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Alternative Federal Budget 2008

A Budget Canadians Can Count On

AFB 2008

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Introduction

Budgets are intensely political documents, reflecting the values and priorities of the governments that produce them. They are fundamentally about choices. The budgetary priorities and choices put forward in this year's Alternative Federal Budget stand in stark contrast to the current minority Conservative government's priorities.

AFB 2008 works within the context of healthy fiscal surpluses and the looming threat of an economic downturn to deliver a budget that Canadians can count on — in good times and bad. It tackles pressing issues of sustainability by investing in meaningful action to reduce greenhouse gas emissions. It also strengthens vital public services that benefit rich, middle income, and vulnerable Canadians — many of whom are struggling with financial insecurity due to precarious work and wage stagnation.

AFB 2008 makes this the year of poverty reduction, in an era where Canada can well afford to lower intolerably stubborn poverty rates among our First Nations, women, visible minorities, new Canadians, young families raising children, and seniors. It reflects a growing body of evidence that Canada's income gap between the rich and the rest of us is unacceptably large and puts forward solutions that will lessen inequality, restore fairness to our tax system, and provide needed public supports to Canadians of all income levels — because it's not just about income, it's about quality of life.

The AFB is the result of collaborative deliberations by representatives of a wide spectrum of civil society organizations. It puts Canadians' long-term interests ahead of short-term political gain, ensuring our national investments benefit the majority and strengthen our nation economically as well as socially.

The Conservative government's budgetary priorities and choices couldn't be more different: personal tax cuts whose individual impact has been trivial but whose overall effect has been to reduce our capacity to meet Canadians' public service needs; corporate tax cuts to put us ahead in a race to the bottom that nobody wins except for big corporations; dramatic increases in military spending; and funding cuts in most other areas.

The legacy of this minority government is one of neglect: the Conservative government has failed to address some of the most pressing issues of our time. Climate change is the most pressing planetary issue in terms of its potentially catastrophic environmental, human and economic consequences, yet the Harper government's plan to reduce greenhouse gas emissions has been widely condemned as ineffectual. The government has been very active on the military front: its commitment to spend an estimated $22 billion on military procurement not only deviates from Canada's internationally respected role as peacekeeper, it forecloses our nation's ability to meet urgent social needs. Canadians are working harder but they are struggling to afford the basics: housing, child care, post-secondary education. There has been nothing in the previous two Conservative budgets to address these issues. Canadians have not been able to count on their government to get them through shaky financial times.

Internationally, the minority Conservative government has tarnished Canada's reputation with its knee jerk support of U.S. military and environmental policies, its refusal to honour its international commitments and its goal to transform our military into a combat-oriented force integrated with American military machine. It has used the Afghanistan mission as an opportunity to advance this effort with the largest Canadian military build-up since the Second World War — a mission that has skewed Canada's international development priorities, has entailed huge human and financial cost, and despite its presence for more than five years, the political situation has deteriorated in that region.

We could do so much more. Canada is one of the most affluent nations in the world, with an economy — the eighth largest on the planet — that has literally doubled in size since 1981. The last decade has seen strong economic growth and, alone among the G-7 countries, an unbroken string of federal fiscal surpluses.

These are prosperous times, but not all Canadians have shared in this prosperity. The income gap between the rich and the rest of us has grown so rapidly that it has virtually wiped out all of the gains made in the post-WWII period. Middle-income families are no better off than they were 30 years ago; the rich have grown into the super-rich. And although Canadians have continued to demonstrate increased productivity in the workplace, their work isn't paying off the way it used to. Canadian families are working, on average, 200 hours more a year compared to just 10 years ago, but average real wages have been stagnant for 30 years. A shocking 80% of Canadian families are taking home a smaller share of the economic pie today compared to a generation ago. Meanwhile, corporate profit shares are at a 40-year high. Simply put, corporations are not sharing the wealth.

The benefits of economic growth have not been felt equally across the country, from province to province and sector to sector. Disproportionate profits in the oil fields were offset by a steep decline in the manufacturing sector, resulting in hollowed-out communities in Eastern Canada as scores of displaced workers headed west to find employment. And, looming in the background, the American economy is showing some weakness, as international economists slowly begin to adjust their fiscal projections downwards.

This government has missed an historic opportunity to reduce the growing gap between the rich and the rest of us; to fulfill the unanimous Parliamentary promise pledged in 1989 to eliminate child poverty; to provide displaced and laid-off workers with economic and social security when they fall on hard times; to begin to redress the historic injustices to Aboriginal peoples; to restore and expand funding for post-secondary education and training, public health care and pensions; to establish and fund a universal child care system so that our children have access to the best early childhood education and our working parents get the support they need to balance family and work. Instead of investing Canada's fiscal surplus in these vital initiatives, which Canadians want, the Conservative government announced it would be directing the entire surplus to tax cuts and accelerated payments on the national debt.

Ten billion dollars was applied immediately to the national debt, with $3 billion allocated each subsequent year, pushing the 25% debt-to-GDP ratio "goal" up to 2011–12. Money "saved" through reduced interest payments on the debt would be translated into tax cuts, further draining our national fiscal capacity by another $2.5 billion in lost revenues.

This, for a minority government, is shocking. Its tax cut agenda to date reduces Canada's fiscal capacity by close to $190 billion over the next six years. That $190 billion could, and should, fund programs and services that all Canadians can count on but within a matter of years — the blink of an eye — it will have disappeared with no lasting investment in this and future generations of Canadians.

In its Economic and Fiscal Update the Conservative government claimed that the best way to counter economic uncertainty was to take advantage of our unprecedented strong fiscal situation and "put in place historic tax reductions that will bolster confidence and encourage investment, while at the same time remaining in a surplus position."

When the reality of a potential economic slowdown finally entered the public debate, the Conservative minority government demonstrated an appalling lack of leadership, warning Canadians that the 2008 federal budget will not include any major new tax or spending initiatives in order to avoid a deficit.

Moreover, the Conservative government has made it clear that Canadians should expect little from the 2008 federal budget. Cities, too, should look elsewhere for help with crumbling infrastructure: the federal government is "not in the pothole business," Flaherty told mayors. Apparently, after the tax cuts announced in the 2007 fiscal update, government creativity, and its sense of responsibility to Canadians, had been exhausted.

In doing so, the Conservatives are turning their backs on the vast majority of Canadians — particularly the most vulnerable — during economic times that are growing increasingly uncertain.

AFB 2008 recognizes that it is neither socially nor fiscally prudent to allow the gap between the rich and the rest of us to grow unabated. The test for every affluent nation is not how big it can grow its economy or how rich it can make its wealthy. Rather, the test of public policy is: has it bettered the lives of its citizens, especially its most vulnerable? AFB 2008 examines the evidence and finds that both our labour market and our governments are failing this test. And our budget comes up with do-able, lasting solutions — it's a budget Canadians can count on. The AFB believes that not only *can* Canadians expect more from their governments, they *should*. For the AFB, it's not only that government can and should take action on these issues, but that inaction is not an option.

Gender budgeting

Canada's budgetary deficit was eliminated about a decade ago. That budget was balanced on the backs of the poor, and on the backs of women. Women disproportionately carried the burden of the 1995 drastic funding cuts to social programs. In the face of those service cuts, it was women who took on more unpaid work in the care of the aged, young and infirm. It was women who faced greater economic insecurity when unemployed, less assurance that Employment Insurance would be there for them when they need it. It was women who lived with greater personal insecurity as housing and legal aid programs were gutted.

Women represent over half of the population. The minimal test of good, democratic government is that budgets are at *least* gender neutral, but Canada has failed to meet this test. Ten years of federal surplus budgets have delivered hundreds of billions in tax cuts and scant re-investment in social programs other than health care. Research shows that tax cuts disproportionately benefit men, while social program spending disproportionately benefits women.

There is no excuse for governments to fail to provide the public with a gender-based assessment of the impacts of budgetary initiatives. Canada must adopt comprehensive, rigorous, and accountable gendered analyses in the federal budgetary process. Gender-responsive budgeting aims to address the persistent inequalities between women and men by integrating gender-based analyses into macro-economic and micro-economic policy development. To this end, AFB 2008 includes a gender-based analysis in all budget chapters.

Prosperity and the common wealth

AFB 2008 provides significant increases in public and social investments that will help to ensure that our nation's prosperity is shared by all. This includes affordable and accessible child care and early learning; affordable housing and post-secondary education; a national pharmacare program; and the expansion of public transit. These are programs that benefit all Canadians — rich, middle-income, and the most vulnerable. That is why they enjoy the support of the majority of Canadians, and it is why this year's AFB makes them a priority for investment.

The economic gap between First Nations communities and other Canadian communities, and between First Nations citizens and other Canadians, is the result of unequal treatment in law and in practice: a refusal to recognize and implement inherent Aboriginal and Treaty rights. AFB 2008 tackles this vital issue and begins to bring fairness to our First Nations.

Parliament can and must act on its long-standing promise to eliminate child poverty — family poverty — in this affluent nation. AFB 2008 shows us how to address poverty and income inequality in a balanced, measured way by enhancing income supports that we know to be effective, such as the Canada Child Tax Benefit, and by improving programs that are supposed to be there for Canadians when they fall upon hard times, such as Canada's Employment Insurance program. All these goals can be achieved through a balanced budget process, using available surpluses and targeted revenue increases when necessary.

Environmental stewardship and an effective strategy to confront climate change

Climate change has gripped public attention in Canada and across the planet; rightfully so. 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.

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. This is particularly significant at a time when our society is faced with unacceptably high levels of poverty and increased inequality. AFB 2008 presents initiatives that will address environmental challenges while supporting low-income households, workers and communities in the transition to socially and environmentally sustainable economy. To that end, AFB 2008 will implement a comprehensive environmental plan to address the environmental challenges Canada faces and to advance Canada towards being an international environmental leader.

Strengthening national identity, democracy and sovereignty

Our policies, laws, and institutions should reflect our unique social character and blend of individual and collective rights; they should facilitate the management of our complex federation (tri-national and multicultural). AFB 2008 charts a course that enhances Canada's reputation as a good global citizen committed to peace, human rights, respect for international law, responsible environmental stewardship, and social and economic justice.

One of the most important factors affecting our national identity is the dominant cultural, economic, political and ideological influence of the United States. AFB 2008 ensures we have the policy teeth necessary to give expression to Canadian identity.

A strategy to address the changing nature of work and the economy

The growth of resource extraction and export, along with the startling erosion of our value-added manufacturing capabilities, has reversed Canada's previous progress toward becoming a more diversified and developed economy. Although deliberately fostering the development of value-added industries and reducing our national dependence on resource exports has been a policy preoccupation of Canadian governments since before Confederation, governments in the current era have adopted a much more passive role in economic development decisions. The market-driven specialization of Canada as global resource supplier has once again predominated, and free trade agreements (especially NAFTA, which explicitly assigns Canada a role as energy storehouse for the U.S. economy) have been important in cementing this trend.

AFB 2008 believes that Canadians should take a long, hard look at the consequences of this resource-led restructuring of our entire economy, and what it implies for our national economic and social prospects. We should not automatically assume that just because overheated global commodity markets have driven prices for certain resources to extremely high levels (for now, anyway), we should therefore reorganize our entire national economy in response. AFB 2008 provides two sets of policies: the first is aimed at better managing the unfolding process and benefits of the resource boom, and the second attempts to foster and support value-added economic activity.

Macroeconomic and Fiscal Framework

Federal budget surpluses have been a defining characteristic of Canadian fiscal policy for the past decade. The presence of annual surpluses has changed the terrain of the policy debate from meting out short-run restraint to a fuller discussion about long-run opportunities. By and large, however, those opportunities have been squandered.

The Alternative Federal Budget has consistently argued for social reinvestment of surpluses in order to meet the many challenges facing the nation. Yet federal program expenditures remain very low by historical standards. Program spending was 13% of GDP in 2006–07, up from the all-time low hit in 1999–00 and 2000–01, but still well below levels seen over the post-WWII period. In the 1960s and 1970s, program expenditures ranged from 15–18% of GDP.[1] Importantly, program expenditures today are three to four percentage points lower than the last time Canada was in a recession.

