spaces is in doubt, given the experience in other jurisdictions. Similar approaches were tried in Ontario, New Brunswick, Manitoba, and Saskatchewan, and failed to produce child care spaces.[30] On top of this, the federal government has given no assurance that public funding will be invested under the Child Care Spaces Initiative in spaces that:

- support children's healthy development;
- meet public standards for quality;
- are publicly or community-owned and accessed;
- prioritize established community needs and plans; and
- are sustained through adequate operating funds.

Research and evidence confirms what families know from their own experience: that these are the public investment approaches that are most likely to build a quality, universal ELCC system.

Along with the Spaces Initiative, the Conservatives introduced a taxable allowance of $1,200 per year, per child. Income support for families is a valid public policy goal, but it would be better delivered through the Canada Child Tax Benefit (CCTB). Income support is not a replacement for a child care system.

The good news is that, despite the federal government's funding cuts, Canadians have not given up on a national system of ELCC services. A broad-based, pan-Canadian Code Blue for Child Care Campaign was launched in 2006 and, within its first few months, the campaign collected over 100,000 signatures calling on the federal government to honour the Bilateral Agreements. A June 2006 Environics poll found that there continues to be strong public support for child care services, with 76% of Canadians supporting a strategy such as that initiated in the Bilateral Agreements.[31] The AFB therefore remains committed to effective, accountable public policy and substantial investments in ELCC services that will enhance the security of Canadians struggling with work/family balance.

Early learning and child care measures

ELCC services alone will not solve all of the problems of work/family balance, nor will they guarantee our children's healthy development. Canada ranks below many countries in family policy generally, including its support for families through maternity and parental leave.[32] Expanding access to maternity and parental leave, as well as increasing benefit rates, gives new parents the chance to spend more time with their young children. Quebec recognized this in 2006 with its new parental leave program, as part of its comprehensive family policy. Child care is only one — albeit vital — piece of the family policy puzzle.

While the AFB offers budget measures that put Canada on a path towards quality ELCC services for all children, we also commit the federal government to work with First Nations governments to ensure that adequate resources are available to address their unique ELCC needs. The federal government also needs to work with First Nations, provincial and territorial governments to meet the needs of school-age children and rural, remote, and Aboriginal communities. These services may require additional federal resources beyond those included in the AFB.

The AFB supports national child care legislation, as proposed by the federal NDP in Bill C-303, the Early Learning and Child Care Act. Legislation must ensure standards and entitlement to ELCC opportunities, based on the principles of quality and universality. Further, legislation must specify that expansion of child care services will occur in the non-profit sector, that services will be funded directly (rather than user-pay), and that accountability will be improved through public reporting to legislatures and clear provincial and territorial action plans.

Child care requires a secure source of federal funding, so legislation will be combined with significant investments in ELCC services through a dedicated child care social transfer. The long-term plan of child care advocates builds to $10 billion in annual child care funding. This investment of just under 1% of GDP is consistent with the levels recommended by our European counterparts, and will provide a quality, affordable child care space to all children under six in Canada on either a part-time or a full-time basis.

Furthermore, research tells us that such an investment provides 2:1 economic returns. It's also interesting to note that an analysis of the Quebec child care system indicates that $0.40 out of every $1 invested in its child care services is returned to the provincial economy the following year, primarily in increased taxes arising from higher labour force participation.[33]

In order to achieve the long-term goals for child care, the AFB will increase annual funding for ELCC to $5 billion by 2010, by which time all children aged three to five should have access to a quality child care space in their community. Starting in 2007–08, building this system requires the following dedicated federal transfers to the provinces and territories for child care services:

1. to maintain the Bilateral commitments to First Nations, provinces and territories for ELCC services[34] — $1.2 billion;
2. to re-direct the funds from the Child Care Spaces Initiative — $250 million;
3. to confirm the funds already committed under the 2003 Multilateral Framework Agreement on ELCC — $350 million; and
4. to provide an additional transfer — $200 million.

Total spending for 2007: $2 billion

The child care services budget of $2 billion in 2007–08 will be increased to $3 billion in 2008–09 and to $4 billion in 2009–10. This will include the redirection of funds from the Child Care Spaces Initiative. Hence the total new cost will be: $1.75 billion in 2007–08, $2.75 billion in 2008–09 and $3.75 billion in 2009–10.

Cities and Communities

Today's Canada is an overwhelmingly urban nation: more than 75% of Canadians live and work in cities. 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.

Our largest cities 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. Reflecting years of underfunding, city infrastructures are crumbling, facilities are overcrowded, and services such as public transit are inadequate.

Many of Canada's smaller communities also face challenges: they are struggling to deal with shifts in our national and global economy that put at risk their industrial foundations, forcing citizens to move elsewhere. Census data show that 44% of Canada's cities and towns actually declined in population between 1996 and 2001. This shift is impairing the ability of peripheral communities to sustain an adequate quality of life.

For Canada to succeed as a whole, adequate investment and inclusive economic planning for our cities and communities of all sizes is required.

The infrastructure deficit

Municipalities have suffered most from the so-called fiscal imbalance because they have such limited sources of revenue — and can only pass on increased costs and service cuts to their residents. Federal and provincial transfers provided 26% municipal revenues in 1995; in 2005 they provided only 17%. This is equivalent to a cut of $5 billion in transfers, during the same period that provinces downloaded more responsibilities onto local governments and their needs escalated. As a result, municipalities have increased property taxes and user fees, two of the most regressive forms of taxation. As well, municipal infrastructure and services have become overloaded. The municipal infrastructure deficit is estimated at $60 billion and is growing by $2 billion a year.

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 and can't rely on further steep property tax increases or user fees to pay for this investment. Costly and unaccountable public-private partnerships, contracting-out, and other forms of privatization are not the answer. That's why the AFB, along with most municipalities and other governments, opposes the Conservative government's plan to make infrastructure funding for provinces, territories, and municipalities dependent on their utilization of P3s.

New revenue

In 2005, the Liberal government finally transferred a portion of the federal gas tax to municipalities to address this infrastructure deficit. But the funding will amount to only $800 million this year, not even enough to offset half the annual growth in the infrastructure deficit. The Conservatives' 2006 Budget put additional money from the 2005–06 surplus into trust funds for public transit and affordable housing, but hasn't made the transfers permanent or long-term. That budget also included a tax credit for public transit users that will cost $220 million per year, but will do little to improve ridership. The Conservative government also extended the gas tax transfer by two years, but still hasn't made it permanent.

Municipalities need a long-term financial solution to ensure a growing source of revenue so they can plan ahead instead of being strung along from budget to budget. This could be a transfer of an earmarked share of federal and provincial tax revenues to invest in priority areas such as public transit, water, sewer and environmental infrastructure, affordable housing, and community and social services. It is important that it not involve a devolution of the power to set tax rates, otherwise Canadians will be subject to a race to the bottom through local tax competition, tax avoidance, and deteriorating local services.

Green Public Transit Supplement

In order to meet our Kyoto goals, public transit must be a priority. The AFB will use a portion of the carbon tax (*see Environment chapter*) to allocate $1.2 billion over three years to enhance public transit infrastructure and make public transit more affordable for all.

Urban funding programs and the "New Deal" for cities

The Conservative government has continued to fund infrastructure programs, but has altered their focus to align with the government's priorities. For example, it has shifted the focus of the Canada Strategic Infrastructure Fund more towards movement of people and goods and away from sustainable urban growth, water quality and access, trade corridors, and northern infrastructure. Further, there has been a shift away from the "New Deal" for cities that provided municipalities with more say in federal policy development and coordinated federal urban activities to address community needs. These changes are moving the Canadian urban agenda in the wrong direction. The AFB will get the urban agenda back on track with the measures outlined below.

In addition to the following measures, the AFB will increase federal support for affordable housing, homelessness, residential rehabilitation, and energy retrofit programs, which have been cut by the Conservative government. (*See Housing and Neighbourhoods and Environment chapters.*)

A National Communities Strategy

The federal government needs a National Communities Strategy. While there is no one-size-fits-all solution to the challenges facing Canadian communities, there is the need for a national vision which articulates the importance and nature of the cross-country network of communities we want to have and sustain in Canada. This strategy would provide direction for all government departments and provide the public with a clear statement of the federal government's goals regarding communities. The National Communities Strategy would be developed in consultation with a wide range of stakeholders, including the public, municipalities, workers, unions, social service agencies, and business. The report of the federal External Advisory Committee on Cities and Communities, tabled in June 2006, provides some basis for the development of such a strategy.

Department of Community Development

The AFB will establish a federal Department of Community Development with a senior minister to address both the policy and program sides of community issues, including the development of a National Communities Strategy and the coordination of federal urban initiatives in Canadian communities including funding for infrastructure. Externally, this department will provide Canadian communities with a single point of access to the federal government on municipal issues. The department will work together with Transport Canada to develop a national transit plan by 2008–09 when existing funding for public transit projects expires.

Good Neighbour Legislation

The federal government has significant real estate holdings worth over $7 billion, which AFB 2007 will leverage to help Canadian communities. In cooperation with the AFB-proposed Department of Community Development, the Public Works and Government Services Canada will facilitate the development and implementation of "Good Neighbour Legislation". This legislation will make it mandatory that the federal government support local planning objectives such as urban revitalization, sustainable development, heritage preservation, and support for public transit through its property and land development activities. Retaining public ownership of federal real property assets is key to this initiative as it provides the federal government with a major investment tool in communities.

Accelerate the Gas Tax Transfer

This year, the federal government will transfer $800 million a year (or the equivalent of $.02 a litre) from the federal gas tax to municipalities. While this is slated to rise to $2 billion a year ($.05 a litre) in three years, these amounts are not enough to stop the municipal infrastructure deficit from growing, let alone fill the gap in transfers for municipal budgets.

As part of a long-term plan to eliminate the infrastructure deficit, the AFB will immediately increase the gas tax transfer for municipalities and communities to the value of the full $.05 a litre and make it permanent. This will provide municipalities with an additional $1.2 billion in 2007–08 and an additional $1 billion in 2008–09.

Funds will be expanded for public transit, parks, and community infrastructure, and away from roads in large cities in order to support environmental objectives. First Nations would continue to be eligible for separate funding. Funding will be for public projects, and communities would not be forced to engage in costly and unaccountable public-private partnerships or other forms of privatization.

Canadian Infrastructure Renewal Agency: Renewing and greening our communities and economy

A key measure in the AFB's strategy to renew Canada's hospitals, schools, water, sewage, transit systems and other community infrastructure and to build a green economy for the 21st century will be the creation of a Canadian Infrastructure Renewal Agency. AFB 2007 commits $5 billion a year in funding to this national agency that will undertake infrastructure, energy efficiency and retrofit projects cost-shared with other levels of government. *(See sidebar on following page).*

Canadian Infrastructure Renewal Agency

After decades of underinvestment, Canada's public infrastructure — transit systems, schools, hospitals, roads, bridges, water and sewer networks, buildings and other community infrastructure — badly needs to be renewed.

Better infrastructure not only improves our quality of life, but also provides a big boost to the economy. Statistics Canada has estimated that each dollar invested in public infrastructure provides an average of $.17 in cost savings for private businesses in Canada — a much higher rate of return than typical private investments.[35] This figure does not even account for the broader social returns or the environmental benefits.

We have a tremendous opportunity to target current infrastructure renewal at measures that will improve the environment and help us to meet our greenhouse gas emissions targets under the Kyoto Accord. These measures could include investments in energy efficiency retrofits for buildings, public transit, and water efficiency, to name but a few examples.

Major initiatives in these areas would also be tied to our industrial renewal strategy (*see Industrial Restructuring chapter*). Large-scale public investments in these areas would be coordinated with sector development strategies, the Green Investment, workforce training programs, and procurement policies to make Canadian industries world leaders in these and other areas of environmentally-progressive technology and equipment.

Investing in a timely manner can save a lot of money, both through energy efficiency measures and by preventing the high cost of emergency repair and the cost of dealing with public infrastructure breakdowns.

Under this plan, up to $5 billion a year will be allocated to a Canada Infrastructure Renewal Agency to undertake infrastructure, energy efficiency, and retrofit projects cost-shared with other levels of government and public agencies. Municipal, provincial, and First Nations governments, school boards, universities, colleges and school boards will be able to access this funding on a cost-shared 50/50 basis to invest in eligible projects. Federal involvement will ensure that the cost of borrowing will be considerably lower than what these other levels of government — or the private sector — would otherwise have to pay.

The annual budgetary cost of these investments will be considerably less than the total annual capital investment. With new accrual accounting measures being applied to federal, provincial, and municipal governments and the broader public sector, the cost of capital investments is amortized over the life of the asset — just as the private sector has done for many years. For example, a capital investment of $100 million with an expected life of 40 years is amortized at an annual cost of $2.5 million for each of the 40 years.

This initiative will provide extensive and direct benefits to Canadians by:

- improving the quality of our cities, schools, hospitals, building, housing, environmental, transportation and community infrastructure;
- reducing costs for business and households by modernizing our infrastructure;
- eliminating the municipal infrastructure deficit;
- providing funds to reach our greenhouse gas reduction targets under the Kyoto Accord, which will also reduce operating costs by increasing energy efficiency;
- relieving pressure on municipal property taxes; and
- generating about 150,000 jobs in the first year and considerable revenues for governments.