Business lobbyists and conservative groups have called for tax cuts on the grounds that they will improve Canada's economic performance. These calls have been heard loud and clear. The 2000 and 2001 budgets delivered major multi-year tax cuts that lowered federal revenues-to-GDP from 18% in 1999–00 to just over 16% by 2005–06. New tax cuts introduced in the October Economic and Fiscal Update will reduce this share even further (*see below*).

A third option, debt reduction, has arguably been a hidden priority of budget-makers: some $105 billion in debt reduction has occurred as a result of surpluses over the past decade. Canada's debt-to-GDP ratio fell from 68% in 1996–97 to 32% in 2006–07, partly as a result of economic growth and partly as a result of continuing budgetary surpluses.

With the delivery of a new package of major multi-year tax cuts in the October 2007 Economic and Fiscal Update (EFU), it is now possible that, irrespective of one's priorities, the debate on how to spend growing surpluses may be at an end. While official projections still call for surpluses between now and 2012–13, these surpluses are predicated on a continuation of the relatively strong economic growth that has characterized Canada for much of the past decade. Signs from south of the border point to a U.S. economy that may already be in recession, and this recession may be longer and deeper than those in the recent past.

The good news for the federal budget is that, in the event of a serious downturn, the government has substantial room to run a deficit if it chooses. Compared to other G7 countries, Canada's net liabilities are the lowest by a fair margin, with other countries running deficits in recent years compared to Canada's surpluses.

In this section, we review the major fiscal actions in recent budgets and the October 2007 Economic and Fiscal Update. The AFB forecasts a balanced budget under the most recent economic growth assumptions from the Bank of Canada. However, if a major downturn were to occur, the budget would naturally move into a deficit position. We would let this happen and not cut spending in order to achieve a balanced budget, as such a move would worsen the underlying economic situation.

Building Whose Better Canada? 2006–07 in Review

Under the cover of "Building a Better Canada" the Harper Conservatives have set out a fiscal agenda that will continue the trend of the past decade to further shrink the size of the federal government. The two key planks of this agenda are broad-based tax cuts and proposed legislation to limit federal spending power in areas of provincial jurisdiction.

The Conservative government was actually well under its 2006–07 Budget on expenditures, by about $5 billion, during the fiscal year. This provided the room to finance $4 billion of expenditures announced in the 2007 budget by billing it to the 2006–07 fiscal year. Only this late surge made expenditures come close to what was originally budgeted.

Federal revenues were 16.3% of GDP in 2006–07, which is low by historical standards, and a reflection of the priority given to tax cuts in recent years. The final public accounts for the 2006–07 year recorded a large (19%) increase in corporate income tax revenues. Corporate profits have been booming in recent years, but this has not translated into substantially larger tax revenues because companies can write off prior year losses against current profits. It appears that those losses have now been fully utilized.

The diminished size of Canada's government since the mid-1990s is revealed dramatically in a recent study published in *Canadian Public Policy* by Ferris and Winer (2007). After making adjustments to national accounts frameworks in Canada and the U.S. for better comparability, they find that the size of government in Canada and the U.S. is virtually identical. There are some important differences in how funds are allocated (a much larger chunk of U.S. expenditures go to defence) but nonetheless this is indicative of how much the public sector has been reduced by both Liberal and Conservative governments.

The second broad thrust of fiscal policy, the notion of limiting federal spending power in areas of provincial jurisdiction, amounts to short-term political opportunitism vis-à-vis the province of Quebec. While it may appear that the federal government is moving ahead based on principle, this is at odds with other proposed moves that would exercise federal powers to harmonize provincial regulations. In the fall 2007 Speech from the Throne, the federal government appeals to respecting provincial jurisdiction as a justification for restricting federal spending on social programs. But right after this, the Throne Speech invokes an often-repeated but highly dubious claim about interprovincial trade barriers in order to use federal powers to challenge provincial jurisdiction to meet local needs through public interest regulation. The Conservatives' principles seem less about respecting federal and provincial jurisdiction and more about whatever measure will act to further reduce the size of government.

On reflection, in the decades after the Second World War, the federal government used its

TABLE 1 The Cost of 2006 and 2007 Tax Cuts ($billions)

	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13
Corporate income	1.1	5.9	7.9	9.3	11.5	14.8
Personal income	12.3	10.3	10.1	10.3	10.6	11.2
GST	7.1	12.0	12.6	13.2	13.7	14.2
Total	**20.5**	**28.2**	**30.6**	**32.8**	**35.8**	**40.2**

SOURCE Economic and Fiscal Update, October 2007, Table 3.1

taxation power to set a national social agenda, including cost-shared programs in health care, post-secondary education, and social welfare. Much of Canada's social infrastructure to this day is rooted in a few decades of productive co-operation between federal and provincial governments. While the federal government has retreated from that role in recent decades, it would be foolish to give up on use of federal spending power to forge a stronger nation.

A reduction in taxes and social spending will not build a better Canada for most Canadians, but rather will extend the gains made by the very top income earners in the country, and leave the federal government standing on the sidelines as the score piles up. The AFB sets out a different set of policy options and demonstrates that budgets can reflect choices that truly make a difference in Canadians' lives.

Tax Cuts in the Economic and Fiscal Update

Like the Liberal governments before it, the Conservatives, in tabling Budget 2007, greatly understated the size of available surpluses — a bias towards debt reduction. A look at the 2006 Budget is revealing. The projected surplus at budget time for 2006–07 was $3.6 billion (mostly earmarked for debt reduction). By the time of the 2007 Budget, that number grew to $9.2 billion. And upon release of the year-end public accounts, it was revealed that the surplus was $13.8 billion (a new accounting rule makes it $14.2 billion, as some media have reported). This surplus is about 1.0% of GDP.

This landscape has now shifted dramatically with the Canadian economy slowing down and the delivery of multi-year tax cuts in the Economic and Fiscal Update. At the time, it was the presence of large and looming surpluses that gave the impetus for tax cuts. More recently, the Finance Minister has changed his tune arguing that the tax cuts were a pre-emptive measure against the downturn itself, though no quotes can be found around the time of the EFU indicating that this was his intention. Ask the question any way you like and the answer usually comes out the same: tax cuts.

The tax cuts announced in the EFU have greatly eroded the fiscal capacity of the federal government. These include:

- The second one-percentage-point cut to the GST cut, to 5% as Jan. 1, 2008. This move delivers on an election promise for the Harper government much earlier than anticipated.
- An acceleration and deepening of corporate income tax rate reductions. The 2007 federal corporate income tax rate of 22% will fall to 15% by 2012, a drop of one-third.
- A restoration of the 15% bottom personal income tax rate that the Liberals had tabled prior to the 2006 election, and that the Conservatives raised to 15.5% to help pay for their first-round GST cut. The basic personal exemption (the threshold for paying income tax) was increased for 2007 and 2008.[2]

The EFU tax cuts build on tax cuts announced in the 2006 and 2007 budgets. Fully phased in, the total revenue loss from the EFU is $14.7 billion per year by 2012–13. But if these previously-announced tax cuts are taken into consideration, the total revenue loss from Conservative tax cuts by 2012–13 is an alarming $40.2 billion per year. Table 1 shows the revenue loss by type of tax for 2007–08 and over the subsequent five years.

While much attention has been paid to GST cuts, corporate income tax cuts (i.e. the total drop in statutory rate from 22% to 15%) will cost the Treasury more when fully phased in ($14.8 billion per year in 2012–13). This figure is greater than either the two-percentage-point cut in the GST ($14.2 billion) or the combined 2006 and 2007 personal income tax cuts ($11.2 billion). Moreover, the corporate income tax cuts are essentially an upper-income tax cut,[3] and despite being very costly to the Treasury, they are unlikely to have any significant economic impact.

AFB Fiscal Framework

Because tax cuts mostly kick in starting in 2008–09 and gain strength thereafter, the fiscal impact is not obvious in the current year. We revise the estimate of growth for 2007 downwards based on the most recent Monetary Policy Report from the Bank of Canada. Yet, we still project that the federal government will end the 2007–08 year with a surplus of $11 billion (*see Table 2*). The AFB puts this surplus into a fund for capital or infrastructure projects of strategic importance (public transit infrastructure, social housing and child care facilities) over the next three years.

We estimate a three-year planning framework for 2008–09 to 2010–11, based on January's Bank of Canada updated GDP forecasts.[4] For 2008–09 and the next two fiscal years, we estimate latent surpluses of $1 billion, $3 billion and $6 billion. AFB revenue and expenditure recommendations are then added to the base case (*see Table 3*), such that the federal budget is roughly balanced in each year (technically, small surpluses exist if economic growth is in the forecast range).

Fiscal Policy in a Slowdown

In spite of some troubling developments in the U.S., the possibility of an economic downturn has not been adequately considered by policy makers in Canada. On the home front, real GDP has not dropped in Canada since 1991, and apart from a dip below 2% growth in 2001 (a year the U.S. economy went into recession), real GDP growth has been strong for a decade. Moreover, the unemployment rate in recent years has dropped to levels not seen since the early 1970s. As the U.S. economy has sagged through 2007, the Canadian economy has continued to grow, although with some signs of slowing.

The relative strength of the Canadian economy in 2007 vis-à-vis the U.S. has led some commentators to argue that this represents a "decoupling" of the Canadian and U.S. economies — that it is a "myth that every time the U.S. sneezes, Canada catches a cold."[5] There is some evidence that Canada is less dependent on the U.S. economy in 2008 than in the recent past. Exports to the U.S. as a share of GDP have been declining since 2001 and in 2007 dropped back to levels last seen in the mid-1990s. The total share of Canadian exports going to the U.S. has also declined somewhat, although three-quarters of Canadian exports are destined south of the border.[6]

While there may be some decoupling with the U.S., there is no reason to expect that Canada is fully disconnected given such close trade and investment ties. If the U.S. economy goes into a recession, there is every reason to believe that there will be knock-on effects in Canada, and policy makers need to prepare for that possibility.

TABLE 2 Updated Status Quo Fiscal Framework

	2007–08	2008–09	2009–10	2010–11
Macroeconomic Indicators				
Nominal GDP	1,521,515	1,583,897	1,667,844	1,741,229
Annual growth	5.2%	4.1%	5.3%	4.4%
Budgetary Transactions ($millions)				
Revenue	243,442	242,336	253,512	264,667
Program Spending	198,365	207,625	216,970	225,145
Debt Service	34,000	33,609	33,527	33,305
BUDGET BALANCE	11,077	1,103	3,015	6,216
Closing Debt (accumulated deficit)	456,191	455,088	452,073	445,857
Budgetary indicators as percentage of GDP				
Rev/GDP	16.0%	15.3%	15.2%	15.2%
Budget balance/GDP	0.7%	0.1%	0.2%	0.4%
Debt/GDP ratio	30.0%	28.7%	27.1%	25.6%
Effective interest rate on government debt	**7.37%**	**7.37%**	**7.37%**	**7.37%**

NOTES Base cases use Bank of Canada's January 22 Monetary Policy Report for revised GDP estimates for 2007, 2008 and 2009. For 2010, Economic and Fiscal Update estimate is used. Revenues are estimated by keeping constant the revenue-to-GDP ratio as set out in the EFU. EFU estimates are used for program spending. Debt service figures are recalculated based on the effective interest rate on government debt in 2007–08 to adjust for changes in the closing debt.

SOURCES Bank of Canada; Finance Canada.

TABLE 3 Summary of AFB Measures ($millions)

	2007–08	2008–09	2009–10	2010–11
Revenues				
Base Case	243,442	242,336	253,512	264,667
AFB Tax Measures		15,099	24,377	28,558
Total	**243,442**	**257,435**	**277,889**	**293,224**
Program Spending				
Base Case	198,365	207,625	216,970	225,145
AFB measures		16,202	26,975	33,211
Total	**198,365**	**223,827**	**243,945**	**258,357**
Debt Service	34,000	33,609	33,609	33,609
Balance	**11,077**	**0**	**335**	**1,260**

The overall outlook for the U.S. economy is more pessimistic than for Canada, according to major private-sector forecasters. Forecasters tend to fall into two camps. Many support the view that after a slowdown in 2007 U.S. economic growth will regain strength through 2008, and will essentially be back to business-as-usual within 12 months. Others have taken a more pessimistic line, based on the deflating housing bubble and the related and ongoing impact of the sub-prime mortgage debacle on financial markets. This latter camp puts the odds of a U.S. reces-

TABLE 4 AFB Spending Measures (Increases from current proposed spending) ($millions)

	2008–09	2009–10	2010–11	Total
SECTION 1 Securing Our Common Wealth				
Aboriginal Peoples				
Health, education & housing	750	1,550	1,900	4,200
Eliminate 2% cap	429	400		829
Family support services	129	129	130	388
Skills & training	40	40	40	120
Environmental Stewardship	114	114	114	342
Urban centres	25	30	35	90
Friendship centres	5	11	16	32
Child Care and Early Learning	1,100	2,200	3,300	6,600
Cities & Communities				
Social Economy Initiative	44	44	44	132
Building Communities fund	3,977	6,356	6,556	16,889
Equality for Women				
Funding to Status of Women Canada	50	50	50	150
Equality Enhancement Fund	10	10	10	30
Gender Equality Commissioner	3	3	3	9
Health Care				
Non-insured health benefits (NIHB)	200	463	527	1,190
Skills upgrade & tuition relief	200	400	600	1,200
Pharmacare	900	1,800	3,000	5,700
Housing				
Affordable housing initiative	1,000	1,500	2,000	4,500
Social housing maintenance fund	10	10	10	30
Residential Rehabilitation Program renewal		128	128	256
Homelessness Partnering Strategy renewal		135	135	270
Post-Secondary Education				
Post-secondary Education Transfer	432	1,700	2,400	4,532
Federal Grant Program	440	1,000	1,800	3,240
Post-secondary Student Support Program	233	233	233	699
University research funding	200	200	200	600
Poverty Reduction Fund	500	1,200	2,000	3,700
Retirement and Seniors' Benefits	600	612	624	1,836

Table 4 (continued) AFB Spending Measures (Increases from current proposed spending) ($millions)

	2008–09	2009–10	2010–11	Total
Section 2 Environmental Stewardship and Climate Change				
Just Transition Fund	50	100	100	250
Low-income housing retrofits	100	100	100	300
Energy Efficiency	300	567	567	1,433
Public Transit Supplement	600	800	1,000	2,400
Renewable Energy Strategy	250	388	388	1,027
Green Investment Fund	200	500	500	1,200
Transfers to municipalities & First Nations	100	200	300	600
Action on Nature	200	200	200	600
Great Lakes and St. Lawrence River	450	900	900	2,250
Agriculture	250	250	250	750
Section 3 Sovereignty, Democracy and Identity				
Canadian Culture				
Museums	75	75	75	225
International support	25	25	25	75
Mentorship	0.5	0.5	0.5	2
Development	460	802	1,200	2,462
Section 4 Changing Nature of Work and the Economy				
Value-Added Development Agency	1,750	1,750	1,750	5,250
Total Expenditures	**16,202**	**26,975**	**33,211**	**76,388**

sion in 2008 at 50% or greater, and some believe the U.S. economy was already in recession as of the fourth quarter of 2007.

For Canada, the slowdown in U.S. demand is compounded by the appreciation of the Canadian dollar by 60% (from its all-time low in 2002). While robust global demand and high commodity prices have boosted the Canadian resource sector (most notably in Western Canada), the macroeconomic picture has not been pretty for manufacturing in Central Canada. Job losses in manufacturing by late 2007 exceeded 300,000 compared to peak levels in 2002.

Forecasters have been lowering their estimates for Canadian economic growth in recent months, and historically have tended to be excessively bullish until the economy was actually in recession. Domestic factors may also play a role in a slowdown story (the EFU sees any downside to the Canadian economy as purely the consequence of external factors).

There is evidence that Canada's housing boom is easing, and this will have an impact on real estate and residential construction employment. Fortunately, Canada has not seen the excesses of the type made infamous by the U.S. sub-prime debacle, and a trend toward lower interest rates by the Bank of Canada will help. But the tally of losses by Canadian banks and pension funds from investments in U.S. sub-prime mortgages has been growing. This may lead to banks and other lenders tightening up credit and charging higher rates for mortgages and loans themselves, as has already occurred over the past year.

In recent months, the Bank of Canada lowered its overnight rate by one-half a percentage point, signaling a shift (at least, temporarily) away from a narrow obsession with rising inflation to more general concerns about the state of financial markets and the overall economy. However, this move will have little effect on longer-term rates.

If there is a downturn, the federal budget will naturally turn towards deficit, and federal policy should not be to cut spending to balance the budget. If anything, federal fiscal policy can and should be more stimulative.

In response to a downturn, personal and corporate income tax revenues and GST revenues will minimally slow, and possibly decline. Automatic stabilizers, such as the Employment Insurance program, have been greatly weakened since the mid-1990s, but in the face of a downturn they will push the budget towards deficit. EI surpluses have already shrunk a great deal due to rate cuts, from a $4 billion excess of premiums paid over benefits paid in 2001–02 to an estimated $2 billion in 2007–08. If unemployment were to rise, the EI account would turn to deficit rather quickly.

Having saved for a rainy day, the federal government should be prepared to use the umbrella of deficit-spending if need be. In addition to measures like EI that put money into the hands of people who will need it, there is a compelling case to be made for additional measures that could absorb slack in the labour market as it develops. There is much work to be done on climate change, poverty, transportation, etc. that make a compelling case for public spending as the vehicle for action.

Notes

1 Even the 13% in 2006–07 is an overstatement due to an accounting charge of $2.8 billion (reflecting bad debts on the accounts receivable front and one-time costs associated with a change to public service pensions). Take out this adjustment, which exists only on the books, and the 7.5% increase in program spending is actually a 5.8% gain — it also would make the underlying surplus closer to $17 billion.

2 This is a temporary tax cut as the value of the basic personal exemption was already tied to inflation. The EFU's ways and means section clarifies that the exemption is increased by about $671 in 2007, $298 in 2008, and a mere $6 in 2009, above what would have otherwise been. The value to taxpayers in each would be 15% (the bottom bracket rate) of the respective amount.

3 A recent tax incidence study for Canada notes that corporate income tax is a progressive tax, as the ownership of corporate Canada is fairly concentrated at the top of the income distribution (Marc Lee, 2008. *How Resilient is the Federal Budget to an Economic Downturn?* AFB Technical Paper #2, January 2008. http://www.policyalternatives.ca/Reports/2008/01/ReportsStudies1800/index.cfm?pa=BB736455).

4 This includes the downward revision of 2007 growth (5.2% for 2007 compared to 5.9% in the EFU) contained in the January 22 Bank of Canada Monetary Policy Report. This has a knock-on effect on revenues in future years relative to the EFU.

5 Comment by Douglas Porter, economist at BMO Nesbitt Burns, cited by McKenna (2007).

6 Based on calculations done by Stephen Gordon on Statistics Canada data, http://worthwhile.typepad.com/worthwhile_canadian_initi/2007/12/on-the-canada-u.html

Taxation

If taxes are the price we pay to live in a civil society, then Canada has become much less civilized in recent years. Tax cuts have been the top political priority for the federal government. Irrespective of the issue, the answer is almost always a tax cut.

While Canadians would not object to having some extra dollars in their pockets, few are asking for tax cuts. Given the challenges facing Canada as a nation, most Canadians would rather keep that money in the public sector to invest in programs and infrastructure that sustain our society and environment, and that contribute to our shared international obligations.

After a decade of solid economic growth those challenges are as acute as ever. It is clear that tax cuts cannot build more affordable housing or end homelessness. Tax cuts will not improve conditions for Canada's Aboriginal people. Tax cuts will not solve the challenges posed by global warming and will not clean up our environment. Tax cuts will not expand early learning and child care programs. Tax cuts will not make it easier to get to work in the morning, nor will they create healthy communities.

In short, tax cuts fail to deliver on what Canadians really want for their families. Moreover, tax cuts have eroded tax fairness in Canada and have contributed to growing economic inequality. The tax measures have made Canada's tax system less progressive: the major beneficiaries of the various tax cuts have been upper income taxpayers.

The Alternative Federal Budget raises the revenue needed for strategic investments, but also to make the tax system fairer and more sustainable. Only by pooling our money together can we make progress on the challenges facing us as a nation.

Tax Fairness

In 1990, the overall tax system was progressive (meaning higher tax rates as incomes rose) up to the middle of the distribution, then it was relatively flat. By 2005, the system had become less progressive for Canadians in the bottom of the income distribution, and regressive at the top. The shocker is that tax rates are slightly higher for Canadians in the bottom 10% than those in the top 1%. The peak tax rates are in the middle, and are about six percentage points of income higher than the top and the bottom.[1]

A key reason why the most affluent pay less of their income in taxes is that they tend to receive a greater share of that income from sources that are not taxed (such as inheritances and bequests) or lightly taxed (such as the capital gain from selling stocks). But tax cuts were the major factor behind the erosion of Canada's tax fairness, with personal income tax cuts leading the reduction in rates at the top. Tax cuts have reinforced the growing gap arising out of the labour market, being implemented precisely when inequality in pre-tax incomes surged.

The AFB provides several initiatives that generate additional revenue and curtail the growth in the income gap. New tax measures increase the federal government's capacity to provide programs and services that benefit all citizens by increasing taxes on taxpayers with the greatest capacity to pay. The AFB restores tax fairness to Canada's tax system, and would return us to a system that reduces, rather than reinforces, inequality trends.

This means reversing the tax cuts announced last October that have so depleted Canada's fiscal capacity.

Restore the GST to 6%

The AFB restores the GST to 6%. This will reverse the 2008 GST cut on July 1 2008, redirecting billions of dollars into improving our infrastructure — also taking the pressure off local property taxes and user fees.

Restoring the GST raises $4.5 billion in 2008–09, rising to $6.6 billion in 2010–11.

New tax bracket for incomes over $250,000

Incomes have exploded at the very top of the pay scale. Recent income tax cuts have disproportionately benefited the highest income earners and have contributed to rising income inequality.

The AFB increases the tax rate for incomes over $250,000 from the current rate of 29% to 31.5%. This measure will raise $1.1 billion in new revenue from Canadians who have seen their income grow at the fastest pace and it will be used for programs that will benefit all Canadians regardless of income.

Full inclusion of capital gains income

The AFB would tax capital gains at their full value, adjusted for inflation, on the principle that a buck is a buck, and the tax system should not tax labour income more heavily than income from the appreciation of assets. This will also encourage longer-term productive investments in the economy and discourage short-term speculation.

Employee stock options

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 $438 million in 2008–09.

RRSP contribution limits

While many taxpayers may allocate some income to RRSP/RPPs, few are able to come close to the maximum contributions. Maximum contributions have been increasing over the past few years, and are set to continue to increase until 2010. Raising this ceiling amounts to an additional tax break for upper income Canadians, as

TABLE 5 AFB Tax Measures ($millions)

	2008–09	2009–10	2010–11	Total
Greater Equity				
Increase Canada Child Tax Benefit to $5,000	(2,000)	(3,200)	(4,200)	(9,400)
31.5% tax rate on income above $250,000	1,071	1,124	1,180	3,375
Maintain maximum RRSP/RPP deduction at 2007 level ($19,000)	121	243	364	728
Education tax savings changes	796	1,470	1,650	3,916
Tax Fairness & Simplification				
Increase the inclusion rate for capital gains, personal	594	2,495	2,619	5,708
Increase the inclusion rate for capital gains, corporate	624	2,595	2,699	5,918
Employee stock options	438	459	482	1,379
Meals and entertainment expense deduction	111	456	468	1,035
Environmental Tax Initiatives				
Carbon tax on non-industrial emitters at $30/tonne CO_2e	5,250	7,000	7,000	19,250
Emissions permitting and trading system revenues	250	1,300	2,500	4,050
Green Tax Refund	(3,750)	(5,063)	(5,316)	(14,128)
Investment				
Restore GST to 6%	4,515	6,285	6,580	17,380
Maintain federal corporate income tax rate at 2007 levels	2,845	4,007	5,856	12,708
Corporate tax rate restored to 28% for oil & gas sector	1,750	1,750	1,750	5,250
Strategic investments fund (funded from 2007–08 surplus)	2,500	3,500	5,000	11,000
Equity tax credit Community Economic Development Investment funds	(15)	(45)	(75)	(135)
Total	**15,099**	**24,377**	**28,558**	**68,034**

most Canadians do not come close to maximizing their contributions.