All Canadians will benefit from these measures by gaining:

- a coherent and forward-looking plan for community development;
- immediate improvements to public transit, parks, water, schools, health, and community infrastructure; and
- relief on municipal pressure to increase property taxes and user fees.

Culture and the Arts

Culture is at the very foundation of who we are as Canadians and it is through the enjoyment and recognition of the work of professional artists that we come to know ourselves as a country and make a distinct contribution to our world.

Despite conventional views, Canada's arts and culture sector is not a rarefied or disconnected element of society. In 2001 the cultural industries were responsible for directly employing 611,000 Canadians, or 4.1% of Canada's overall workforce (the natural resources sector employed about 600,000 Canadians in the same year).[36]

Cultural industries contributed $40 billion to Canada's 2002 GDP (compared to the natural resources sector's $56 billion).[37] Public funding of the not-for-profit performing arts alone generates a return in tax revenue of 176%.[38]

The arts and culture sector has one of the highest rates of self-employment in the Canadian economy (25%) and includes many different lines of creative activities: from broadcasting to book publishing, the performing arts, music and sound recording, film, video and new media. The arts explore and celebrate our diverse and evolving collective cultural heritage, including the vital contributions of Aboriginal peoples and new Canadians.

Artists, creators, and arts professionals are deeply rooted in their communities and are regarded as living indicators of the quality of life within cities, towns, and villages.

Federal government spending on arts and culture

The AFB notes the very modest influx of one-time new monies for the Canada Council for the Arts in the May 2006 federal budget announcement, which totals $50 million over the next two fiscal years ($20 million in 2006–07 and $30 million in 2007–08). The federal government's announcement came on the heels of months of sustained advocacy by members of the country's arts, culture, heritage, and business sectors, who were seeking a "doubling" of the Canada Council for the Arts' annual budget.

The AFB will ensure that the one time $20 million increase included in the 2006–07 budget as well as the one time $30 million promised for 2007–08 in the May 2006 federal budget are secured as permanent funding to the Canada

Council for the Arts' base budget. Additionally, the AFB will top up this amount by $100 million in additional permanent funding by 2009–10 to meet the "doubling" of the Canada Council's budget campaign objective as originally advocated by the Canadian Arts Coalition, its allies, and supporters.

The AFB also supports further calls for increases to federal arts and culture funding and will place the Department of Canadian Heritage's suite of "Tomorrow Starts Today" (TST) programs on a permanent "A-based" funding basis. This $172 million program, currently on the books until March 2010, supports a host of federal government cultural programs and agencies. It is critical that TST funding, originally announced in 2001 and renewed several times since then, be stabilized and made permanent.

New Canadian museums policy

Many local museums and heritage institutions across Canada are facing challenges even more severe than the situations identified in the Auditor General's report of November 2003. In some cases, these pressures are endangering the very existence and integrity of precious collections of Canada's shared cultural heritage.

To address this, the AFB will implement a new federal museums policy, which has not been updated since the early 1970s, and will invest $75 million per year in new, permanent federal government fiscal support to meet the objectives of the new policy. The new funding will also greatly benefit museums and heritage institutions in all regions of our country.

Canadian Broadcasting Corporation and Canadian Television Fund

The CBC has a unique mandate: to showcase Canada's national identity. Developing, producing, and broadcasting high quality Canadian dramatic programming is one of the best ways for the CBC to meet its mandate beyond the production of quality news and information programming.

The CBC cannot devise and implement long-term strategies as long as it faces continued uncertainty about its future. The CBC must be given improved fiscal resources immediately, as it needs stable multi-year commitments to develop new Canadian drama, comedies, and other programming.

With regards to funding for regional broadcasting, CBC/Radio-Canada has announced plans to re-focus its efforts on an integrated local regional services to the extent resources permit. The AFB will provide the CBC with $20 million in start-up money and $22 million for annual operating expenses to achieve at least part of the objective of providing radio services to Canadians who currently do not have a local station. This figure will increase respectively by $5 million in capital and $5 million in operating funds in both 2008–09 and 2009–10. As stated above, in order to provide the public broadcaster with a more stable planning basis, the $60 million in funding that has been given to the CBC for the past several years as non-recurrent will be made permanent CBC funding.

The AFB will be watching closely as the Heritage Committee proceeds with its review of the CBC mandate, as it is critical that Canadians are engaged democratically in this process; we all have an interest in the future health of our national public broadcaster. Of note is the fact that earlier this year, the Senate released its report on Media Ownership and Concentration, which made a series of strong recommendations and proposals for strengthening CBC's capacity to fulfill its current mandate. Future AFBs will likely bring forward proposals that emerge from this important parliamentary process, which will begin in a few short months.

The Canadian Television Fund (CTF) currently has an annual budget of approximately $250 million: $100 million is from the federal government and the rest comes from cable companies and direct-to-home satellite providers. Over time, costs related to TV program development and production have increased, particularly with the challenges associated with the shift to high definition, while the real value of federal support has decreased. Statistics Canada reported in October 2005 that federal spending increased by only 0.3% in 2003–04, not even keeping pace with inflation.

The CTF is essential for the production of quality, distinctively Canadian TV programs. Yet artists, producers and broadcasters are forced to direct energy and resources each year to make the case for funding and ensure that the CTF is adequately funded in the budget. AFB 2007 will address this by allocating an additional $50 million in new funding for the CTF, ramping up to $100 million annually in new monies by 2009–10.

Impact of Expenditure Review on Canada's arts and culture

On September 25, 2006 the federal government announced the results of its expenditure review process. Introduced with the regrettable message of cutting "wasteful, inefficient or non-priority programs", there are two major areas that directly affect the arts and culture sector.

The first was a reduction of $4.63 million over 2 years to the Museums Assistance Program (MAP) at the Department of Canadian Heritage (DCH). This program is hardly "wasteful" given that it provides financial assistance to regional Canadian museums and related institutions for activities that facilitate Canadians' access to their heritage, foster professionalism in museum activities and operations, and foster the preservation, protection, and management of representative collections of Aboriginal cultures.

The AFB will reinstall this amount to MAP within the context of the new federal museums policy that must be adopted and enacted by the federal government.

Another $1.1 million was cut from "Operating/Program Efficiencies" at the Department of Canadian Heritage, and a reduction of $11.9 million was imposed on the Public Diplomacy program at the Department of Foreign Affairs, a program that has funded academics and cultural organizations for their international work.

The AFB disapproves of the September 25, 2006 announcement of reallocation cuts to arts and culture program, and will reintroduce the full slate of spending to these programs.

Defence and Development

Defence

Until quite recently, the Canadian Forces were seen primarily as a peacekeeping force. Typically in response to calls from the United Nations, they helped to promote international peace and security — including what later came to be called "human security". Canadians were understandably proud of how our soldiers helped other nations get back on their feet, while protecting innocent civilians from harm.

The war in Afghanistan, however, has dramatically changed what our military does and how it is perceived, both by Canadians and by the rest of the world.

Today, Canadians are increasingly concerned about the Afghanistan mission and the overall strategy guiding the Canadian Forces. While Canadians support our individual soldiers, a majority of Canadians feel that the government has tasked them with a mission they cannot win.

As well, Canadians are becoming alarmed that the role of the Canadian Forces has shifted away from UN peacekeeping towards participating in the U.S.-led war on terrorism, with the more aggressive role's associated high costs in terms of public dollars spent, soldiers' lives lost, and Canada's tarnished international reputation (along with a consequential loss of international influence, especially in the developing world).

The Canadian Centre for Policy Alternatives' report, *Canada's Fallen: Understanding Canadian Military Deaths in Afghanistan*, raised the alarm that our new deployment of a "battle group" to Kandahar province is claiming a disproportionately high number of Canadians soldiers' lives as compared to the rest of our NATO allies. Despite the fact that Canadian troops account for only one in ten of non-U.S. coalition soldiers, four in 10 non-U.S. deaths (to September 2006) were Canadian. By comparison, a Canadian soldier in Afghanistan was three times more likely to be killed than a British soldier there, and more than six times more likely to be killed than an American soldier serving in Iraq.

It is Canadians' concern for the troops' well-being that has prompted criticism of the mission. Canadians are also concerned that the aggressive combat nature of the mission is not improving the security situation for the people of Afghanistan, but rather is making it worse. Moreover, spending on military activities far outstrips spending on reconstruction and development — by a ratio of about nine to one — and is impairing the effectiveness of existing development aid.

Thirdly, there is concern that the counterinsurgency mission is violating Canada's commitment to upholding international humanitarian law. Several incidents have thrown into question Canada's commitment to upholding the Ottawa Land Mines Treaty. Canadian troops handed over suspected insurgents to U.S. troops at a time when the U.S. government appeared to be violating the rights of detainees under the Third Geneva Convention and the Torture Convention. More recently, Canada and Afghanistan concluded a detainee transfer arrangement which does not ensure full compliance with the same two conventions. Collectively, these failings are changing how the world sees Canada and how Canada sees itself in the world.

The war in Afghanistan accounts for at least two-thirds of all spending on international military missions since 2001, crowding out all other possible contributions by Canadian troops to international security and peacekeeping — for example in Lebanon, or in Darfur, where the unfolding genocide cries out for a peacekeeping force.

Afghanistan is masking much more alarming trends within the Canadian military. With little public or parliamentary understanding, let alone debate, the Canadian forces have embarked on a process of "transformation", a term used in Pentagon circles. The military leadership argues that the Canadian Forces needs to be transformed to better address international security challenges such as Afghanistan. This requires a significant cultural shift within the military, the government, and the Canadian public to accept this transformation.

In particular, the public must be prepared to accept high numbers of dead soldiers, to push massive amounts of public dollars away from social programs toward military spending to acquire military equipment compatible with that used by U.S. forces, and to abandon participation in UN peacekeeping missions which fall outside of U.S., and hence Canadian, national security interests. This process is underway.

Canada's single focus on Afghanistan has driven a stake through the heart of Canadian contributions to UN peacekeeping. UN peacekeeping is at an all-time high, with more than 80,000 military personnel in 18 missions around the world. Canadian contribution to the UN is at an all-time low of 56 soldiers, placing Canada far down the list of international contributors at the rank of 62 among nearly 100 contributing nations.

Canadian military spending is poised to rise dramatically in the coming three years. The Liberal government's 2005 Budget committed an additional $12.8 billion over five years.[39] The Conservative government's 2006 Budget stayed the course and topped-up the 2005 Budget with an additional $5.3 billion over five years.

Military spending for 2006–07 is estimated at $16.2 billion (though this estimate has already been increased once because of the rising cost of the Afghanistan mission, specifically the government's decision to deploy Leopard tanks to Kandahar), surpassing for the first time spending (inflation-adjusted) at the end of the Cold War.

The military spending increases approved by Parliament in 2005 and 2006 will send Canada's military spending skyrocketing to $21.5 billion in 2010–11, according to Defence Minster Gordon O'Connor — even though today's military spending is already sixth highest within the 26-member NATO alliance and 15th highest in the world.

The recently announced $17 billion in military equipment purchases of new vehicles, helicopters, and aircraft (largely from U.S. arms manufacturers) are proceeding under a questionable sole-source procurement process that is anything but transparent, and with a haste that is driving up costs.

The Conservative government has been touting the arms build-up as a means to better in-

TABLE 11

Item	Proposed number of items	Capital project cost	In service support cost (over 20 years)	Total estimated project value	Alternative Federal Budget
Strategic airlift	4	$1.8 B	$1.6 B	$3.4 B	**Delayed**
Tactical airlift	17	$3.2 B	$1.7 B	$4.9 B	**Proceed selectively**
Medium-to heavy-lift helicopters	16	$2 B	$2.7 B	$4.7 B	**Delayed**
Medium-sized trucks	3,600 various types	$1.1 B	$100 M	$1.2 B	**Proceed selectively**
Support ship	3	$2.1 B	$800 M	$2.9 B	**Proceed selectively**
Total		**$10.2 B**	**$6.9 B**	**$17.1 B**	

SOURCE "Canada First" Defence Strategy Procurement, http://www.dnd.ca/site/newsroom/view_news_e.asp?id=1973

tegrate our forces with U.S. forces. Canadian Ambassador to the U.S. Michael Wilson told an American audience in 2006 that, "Our significant defence trade contributes not only to economic growth and jobs on both sides of the border, but to the interoperability of our forces in the field". The mission in Afghanistan, Wilson added, demonstrates our loyalty to U.S. objectives: "Canada is an active contributor and partner in the war on terror, particularly with our activities in Afghanistan".

The transformation of Canada's military force from a UN peacekeeper to an Americanized war fighter demands a public debate in Canada. The AFB is committed to redefining the role of the military in order to shift the focus from warfighting roles back to UN peacekeeping, sovereignty support and disaster relief. Canada's current military mission in Afghanistan must be shifted away from its counter-insurgency role, or else troops should be withdrawn. And Canada's assistance to Afghanistan should be re-focused on aid and diplomacy.