The AFB freezes the maximum annual RRSP contribution rate at the 2007 rate of $19,000. This will save $121 million in 2008–09, $243 million in 2009–10 and $364 million in 2010–11. This will only affect individuals with incomes above $100,000 who contribute the maximum.

Proceeds of capping RRSP contributions at 2007 levels will help partially fund an increase in the GIS and provide additional income to retirees that need it most.

Increase Child Tax Benefit to $5,000

As part of its anti-poverty strategy the AFB increases the Canada Child Tax Benefit (CCTB) to $5,000 annually. The benefit has become an important means of providing financial support to low-income households with children. But the child poverty rate remains stubbornly high. The AFB supports the maximum refundable child tax benefit based on proposals from the Caledon institute and Campaign 2000. The program will be partially funded by folding the two new Conservative government's child income benefits into the CCTB and investing additional funds to support the program.

The program will be phased in and will reach the $5,000 maximum in 2010–11. These changes are stated as being net of revenues for each year, although the CCTB is in practice an income transfer and could also be stated as an increase in expenditures. The cost is $2 billion in 2008–09, rising to $4.2 billion in 2010–11.

Education tax savings changes

Tuition fees continue to increase across Canada, providing an obstacle and a burden for all students but especially for low-income households. AFB 2008 increases the accessiblility of post-secondary education by funding a national system of needs-based grants to be administered by the Canada Student Loans Program.

The program will be funded by ending the Registered Education Savings Plan, the Education Savings Grant, the Millennium Scholarship Foundation, the tuition fee credit, education credit and the newly introduced textbook tax credit. It is expected that these changes will, when fully implemented, make approximately $2 billion available annually to fund the new grant program (phase-in period is beyond the three-year AFB framework).

CED fund equity tax credit

The AFB provides an equity tax credit for community economic development investment funds. This proposal is modeled on a successful program that has been in place in Nova Scotia for a number of years, which provides a 30% equity tax credit for investments in community economic development funds (many of which are also RRSP eligible).

Meals and entertainment expense deduction

The AFB will eliminate the corporate meals and entertainment expense deduction, as of January 1, 2009. Fully phased in, this will save the government more than $400 million a year.

Corporate taxes

The AFB maintains for 2008 and subsequent years the 2007 corporate income tax rate (a base rate of 21% plus a surtax of 1.12%). This move increases available revenues by $2.8 billion in 2008–09, $4 billion in 2009–10 and $5.9 billion in 2010–11. The AFB, however, does not cancel tax cuts for small business.

Corporate tax cuts, in particular, are poorly attuned to the specific challenges facing the nation. Corporate tax cuts are justified on the grounds that they will increase investment in Canada. This is a dubious claim, as corporations invest for so many other reasons: access to resources (think oil patch), access to markets, availability of skilled labour, and energy costs are the main ones. If Canadian rates were way out of line, and all of these other factors were the same as comparator countries, there might be some justification for cutting corporate rates, but this is not the case.

Prior to the current tax-cut exercise, Canadian corporate income tax rates were already lower than in the U.S., and back in the heyday of high investment and productivity growth in the 1960s, the federal rate was 40%, or close to double the 2007 rate. It is often pointed out that the Nordic countries tax capital relatively lightly and make up their revenues elsewhere. While this real-world example that must be kept in mind, there is little evidence that Canadian rates are high in comparative terms.

A related claim is that Canada's rates on the margin for new investment are too high. This is the marginal effective tax rate (METR) claim, advanced by the CD Howe Institute and the Department of Finance. There are some questionable methodological issues in how these rates are calculated and how comparable they really are across countries.[2] Even on its own terms, recent targeted measures (e.g. accelerated depreciation for manufacturers) have greatly reduced Canada's METR so that we are no longer "uncompetitive".

Finally, the subsidiaries of U.S.-based corporations are taxed in the U.S. based on their global profits. Increasing those profits by lowering Canadian taxes will simply lead them to pay the tax to the U.S. treasury instead of the Canadian treasury.

Corporate income tax on oil and gas sector industry

The AFB restores the federal corporate income tax rate to 28% (the initial level that prevailed before deep federal CIT cuts beginning in 2003) for the oil and gas industry (*see Sectoral Development Strategy chapter for more information*). This raises approximately $1.75 billion per year in new federal revenue in support of a value added development strategy. The application of differential corporate tax rates for particular sectors has been a feature of federal tax policy at many times in the past, motivated by the desire to stimulate particular sectors (such as secondary manufacturing and processing) or tax others (such as energy or finance).

Greening the tax system

In addition to making the tax system fairer, the AFB also makes it more ecologically friendly in order to reduce greenhouse gases (GHGs). A major part of this is to begin to put a price on GHG emissions to end the treatment of the atmosphere as a free dumping ground. This will provide better signals to consumers and businesses to do the right thing, although the AFB also ensures that the people who did the least to cause the problem are not punished. The load must be shared in an equitable manner.

Carbon tax on non-industrial emitters at $30/tonne CO_2e

The AFB calls for an initial charge of $30 per tonne of carbon dioxide equivalent (CO_2e) emitted, consistent with the proposals in the Green Budget Coalition recommendations for Budget 2008. Similar to last year's AFB, this involves a hybrid system: a carbon tax at a rate of $30 per tonne of CO_2e emitted on most sources of CO_2 emissions (such as transportation, residential, commercial) that would not be covered by an emissions permitting and trading system, and an emissions permitting and trading system for large final emitters of greenhouse gas emission (*see below*).

A carbon tax at this rate that applied to fuel used by most forms of road and rail transportation (excluding aviation and international marine) and to fuel used by residential, commercial, institutional, public administration, construction and agriculture sectors would raise slightly more than $7 billion a year fully phased in, based on both 2005 emission figures and 2005 energy supply-demand fuel use figures.

Together with a carbon tax, there needs to be complementary measures to both compensate for the additional costs, particularly on lower- and middle-income households, and, from an environmental policy perspective, to help households and others of lesser means reduce their carbon emissions.

The carbon tax would come into effect on July 1, 2008. Adjusting to a fiscal year basis, this leads to an initial $5.25 billion that would be collected in 2008–09. This revenue will be recycled into the Green Tax Refund/Credit (valued at $3.75 billion in 2008–09) and other measures to address climate change.

More details on this are provided in the Environment chapter.

Green Tax Refund/Credit

A carbon tax, as well as emissions permitting systems which put a price on carbon, will have a larger proportional impact on lower- and middle-income households which spend a higher proportion of their income on fuel, other forms of energy, and energy intensive goods and services.

To offset these adverse distributional impacts the AFB includes a green energy tax refund: a refundable tax credit that completely compensates lower- and middle-income households for the direct impacts of higher carbon taxes. This would be in the form of a progressive tax refund modeled on the format of the GST tax credit, but for a larger amount that would also reach more households.

The green energy tax refund would provide an after-tax refund of $300 per adult and $150 per child. The full refund would be provided to all families with a family income of up to $70,000. Above this, it would phase out at a rate of 5% of income above $70,000.

Further details of this measure are outlined in the Environment chapter.

Emissions permitting and trading system revenues

The AFB includes an emission permitting and trading system to apply to all large final emitters of GHGS in Canada. It will raise about $1 billion in revenues in the first year, rising rapidly as more permits are sold off, instead of granted for free.

The AFB sets an absolute domestic cap of 350 Mt in 2009 for heavy industry/large final emitters, declining by 5% a year to reach 200 Mt by 2020. More details are provided in the Environment chapter.

Notes

1 See recent CCPA study by Marc Lee, *Eroding Tax Fairness: Tax incidence in Canada, 1990 to 2005*.

2 See Ruggeri and McMullin (2004) for a good critique of the METR concept.

SECTION 1

Securing Our Common Wealth

Shared prosperity: Social and economic security

For years, Canadians have been encouraged to go for the gold: to make collective sacrifices, grow the economy, and ensure our nation is competitive in a globalized world.

Canadians have responded, and ours is now the eighth largest economy on the planet. Our economy has doubled since 1981, and working Canadians have contributed to that growth. But that prosperity is not being shared by all Canadians, and our government has failed to use the gift of budget surpluses to invest in the social and economic security of this, and future generations. It is not too late to change this.

The test for every affluent nation is not how big it can grow its economy or how rich it can make its wealthy. Rather, the test is how well it treats its most vulnerable — and whether those who have less have a reasonable shot of doing better in their lifetime.

Because poverty is not just an income issue, but an issue of affordability of the basics in life, the following section proposes significant increases in public and social investments that would help to ensure that our nation's prosperity is shared by all. These proposals will benefit most Canadians, but will be of added significance to families at the lower end of the income ladder — most of whom are working poor.

Shared prosperity includes affordable and accessible child care and early learning, which is absolutely critical to Canadian families' ability to participate in paid work; affordable housing; affordable postsecondary education; a national pharmacare program; and the expansion of public transit. These are programs that benefit all Canadians: rich, middle-income, and the most vulnerable. That is why they enjoy the support of the majority of Canadians, and it is why this year's AFB makes them a priority for investment.

The growing gap between rich and poor is at an extreme for First Nations. This economic distance between First Nations communities and other Canadian communities, and between First Nations citizens and other Canadian citizens, is the result of unequal treatment in law and in practice; a refusal to recognize and implement inherent Aboriginal and Treaty rights. This structural unfairness must be corrected for Canada to succeed in addressing the issues raised in the Alternative Federal Budget.

From an income standpoint, there are several things our federal government could be doing right now to secure the economic well-being of low-income Canadians. Our federal Parliament can and must act on its long-standing promise to eliminate child poverty in this affluent nation. This year's AFB shows us how to address poverty and income inequality in a balanced, measured way by enhancing income supports that we know to be effective, such as the Canada Child Tax Benefit, and by improving programs that are supposed to be there for Canadians when they fall upon hard times, such as Canada's Employment Insurance program.

This year's AFB proposes closing the growing gap between the rich and the rest of us by increasing personal income taxes for those at the very top, and ensuring that capital gains are taxed at the same rate as earned income, rather than at half the rate as is the case at present. Canadians in the very highest income categories are paying less tax in comparison to all other income groups today than in 1990, so that the overall tax system now bears as heavily on the poor as the rich. This is a perverse situation that should be redressed in the interests of economic fairness. It is also the most sustainable way of investing in today's generation, and securing the future of those who come behind us.

1.1 Aboriginal Peoples

Canada's constitution uniquely recognizes the inherent Aboriginal and treaty rights of the Inuit, First Nations, and Metis peoples. In addition, there are some unique challenges that arise from the historic relationship between Aboriginal peoples, governments, and their non-Aboriginal citizens. For both of these reasons, there is a need for particular consideration and specific programs to directly address the issues faced by Aboriginal peoples.

This chapter is divided into two parts to separately deal with the issues that can be addressed by First Nations governments and those which are constitutionally the responsibility of federal, provincial, or territorial governments.

First Nations

The growing gap between rich and poor is at an extreme for First Nations whose immense poverty causes communities to recede further from the mainstream economy while non-Aboriginal Canadians, exploiting the resources on First Nations territories, become increasingly rich.

This economic distance between First Nations citizens and communities on the one hand and other Canadian citizens and communities on the other is the result of unequal treatment in law and in practice; a refusal to recognize and implement inherent Aboriginal and Treaty rights. This structural unfairness must be corrected for Canada to succeed in addressing the issues raised in the Alternative Federal Budget.

In a disappointingly short-sighted decision, the federal government chose to repudiate the commitment toward all Aboriginal peoples that was made by the Prime Minister and all Provincial Premiers to national Aboriginal leadership in the 2005 agreement known as the Kelowna Accord. That agreement promised investment of $5 billion over five years to begin the process of addressing poverty, redress the fundamental inequities between First Nations and other Canadian citizens, and alleviate the fiscal insecurity that First Nations communities face across the country.

The funding identified in the Kelowna Accord was to be invested over the five-year period running from 2006 through 2011. However, as a result of the failure of the Government of Canada to meet any of its commitments under the first two years of this agreement, the full five-year funding agreed to at that time must be invested over the remaining three years. **The AFB allocates $4.2 billion to First Nations communities, to meet the needs identified by the Kelowna Accord.** A further $800 million is allocated to supporting Aboriginal people living in urban centers. The $4.2 billion will be invested in housing, health care and education initiatives over three years. As this investment is truly a harm-reduction strategy to allow First Nations to then begin to build real economic growth, the previous five-year commitment must now be reached within three years. Failure to do so will result in a deepening of existing poverty and an entrenchment of its effects. Each year these investments do not reach communities is another year a child goes without a school, a parent goes without a job, a community goes without adequate housing and water. The cumulative impact — or the cost of doing nothing — is too expensive for Canada not to act now.

First Nations governments are forced to operate with significantly fewer resources than provinces and territories. Government figures confirm that First Nations received approximately $6 billion from the federal government in 2006–07. This funding is for all services — services that other Canadians receive from all three levels of government, such as primary and secondary education (provided by provincial governments), roads and infrastructure (provided mainly by municipal governments), and all services provided by the federal government to Canadians.

When compared to what the average Canadian citizen receives in programs and funding, First Nations government funding lags significantly behind.[1] Since 1996, the federal government has maintained an arbitrary 2% cap on spending increases for core services.[2] The 2% annual increase for First Nations budgets 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 a population increase of over 29% since 1996.

When adjusted for inflation and population growth, the total budget for Indian and Northern Affairs Canada (INAC) decreased by 3.5% between 1999 and 2004, and funding for core services such as education, economic and social development, capital facilities and maintenance decreased by almost 13% in the same period.[3] 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 through 2007–08 is $774 million.[4] If nothing is done, the shortfall will continue to grow. **The AFB will therefore invest $829 million in fiscal years 2008–09 and 2009–10 to eliminate the shortfall created by the 2% cap over the past 10 years.** The AFB will develop an appropriate escalator clause to ensure that future investments keep up with the rate of inflation and First Nations population growth.

The funding of child welfare systems for First Nations is a particular example of inequality in practice. On a per capita basis, First Nations children are over-represented within the child welfare system, roughly 15 times more than non-Aboriginal children.[5] 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.

Despite the gravity of the situation, First Nations child welfare services are funded at a lower rate than comparable non-Aboriginal services on a per-child basis. This unequal treatment is now the subject of a human rights complaint bought by a First Nation against the Government of Canada.

Current funding formulae drastically underfund services that support families and allow them to safely care for their children in their homes and communities. As a result, for First Nations the removal of children from their homes and communities is often the only option considered, not the last option. **The AFB will therefore 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.**

The opportunity to augment the role of First Nations in Canada's economy cannot be lost. Canada is facing a labour force replacement challenge that can be significantly reduced by assisting First Nations workers to participate in the economy at a rate equal to other citizens. In addition, the uncertain investment climate that the resource development sector faces, due to conflict and a failure to address First Nations rights over land, can be relieved through appropriate resource revenue-sharing agreements. Health and social costs can be minimized by lifting First Nations out of poverty. Canada's overall economic prospects will be improved simply by achieving equitable investment in First Nations communities with that enjoyed by the rest of the country.

Investments in job skills training and employment programs among Canada's fastest growing and youngest demographic group can reduce unemployment, alleviate poverty, and address part of Canada's skilled labour shortage at the same time. As Canada's population ages, an integrated labour replacement strategy focused on First Nations youth can be both an effective and efficient solution that is of mutual benefit to First Nations citizens and the Canadian economy.

The Government of Canada must commit to work with First Nations to eliminate the cycle of dependency 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 labour market initiatives must be promoted and maintained. A stronger link is needed between INAC's Income Security program and the Human Resources and Social Development Canada's (HRSDC) Aborigi-

GENDER ANALYSIS Aboriginal Peoples

The poverty reduction plan as outlined in this chapter has beneficial gendered impact. In 2000, the median income of Aboriginal women was $12,300, about $5,000 less than the figure for non-Aboriginal women who had a median income of $17,300 that year. The median income for Aboriginal men was $15,500.[7]

The income of Aboriginal women varies according to their areas of residence. In 2000, those living on reserve had the lowest income among Aboriginal women at just under $11,000, and those living in urban areas had the highest median income at almost $14,000.[8]

As women typically rely more on community services, investing monies to fulfill the shortfalls of the 2% cap and ensuring that it is adjusted according to inflation are welcomed and will have a positive effect on the lives of women.

The Child Welfare policy and family, community support as outlined in this chapter is welcomed and has beneficial impacts on women. In 2001, 19% of Aboriginal women aged 15 and over were single mothers, compared to 8% of other women in Canada.[9]

Resolving land claims, treaties' infringements and resource revenue sharing will have a great impact on women. Ensuring that women are justly represented in negotiations and decision-making will better reinforce gender equity.

The majority of Aboriginal women live in off-reserve areas. The AFB's three-year investment in Friendship Centres is a welcome initiative. In 2001, 30% of all Aboriginal females lived in a city with over 100,000 residents, while 23% lived in other urban areas.[10]

nal Human Resources Development Agreement (AHRDA) program and a commitment to fair and just resource revenue-sharing agreements is necessary.

The AFB will make an initial investment of $120 million over three years to begin work on these key issues.

The AFB allocates $342 million over the next three years to support First Nations participation in environmental decision-making, and to support First Nations communigtes address and adapt to climate change related issues. Enhancing First Nations capacity for environmental stewardship and improving access to natural resources will 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.

While the cost of investments in Aboriginal Peoples is significant, approximately $6 billion over three years, two comparable figures should be borne in mind. First, the federal surplus this year alone (prior to the changes announced by the Minister of Finance in October) was projected at $14 billion, more that twice the amount recommended for investments here over three years. The investments called for by the AFB must also be put in the context of the Crown's contingent liability of more than $15 billion dollars. That contingent liability is the estimated amount the Crown would legally owe if all claims against it by First Nations were settled in court.

We also need to consider the cost of not engaging in this effort. Based on figures from RCAP, the lost economic opportunity, lost labour force potential, reduced economic health, and escalating health and social costs of the current environment amount to more than $12 billion per year.[6]

Aboriginals living in urban centres

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

The 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 with a pledge to start with a minimum of $800 million over three years.

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.

The long-term sustainability of Friendship Centres — which represent part of the social infrastructure that is uniquely focused on the needs and aspirations of urban Aboriginal peoples — requires enhancements to the funding levels that were established a decade ago. 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 single solution will be applicable to all urban Aboriginal peoples. Therefore the AFB will allocate over $90 million over three years to Aboriginal peoples in urban centres. The funding will be allocated by community organizations in a manner that responds to the local concerns of urban Aboriginal peoples and builds on and develops the linkages between community development, cultural centres, and employment strategies.

To specifically assist Friendship Centres and ensure that they continue their vital and cost-effective work, the AFB will invest an additional $32 million over three years for programs and infrastructure.

Notes

1 Assembly of First Nations, Federal Funding to First Nations: The Facts, the Myths and the Way Forward, November 2004.

2 While INAC's budget has grown at an overall rate in excess of 2%, this is due to legal obligations such as 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 is available at http://www.tbs-sct.gc.ca/rma/dpr1/04-05/INAC-AINC/INAC-AINCd45_e.pdf).

3 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).

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

5 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.

6 Report of the Royal Commission on Aboriginal Peoples

7 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

8 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

9 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

10 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

1.2 Child Care and Early Learning

> "Child care is the ramp that provides equal access to the work force for mothers."
> — **Rosalie Abella**

The above statement was first published in the 1984 Royal Commission on Equality of Employment, and it continues to be true today. Indeed, in addition to being a key component of the eventual achievement of equality for women in the workforce, child care investment and services are key to the social and economic security of *all* Canadians. Quality child care services promote healthy children and families, stronger, more inclusive communities, and a productive, well-performing economy, as well as forwarding women's equality.

Yet, in spite the extensive and compelling evidence outlining the positive outcomes that child care can accomplish for communities, families, the economy and equality, Canada continues to perform poorly when it comes to early learning and child care — particularly for a wealthy country. 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.[1] Outside of Quebec, regulated child care spaces exist for fewer than 20% of Canada's children, despite the fact that three-quarters of working women in Canada have young children.[2]

Research and evidence confirms what families already know from experience: that child care must —

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

These are the public investment approaches that are most likely to build a quality, universal ELCC system.

Child care is good for Canada's children and families. Perhaps nowhere is this more true than when it comes to our Aboriginal children populations. Investments in Aboriginal early learning and child care, and particularly programs that are designed specifically for Aboriginal children, are widely recognized as a promising approach to improving the well being of participating Aboriginal children and families. Yet a significant number of Aboriginal children do not have access to early learning and child care, despite what is known about the demonstrated positive long-term impact these programs can have on the lives of children. Indeed, the 2001 Aboriginal Peoples Survey found that less than half (46%) of Aboriginal children aged zero to six living off-reserve spent time in child care, and only 16% of six-year-old Aboriginal children had attended early learning and child care programs specifically designed for Aboriginal children.

Despite the wide recognition of the benefits of child care for children's well-being, health and educational attainment, the last few years have been discouraging ones from the perspective of creating a nation-wide child care system. After significant time, energy, and resources were spent negotiating the 2005 Bilateral Agreements with the provinces in order to provide $1.2 billion per year of committed and dedicated federal funding for the provision of child care services, those agreements were subsequently broken by Canada's current government. Those agreements were replaced with the Child Care Spaces Initiative, which planned to allot instead up to $250 million — a reduction of $950 million — by enticing businesses and non-profits to provide child care by way of incentives. This endeavour has proved to be unsuccessful, as most businesses are aware of the complex nature of child care provision and are reluctant to access the funds.

Along with the Spaces Initiative, the Conservatives introduced a taxable allowance of $1,200 per year, per child under the age of six. 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 direct cash transfers to families that the current federal government has introduced provides no accountability for the quality and affordability of child care services that parents can access with these funds. By taking a hands-off approach to the creation of new spaces and refusing to set standards for care, the Harper government's approach opens the door wide to private operators whose first priority is profit, not service. And already, profit-seeking multinationals are walking through that open door. A large-scale, foreign-owned corporation with links to Australia has begun contacting child care centres in British Columbia, Alberta, and Ontario, and has made purchases in the latter two provinces.

For these and other reasons, Canada risks repeating the Australian experience, where corporate child care dominates and where increased public funding has not translated into making quality programs more available and affordable. Instead, high fees, service gaps, and public concerns about quality characterize the Australian experience.[3] Meanwhile, corporate profits have escalated. The lesson of Australia should be a lesson to Canadians that now, more than ever, emphasis must be placed on services being publicly or community owned and accessed.

Despite the federal government's funding cuts, and the risk of foreign-owned corporate child care, Canadians have not given up on a national system of ELCC services. The broadly based pan-Canadian Code Blue for Child Care Campaign which was launched in 2006 continues to fight for the child care system that Canadians want and need. Over the past year, the campaign has placed a great deal of focus on supporting the

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In 2004, 73% of all women with children under age 16 living at home were part of the employed workforce. In 2004, 65% of all women with children under age 3 were employed.[4]

In 2004, almost three out of four employed women with at least one child under age 16 at home were employed full time.[5]

In 2003, the poverty rate was 48.9% for single-parent mothers compared to 20% for single-parent fathers.[6]

federal Bill C-303, the Early Learning and Child Care Act, a private member's bill introduced by MP Denise Savoie (NDP). This act would establish criteria and conditions for funding early learning and child care programs in order to ensure the quality, accessibility, universality, and accountability of those programs.

The AFB supports national child care legislation, as proposed by Bill C-303. 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 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, with timelines and targets.

Child care requires a secure and adequate 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 that has been developed by child care advocates recommends funding that builds to $10 billion in annual child care support. This investment represents less than 1% of Canada's GDP. That level of funding would make available a quality, affordable child care space to all children under six in Canada on either a part-time or a full-time basis, and it would be consistent with minimum recommendations by our European counterparts.

Research tells us that investment in a quality, universal child care system provides 2:1 economic returns. It's also interesting to note than 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. This analysis paints a convincing economic picture, but the same research also tells us that the increase in labour force participation comes largely from the enhanced ability of women to play a larger role in their own economic security and well-being.

In order to achieve the long-term goals for child care, the AFB will increase total annual funding for ELCC to $5 billion by 2011–12, by which time all children aged three to five should have access to a quality child care space in their community. Starting in 2008–09, building this system requires dedicated federal transfers to the provinces and territories for child care services.