The AFB will immediately set up an expert panel to assess the existing direction of defence policy through public hearings in all regions of Canada in order to engage the country in a national debate on how Canada's Armed Forces can best represent Canadian priorities and values. This panel will be charged with the task of ensuring that the Canadian Armed Forces are capable of performing its responsibilities in terms of peacekeeping, sovereignty protection, and disaster relief.

The expert panel will be charged with reviewing defence expenditures to ensure that they are consistent with this change in focus of the Canadian Armed Forces.

We anticipate that a review of this latest increase in defence expenditures will produce a savings of over $6.4 billion over three years (*see Expenditure Review and Reallocation chapter*). These savings will be realized by delaying many of the expenditures announced in budgets 2005 and 2006, including the substantial commitments made to increasing the number of regular and reserve forces personnel, and some new equipment purchases. Table 11 illustrates some of the expenditures that will be delayed, or that will proceed selectively, as part of the reallocation that will achieve these savings. However, programs intended to replace current assets in order to maintain current capabilities (notably the tactical airlift) will continue.

Our defence expenditure review will ensure that salaries of defence personnel are not adversely affected and that necessary expenditures will be made to ensure the health and safety of all military personnel. Throughout the planning horizon the AFB will continue to provide for an annual budgetary increase of 5% — an amount far in excess of the rate of inflation.

While many expenditures will be subjected to our Expenditure Review and Reallocation process, we anticipate that several expenditures will continue. Some new expenditures will also be initiated. For example, Canada's fleet of aging icebreakers, which is vital to protecting sovereignty in Canada's North, and to supporting northern communities and Arctic research, is in urgent need of recapitalization. Accordingly, the AFB will allocate $960 million for the construction, in Canada, of three new icebreakers for the Canadian Coast Guard. Since this funding will be allocated to the Coast Guard as part of Fisheries and Oceans Canada, it will not be counted as defence spending — although it will help to secure and defend this country.

Development

In both Iraq and Afghanistan, Canada has made major commitments of development aid. This has had the effect of skewing development priorities in other parts of the world. Government officials, and most recently a Senate committee, have linked military and development assistance. Canadian forces have been engaged in trading food and water for intelligence about the Taliban. This is wrong. Using aid as a weapon to advance military strategy violates principles of aid neutrality enshrined in the Geneva Conventions. It puts both aid workers and recipients at risk. Soldiers are not aid workers. Military roles (security) and civilian roles (reconstruction and relief) should be kept distinct. Provincial Reconstruction Teams (PRTs) should be re-examined with a view to preserving this distinction.

The mandate for the current mission in Southern Afghanistan should reflect a balanced approach to building peace and security in Afghanistan. Working with various factions and parties on the ground, there are opportunities — for example, *the Action Plan for Peace, Justice and Reconciliation* — for Canada to support conflict resolution and peace-building activities now.

Across the planet, 50,000 people will die from poverty-related causes every day. Another 800 million people go to bed hungry each night. Over 1.2 billion people live in extreme poverty. HIV/AIDS, malaria, and tuberculosis cause (and are caused by) poverty as individuals and economies of affected countries are debilitated by these and other diseases. If we are to achieve global security, these causes of human insecurity must be addressed.

Poverty is a violation of human rights on a massive scale. In 2000, all members of the United Nations committed to "spare no effort" in tackling poverty by adopting the Millennium Declaration. Governments also launched the Millennium Development Goals (MDGs) to meet minimum targets to reduce poverty, hunger, illiteracy, discrimination against women, and environmental degradation by 2015.

Eleven countries, including France, the United Kingdom, Sweden and Denmark, have reached their commitment of 0.7% of Gross National Income (GNI) commitment or have timelines for doing so. Canada, despite its relatively robust economy, is not among them. In fact, in 2004, Canada was ranked 14th out of 22 donors.

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 0.5% of Canada's GNI by 2010, as a step toward the UN goal of 0.7% by 2015. However, no new aid money was committed in the 2006 federal Budget. Rather, a commitment was made to "honour" the 2005 Budget, which set aside an additional $500 million over two years for aid. Currently, Canada's aid (ODA) is at only 0.32% of GNI and, under existing Conservative commitments, will actually fall to 0.31% by 2007–08. (This is well below the current OECD average of

0.42%.) Moreover, the Conservatives appear to have abandoned the previous government's plan to double aid to Africa from $1.4 billion 2003–04 to $2.8 billion by 2008–09.

The AFB will set Canada on a firm schedule to reach the 0.7% target by the year 2015, with an interim target of 0.5% by 2010. The AFB will increase foreign aid by $460 million in 2007–08, by $802 million in 2008–09, and by $1.2 billion in 2009–10. Furthermore, the AFB will focus its aid on eradicating poverty, be consistent with Canada's human rights obligations, and consider the perspectives of civil society and the poor, both in Canada and overseas. To ensure this, we will seek a regularly reviewed legislated mandate for aid spending by Parliament.

Employment Insurance

Employment Insurance is Canada's most important income support program for workers, providing approximately two million workers with about $15 billion in benefits in 2006. Two-thirds of that amount is for regular benefits for temporarily unemployed workers actively seeking work, while most of the remainder is for parental and maternity benefits which allow a new parent to take up to a year's supported leave from the workforce. Smaller amounts go to support sick leave, employment support measures, and compassionate leave.

Employment insurance should reduce poverty and insecurity, help communities through economic downturns, and facilitate economic adjustment. Yet today's program, shrunken by deep cuts a decade ago, falls far short of what is needed.

The Unemployment/Employment Insurance program has been repeatedly cut since its high-point in the mid-1970s, most recently in the early 1990s. Today, only about four in every 10 unemployed workers collect regular EI benefits, down from 80% in 1990. Only one in three unemployed women collect benefits, down from 70% in 1990. Only 20–25% of unemployed workers in most major urban centres, like the Greater Toronto Area (GTA) and the Lower Mainland in British Columbia, now receive benefits at any one time, since many do not qualify at all, and because others quickly exhaust their benefits.

While some other factors are at play, Employment Insurance coverage has shrunk mainly because of changes to program rules which make it much harder for workers to qualify for both regular and maternity/parental benefits, and which also cut the length of time for which benefits can be collected. Workers who have enough hours to get into the system often qualify for only a short period of benefits, as low as 14 weeks for a person who just qualifies in a region with a low overall unemployment rate.

Not only is it much harder to qualify for EI, benefits have also been cut to 55% of insured earnings, for a maximum weekly benefit which barely meets the poverty (LICO) threshold for a single adult.

As well, maternity and parental benefits play an important role in enabling workers to balance work and family responsibilities. But, many new parents fail to qualify for benefits, and those who do often find that they can't afford to take a leave.

Due to high qualifying hours requirements, as high as 910 hours or six months of full-time work, many unemployed workers do not qualify for benefits at all. Women, youth, part-time workers, the working poor, recent immigrants and residents of big cities are most affected. Those who do qualify usually get an inadequate short-term benefit, and the maximum benefit barely matches the poverty-line for a single person.

EI also fails to deliver training to many precariously employed workers, or a bridge to good, alternative jobs for the victims of ongoing economic re-structuring flowing from changes in trade and the high Canadian dollar. This makes no sense at a time of growing skills shortages.

In 2005, the House of Commons Standing Committee on Human Resources, Skills Development, and the Status of Persons with Disabilities listened to labour and social groups and recommended proposals which the AFB views as key to building a better system.

These are, first, a uniform EI entrance requirement of 360 hours of work, to lower the high barrier to qualifying for part-time and temporary workers and new entrants to the workforce; and, second, an increase to benefits. This can be achieved by increasing the benefit rate to 60% of earnings, based on the best 12 weeks of earnings, and an increase in the maximum benefit period to 50 weeks.

Testimony by a senior Human Resources and Skills Development Canada (HRSDC) official to the Standing Committee on December 7, 2004, indicated that the annual cost of these changes would be about $2 billion. The cost would now be lower because of lower unemployment. To cover these costs, the AFB will maintain rather than cut EI premiums and raise maximum insurable earnings under EI from $39,000 to $45,000. Gradually raising 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.

The AFB also supports investment in training through EI. We would increase training for the unemployed, and also support paid training leaves for employed workers through pilot projects based on the apprenticeship model. (Apprentices get EI support for the classroom part of their training.)

The AFB supports improvements to service access. The current Service Canada model while increasing the number of services at its one-stop offices, is decreasing the quality of services for core EI services. Over-dependence on standardization, computer-based transactions, and time limited call centre responses further undermines much of the public's ability to access the EI services that they pay for. The government must also invest in well-trained workers who can counsel EI applicants and deliver the personal quality of services that many EI claimants still require.

Environment

Climate change is fast becoming the pre-eminent public issue of our time — in Canada and across the planet. It is already causing severe impacts on ecosystems worldwide, and on the millions of people who depend on them for survival. There is a scientific consensus that these effects will become more devastating without substantial reductions in greenhouse gas (GHG) emissions. A 2006 report to the British Government by former World Bank chief economist Nicholas Stern noted that climate change could cost the world economy $7 trillion annually if greenhouse gas emissions aren't reduced substantially.

In Canada, urgent action — in particular meeting our international Kyoto obligations — is required to address climate change. But we must also not forget that there are other important environmental challenges that need our attention if we are to preserve a clean, healthy environment for Canadians today and tomorrow.

Clean air, clean water, secure energy access, unique wildlife and world-famous parks all illustrate the fundamental importance of environmental sustainability to the prosperity and quality of life cherished by Canadians and admired and envied worldwide. However, we can no longer take such "natural capital" for granted. We have already witnessed a rapid deterioration in the cleanliness of our air, mounting evidence of links between human illness and environmental pollution, and increasing threats to our remaining wild spaces and diversity of species.

The good news is that the solutions to these severe environmental problems will also lead to important economic, social, human health, and environmental benefits for Canadians. To that end, the AFB will implement a comprehensive environmental plan[40] to address the environmental challenges Canada faces and to advance Canada towards being an international environmental leader.

Climate change and clean air

Canada must take urgent steps to reduce the risks posed by climate change and simultaneously take advantage of the huge opportunities available to be world leaders in low-impact renewable energy and energy efficiency. Well-designed regulations will force Canadian industries to be more innovative and competitive. Market-based policies, such as auctioned emission per-

TABLE 12 **Environmental measures**

($ Millions)			
Revenues	**2007–08**	**2008–09**	**2009–10**
Emissions permit trading	1000	1000	1000
Carbon tax	2000	2000	2000
Total Revenues	**3000**	**3000**	**3000**
Expenditures			
Renewable energy production incentives	312.5	312.5	312.5
Transfers to provinces, municipalities and First Nations (for housing, transit etc.)	462.5	462.5	462.5
Green public transit supplement	400	400	400
Energy efficient buildings and lighting programs	165	165	165
Mackenzie Valley, NWT	5	5	5
Species at Risk Act	55	55	55
Just Transition Fund	100	100	100
Green energy tax refund	1000	1000	1000
Energy efficiency for low income households	100	100	100
First Nations Environmental stewardship	110	114	118
Residential Rehabilitation Assistance Program			150
AFB Environmental Fund	290	286	132
Total	**3000**	**3000**	**3000**

mits and a carbon tax (described later in this chapter), will play a critical role in shifting economic behaviour to be more in harmony with environmental and human health. A just transition strategy would help workers who may be impacted by industrial shifts.

The realities of climate change, both ecological and economic, make it clear the federal government must steer Canada onto a sustainable energy path. This path requires not just supporting renewable energy and energy efficiency but also removing public subsidies that encourage unsustainable fossil fuel extraction and production. Such an approach will not only help avoid the catastrophic environmental consequences of climate change, this new path will generate economic opportunities *and* clean the air and water.

The AFB will accelerate growth in the renewable energy and energy efficiency sectors as part of a comprehensive national strategy. While the January 2007 announcements were a small step in this direction, the AFB will invest a total of about $1.4 billion per year, and will include the following initiatives:

1. Increased production incentives for low-impact renewable electricity and heat technologies ($312.5 million per year).
2. Additional transfers to provinces, municipalities and First Nations for investments in energy efficiency and renewable energy. These funds will support

diverse programs including community energy plans and innovative financing, public transit (*see Cities and Communities chapter*), better urban design, and shifting freight and personal modes of transportation ($462.5 million per year).

3. Increased support for building retrofit programs, including support for energy efficiency retrofits for low-income housing, and tax measures to support phasing out inefficient lighting by 2015 ($165 million per year).

Eliminating unjustified tax expenditure on oil and gas

The AFB will eliminate the unjustified tax expenditure to the oil and gas sector, which when combined provide an estimated $1.4 billion annual subsidy to that sector. The AFB will re-direct these funds towards federal programs that ameliorate the negative impacts of climate change and help promote a sustainable society.

The AFB will start by eliminating the most egregious and unnecessary subsidy, the additional allowance that permits 100% of oil sands investments to be written off as expenses in the year in which they are incurred. This change would, in effect, implement a capital cost allowance (CCA) for oil sands that is consistent with conventional oil and natural gas (25%) in place of the 100% CCA which currently applies. Already, from 1995 to 2002, capital spending in the oil sands has increased by 1,649%, while oil sands production increased by 131%. Furthermore, over the last ten years, technical expertise related to the oil sands has improved, and oil prices have risen over 200%. This change alone will save taxpayers about $50 million annually and will be redirected to funding the initiatives mentioned above.

Protecting Canada's cherished natural capital—the NWT and species at risk

Canada's North is on the precipice of dramatic change. The alarmingly fast temperature increases (brought on by climate change) coupled with new large scale oil and gas developments, such as the proposed Mackenzie Gas project, will threaten the health of northern ecosystems, economies and communities.

The AFB will support healthy ecosystems, economies and communities in the Mackenzie Valley and the Northwest Territories. The AFB will invest $25 million over five years, and then $4 million annually, in a network of protected areas through the Northwest Territories Protected Areas Strategy, national parks proposals and regional land use plans. This must happen prior to approving any large-scale developments such as the proposed Mackenzie Gas Project.

A federally-funded independent evaluation of federal species at risk programs found that the government has not sufficiently organized nor funded these programs in order to meet international commitments and legally-mandated deadlines. Federal reinvestment is required in order to credibly address the government's responsibilities in this area.

The AFB will renew the Canadian government's commitment to the Species At Risk Act (SARA), with a $275 million investment over five years, to permit, for the first time, the effective implementation of SARA's mandate.

Both of these measures will be funded via the elimination of tax-related subsidies provided to the oil and gas sector, as described above.

Putting a price on carbon

The AFB will put a price on carbon emissions in order to integrate environmental values into market prices and to thus reduce emissions from both industrial and individual sources. The AFB will implement a greenhouse gas (GHG) emissions targets-and-trading system for heavy industry, utilities and other large emitters. This targets-and-trading system will include an increasing proportion of auctioned permits. Any GHG emissions reduction plan requires substantial reductions in industrial emissions because these comprise close to 50% of Canada's GHG emissions. Such a system would harness the power of the market to maximize emission reduction opportunities and minimize economic costs, while generating revenues to dedicate to additional GHG emission reductions. We anticipate this system will generate approximately $1 billion annually in new revenues to be earmarked specifically towards the energy efficiency and green power initiatives mentioned above.

The AFB will also introduce a modest carbon tax as an important first step towards integrating environmental values into market prices for consumers and small businesses. This carbon tax would cover most transportation, residential, commercial and institutional uses of fossil fuel, which account for almost half of Canada's CO_2 emissions, but would *not* apply to industrial users and other large final emitters subject to the Emissions Trading System. The carbon tax would be applied to all non-renewable fuels based on their CO_2 emission factors (*see sidebar for more details*). Revenue raised from the carbon tax would go to the Green Energy Tax Refund and to a range of energy efficiency and green power measures identified above. The carbon tax would initially generate approximately $2 billion to $2.5 billion per year, and would be projected to increase in future years, in order to provide a strong price signal to individuals and businesses making strategy and purchasing decisions with long-term energy consumption implications.

Using the revenues generated by both and the permit trading system (for large industrial emitters) and the carbon tax (for others), the AFB will finance several initiatives designed to ensure that households, workers and other vulnerable Canadians are assisted in making the transition toward a greener economy. These measures include:

1) A Just Transition Strategy to assist workers and communities impacted by shifting employment created by the transition toward a greener economy. Meeting Canada's Kyoto commitments will mean job losses in some sectors, job gains in others and shifts in the types of jobs available. Workers who lose jobs must be provided with other options, particularly in sectors experiencing overall growth. We will require transition programs for displaced workers to ensure that the Canadian labour force has the skills required to support a greener economy.

The Just Transition program will fund:

- training and educational opportunities for skills upgrading that allow workers to upgrade their skills for the jobs that are being created;
- early notice of layoffs so that workers can access counseling and training programs quickly;
- income support for displaced workers for up to three years to enable them to take advantage of training and educational opportunities;
- peer counseling to assess workers' needs, and analysis of labour market needs; and
- relocation funds for those who must move in order to find new work.

2) A Green Energy Tax Refund to help low and middle income Canadians transition towards sustainable energy consumption.

A carbon tax payable by consumers per litre of gasoline, fuel oil and natural gas consumed will have a significant impact on low and moderate-income individuals and households. In recognition of this, the AFB will implement a Green Energy Tax Refund that would initially be set at $500 per adult and $250 per child and will be payable to households with incomes of up to approximately $67,000 (depending on family size). At a tax rate of 15.5%, this refund would provide $77.50 per adult and $38.75 per child in refundable tax credits. For example, a two-parent family with two children would receive $232.50 after tax. Total cost of the credit would be about $1 billion per year.

3) Several other initiatives mentioned elsewhere in the AFB will be funded from the revenues generated by "putting a price on carbon": environmental stewardship funds for First Nations (*see Aboriginal Peoples Chapter*), Energy Efficiency Measures for low income households as well as the Residential Rehabilitation Assistance Program (*see Housing Chapter*).

4) Revenues from "putting a price on carbon" are difficult to estimate with precision. Based on our current projections, the spending measures above do not fully use up the fiscal room generated by both the emissions targets-and-trading system and the carbon tax to reflect this uncertainty. However, if our projections do turn out to be accurate, there will be additional funds still unused.

Any funds generated beyond what is explicitly applied to the preceeding measures will be allocated to an "AFB Environmental Fund". As the AFB Environmental Fund accumulates surplus monies, these funds will be used to fund a variety of environmental measures. While a panel of environmental experts could best decide the timing and extent of such measures, they could include financial incentives for high efficiency freight transportation, for the purchase of high efficiency cars and light trucks, incentives for enhanced carbon storage in agriculture and in forestry, and improvement in government operations to reduce GHG emissions.

In addition, the AFB acknowledges that compliance with Kyoto will require extensive long-term efforts. While we are in transition towards a Kyoto-compliant national economy, we recognize that Canada may need to purchase internationally tradable emission reduction credits via the Clean Development Mechanism within the Kyoto-protocol. The AFB Environmental Fund could also be used for that purpose.

These actions would finally put Canada on an effective track to addressing climate change. Furthermore, they would combine to redirect Canadians' tax dollars towards a modern economy and a healthier environment; reduce Canada's long-term energy dependence; and increase supplies of low-impact, renewable energy. In addition, they would reduce air pollution and related health problems, lowering the incidence of respiratory illnesses, and saving health care dollars and human lives.

Company car shift to encourage fuel-efficient vehicles

A final measure that the AFB will implement to encourage fuel-efficient vehicles is a company car tax shift, modeled on a successful program introduced in the United Kingdom. This is a revenue neutral measure that encourages employees to drive more fuel-efficient vehicles by shifting some of the tax burden from green cars to gas-guzzlers.

Protecting human health from toxic pollution

Mounting evidence confirms that increasing exposure to toxic substances in our air and water is linked to serious threats to human health, especially for children. Fortunately, Canadians have the legislative means to stop these increasingly serious problems: the Canadian Environmental Protection Act (CEPA). Unfortunately, CEPA has been ineffectively implemented and under-resourced. The AFB welcomed the government's new Chemical Management Plan as an important step forward.

To support this new Plan, the AFB recommends that the government study the options for implementing a toxics charge, as early as 2008, on companies who do not submit appropriate information on eliminating persistent toxic substances as required by the Plan. This toxics charge would be an interim measure until such time as the substances are regulated or appropriately managed.

Greening Canada's economy with market-based instruments

Looking beyond one-year budget cycles, the AFB strongly believes that Canada's future prosperity requires forward-looking policies that integrate social and environmental values into market prices, and use market-based instruments that provide financial incentives to businesses and citizens to purchase goods and services with a more positive impact on environmental and human health. Levies should be gradually increased on activities that damage society, such as pollution and waste, and simultaneously reduced (or credited) on activities that benefit society, such as employment, savings, non-polluting economic activity, and the stewardship of private land. In this way, the prices of specific goods and services would better reflect the full environmental and social costs and benefits involved in their development, production, transportation, use, and subsequent disposal. This approach could be implemented through a mix of market-based instruments, such as taxes, fees, rebates, credits, and tradable permits, and implemented in a revenue-neutral manner.

The introduction of a GHG emissions targets-and-trading system, with auctioned permits, along with a modest carbon tax, as described above, would be an important first step in this area.

Such policies reward environmental leaders amongst businesses and citizens, penalize environmental "laggards", stimulate environmental innovations with global export potential, and expedite the development of economies where economic success brings concurrent environmental and human health benefits. Furthermore, such policies provide enhanced fairness to citizens and business through the "polluter pays principle". Canada lags behind most other industrialized countries, including the United States and Australia, in utilizing market-based instruments. Importantly, these policies serve to compliment, not replace, effective regulation.

We can only provide a healthy environment and a stable climate for our children through a careful mix of well-directed financial investments, strong regulation, and strategic shifts in the fiscal incentives provided by prices throughout the economy.

Carbon tax and Green Energy Tax Refund

For fuel users that are not covered by an emissions permit trading system, the AFB will introduce a carbon tax to reduce greenhouse gas emissions. This tax will be introduced at a modest level initially in order to minimize negative economic impacts, but with a clear signal that it will be gradually increased over time.

This carbon tax would cover most transportation, residential, commercial and institutional uses of fossil fuel, which account for almost half of Canada's CO_2 emissions. The carbon tax would be applied to all non-renewable fuels based on their CO_2 emission factors.

Large final emitters such as industrial users and utilities would be exempt from this tax where they are included in an emissions trading system. Fuel use for airlines and international marine transport would not be covered at this stage, since discussion is underway about how these sectors could be covered by an international emissions trading system without resulting in national competitive disadvantages.

A carbon charge of $10 per tonne of CO_2 emissions would mean a tax of about $.024 a litre for gasoline, $.027 a litre for diesel and $.028 a litre for fuel oil and $.019 a cubic metre for natural gas. The tax would be introduced immediately on gasoline and diesel, because the federal government already charges an excise tax on them, and extended to other fuels in 2008.

Impact on households

The average household would pay an estimated $90 extra as a direct result of the carbon tax at this rate, equal to 0.13% of annual average household spending. Even if all the additional costs of a carbon tax were passed to consumers, the total impact of a carbon tax at this rate would be very unlikely to exceed ¼ of one percent of average household spending.

Despite the relatively low initial impact, middle- and low-income households have little flexibility to bear higher costs and they should be compensated early on for the impact of the tax.

Canada's tax system will need to be fundamentally reformed to become more environmentally effective and more progressive through environmental tax reform, but this will take a number of years. The introduction of initial carbon tax should not be delayed until that happens, nor should middle- and lower-income Canadians be forced to bear higher costs.

Together with the carbon tax, the AFB will introduce a Green Energy Tax Refund, compensating lower- and middle-income households for increased costs while making the tax system slightly more progressive. As the carbon tax is increased, the value of this rebate would be increased to ensure that middle- and lower-income households are not adversely affected. (The Green Energy Tax Refund is described in detail earlier in this chapter.)

A carbon tax at this rate would generate about $2 billion to $2.5 billion per year. Revenue raised from the carbon tax would go to the Green Energy Tax Rebate and to a range of energy efficiency and green power measures identified in this chapter.

Equality for Women

Last year marked the 25th anniversary of Canada's ratification of the most comprehensive treaty on women's human rights: the UN Convention on the Elimination of All Forms of Discrimination Towards Women (CEDAW). But Canada, as a 2003 UN committee noted, still had a long way to go towards meeting its treaty obligations.

The UN committee reviewed Canada's performance under CEDAW and made 23 recommendations to governments in Canada regarding this country's treatment of women. It strongly urged Canada to expand affordable child care facilities, modify the eligibility rules for Employment Insurance to reflect women's non-standard employment patterns, and increase its efforts to combat poverty among women. The committee also asked our governments to reconsider the current fiscal arrangements between the federal government and the provinces and territories, urging the re-establishment of adequate national standards to eliminate the unequal treatment women receive across the country.

During the 2006 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 light of the public commitment made by our political leaders to act on the UN recommendations, Canadians rightly expected all of the parties to work towards their implementation.

Yet, in 2006, the Conservative government made several changes affecting women's equality provisions that call into question the sincerity of its commitment to implement the UN recommendations. Some programs were eliminated, some suffered funding cutbacks, and others were fundamentally and detrimentally altered. In addition, some government equality commitments to action were stalled or reversed. The justifications for these measures were that women are already strong, already equal, and therefore don't need these policy supports. In actuality, however, although women have equality rights on paper, much more work needs to be done to make these equality rights a reality for all women in Canada.

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. Changes to the Terms and Conditions of the Women's Program in the fall 2006 have, however, completely eliminated funding for all activities linked to lobbying and advocacy, and for most research.

The AFB will reinstate the previous Terms and Conditions, along with providing a substantial increase to 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-centred services.

The AFB will also reinstate the $5 million cut from the operational budget of Status of Women Canada. The capacity of the Status of Women was completely undermined, with 16 offices being reduced to four, and 131 staff being reduced to 70.

These measures will cost a total of $4.2 million per year.

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.

Gender budgeting

The AFB will also hold a full and transparent gender-budgeting exercise encompassing all aspects of the federal budget. This requires rigorous methodology, along with a commitment to substantive women's equality as the objective of the exercise. In addition, we will ensure that every federal government report includes a tax incidence analysis for women. This is part of making the federal budget more democratic, as outlined in the Preface of the AFB.