In addition to funds already committed under the 2003 Multilateral Framework Agreement on ELCC ($350 million) and the Child Care Spaces Initiative ($250 million), for a total of $600 million, **the AFB provides an additional transfer of $1.1 billion in 2008–09, $2.2 billion in 2009–10, and $3.3 billion in 2010–11.**

The total child care and early learning budget is thus $1.7 billion in 2008–09, reaching $2.8 billion in 2009–10 and $3.9 billion in 2010–11, and finally $5 billion in 2011–12.

Notes

1 OECD. "Starting Strong II: Early childhood education and care." Paris, France: OECD; 2006.

2 Statistics Canada. "Women in Canada: A gender-based statistical report." 5th edition. Statistics Canada, 2006.

3 Code Blue for Child Care. Hindsight from Australia — Foresight for Canada. October, 2007: Accessed online, February 5th, 2008 (http://www.buildchildcare.ca/updir/buildchildcare/HindsightfromAustralia_ForesighttoCanada.pdf).

4 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

5 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

6 National Council of Welfare Report, "Poverty Profile, 2002 and 2003," Summer 2006.

1.3 Cities and Communities

Introduction

Canadians are citizens of one country, but we live our lives in thousands of different communities. The diversity and sharing within and between our communities is the source of our richness and strength as a nation.

The anchor of these communities are the public spaces that we share: schools, libraries, community centres, parks, main streets, local businesses and cooperatives, markets, workplaces, recreation centres, playgrounds, public transit, health centres, places of worship, organizations, civic spaces, rivers, wild spaces, and even virtual media spaces.

These are the places where we share our lives with others, and they are the places that make us strong. Without these public spaces, we have no society: the sum of us is vastly greater than our parts. This is the foundation we need to build upon.

Canadians have been blessed with a bountiful land with a vast wealth of natural resources. This has allowed us to build a society and communities that are the envy of many in the world. But, through inappropriate development, we are increasingly wasting our wealth and squandering our resources.

For our communities to grow and prosper, we need more public and community spaces. Above all, our communities need to be healthy and accessible to all.

If some in our society are excluded, we all lose out. Those who are excluded are denied the opportunity to live their lives to the fullest; the rest of us are denied their contributions. Unfortunately, underinvestment, growing inequality, and increased privatization have made our public spaces weaker and increasingly inaccessible. And the situation is getting worse:

- The municipal public infrastructure deficit is over $120 billion.
- The gap between the rich and the rest of us has increased.
- Real wages of most workers have barely increased in the past 20 years.
- Corporate profits have escalated to ever-increasing record levels.
- Income disparity between communities is increasing.

Statistics don't tell the whole story. Falling bridges, crumbling community buildings, overworked families, and ghettoized communities really bring the story home.

Cuts to social programs, combined with privatization and deregulation, contributed to these problems and continue to hold back communities from reaching their potential. In many rural and urban areas across Canada, local communities and economies are suffering. Fortunately, we still have a wealth of skilled and passionate people who work hard in and for their communities. Across Canada, these people have already helped counter decline by pushing for policies and programs that put local communities and their socioeconomic well-being first. However, these efforts to rebuild and revitalize need the federal government's support.

We must start from the community level, supported by a new positive national vision and leadership. The new approach should follow a community economic development approach that recognizes and builds upon community strengths.

It will require a coordinated vision, and a set of tools and building blocks to rebuild and strengthen our communities. A number of these steps are outlined below.

Department of Communities

The federal government has departments for health, industry, transportation, finance, agriculture, natural resources, and other areas, but it has no department responsible for communities and cities — which are so central to the quality of our lives.

Federal programs focused on communities are spread over many different departments and agencies, which has resulted in a scattered and ineffective approach, prone to local political interference and nepotism. We need a coherent, comprehensive, and effective approach that is transparent, responsive, and accountable to the public.

The AFB will establish a federal Department of Communities with a senior minister. It will be responsible for administering a series of programs and reforms to: 1) re-invest and renew

TABLE 6 A Cities and Communities Strategy

Vision	Tools	Building Blocks
• *Department of Communities* to include: Communities and Infrastructure programs and research, Regional Development Agencies; Rural Communities Secretariat, CMHC, Housing and Homelessness programs, Social Economy Initative, responsibility for co-operative and community-based climate change and adaptation work. • *National Communities Strategy*: would involve a participatory and inclusive approach, coordinate interdepartmental teams, with an emphasis on extension work, sustainable development and building community capacity.	• Community Futures and new community economic development programs. • Public Assets Office: mandate to work with communities to maximize benefits of public programs and assets. • Responsibility for and ownership of federal government building, lands and other properties. • Procurement strategy for local development. • Tax incentives for community economic development investments.	• Building Communities Fund financed with transfer of the equivalent of one percentage point from the GST. • Green Public Transit Supplement. • Funding for Community Economic Development Corporations, including NRCs, CDCs and EDCs. • Regional Economic Development funding • Gas Tax funding • Public Infrastructure funding • Affordable Housing and CMHC Program Funding

public infrastructure and community spaces; and 2) support and promote a Community Economic Development (CED) strategy to provide marginalized communities with the resources and tools they need to reverse increasing regional inequality.

It will develop a National Communities Strategy and coordinate federal urban initiatives in Canadian communities, including funding for infrastructure. It will also provide Canadian communities with a single point of access to the federal government on municipal and community issues and facilitate the exchange of local best-practices.

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 that articulates the importance and strength of our communities and local economies. This strategy will outline a strategic plan and supports to provide local communities and economies with the tools they need to succeed, and will provide direction for all government departments. The National Communities Strategy will be developed in consultation with a wide range of stakeholders, including the public, municipalities, workers, unions, social service agencies, civil society organizations, and businesses.

Public Assets Office

The federal government has significant property holdings in communities all across Canada. These are important public assets that should not be privatized as the current federal government is doing through asset sales, public-private partnerships (P3s), contracting-out, and other forms of privatization.

Privatization and P3s cost the public much more, reduce accountability, increase risk, and severely limit the ability to use these assets in the best interests of the local community.

The new Department of Communities will create a Public Assets Office, which will work with communities to maximize the benefits of public programs and assets and identify community needs.

Retaining public ownership of federal real property assets is key to this initiative as it provides the federal government with a major tool to promote positive change in communities all across Canada.

Government Procurement

The Department of Communities will implement a federal procurement strategy promoting ethical purchasing based on accounting principles that account for the social, environmental, and economic costs and benefits of procurement decisions. This policy will be structured in a similar manner as the federal government's "Policy on Green Procurement" and will be modeled after several other successful initiatives such as the Manitoba Government's Aboriginal Set-Aside procurement initiative and the social enterprise procurement policies of the cities of Vancouver, Toronto, and Calgary.

Community Economic Development Programs

The 2008 AFB will restore the Social Economy Initiative funding and extend program funding for three years. The Social Economy Initiative was a $132 million program that was instituted by the previous government as a "down payment" of support for this sector. The following CED programs will be funded through the restoration of this program:

What is Community Economic Development?

Community Economic Development (CED) is local action that creates economic opportunities and enhances the social and environmental conditions in communities. It recognizes that sustainable development requires an integrated approach to complex community problems. Strategic priorities for targeted communities include structural economic change, local ownership of resources, social development, environmental stewardship, labour market development, and access to capital.

CED encourages community members to take charge of their neighbourhoods through systematic renewal that is conceived and directed locally. CED is a complement to a strong system of social programs and requires a centralized government body to fund, support and coordinated the integration of CED into the different government departments, and to act as a convener for the CED sector. CED, in tandem with renewed and restored government investment in public infrastructure and social programs, can provide solutions to increasing inequality and poverty in targeted regions.

Social enterprises are small businesses that are formed for a social purpose, such as providing training and employment for at risk youth, as their primary goal. Social enterprise is a valuable tool for combating social exclusion and building the confidence of marginalized individuals. Profits generated by Social Enterprises are generally reinvested in services and programming complementary to its social and community goals.

Neighbourhood Renewal Corporations and Community Development Corporations

The AFB will work with other levels of government to establish and support a national network of Neighbourhood Renewal Corporations (NRCs) and Community Development Corporations (CDCs). These are non-profit, community-led organizations that act as central coordinating bodies for projects aimed at promoting stability, capacity building, economic development and well-being. NRCs are responsible for assuring that projects are in line with neighbourhood plans generated by community stakeholders and to provide resources to community partners. CDCs are generally more focused on job creation and asset development for community members.

The CDC and NRC network will distribute a federal grant for community-specific CED research and capacity building projects, with CDCs and NRCs having discretion regarding the allocation of funds in their respective jurisdictions.

As part of this, the AFB will expand program investments in community-based poverty reduction initiatives run by non-profit CED organizations to tackle concentrated social and economic disadvantage in rural, northern, Aboriginal, and urban settings.

Employment Development Corporations

The AFB will reallocate existing funding to employment development organizations, and will specifically target this funding to programs that promote holistic development for marginalized unemployed individuals to improve their chances of entering and remaining in the labour force. Current funding criteria often focus on narrow hard skills, even though experience demonstrates that broad based support — including life skills, hard skills, placement, aftercare, child care, and transportation — is most effective.

Social Enterprise Trust

The AFB will create a specialized long-term patient capital fund with expertise in financing non-profit and cooperative community enterprises for the rest of Canada.

The fund will be used to leverage additional investments from foundations and other institutional investors. This will include infrastructure and measures to promote accountability, learning, business development, after-loan care, and communications. This setup has proven successful in growing social enterprises and sustainable start-ups with very low loan loss rates.

Cooperatives

The AFB will expand the Co-operative Development Initiative to increase support for co-operatives, particularly in the area of co-operative formation as a means to combat economic decline in marginalized communities.

A key goal of CED is to promote a more democratic economy through a more equitable distribution of economic assets. Worker, consumer, and producer co-operatives promote shared community ownership of economic assets, and are valuable tools to counter community economic decline and capital flight.

Infrastructure Funding Back on Track

The Conservative government has continued to fund infrastructure programs, but has altered its focus away from sustainable growth and towards the promotion of privatization, commerce and trade. The AFB will put public funds to work to meet public and community needs first.

Key new initiatives in this area include:

Building Communities Fund

The AFB will transfer the equivalent of 1% from the Goods and Services Tax (approximately $6 billion a year) to communities across Canada for public infrastructure and energy efficiency projects to rebuild schools, hospitals, transit, water, sewer, and other community infrastructure. This will reverse the 2008 GST cut on July 1, 2008 and redirect billions of dollars into improving our infrastructure — thereby also taking the pressure off local property taxes and user fees. The funding will provide the investments necessary to eliminate the municipal public infrastructure deficit, assist communities in meeting the challenge of climate change, and help to build a green economy for the 21st century.

Green Public Transit Supplement

Investment in public transit is an efficient and effective mechanism to reduce carbon emissions and must be a priority. The AFB will use a portion of the carbon tax (*see Environment chapter*) to allocate $2.4 billion over three years to enhance public transit infrastructure and make public transit more affordable for all.

1.4 Ensuring Equality for Women

Canada must adopt comprehensive, rigorous, and accountable gendered analyses in the federal budgetary process. To this end, the 2008 Alternative Federal Budget includes a gender-based analysis of all budget chapters.

Gender-responsive budgeting aims to address the persistent inequalities between women and men by integrating gender-based analyses into macro-economic and micro-economic policy development.

In 2005, the Beijing Platform for Action called on all signatories, including Canada, to assess how public expenditures benefited women and to pro-actively adjust expenditures to better address gender inequality. Canada actively supports gender budgeting initiatives throughout the world under the Canadian International Development Agency. However, there is only a very limited commitment to gender budgeting in Canada at both the provincial and federal levels.

A gender analysis of Canada's federal budgets from 1995–2005 undertaken by FAFIA concluded that Canadian social policy is being increasingly delivered through tax policy, and that this is leading to ever-shrinking social programs and weakened social and economic security for most women.[1]

This is of particular concern as the majority of low-income earners in Canada are women who are more reliant on sustainable and reliable social programming. Further, low-income earners are unable to benefit from tax measures such as non-refundable tax credits because their incomes are often below income tax thresholds. In 2004, 39% of female tax-filers did not pay any tax because their incomes were too low.