Health Care

One year into Canada's "new" government, Prime Minister Harper has failed to address any of the health care problems left behind by Canada's "old" government. Rather, the Conservative government continues to promote the perception that increasing the private purchase of health care is unavoidable. While even the most vocal critics of the public system do not dispute the fact that it continues to meet most needs, health care remains one of the top concerns of Canadians in poll after poll.[41]

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". All federal political parties have said they are committed to the Canada Health Act and its core principles. But the rising costs of pharmaceuticals and impending labour shortages are threatening the system. If those two issues are not addressed, dramatic growth in private health care will occur. But this can be prevented.

Privatization

The federal government is using waiting times to fuel support for two-tier medicine. In a direct contravention of the spirit and principles of Medicare, the Conservative government promised to "allow for a mix of public and private health care delivery, as long as health care remains publicly-funded and universally accessible". As well as steadily eroding the broader "public" character of the health care system, this privatization approach costs more, compromises quality, and results in higher mortality rates than a not-for-profit health care system.[42]

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. These conditions should include a requirement that federal funds be spent on not-for-profit delivery of medically necessary and publicly-delivered health care, along with reporting requirements to verify where the money is going. Any funds from the Canadian Health Transfer (CHT) should be used exclusively to support provincial and territorial 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 must be confronted. Most recent figures show that in 2005 total spending on prescription drugs was $20.6 billion, double the amount spent on prescription drugs in 1999.[43] Since 1997, the calls for a pan-Canadian public pharmacare program have accelerated. Despite high-profile recommendations, such as the Romanow Report in 2002, the federal government has not acted.

Canadians' out-of-pocket expenses for prescription drug purchases have averaged increases of 9% a year since 2000.[44] Provincial and territorial governments are severely challenged by the fact that pharmaceuticals are the fastest growing and the second largest category of health care expenditure in Canada, after hospital care.[45] Meanwhile, employers cite the increasing costs of pharmaceuticals in group benefits plans as the reason they plan to shift the risk to workers and cut the level of benefits to retirees.

While Canadians pay more for drugs, the most conservative figures indicate that 12% of the population remains uninsured or underinsured for catastrophic costs. This means at least 4 million people in Canada now have no access to either a public or a private insurance plan for drugs.

In 2004, Health Accord Health Ministers were tasked with working towards a National Pharmaceuticals Strategy. In the summer of 2006, their task force made a series of recommendations envisioning a limited role for the state to ensure catastrophic drug coverage; a common national formulary; coverage for expensive drugs for rare diseases; lower generic drug prices; coordinated purchasing; streamlined drug approval; and enhanced drug safety.[46] The federal government has yet to respond to these proposals.

The AFB will therefore take immediate steps to establish the national Pharmacare program that is needed to provide equal access to major prescription drugs across the country in a cost-effective manner, and to keep the rising costs of prescription drugs in check. Essential drugs will be covered in the way that Medicare now covers hospitals and physicians. As we have seen in Australia and New Zealand, a public single-payer pharmacare system in Canada will reduce administrative costs, increase access, and promote social equality.[47]

For this to happen, price controls will be imposed on both patented and generic pharmaceutical products, bulk purchasing arrangements will be negotiated, and progressive patent reforms introduced. The start of this national drug program would be a national formulary for essential drugs that would provide for minimum standards for drug programs across the country. It would be funded on a 50/50 cost shared basis with the provinces. Provinces would reimburse the federal government for bulk purchased drugs on the formulary. The objective of the program would be to move to a first dollar, universal program.

The AFB also commits Ottawa to enter into an agreement with First Nations in order to meet the demands of the First Nations Action Plan for Non-Insured Health Benefits.

We also commit the federal government to take a leadership role in reducing unequal access to drugs across the country, and also lead the way in promoting the use of non-drug therapies for the treatment of illness and injury.

Costs

The Assembly of First Nations has called for the 3% cap on the Non-Insured Health Benefits (NIHB) program to be abolished. For prescription drugs, a 14% escalator is needed to take into account aging, inflation, population increases, and the rising costs of drugs.[48] Even though the AFB will work to decrease the costs of drug increases in the NIHB, to ensure access the AFB will allocate the following:

2007–08: $405 million
2008–09: $463 million
2009–10: $527 million

Not including increased funding for the NIHB program, the AFB will allocate $2.5 billion in 2007–08 to the national Pharmacare program. We anticipate the combination of increasing efficiencies and increasing coverage to result in the program growing by 10% per year (to $2.75 billion in 2008–09 and to $3.0 billion in 2009–10).

This new federal spending will leverage better value for money for all taxpayers in all jurisdictions, stretching the public dollar through bulk purchasing, better management of costs, and greater public safety. The additional spending, combined with cost-sharing, will permit the expansion of access and move Canada's approach to health care firmly into the 21st century, by making progress towards roughly equivalent standards of access across the country.

Dealing with the impending labour crisis in public health care

Canadians want publicly-funded health care to be available when they need it. While wait times for some procedures and tests are identified as a key problem by the current and former governments, of greater urgency is the fact that one in 10 Canadians do not have a family doctor. That means their only guarantee to primary or acute care is through the most expensive element of the health care system: the hospital emergency room.

Expanding the supply of health care providers is at the heart of ensuring the efficiency and sustainability of publicly-funded health care. Even though this central issue will become increasingly urgent over the coming decade, the federal government has yet to put forward a comprehensive pan-Canadian plan to deal with it.

Individually, we are unable to address this dynamic that increases wait times and the pressure to privatize. Collectively, however, we can solve this problem. The AFB accordingly sets out a 10-year plan to move towards a meaningful "care guarantee" by assuring there are enough health care staff, in the right place, providing the right care, at the right time.

This requires training more people to join the ranks of health care workers of all professions and abilities, and training the people we already have to learn more and better utilize the skills they already have.

The following proposals are made to address this issue at the federal level, with a cost of $400 million per year, for the next 10 years.

1. The AFB will expand the number of seats in medical and nursing schools, as well as other health professional programs, by providing more post-secondary funding. Because of the imminent and critical shortage of health care workers, the AFB designates a medical and nursing school specific grant based on financial need, which will provide 50% of tuition fees, up to $5,000, per year of study. As well, the AFB will implement a student debt-reduction program for graduates of medical and nursing and medical professional programs in return for service to designated under-serviced areas. This return of service program will be developed in collaboration with the provinces and student groups, and will be flexible, comprehensive, sustainable, and non-coercive.[49] The AFB allocates $20,000 in student debt-reduction in return for two years of service

for this purpose. There will be a mandatory review of both programs in three years.

2. To begin dealing with skills shortages in the health care sector, the AFB commits $200 million each year over three years for a pilot program in skills upgrading for existing health care workers. This pilot program will eventually become training insurance funded out of the Employment Insurance fund, but initial funding will come from Human Resources Development Canada. 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.

These investments in the labour force of the publicly-funded health care system will permit Canadians to feel more secure about the accessibility, availability, quality, and appropriateness of care. This is the essential ingredient that is currently missing in the investment designed to "fix" health care for the next generation.

Housing and Neighbourhoods

Almost 1.5 million Canadian households are in desperate need of decent, affordable housing, even though Canada has one of the most vibrant economies in the world. The situation is even worse within First Nations communities (*see Aboriginal chapter*). The spectre of homeless Canadians dying on the streets of one of the most prosperous countries in the world is a national disgrace. The shortage of affordable housing is hampering not only strategies to house the homeless, but also affects businesses since many key workers cannot find housing that they can afford in areas that have jobs.

In June 2005, Parliament approved investing $1.6 billion towards creating affordable housing as part of Bill C-48, the NDP budget amendment. The new Conservative government's spring 2006 Budget contained a reduced amount of $1.4 billion. This funding has been dispersed to provinces and territories. Conditions on the spending of these dollars are minimal, with accountability placed at the provincial levels. Most provinces have yet to announce plans for how these funds will be spent. The AFB calls on the provincial and territorial governments to consult with community and especially Aboriginal groups to jointly plan for the most effective use of these housing "trust" funds, and to develop the much needed housing without delay.

A new program, the Homelessness Partnering Strategy, was announced in December 2006 to replace the National Homelessness Initiative. Funding was provided for two years only. Funding for two years was also announced for the Residential Rehabilitation Assistance Program (RRAP). The AFB will renew both of these programs for at least five years, and will extend the mandate for the Supporting Communities Partnership Initiative, SCPI, so that long-term solutions to homelessness can be put in place at the neighbourhood level where they are needed.

In the fall of 2006, the federal government also announced cuts to the Canadian Mortgage and Housing Corporation's (CMHC's) housing programs budget. The AFB will cancel these $45 million annual cuts to restore the funding which the CMHC needs to expand the social housing stock in Canada and to address much-needed repairs to the existing stock, particularly in neighbourhoods of decline.

The AFB recognizes the strategic economic importance of retaining a strong federal role in housing, both in keeping communities competitive by providing housing for workers, and as an economic driver important to the health of the Canadian economy.

The federal government also cancelled the five-year $500 million program to improve energy efficiency in Canada's low-income households. Many low-income households are forced to spend 10% or more of their scarce income on home energy. Improved energy efficiency for home heating, cooling, and other energy uses is an important part of the answer to the growing problem of energy poverty. The AFB will reverse the government's cuts and provide the much-needed re-investment in an energy efficiency program. It will be designed in consultation with stakeholders, and will benefit the environment at the same time as it reduces energy bills for those who can least afford to pay.

A national housing framework

Canada still does not have a long-promised national housing framework. Communities need a stable, long-term commitment so that, at a minimum, 25,000 new and renovated units of affordable housing will open their doors annually. The AFB understands that mixed housing builds good neighbourhoods and better health and educational outcomes. Neighbourhoods in decline are growing in number in Canada and, without resources to turn the tide, many will be denied a chance to participate in the Canadian economy and society.

One in six Canadians lives in poverty. They are increasingly concentrated in poor communities, often lacking basic services and opportunities. Building a mix of housing for low- and moderate-income households is an essential part of an overall renewal program for these places. Community groups delivering mixed housing at the neighbourhood level can best address areas in decline and turn isolated neighbourhoods into places of opportunity.

To give communities the stability and predictability to participate as full partners in building affordable housing and to ensure an adequate supply of affordable, mixed housing, the AFB will increase funding by $1.3 billion per year.

This Affordable Housing Initiative will:

- build 20,000 new affordable housing units per year; and
- renew 8,000 units per year to ensure that the existing stock can continue to subsidize housing for households with very low incomes.

Industrial Restructuring, Sectoral Development, Training, and Protection for Workers

Canada's industrial landscape

There has been incredible pressure placed on our domestic manufacturing industries just to stay afloat in an intensely competitive global marketplace. The recent announcement of 2,000 job losses at Chrysler in Brampton and Windsor, Ontario, 2,200 production job cuts in Windsor, Ontario by Ford Motor Co., and 800 at the Goodyear Tire facility in Valleyfield, Quebec provide but two examples of how the loss of Canadian manufacturing jobs continues to devastate workers, their families, local communities and, eventually, the national economy. The government recently acknowledged the challenges faced by Canada's manufacturing sector, but continues to advocate more for adaptability to new economic "realities" rather than much needed change to industrial policy.

The response to this crisis has, thus far, been inadequate. Canada is quickly retreating to its position as hewer of wood and drawer of water within the global economy.

And things are about to get worse. After years of above average economic growth, Canada's economy appears to be cooling off, which suggests that:

- Inequality in the labour force will increase faster. In fact, the number of adults working in "low-wage" jobs (under $10/hour) has grown to one out of every eight Canadians.
- Unemployment levels will increase. This will have an effect on young workers who, as a group, have an unemployment rate (11.2%) that is well above the national average, as well as older workers. In fact, the proportion of older men with jobs had dropped in 2006 in both Ontario and Quebec — the two provinces most affected by industrial restructuring.
- Regional imbalances of employment opportunities will worsen. Since August of 2005, over 54% of all new Canadian jobs were created in Alberta and B.C, where the resource sector is booming, creating an acute regional imbalance of employment opportunities. In fact, very few "good" jobs are being created to compensate for the roughly 300,000 jobs that have been lost in the manufacturing sector since 2002.

Adjusting to the crisis: Heading in the wrong direction

The federal government is not positioned to confront the challenges that will be brought on by the need for adequate labour adjustment and income support mechanisms. Recent cutbacks to federal program spending designed to help improve the skills and mobility of workers suggest that the current government has chosen to ignore those most in need, particularly disadvantaged youth, and adult workers with literacy challenges. Cumulative cutbacks to department staffing levels since the mid 90s have diminished the government's ability to respond in a nationally coordinated way.

This is part of a longer trend that has seen the federal government's responsibility to help workers all but vanish, thanks to poor labour market planning and a hands-off approach to industrial development.

Add to this the fact that Employment Insurance benefits are not reaching the majority of Canada's unemployed as a result of qualifying rules that are out of synch with today's labour market.

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

Sector development policy

It is deeply disappointing that the "knee-jerk" response to increased global competitiveness in the manufacturing sector has been deep cost-cutting through layoffs instead of raising productivity by modernizing facilities, developing the skills of workers and investing in capital that contributes to the production of environmentally-friendly goods that better complement new economic realities. However, as manufacturers continue to move off shore while resource industries thrive, Canada is retreating to its former status as hewer of wood and drawer of water, a mere raw materials supplier to the global economy.

Continuing this trend will not only have a negative effect on jobs in our manufacturing industries, and further aggravate regional disparities, but will pose a serious threat to Canada's economic sustainability as well as its industrial competitiveness. Simply becoming a resource warehouse for world markets does very little to improve Canada's competitive advantage. Rather, we should be creating a broad and diverse industrial mix that is technologically savvy and internationally competitive — taking full advantage of our natural wealth.

We need to develop a multi-stakeholder national industrial strategy that is aligned with the demands of the "new" economy. This would result in an expansion of technological capacity that is better suited to incorporate sustainable production practices to help us meet targeted environmental commitments such as the Kyoto Protocol. A comprehensive industrial strategy can help integrate the various sectors in our economy, can push Canada to take a leading role on environmental issues globally, and can help us create new sustainable industries as well as new 'green' jobs.

The *Alternative Federal Budget* will:

- Establish multi-stakeholder Sector Development Councils in identified sectors (including major resource industries, key manufacturing sectors, call centres and strategic tradable services industries like tourism, film and broadcasting) in addition to environmentally focused, cross-sector councils such as 'Green' Jobs Councils (*see Environment chapter*). Sector Councils will be responsible for identifying major economic challenges, opportunities, and policy responses on a sector-by-sector basis. Each council must have equal tripartite participation from business, labour and other key stakeholders, including all levels of government, suppliers, and the research and academic communities. (Cost: $50 million per year in administrative and research support.)

- Expand sector-specific supports to stimulate more investment in Canada. These supports will be tied to concrete employment commitments, and developed with input from the sector development councils. (Cost: $600 million per year.)

This measure will be funded by increasing the Corporate Income Tax (CIT) rate by 0.5 percentage points. Across-the-board corporate tax cuts have driven corporate profits to record levels but have not appreciably increased business investment in the Canadian economy. The AFB will recover a modest portion of the forgone revenues through an increase in the CIT and use them to finance measures directly linked to greater investment. Even after this increase, Canada's CIT would remain lower than the general American CIT.

However, the AFB will exempt the struggling manufacturing sector from the CIT increase. This differential treatment reflects the particular importance of manufacturing in providing well-paid jobs, value-added production, international exports, and technological innovation. Other sectors of Canada's economy enjoy higher rates of profit (e.g. finance and resource extraction) and/or are not vulnerable to international competition (e.g. retail and wholesale).

There are existing precedents for the notion of a different CIT rate for manufacturers. Currently, Saskatchewan maintains a lower CIT rate for "manufacturing and processing". Recently, the United States introduced a lower CIT rate for manufacturers. Going forward, the government proposes to slash Canada's overall rate below the new American manufacturing rate. Establishing a differential rate for manufacturing in Canada, combined with the targeted measures outlined above, is a more affordable means of keeping Canadian industry competitive.

- Establish a Just Transition Fund (*see Environment chapter*).
- Institute temporary investment tax credit for investment in new Canadian-made machinery and equipment. As Canadian manufacturers continue to battle through tough economic times, these funds will help promote material capital investment and long term productivity gains — creating a stronger industrial climate that benefits workers. Targeted support measures, rather than across-the-board tax cuts, ensure that workplace investments are used to bolster our national economy and not simply line the pocketbooks of corporate shareholders. (Cost: $500 million made available to cover 20% of new machinery and equipment purchases.)
- 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-based procurement). (Cost: $0.)
- Cancel current free trade talks with South Korea and replace these talks with efforts to negotiate more balanced trade relationships with countries in the Asia-Pacific and use the suspension of the Doha talks to implement broadly based transparent and inclusive multi-level government and sector consultations, and public interest reviews on all current trade positions. (Cost: $0.)
- Create a "Buy Canada Act" with built-in "Green and Social Justice" biases that encourages an effectively coordinated public procurement strategy across all levels of government. This will help ensure

governments use Canadian tax dollars to purchase Canadian-built products, like subway cars and buses. (Cost: $0.)

Skills training

Despite record-high profits and growing complaints about skills shortages, Canada still lacks a consistent federal policy designed to promote workplace training and development. Canada still appears to fall short of other OECD countries with respect to employer-sponsored workplace training initiatives. To date, Quebec is the only province to have established a requirement that employers spend at least 1% of their total payroll on training.

Investment in education and training alone do not guarantee good jobs, but good education — at the workplace and through a well-funded public education system — together with lifelong learning systems will encourage employers to pursue higher skill business strategies and can address potential skill shortages.

The *Alternative Federal Budget* will establish four skills development programs:

- **Canadian Literacy Initiative** to fund new workplace and community programs that strengthen adult skills in reading, writing and basic math. A $30 million investment in this program will provide better job and career opportunities for individuals currently trapped in underpaid and low-skilled jobs. (Cost: $30 million over three years.)
- **Workplace Skills Strategy** that provides financial support for innovative pilot projects that commit to a management-labour Training Committee, equity measures to ensure all workers have access to training and a guaranteed expenditure of not less than 1% of annual payroll on worker training. (Cost: $125 million over three years.)
- **Labour Market Partnership Agreements** with all provinces and territories for the expansion of apprenticeships, literacy and foundation skills, workplace skills development, supports for immigrants, aboriginal peoples, older workers and other currently employed workers facing labour market barriers, based on equal federal-provincial and labour-management participation. (Cost: $3.5 billion over five years.)
- **Training and Education Center Infrastructure Fund** that matches investments in facilities and other program resources, including programs supporting apprenticeships. (Cost: $25 million over three years.)

Major investments in these workplace-training programs will ensure that all Canadians, young and old, can gain practical knowledge and skills in workplaces that promote learning as part of its culture — improving resumes, creating job opportunities and building confidence in individual workers.

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. A $10 minimum wage will help lift working Canadians, and their families, out of poverty. (Cost: $0.)
- Enact the changes to the bankruptcy laws that were passed by Parliament before the 2006 election (including a fund to protect back wages owed by companies in bankruptcy, and provisions which explicitly indicate that collective agreements cannot

TABLE 13 **Industrial restructuring**

($ Millions)	2007–08	2008–09	2009–10
Sectoral Development Councils	50	50	50
Sector specific investment supports	600	600	600
Renewable energy production incentives	312.5	312.5	312.5
Just Transition Fund	100	100	100
Investment tax credit	500	500	500
Canadian Literacy Initiative	10	10	10
Workplace skills strategy	41	42	42
Labour market participation agreements	700	700	700
Training and Education Centre Infrastructure Fund	8	8	9
Total spending	**2321.5**	**2322.5**	**2323.5**

be unilaterally rewritten by the bankruptcy court). (Cost: $0.)

- Amend EI regulations to include income support for training leaves for currently employed workers, based on the model of EI benefits for the classroom portion of apprenticeship training and amend the Canada Labour Code and the Public Service Employment Act to provide an annual training and learning leave entitlement of at least one week for all workers in federally regulated workplaces. These amendments would provide income and job security to those workers who could not have otherwise afforded to take time off work for training and skills upgrading. (Cost: $0.)

The AFB's package of measures that addresses Industrial Restructuring, Sectoral Development, Training, andProtection for Workers is funded via three sources:

1) Renewable Energy Production Incentives ($312.5 million per year) and Just Transitions Fund ($100 million per year) are funded from revenues generated by our greenhouse gas (GHG) emissions targets-and-trading system for heavy industry (*see Environment chapter*).

2) Sector specific investment supports ($600 million per year) are paid for by an increase in the Corporate Income Tax rate of one percentage point. However, the *Alternative Federal Budget* will exempt the struggling manufacturing sector from the CIT increase.[50]

3) Other measures will be funded out of general revenues.

Post-Secondary Education

Federal cuts to post-secondary education over the past 20 years have, with few exceptions, led to massive tuition fee increases, forced students to accumulate huge debt-loads, and prevented qualified Canadians from acquiring post-secondary education. Up until 2005, the federal response was generally characterized by mostly ineffectual gimmicks and saving incentives largely benefiting the upper-middle class.

During the 2004–05 minority Parliament, the 2005 federal Budget was amended, after 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 reducing 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.

Unfortunately, Canada's "new" government has failed to deliver. Inaction on the part of the Conservative government has jeopardized this $1.5 billion allocation and undermined the promise Parliament made in 2005 to freeze tuition fees. Because of this, tuition fees have been increased in six provinces, as reported by Statistics Canada last fall.

This means the federal government has not only failed to deliver what was promised to Canadians, but has also made matters even worse.

The consequences of continued underfunding undermines the quality of education offered at universities and colleges. The Canadian Association of University Business Officers (CAUBO) estimates deferred maintenance costs at Canadian universities and colleges to be $3.6 billion — of which $1 billion is considered urgent. Declining facilities range from classrooms to offices to laboratories, and deteriorating physical infrastructure has created unsafe working conditions for many students and campus employees. The number of academic staff at Canadian universities and colleges is nearly 10% below 1995 levels, and the quality of the learning and working environment is suffering.

Maintaining Parliament's 2005 commitment to reduce tuition fees is a critical component of the *Alternative Federal Budget*'s priorities for 2007–08, and extending that commitment is an essential element of undoing the decades of damage.

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. Otherwise, condition-free transfers to the provinces simply represents a further devolution of powers for what has historically been an area of loosely shared jurisdiction. A weak federal role in post-secondary education has already led to wildly varying tuition fee levels across Canada, undermining the federal government's own ability to deploy effective student financial aid policy.

Similarly, the rumoured discussions about a tax-point transfer to the provinces for post-secondary education (GST or otherwise) ignores the important role of an active federal government in helping to shape a post-secondary education system that is pivotal to Canada's international competitiveness.

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. This transfer will amount to $3.9 billion over three years. If just 50% of this funding commitment is used to reduce tuition fees, students at public post-secondary institutions will realize at least $2,000 (-33%) of annual tuition fee relief by 2009.[51]

By reducing the up-front cost of a post-secondary education, the AFB will substantially reduce student debt over time and remove some pressure on student financial aid programs. For students from low- and middle-income backgrounds, this will translate directly into both a richer educational experience and a better post-graduate quality of life.

Student financial aid

The federal government currently employs a confusing and expensive patchwork of aid programs that has failed to reduce student debt or improve access for students from disadvantaged backgrounds. The AFB's approach will consolidate this public expenditure on student financial assistance into a comprehensive system of grants. The grants will reduce the complexity of the existing system while being more responsive to students in financial need and the unique challenges of low-income students.

Until recently, federal attempts at needs-based grants have proved to be little more than publicity stunts. In the face of average debt levels of $25,000, the Millennium Scholarship Foundation was to be the centrepiece of the federal government's student debt reduction strategy. At the time of its introduction, then-Finance Minister Paul Martin declared in the House of Commons that the Foundation would help those in greatest need and reduce average student debt by $12,000. In reality, however, the Foundation has proved to be largely a public relations exercise that has led to no appreciable decrease in student debt.

A number of provinces have simply replaced their existing provincial student aid plans with Millenium Scholarship money, leaving students no further ahead. It came as no surprise that a 2003 review of the Millennium Scholarship Foundation found its impact on access "likely ranges from limited and indirect to non-existent".

The election of the Conservatives to a minority Parliament brings with it the spectre of income-contingent repayment (ICR) for student loans, a scheme intended to shift more cost to the individual, resulting in larger debts. Loan payments are spread over a longer period of time to reduce monthly payments, but compound interest makes overall debt higher over time. The modern Conservative Party's predecessors have always advocated for ICR. In fact, Human Resources and Social Development Minister Monte Solberg has pushed for this loan scheme in the House of Commons.

The AFB will scrap wasteful aid programs such as the Registered Education Savings Plans (RESPs), the Canada Education Savings Grant, Learning Bonds, the Millennium Scholarship, and others. The savings will be used to fund a national system of needs-based grants administered through the Canada Student Loans Program.

Privatization, Contracting-Out, and P3s

Although it is mostly under the media radar, the Conservative government is already embarking on an aggressive campaign to privatize public services. This agenda includes:

- **Sale of public assets,** including the National Library and Archives, External Affairs Building, and other federal properties.
- **Outright privatization.** The Conservatives are actively considering privatization of Crown corporations such as Canada Mortgage and Housing Corporation (CMHC) and the Atomic Energy of Canada Ltd (AECL).[52]
- **Forcing municipalities and provinces to consider "public-private partnerships"** (P3s) as a default condition of receiving community infrastructure funding.
- **Increased contracting-out by the federal government.** The federal government will spend about $9.5 billion on contracting-out this year, costs that have increased by about 48% (or 7% a year) since 2000–01.
- **Deep cuts to public services,** which lead directly to privatization or complete elimination of services.
- **Emphasis on tax cuts instead of social programs.**
- **Tight accountability and expenditure control on program spending,** but little review of tax cuts and weakened accountability over lucrative contracts to the private sector.
- **Restrictions on federal "spending powers" for social objectives** such as housing, homelessness, and child care.
- The Conservatives are also **promoting Trade, Investment and Labour Mobility Agreements (TILMA) between provinces,** which will limit the ability of provincial and local governments to enact positive regulations and provide public services.