To fully implement a federal gender budgeting initiative, it is imperative to increase the capacity of Status of Women Canada (SWC), the lead federal department for gender equality. The AFB increases SWC's budget to $50 million to cover operational costs (including personnel and the re-establishment of SWC's regional offices), improved training of public servants throughout departments on the application of gender-based analysis, and increased funding to the Women's Program at Status of Women Canada, which provides grants and contributions to non-governmental organizations.

To support gender-based analysis (GBA), all statistical data collected in Canada must be disaggregated by gender. All federal departments, in particular the Department of Finance, the Privy Council Office and the Treasury Board, must assume a leadership role in ensuring that tax policy measures and expenditures delivered through the federal budget are considered for their gendered impact.

To better facilitate this approach, the AFB invests $10 million to establish a Gender Equality Enhancement Fund (to be managed by the Treasury Board). This fund will be exclusively earmarked to support federal government departments and non-governmental organizations with the operational costs associated with undertaking gender-based analysis (such as hiring appropriate personnel and related administrative support).

Half of this $10 million is to be allocated to government departments to support GBA initiatives. Another 50% will be allocated to non-government organizations to perform (at arm's length) relevant gender-based analysis on federal policies and programs. This allocation is consistent with the recommendations of the federally commissioned Expert Panel on Accountability Mechanisms for Gender Equality which reported in late 2004.[2]

Finally, to ensure that Canada fully upholds its equality commitments under domestic and international law, the AFB allocates funds to appoint a Gender Equality Commissioner (modeled after the Environmental Commission) within the Auditor-General's office. Based upon the costs associated with the Environmental Commissioner, this would require an annual investment of $3 million.[3]

GENDER ANALYSIS Cities and Communities

Investment in community and infrastructure is advantageous to women. It is key that GBA be conducted on all community development proposals including community economic development strategies, place-based poverty reduction initiatives and employment development corporations.

Women typically access community services more than men and use public transit more often than men. In 2001, 2.4 million women were considered low income and stand to greatly benefit from public investment in communities.[4] In 2003, the poverty rate for single-parent mothers was 48.9%.[5]

According to the 2001 Census, a total of 835,200 women reported using public transportation compared with 571,400 men. Women represented 13% of the employed female labour force who travelled to work. Men represented 8% of employed male labour force who travelled to work.[6]

Notes

1 "Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budgets (1995–2004)." (Yalnizyan 2005)

2 http://www.swc-cfc.gc.ca/resources/panel/report/index_e.html

3 http://www.tbs-sct.gc.ca/rpp/0708/OAG-BVG/oag-bvg03_e.asp#sec3g

4 http://72.14.205.104/search?q=cache:ZLST1a0SN7cJ:www.casw-acts.ca/advocacy/womenpoverty_e.pdf+median+income+of+women+in+canada+2004&hl=en&ct=clnk&cd=2&gl=ca

5 National Council of Welfare Report, "Poverty Profile, 2002 and 2003," Summer 2006

6 Statistics Canada 2001 Census, http://www12.statcan.ca/english/census01/products/analytic/companion/pow/publictrans.cfm

1.5 Health Care

In its latest *Speech from the Throne*, the Conservative government made no commitment to improve or maintain the provision of health care. In fact, the speech did not include the word Medicare. But Prime Minister Harper did promise to "introduce legislation to place formal limits on the use of the federal spending power for new shared-cost programs in areas of exclusive provincial jurisdiction." Such legislation could severely compromise Medicare, in combination with other actions and inactions of this government.

Most significant in the "failure to act" category is the silence on how to deal with existing and accelerating labour shortages in health care and the rising cost of pharmaceuticals. These two issues threaten to undermine Medicare: labour shortages inflame the desire for two-tiered health care, and spending on prescription drugs relentlessly drive up public costs. For the federal government, the issue is not just spending more, but helping better manage what we have.

All federal political parties have said they are committed to the Canada Health Act and its core principles. Nonetheless privatization is accelerating, and recent federal governments have chosen not to enforce the principles of the Canada Health Act or prepare Medicare for future challenges. Governments can take action to reverse the troubling trends, which, left unchecked, will have a devastating impact on Canadians' health and economic security.

Medicare was not developed as a gender-specific program, but the benefits of a well-functioning Medicare system are perhaps disproportionately advantageous to women. Due to women's reproductive roles and their higher incidence of chronic disease, women are the major users of health services. As well, because 43% of all children in a low-income family live with a single parent,[1] universal, accessible and quality health care and Pharmacare is essential. Rising rates of chronic disease in the overall population and continuing shortages of hospital beds results in the transfer of more unpaid caregiving work to women. These necessary and often non-negotiable "jobs" often compromise labour force participation and put many women, and their families, in precarious financial situations. When federal transfers to the provinces support delivery of not-for-profit health care, the impact on Canadian women is meaningful.

The federal government plays a significant role in both improving access to health care and better managing and controlling the rising costs. This chapter of the AFB shows how.

Dealing with labour shortages in public health care

The labour shortage among health professionals — doctors, nurses, radiologists, diagnosticians, lab technicians — already is a cause for concern. It threatens to become much more severe in the next decade. Thus far there is no pan-Canadian plan to deal with this situation, short of ratcheting up wages in the hopes of attracting people from place to place, or actively recruiting people from overseas.

Canadians want health care to be available when they need it. They are willing to pay taxes to publicly fund health care for all, when needed, without financial sting when people are most vulnerable.

The commitment to universal access has been overshadowed by the discussion around wait times for some procedures and tests. The more urgent problem is that one in 10 Canadians do not have a family doctor or equivalent point of access (through nursing, counseling, or physical supports) to primary care.

That means their only guarantee of help in physical and mental health matters is through the most expensive element of the health care system: the hospital emergency room. Waiting until health issues become acute or life-threatening is a more costly and a senselessly inhumane public policy option. The AFB strongly advocates for primary care reform, long-term care and mental health strategies that foster the use of all the skill competencies of all health workers.

That puts the emphasis on labour strategies, not wait time strategies.

Expanding the supply of health care providers is at the heart of ensuring the efficiency and sustainability of publicly-funded health care. The AFB accordingly sets out a 10-year plan to move towards the objective of having enough health care providers, 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 in the entire range of jobs that provide care. It also means upgrading skills and better utilizing the skills of existing health care workers. The following proposals are made to address this issue at the federal level, with a fully-phased-in cost of $600 million per year, for the next 10 years.

1. The AFB will directly fund the expansion of seats in medical and nursing schools, as well as other health professional programs. In addition, 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, to ensure health professionals come from every socio-economic background. Finally, the AFB will implement a student debt-reduction program for graduates of medical and nursing and health 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. The option chosen by the AFB this year allocates $20,000 to graduates for student debt-reduction in return for two years of service for this purpose. Another proposed option is that all graduates of medical and nursing schools provide return of service in designated under-served areas, in acknowledgement of the sizeable public investment made in their professional development, and to serve the public interest. The AFB proposes a mandatory review of both the student grant and student debt-reduction programs in three years.

2. The existing skills shortages in the health care sector requires immediate action. 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 would

eventually be funded by the Employment Insurance fund, but initial funding will come from Human Resources and Social 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. After assessing the pilot programs in these job areas, short- and long-term courses could be developed in other areas. The AFB believes the program could eventually include 5% of the total health care workforce annually (excluding doctors). 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.

While there is much more that AFB partners recommend with respect to health human resource issues, these two priority investments in the labour force of the publicly-funded health care system will set the stage for Canadians to feel more secure about the accessibility, availability, quality, and appropriateness of care. This is what is currently missing in federal investments designed to "fix" health care for the next generation.

Public Pharmacare Program — More For Less

With the exception of the United States, Canada is the only advanced industrial nation that does not have a national approach to pharmacare in its provision of publicly-funded health care. Everyone else, including most Canadians, knows that access to prescription drugs is part of what is medically necessary treatment.

Employers, provincial governments, hospitals, and individuals all agree that spending on pharmaceuticals is out of control. Most recent figures show that in 2006 total spending on prescription drugs in Canada was $21 billion, more than double the amount spent on prescription drugs in 1999.[2]

Canadians' out-of-pocket expenses for prescription drug purchases have averaged 8% annual growth since 2000.[3] Pharmaceuticals have become the second largest category of health care expenditure for provincial and territorial budgets, after hospital care.[4] Meanwhile, employers cite the increasing costs of pharmaceuticals in group benefits plans as the reason they plan to shift the costs and risks to workers and cut the level of benefits to workers and retirees.

Canadians continue to pay more and more despite public and private insurance plans for drugs. An estimated 11% of the population remains uninsured or underinsured, leaving at least 3.4 million people in Canada exposed to potentially catastrophic costs associated with the need for prescription drugs.

Canada's patchwork of approaches bears a high price, financially and in human terms.

Since the 2004 Health Accord Health Ministers have been working towards a National Pharmaceuticals Strategy. In the summer of 2006, their task force made a series of recommendations envisioning a common national formulary; coverage for expensive drugs for rare diseases; lower generic drug prices; coordinated purchasing; streamlined drug approval; enhanced drug safety; and limited role for the state to ensure catastrophic drug coverage.[5] The federal government has yet to respond to these proposals.

The AFB will take immediate steps to establish the national Pharmacare program, implementing the recommendations of the task force, with the twin goals of providing greater equality of access to major prescription drugs across the country in a cost-effective manner, and to keep the rising costs of prescription drugs in check.

As we have seen in Australia and New Zealand, a public single-payer pharmacare system reduces administrative costs, increases access, and promotes social equality.[6] For this to happen in Canada, bulk purchasing arrangements will be negotiated, price controls will be imposed on both patented and generic pharmaceutical products, and progressive patent reforms introduced.

The starting point of this approach would be establishing a national formulary for essential drugs that would provide 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.

AFB partners are seeking a comprehensive approach that goes beyond better provincial programs. Our objective is a first-dollar, universal program, providing equal access to prescription drugs through publicly funded and controlled systems. Essential drugs should be covered in the way that Medicare now covers hospitals and physicians.[7]

We believe this would lead to better value for money for Canadians, stretching our dollars through bulk purchasing, getting better management of costs, and providing greater public safety. Employers, some of whom now co-finance drug benefits for their workers and retirees, and all of whom benefit from a healthy work force, would also help finance this program, through general corporate taxation or other revenue measures.

In the short-term, however, this year's AFB proposal commits federal funds so that the federal government can spur the process of better managing the spiraling costs of public pharmacare programs, reduce unequal access to drugs across the country, and lead the way in promoting the use of non-drug therapies for the treatment of illness and injury.

The AFB will allocate $900 million in 2008–09 to the national Pharmacare program. We anticipate the combination of increasing efficiencies and increasing coverage will result in reaching $3.0 billion in 2010–11.

The additional spending moves Canadians towards roughly equivalent standards of access across the country, and moves Canada's approach to health care firmly into the 21st century. This is one government initiative that indisputably helps Canadians get more for less.

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Due to their reproductive roles and their higher incidence of chronic disease, women are the major users of health services. As well, because 43% of all children in a low-income family live with a single parent,[9] universal, accessible and quality health care and Pharmacare is essential. Ensuring that federal transfers to the provinces support the delivery of strictly not-for-profit health care will have a great impact on the health of Canadian women and their families.

Increasing rates of chronic disease and continuing closures of hospital beds result in the transfer of more unpaid caregiving work to women, thereby compromising their labour force participation and putting many women in precarious financial situations.

The Health of the First Nations Peoples

The AFB seeks a negotiated agreement between Ottawa and the First Nations that sets out an action plan to deal with the dismaying state of health of the peoples of the First Nations.

The Assembly of First Nations has called for the 3% cap on the Non-Insured Health Benefits (NIHB) program to be abolished. They believe that, for prescription drugs, a 14% escalator is needed to take into account aging, inflation, population increases, and the rising costs of drugs.

Even though the AFB will work to limit the costs of drug increases, and invests substantially in the determinants of health, it allocates $200 million in 2008–09, $463 million in 2009–10 and $527 million in 2010–11 to this purpose.

Privatization and Conditionality of Federal Funding

The federal government is using the issue of wait 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". Prime Minister Harper's endorsement of the Quebec model reveals what is meant: introducing private insurance for medically-necessary services; increasing publicly-funded contracts to for-profit clinics (both of which contravene the Canada Health Act as well as provincial medicare laws); and promoting the use of P3s (public-private partnerships) to finance, build, and service critical health care infrastructure.