This is just the beginning. The next federal budget is expected to include measures to promote commercialization of post-secondary education. The Conservative government has also shown support for more involvement of for-profit

Contracting-out in the federal public service

The federal government has been relying more and more on contracting-out as a way to deliver federal public services. This practice is wasteful and unaccountable. Significant savings can be realized by reducing contracting-out and providing direct public service delivery.[57]

According to the government, the major areas where contracting for services in the federal public services occur are in Professional, Special, Purchased, Repair, Maintenance and Information Services. The government spent about $9.5 billion on contracting-out in the 2006–07 fiscal year, compared to about $5.8 billion in the 2000–01 fiscal year; about a 7.8% average annual growth.

As part of an AFB Expenditure Review, we will conduct a transparent and comprehensive review of all contracting-out practices and costs. Initially, we will freeze contracting-out to its current level of $9.5 billion in 2006–07, and begin a process of reducing the government's reliance on for-profit service delivery.

We estimate that one-third of this $9.5 billion per year in contracted-out services, or a little over $3 billion, could be directly delivered by the federal public service, with comparable or better quality and at less cost. We assume that Ottawa will ultimately realize a savings of 20% on any service brought back in-house. Thus, when one-third of currently contracted-out services are contracted-in, Ottawa will save $472 million per year.

However, the AFB assumes that these savings will be realized gradually, given that not all contracting-in would be achieved instantly. A 5% savings, or $157 million, could be realized in 2007–08 as we begin to reverse this contracting-out. Savings will ramp up as further contracts expire and these activities are brought in-house. We assume that, by 2008–09, our savings will amount to 10% of the cost of for-profit service delivery, or $315 million, and by 2009–10 we should achieve a 15% savings, or $472 million. Thus the cumulative savings achieved by reversing one-third of government contracting-out will amount to $945 million over three years.

clinics and surgeries as part of the health care system, as Quebec has done.

These measures will further undermine our capacity to provide the kind of services, programs, and protections that Canadians want and need. Increased privatization, P3s, and contracting-out will lead to:

- higher costs for governments and taxpayers through contracting-out, sale and lease-back deals, P3s, and privatized health care;
- cuts to public services as a result of the higher costs associated with privatization;
- higher costs for the public in the form of user fees;
- compromised access to services because of increased costs and cutbacks; and,
- little or no democratic accountability or transparency through privatized services and contracts.

Public delivery of public services generally always provides more efficient, less expensive, higher-quality, and more accountable services than privatized delivery. What's more, decent public services ensure that everyone has an opportunity to contribute to society, thereby reducing inequality and improving the economy. High-quality public services increase our overall and collective economic, social, and environmental security.

Contracting-out hurts young workers

Currently, many Canadian workers employed by the federal government are hired by temporary staffing agencies and not as direct employees of the government. These workers, mostly young people and women, receive lower wages than directly-employed workers. They encounter a "mark-up" where portions of their wages go as fees to the temporary help agency. They also have limited access to extended benefits compared to those directly employed by the federal government.[58]

Since 2000, spending on non-professional contracted services in the federal government has increased by $92 million, or 16%, amounting to total spending in 2006 of over $667 million. A large chunk of this spending is on temporary help services. Scanning the various outside organizations that receive contracting dollars reveals that several large "temp" agencies are doing business with departments and agencies across the government on a regular basis. In fact, according to the temporary employment industry, the government spends $190 million annually on temporary staffing in the National Capital region alone.[59]

Elsewhere in the AFB, we stress the importance of good jobs. The AFB contends that the federal government has both the capacity and the obligation to promote high employment standards through its own staffing practices. Reallocating funds to allow the government to hire its own employees instead of resorting to temporary staffing solutions will help make the federal government an employer of choice, and be more accountable to the public, while saving the taxpayers many millions of dollars.

Most importantly, it will help young workers entering the workforce take home more money that they can use for furthering their education and starting families.

In the past, governments justified privatization by arguing spending must be cut in order to reduce the deficit — even though these cuts increased costs for the public and created ballooning social and infrastructure deficits. But this argument carries no water given the large fiscal surpluses that Ottawa has accrued over the past five years.

"Free market" lobby groups, often heavily supported by the insurance and pharmaceutical industries, are pushing for tax cuts not just to reduce taxes, but also to eliminate the "monopoly" of public services. But the erosion of a healthy tax base and the reduction of public services — which ensure many of our social needs are met — will reduce our overall sense of public collective security.

Certainly this government has made clear their intent to continue their tax-cutting crusade. But such priorities come with a significant price: cutting tax revenues will necessitate a reduction in public services down the road and thereby open up new lucrative markets for corporations seeking to benefit from the privatization of public services.

Not only do contracting-out, privatization and P3s cost more, but they don't stack up in other areas, either.

Numerous studies of P3s have shown large cost overruns and problems with lack of control.[53] Independent analysis has also concluded that benefits are often outweighed by higher costs.[54] Even promoters of P3s have acknowledged that the costs are higher.[55] Governments have faced ongoing problems by giving up control to private corporations, which have frequently increased user fees for the public and ignored public policy objectives.

Virtually all the details of private-sector contracts with federal, provincial, and municipal governments are kept secret from the public, not covered by Access to Information laws, and shielded from review by the Auditor-General.

The highly promoted Federal Accountability Act leaves gaping loopholes in accountability for government contracts. Contracts are almost all excluded from stronger disclosure, access to information, and review by the Auditor-General.[56] This could lead to further abuse of public money such as happened in the Sponsorship scandal and the $70 million or more contracting scandals at National Defence. It could also mean reduced overall accountability for government spending and a corrosive effect on funding to non-profits as government funding is steered towards private contracts and away from public funding.

Unfortunately, Conservatives and Liberals in the House of Commons and the Senate rejected proposals from the Information Commissioner, from unions, and even from some business groups to increase accountability and transparency for government contracts in the Accountability Act. Privatized services can also put our sensitive personal information at risk of abuse and manipulation by unaccountable corporations outside strict public control.

Because of the lack of accountability associated with private contracts, it is impossible to accurately estimate the extent of the waste. However, based on the limited financial information that is available, it is clear that significant savings can be found by keeping services in the public realm instead of contracting them out.

The federal government has still not implemented full cost accrual accounting for its spending and estimates process — 10 years after it promised to do so. This type of accounting, urged by auditors and accountants, would show the true annual cost of capital spending consistent with generally accepted accounting principles. It would also put a stop to the false "savings" being claimed from asset sales, P3s, and privatization.

The *Alternative Federal Budget* will:

- halt the sale of public assets, saving the federal government $200 million in banking fees and ongoing annual savings;
- close the federal P3 promotion offices;
- stop forcing municipalities, provinces and territories to use P3s for their infrastructure projects;
- redirect federal funding to support public services, instead of privatized services;
- revitalize the federal public service and reduce use of contracting-out, saving $945 million over three years;
- introduce full disclosure and accountability for government contracts and P3s;
- implement full cost accrual accounting through the federal government estimates and procurement process;
- strengthen support for programs slashed as part of the federal program review;
- require full review of the cost-effectiveness of tax incentives, contracting-out, and P3s in comparison with public delivery, and reverse these where appropriate (*see Tax Fairness chapter and other chapters*); and
- make the budgetary process much more transparent, accountable, and democratic instead of the narrowly secretive and politically controlled process it is now. (One element of this reform will include full analysis by an independent Parliamentary Budget Office of the broad financial, economic, environmental and social impacts of proposed budget measures — including analysis of the gender impact [*see Democratic Budgeting chapter*].)

Retirement and Seniors' Benefits

Financial security for older Canadians is increasingly precarious. Less than 40% of employed Canadians now have a registered pension plan at their workplace. The decline in coverage is being accelerated by the growth of non-standard employment arrangements, such as temporary or contract work, causal and part-time employment, and own-account self-employment, all of which typically lack retirement benefits. This means that more and more workers will not have the security of traditional pension plans or retirement savings programs.

The picture is even worse for women, who are much more likely than men to be employed in non-standard work arrangements. Their relatively low average earnings generally make it more difficult for them to save for retirement on their own. If current trends continue, an increasing number of older women will end up living in poverty. Already, poverty rates for today's senior women are double those of senior men.[60] Almost one-fifth of older women on their own are living in poverty, even after taking into account government transfers and tax credits.[61]

Canada needs a comprehensive plan to address the needs of its aging society. The AFB will undertake a major review of the retirement income system to ensure that it meets the needs of the changing work force and addresses the concerns of those groups who face the most uncertainty as they move into old age — particularly older women left on their own.

While the recent proposal to allow pension income splitting for married couples was commended as helping seniors, in fact it gives the biggest benefits to those with the highest incomes and does nothing to help those seniors who need help the most: elderly singles and lower-income couples who both worked before retirement. Lower-income married couples are unlikely to have pension income to split, while older women on their own, who have the lowest incomes of all seniors, receive no benefit at all from such a proposal.

These are the measures the 2007 AFB will initiate:

Strengthening the basic income guarantee

Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) provide a basic guaranteed annual income for seniors. But the guarantee is inadequate. In its February 2005 Budget, the federal government announced a 7% increase in the income-tested Guaranteed Income Supplement (GIS), to be phased in over two years, starting on January 1, 2006. Much more than this is needed to address continuing high rates of poverty among older women on their own. We will increase GIS benefits by a further 8% to a total increase of 15% as a first step to strengthening the basic income guarantee for seniors.

We estimate the cost of this measure to be approximately $800 million in the first year. The exact cost will depend on whether increased income from other sources reduces the number of people who qualify for the income-tested GIS. This extra GIS money will ensure that senior women trying to make ends meet — especially in large cities — will no longer have to worry about their financial security.

Our long-term objective is to establish public benefits at a level that ensures that the minimum income received is above the after-tax low-income cut-off calculated by Statistics Canada for individuals and families. Our approach will also pay particular attention to the needs of immigrants who may not be able to benefit from social security agreements with their countries of origin.

The Canada Pension Plan

The most recent report of Canada's Chief Actuary confirmed the sustainability of the Canada Pension Plan and stated that, in spite of the projected substantial increase in benefits paid as a result of an aging population, the plan will be able to meet its obligations through the next 75 years, even if there are unexpected economic or demographic fluctuations.[62] But there are still problems with the plan that need to be addressed — especially in relation to women and immigrants.

Some forms of unpaid caregiving are still not recognized, so women who do this unpaid work are penalized when their retirement pensions are calculated. We will take steps to have federal, provincial, and territorial ministers who administer the CPP implement an elder-care or caregiving dropout in the CPP. This will allow those who care for family members with disabilities or older relatives to exclude a certain number of years from the calculation of the average earnings on which their retirement pension will be based, as the existing child-rearing dropout allows for those who care for young children.

Changes in the CPP will not involve any direct cost to the federal government, but making these changes will mean that women who do this important and valuable work without pay will not be penalized when they claim their pensions. The finance ministers have stipulated that any new provisions in the plan must be self-financing. But we believe an increase in the contribution rate can be avoided if other measures — such as an increase in the ceiling on contributory earnings — are considered.

We will also have the ministers undertake a review of the calculation of the CPP contributory period to explore measures that would help recent immigrants accumulate adequate pensions. Immigrants need to know their future financial security is not threatened.

Changes to the third tier of the retirement income system

Tax breaks for tax-sheltered retirement saving plans are very costly for the government. The net tax expenditure (after taking into account both deductions for contributions and the taxation of withdrawals) on RRSPs alone in 2007 is estimated be more than $8.8 billion.[63]

Yet those with the highest incomes are the greatest beneficiaries of these tax-sheltered retirement savings plans. To make the maximum RRSP contribution in 2007, for example, would require an earned income of almost $106,000. Average annual earnings of women workers are currently about $25,000 a year.[64]

Contribution limits for RRSPs were increased in the February 2003 federal Budget and yet again in the budget of February 2005. The maximum dollar limit is now scheduled to rise to $19,000 for 2007, reaching $22,000 by 2010, with corresponding increases for employer-sponsored registered pension plans.

In previous years, the AFB has proposed limiting the individual tax assistance to private retirement savings through Registered Pension Plans (RPPs) and RRSPs. Under our plan to limit tax assistance to private retirement savings, the maximum annual RRSP contribution limit for 2007 will be reduced by about $4,000. We estimate that tax revenues will increase by about $600 million as a result of this rollback. The funds thus generated will be redirected to help fund the planned increase in the GIS.

Regulation of workplace pension plans

Although the federal government regulates only about 10% of pension plans in Canada, it does have certain powers that could be used to protect the pension benefits of workers and help improve their future financial security — particularly through the use of bankruptcy and insolvency laws. Some legislative reform has already been made in this direction, but more is required.

In particular, we will implement a pension benefits guarantee fund at the federal level, similar to the Pensions Benefits Guarantee Fund now in place in Ontario, that will be funded by contributions from employers who sponsor pension plans under federal jurisdiction. Such a fund will guarantee the pensions, up to certain limits, of workers whose benefits are put at risk by the bankruptcy or insolvency of their employers.

Priority for review of retirement income system in policy development

Given the growing alarm among Canadians about their financial security in retirement, we believe this issue must be made a priority for federal policy development. Accordingly, the mandate of the newly-appointed Secretary of State for Seniors will be expanded to include responsibility for Pensions and Retirement Security. The Secretary of State will then immediately initiate a dialogue on retirement security among all the stakeholders and be given one year to report back to Parliament on the outcome of this national dialogue.

Notes

1 *Growing Gap, Growing Concerns: Poll*. CCPA. November 20, 2006.

2 http://www.statcan.ca/Daily/English/061213/d061213c.htm

3 *The Social Benefits and Economic Costs of Taxation*. Neil Brooks and Thaddeus Hwong. CCPA. Dec. 6, 2006.

4 The Finance Department derives this figure by taking into consideration the government's plan to repay $3 billion in federal debt annually and use these savings produced by debt reduction to fund personal income tax reductions.

5 "Oops They Did It Again: The Federal Surplus Has Been Under-Predicted". *TD Economics Special Report*, February 19, 2007.

6 The AFB has previously warned of the unaffordability of the outstanding government promises in *Alternative Federal Budget 2007 Economic and Fiscal Update*: *Can Ottawa Afford More Conservative Government Promises?* By Ellen Russell and Mathieu Dufour, November 2006.

7 Planning surpluses are the forthcoming budget surpluses after debt repayment-related promises are subtracted.

8 Table 3, "*The Conservative Fiscal Plan*"

9 Scoffield, Heather, "Central Bank's Data Reliance Questioned", *Globe and Mail*, January 15th, 2007.

10 There is considerable variation among the forecasts we consulted concerning short term intest rates in 2007.

11 See Andrew Jackson, "Why are Personal Income Tax Revenues Rising so Fast?" *Behind the Numbers*, Volume 7, Number 6, December 2006.

12 Estimates are based on the Department of Finance's 2005 *Tax Expenditures and Evaluations* report. Without benefit of a 2006 edition, tax expenditure estimates below are conservative projections from the most recent data available.

13 For example, a taxpayer with an income of $300,000 per year would pay an additional $1,250, ½ of 1% of his or her total income.

14 "First, the proposal to allow the deferral of capital gains taxes if the proceeds are reinvested within six months time is more complicated than it looks on the surface. The policy will take considerable time to design and the costs would likely far exceed the estimate in the Conservative fiscal plan. It will also be difficult to administer". (Craig Alexander, "Outlook for

Federal Fiscal Policy", *TD Economics Special Report*. February 15, 2006. www.td.com/economics.)

15 For example, anyone who realizes a capital gain could immediately buy some other investment, such as a Treasury bill. After holding the Treasury bill for a few days, it could be re-sold with no (or negligible) capital gain. This simple action would thus eliminate any tax liability.

16 Don Drummond, "Peering into the Conservatives Fiscal Plan: more spending restraint Required than you might think". *TD Economics Special Report*, February 28, 2006.

17 Andrew Mitchell and Richard Shillington (2004) *Federal Tax Relief for low income people*. National Anti-Poverty Organization Discussion Paper, www.napo.ca/en/issues/tax%20cuts.htm

18 AFN estimate of the FN housing shortage as of 2006, based on best available information.

19 Assembly of First Nations. *First Nations Housing Action Plan*, October 24, 2005. http://www.afn.ca/cmslib/general/Housing-AP.pdf

20 Blackstock, C., T. Prakash, J. Loxley, and F. Wien. 2005. *Wen: de We are Coming to the Light of Day*. Ottawa: First Nations Child and Family Caring Society of Canada, P.43.

21 Justice Canada, *A One Day Snapshot of Aboriginal Youth in Custody Across Canada, Phase II*. February 2004. http://www.justice.gc.ca/en/ps/rs/rep/2004/snap2/index.html

22 It should be noted that while INAC's budget has grown at an overall rate in excess of 2%, this is due largely to meeting lawful obligations stemming from specific and comprehensive claims, treaties, and litigation. INAC estimates for contingent liabilities from litigation and claims were $15.3 billion as of March 31, 2005. This is up from $9.1 billion in 2001. More information available at http://www.tbs-sct.gc.ca/rma/dpr1/04-05/INAC-AINC/INAC-AINCd45_e.pdf

23 Also, in some sectors (e.g. health and housing), inflation is much higher than average which means funding will need to increase at levels greater than population and growth to maintain current levels of service. This is why those areas have been negotiating their own cost driver formulae.

24 Financial data are from INAC Departmental Performance Reports and TBS Main Estimates. Population data are from INAC published research. Inflation data are from Statistics Canada's Consumer Price Index (CPI).

25 The shortfall is the difference between actual funding and funding that keeps up with inflation and population increase.

26 From the agreement announced at the November 2005 First Ministers' Meeting (updated for population growth and inflation)

27 See "Negotiation Or Confrontation: It's Canada's Choice" *Final Report of the Standing Senate Committee on Aboriginal Peoples Special Study on the Federal Specific Claims Process*, December 2006.

28 Martha Friendly. (2006). "Early Learning and Child Care: How Does Canada Measure Up? International Comparisons using Data from Starting Strong II". *Child Care Resource and Research Unit Briefing Notes*. pp. 9, 10. http://www.childcarecanada.org/pubs/pdf/BN_EarlyLearning06.pdf; Child Care Advocacy Association of Canada (CCAAC). (2006). "The Financial Reality Behind the Federal Child Care Spaces Initiative: A Mismatch of Mythic Proportions". http://action.web.ca/home/ccaac/alerts.shtml?x=92240

29 Buildchildcare.ca. (2007). "Making Space for Child Care: Getting good child care policy back on the agenda". pp. 8. http://www.buildchildcare.ca/updir/buildchildcare/spaces_report.pdf

30 CCAAC and Environics Research. (2006). *Canadians' Attitudes Toward National Child Care Policy — Final Report*. http://www.childcareadvocacy.ca/action/codeBlue/pdf/Public_Opinion_on_Child_Care_Policy.pdf

31 OECD. (2006). *Starting Strong II: Early Childhood Education and Care*. pp. 240, 246.

32 Michael Baker, Jonathan Gruber and Kevin Milligan. (2006). "What Can We Learn from Quebec's Universal Childcare Program?" E-brief, CD Howe Institute. http://cdhowe.org/pdf/ebrief_25_english.pdf

33 Funding of $1.2 billion under the Bilateral Agreement includes $1.15B for the provinces and territories, and $25M each for First Nations on reserve and accountability.

34 Statistics Canada. *Public Infrastructure and the Performance of the Canadian Economy, 1961—2000*, a summary of 2 research papers. www.statcan.ca/Daily/English/031112/d031112a.html.

35 Statistique Canada, *Emploi selon la branche d'activité*, 2006.

36 Statistics Canada, *Gross Domestic Product by industry*, 2005.

37 Statistics Canada, *Economic Contribution of Culture*, 2005.

38 Stated on a cash basis, Budget 2006 page 222.

39 See Green Budget Coalition's *Recommendations for Budget 2007: Opportunities for a Greener Canada*, available at http://www.greenbudget.ca/2007/main.html for more details on many of these specific recommendations.

40 Joan Bryden, Canadian Press, *Harper Makes Wait Time Promise Disappear from Priority List*, July 13th, 2006,

41 Himmelstein, David U., et al (1999), "Quality of Care in Investor-Owned vs. Not-for-Profit HMOs", *The Journal of the American Medical Association*, 282(2), 159–163; Garg, Pushkal P., et al (1999), "Effect of the Ownership of Dialysis Facilities on Patients Survival and Referral for Transplantation", *New England Journal of Medicine*, 341(2), 1653–60; Rosenau, P.V., and Linder, S.H. (2003), "A comparison of the performance of for-profit and nonprofit health provider performance in the United States", *Psychiatric Services*, Feb. 2003, Vol. 54, No. 2, pp.183–187; Rosenau, P. V., and Linder, S.H. (2003), "Two decades of research comparing for-profit health provider performance in the United States", *Social Science Quarterly*, 84(2), 219–241; Schneider, Eric C., Zaslavsky, Alan M., and Epstein, Arnold M. (2005), "Quality of care in for-profit and not-for-profit health plans enrolling Medicare beneficiaries", *American Journal of Medicine*, 118, 1392–1400.

42 Canadian Institute for Health Information, Table A.1–Part 1, "Expenditure on Drugs by Type, by Source of Finance, and as a Share of Public, Private and Total Health Expenditures, Canada, 1985–2005", *Drug Expenditure in Canada Data Tables*, (Ottawa: CIHI, 2006) p.56. And CIHI, 2002a as cited in *Commission on the Future of Health Care in Canada*, "Building on Values: The Future of Health Care in Canada", p.195.

43 Figure derived from Canadian Institute for Health Information, *National Drug Expenditure Overview Table A.2* — Part 1 "Expenditure on Drugs Per Capita by Type, by Source of Finance, and Public, Private and Total Health Expenditures, Canada 1985–2005".

44 Health Canada, "National Pharmaceutical Strategy Progress Report: Executive Summary", September 21, 2006.

45 Federal/provincial/territorial Ministerial Task Force, "National Pharmaceuticals Strategy Progress Report", Government of Canada: June 2006. pp. 1–48.

46 A 1995 study showed that Australia's national drug plan kept drug costs 30% below OECD average while Canada's costs were 30% higher. Organization for Economic Co-operation and Development, "Purchasing Power Parities and Real Expenditures", 1993: EKS results, Volume 1, Paris: OECD 1995. As cited in Joel Lexchin, "A National Pharmacare Plan: Combining Efficiency and Equity", CCPA March 2001, p.7–8.

47 Assembly of First Nations, "First Nations Action Plan for Non-Insured Health Benefits", April 25, 2005.

48 Canadian Association of Interns and Residents, "Return of Service Discussion Paper", June 2001, www.cair.ca.

49 This differential treatment reflects the particular importance of manufacturing in providing well-paid jobs, value-added production, international exports, and technological innovation. Other sectors of Canada's economy enjoy higher rates of profit (e.g. finance and resource extraction) and/or are not vulnerable to international competition (e.g. retail and wholesale).

Across-the-board corporate tax cuts have driven corporate profits to record levels but have not appreciably increased business investment in the Canadian economy. The *Alternative Federal Budget* will recover a modest portion of the forgone revenues through a 1% increase in the Corporate Income Tax (CIT) and use them to finance measures directly linked to greater investment (outlined in the Industrial Restructuring chapter). Even after a 1% increase, Canada's CIT would remain lower than the general American CIT.

There are precedents for a different CIT rate for manufacturers. Until recently, a Manufacturing and Processing Allowance effectively reduced the tax rate on manufacturers. Currently, Saskatchewan maintains a lower CIT rate for "manufacturing and processing". Recently, the United States introduced a lower CIT rate for manufacturers. Going forward, the Conservative government proposes to slash Canada's overall rate below the new American manufacturing rate. Reintroducing a differential rate for manufacturing in Canada, combined with the targeted measures outlined above, is a more affordable means of keeping Canadian industry competitive.

50 Calculations based on 2005 *Actuarial report of CSLP*; average fees outside Quebec in Fall 2007 are estimated to be $5,800, post secondary education full-time enrolment outside Quebec is expected to be 814,000. Quebec's enrolment is roughly 22% and is factored out of this calculation. Student groups in Québec have expressed a reluctance to reduce fees further, preferring instead to keep the freeze and reinvest new federal money in other areas.

51 http://www.theglobeandmail.com/servlet/story/LAC.20061016.RCMHC16/TPStory; http://www.theglobeandmail.com/servlet/story/LAC.20061116.AECLSB16/TPStory/TPNational/

52 http://www.cupe.ca/p3s; http://www.cupe.ca/www/privatization/15959

53 "Public-Private Partnerships in Canada: Theory and Evidence", Aiden Vining and Anthony Boardman, Saunder School of Business, University of British Columbia, December 2006. http://csgb.ubc.ca/p3_workingpapers.html

54 http://www.td.com/economics/special/db0606_p3s.pdf;

55 See http://www.cupe.ca/government/CUPE_proposes_change

56 This is based on information from the Main Estimates and utilizing a formula to identify contracting out costs formerly employed by the Federal Treasury Board. See *Contracting for Services: An Overview*, TBS Canada, April 11 1994

57 General Statistics on temp workers from *The Vulnerable Worker, Is Work Working: Work Laws that Do a Better Job*; The Law Commission of Canada http://www.lcc.gc.ca/research_project/er/tvw/dp/chap2-en.asp

58 Vito Pilieci, "Ottawa staffing firms fear loss of federal contracts", *The Ottawa Citizen*, Wednesday, July 05, 2006.

59 Statistics Canada (2005) *Income in Canada 2003.* Catalogue no. 75-202-XIE, p. 121.

60 Ibid. p. 146.

61 Office of the Chief Actuary (2004) Actuarial *Report on the Canada Pension Plan as at 31 December 2003*

62 Finance Canada *Tax Expenditures and Evaluations 2005.* At http://www.fin.gc.ca/toce/2005/taxexp05_e.html

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

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