As well as steadily eroding the broader "public" character of the health care system, this multi-pronged emphasis on greater use of for-profit businesses costs more, compromises quality, and results in higher mortality rates than a not-for-profit health care system.[8]

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. 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".

The conditions placed on the transfer of money to the provinces for health care should include a) a requirement that federal funds be used for not-for-profit delivery of medically necessary health care, and b) reporting requirements to show how public funds for health care are allocated, specifically between for-profit and non-profit service providers.

The goal of the Canadian Health Transfer (CHT) should conform with the Canada Health Act (CHA): to support provincial and territorial capacity to deliver medically-necessary and publicly-administered health care in a universally-accessible and comprehensive basis. Whereas not-for-profit delivery is not specified in the CHA, it is implicit in the view that governments should not waste taxpayers' money nor lose the capacity to oversee and audit services funded by the public purse. The cloak of corporate confidentiality shrouds business operations, a serious impediment to the transparency and accountability required for the audit of public service. For these reasons, the AFB would direct public funds for health care to non-profit public or private service providers.

Notes

1 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

2 *Drug Expenditure in Canada Data Tables*, (Ottawa: CIHI, 2007) Expenditure on Drugs by Type, by Source of Finance and as a Share of Public, Private and Total Health Expenditure, Canada, 1985 to 2006 (http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=AR_80_data_e)

3 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".

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

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

6 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 *Monitor*, March 2001, p.7–8.

7 Canadian Health Coalition, More for Less: A National Pharmacare Strategy, May 2006

8 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.

9 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

1.6 Housing and Neighbourhoods

Background

Access to secure, affordable housing is an increasing concern to many Canadian households. It is estimated that more than 300,000 people experience homelessness every year in Canada, a country with a surplus of riches. At the same time, 537,000 households are paying more than 50% of their before-tax income on housing. They are housed precariously, and any reduction in their income will very quickly move them out onto the streets. That is why we need a full strategy that does not fix a leak in the roof when the rafters are rotting.

In its past (through the 1970s and '80s), Canada built 25,000 units of non-profit social and co-operative housing annually, while up to 40,000 units of private sector rental housing were being added to the rental housing stock annually. Governments now support the growth of less than 7,000 units per year, while the private sector rental stock is in worsening repair and Canada is in a net loss position on rental housing because more rental housing is being demolished or converted to ownership than is being added to the stock.

Some OECD countries, such as New Zealand, Australia, the U.S. and the U.K., have recognized the benefits of having a long-term commitment to the provision of non-market housing, and are developing new modern programs to restore production of social and affordable housing. Canada, however, lags behind in its policies and in its production of affordable housing, and has no long-term strategy to address its failing housing system.

Young Canadians entering the workplace often remain at home until their early 30s and, with mounting student debt and increasing housing prices, have less chance than their parents of purchasing a home. Modest-income households are competing in the rental market and low-income households are being segregated into communities that offer the cheapest rent, but little chance of advancement exists for them or their children. This situation leads to diminishing expectations for a growing minority of Canadians. Young people see little hope for a brighter future.

Security of the country begins with security for the individual. Investing in housing is investing in individuals, their health, and their life chances. It also builds communities of hope and opportunity. Housing is closely linked to improvements in a number of outcomes, including economic performance, personal health and well-being, community security, educational outcomes, and reductions in health care costs and in greenhouse gases. Growing income inequality in Canada's metropolitan areas over the past two decades has fuelled growing housing insecurity and increased homelessness. Aboriginal people, both on and off reserve, bear the heaviest burden in the current nationwide housing crisis. Recent immigrants, who arrive in Canada poorer than resident Canadians, remain poorer longer and suffer a disproportionate share of housing distress.

With globalization, the old theory that a rising tide lifts all boats is no longer valid. Globalizaiton brings us greater income inequalities and rapid house price inflation. Edmonton, Calgary, Vancouver, and the Greater Toronto Area have the most severe affordable housing shortages despite their booming economies — or perhaps because of them.

As housing insecurity and homelessness grew worse in the late-1990s, the federal, provincial, and territorial governments responded with a series of short-term initiatives and no guarantees for future funding. A study by the Canadian Housing & Renewal Association shows that there have been deep cuts to historic program funding at the provincial level. However, it is clear that the federal government has to take a leadership role in order to leverage action at the regional level.

The United Nations' Special Rapporteur on the Right to Adequate Housing, Miloon Kothari, made an official fact-finding mission to Canada in October of 2007 and, after meeting with community groups and governments across the country, called on the federal government to take leadership in creating a durable, comprehensive, and fully-funded national housing strategy.

GENDER ANALYSIS Housing and Neighbourhoods

In 2005, at least 1.5 million households (over 4 million people) were classified as being in "core housing need"[1]. People in core housing need can be defined as those living in a dwelling where major repairs are needed; whether the dwelling has enough bedrooms for the size and composition of the household; and whether rent costs the household 30% or more of its total gross income.

Twenty-five percent of all households in core housing need are households headed by single mothers.[2]

All three of the federal government's major housing and homelessness initiatives are due to expire. In fiscal 2009, the Homelessness Partnering Strategy and the Residential Rehabilitation Assistance Program will end. Housing Trust Funds that were delivered to provincial treasuries in 2006 are expected to be fully committed by that time as well.

AFB Directions

The 2008 AFB asserts a strong and sustainable role in the healthy operation of the Canadian housing system, putting in place the resources and mechanisms that will eradicate homelessness within five years.

Land for housing is growing scarce, especially in areas close to employment opportunities and social infrastructure. Municipal planning departments must be encouraged to develop inclusionary zoning practices and land banking policies so that land is available to construct new housing in mixed income, mixed tenure communities, and so that the public purse benefits from the uplift in property value that is a result of its policies.

Canada's existing stock of approximately 600,000 units of affordable housing must be protected from sell-offs and deterioration, to ensure that it is available for future generations of low-income households.

Canada's communities, and in particular its growing cities, are held back by shortages of affordable housing. Improvements to these regions must begin by increasing the supply. Conversion of commercial or industrial buildings to housing will be one strategy. However, rent supplements that utilize scarce housing budgets will reduce the ability to increase the supply of affordable housing in areas where supply is clearly the most pressing issue.

Canada's supply of affordable housing will be increased by 37,500 homes annually for the next ten years. This will be done in a combination of market sector rental and community-based non-profit housing. Given that the private sector is currently building a very small stock of rental housing, 30,000 new community-based, non-profit rental units will be added to the stock of affordable housing annually for the next three years.

AFB Budget for Housing

The AFB will provide $4.5 billion over the next three years to assist the provinces and territories to add 30,000 units of secure long-term affordable housing annually to Canada's stock of affordable housing.

The AFB will provide $10 million annually over the next three years to assist with preserving the existing social housing stock.

The AFB will begin to set out a sustainable, predictable flow of funds for housing by committing to maintain the investment in social housing. This means that there will be no further cuts to the federal social housing budget.

The AFB will also renew the Residential Rehabilitation Assistance Program and the Homelessness Partnering Strategy.

Notes

1 http://www.cmhc-schl.gc.ca/en/corp/nero/nere/2005/2005-12-07-1030.cfm

2 http://www.equalityrights.org/cera/

1.7 Income Inequality, Poverty and Wealth

Canadians live in one of the most affluent nations in the world.

Our economy has doubled in size since 1981. In fact, the World Bank today ranks Canada as the eighth largest economy on the planet.

Storm clouds may hover on the horizon due to financial fiascos across the border, but consumers are still spending at record-breaking levels, defying economists' projections in every quarter. These are prosperous, heady days for many Canadians.

No other advanced industrial nation can boast a decade of back-to-back federal fiscal surpluses.

Although the United States is home to far more billionaires and millionaires, the rich in our nation are doing better than ever. Their incomes have soared over the past generation. Indeed, only the richest 20% of Canadian families raising children under the age 18 can say, without question, that they are financially better off than their predecessors 30 years ago. A shocking 80% of Canadians families are actually taking home a smaller share of income today than did families a generation ago.

The income gap between the rich and the rest of us has been growing faster in the past decade in than it has in the past 30 years. It is growing in good times and bad times. That growing disparity threatens the social and economic stability of our nation.

The test for every affluent nation is not how big it can grow its economy or how rich it can make its wealthy. Rather, the test is how well it treats its most vulnerable — and whether those who have less have a reasonable shot of doing better in their lifetime.

This year's Alternative Federal Budget examines the evidence and finds both our labour market and our governments are failing this test.

Our leading politicians rarely talk about the performance of Canada's labour market. Yes, some trumpet the 33-year record-low unemployment levels. There are jobs, and when Canadians have access to paying work, they take it. But work isn't paying off as much as it used to. Average real wages have been stagnant for 30 years while corporate profit shares have risen to a 40-year high.

Canadian families are working, on average, 200 hours more a year compared to just 10 years ago. The richest 10% are enjoying the biggest income gains of us all — but they didn't have to increase their work time to get those fatter paycheques.

The story is most extreme for the highest paid among us, the 100 best-paid CEOs in Canada. They pocket 218 times more than Canadians who earn the national average income of $39,000. Back in 1998, less than a decade ago, the best-paid 100 CEOs' average pay was 107 times more (when the average Canadian full-year income was $32,400). Are our top CEOs really working twice as productively as they did eight years ago? And are their efforts really worth over 200 times more than the average worker?

Canadians are playing by all the rules: They are more educated than previous generations. They work more hours. Their productivity has improved. Many are running faster, but they are still falling behind.

A key aim of the AFB is to address the growing income gap in Canada which has been identified and analyzed in recent CCPA studies,[1] by Statistics Canada[2] and many others.[3]

Real incomes of the great majority of Canadian families have stagnated or fallen over the past two decades, while the incomes of the richest 10% — and, especially, the richest 1% of families and individuals — have ballooned, growing most rapidly in the last decade. Economic growth since the mid-1990s has delivered increased earnings and investment income; but these benefits have overwhelmingly flowed to the most affluent Canadians.

A decade of personal income tax cuts, such as reduced taxation of capital gains income and stock options, have favoured high-income earners, further exacerbating the growing gap in incomes.

Deep cuts to income support programs, such as social assistance and Employment Insurance, in the mid-1990s have further compounded this deepening economic injustice and exposed the economy to a greater risk of prolonged and deepened downturn in the event of a recession.

On a happier note, improved child benefits and increases to the minimum wage in some provinces over the past few years have had some modestly positive impacts on the well-being of some working poor families.

While families in the middle have struggled, those at the bottom have made little ground, even though many have moved from social assistance into paid work. Canada has no official poverty line, but the Statistics Canada LICO after-tax line is the most commonly used indicator of low income. By this measure, the rate of poverty has fallen since the mid-1990s — as one would have expected, given strong growth in job opportunities.

The nation's child poverty rate — which is but one of several indicators of how well we are doing for our vulnerable — has improved over the past decade. But the poverty rate is now back at the level it was in 1989, the year Canada's Parliament declared child poverty a national disgrace and made a unanimous, all-party commitment to eliminate it by the year 2000.

In 2005, more than one in 10 (10.8%) of Canadians lived in poverty, including almost one in eight children (11.7%), and one in three (34.3%) single, non-elderly adults. Poverty rates are especially high among singles, including single parents, and among recent immigrants, Aboriginal Canadians, visible minorities, and persons with disabilities (*for a detailed description of the AFB's plan to reduce poverty among Aboriginal peoples, please refer to that chapter*). Poverty rates are generally no lower for the working-age population than was the case at the end of the 1980s.

This year's AFB shows that solutions are at hand.

The AFB endorses the recent call of the National Council of Welfare and Campaign 2000 to set clear poverty reduction goals in a National Anti-Poverty Act, building on similar initiatives in Quebec and Newfoundland and Labrador. As part of the Act, our federal government should set a national poverty line and clear targets for reducing the rate of poverty as measured by that line over the next 10 years.

Because poverty is not just an income issue, but an issue of affordability of the basics in life, this year's AFB makes significant increases in public and social investments that will benefit most Canadians, but will disproportionately benefit families at the lower end of the income ladder. The AFB will invest in several programs that will use our collective prosperity to raise the quality of life of most Canadians and be of direct benefit to lower- and middle-income families: notably affordable and accessible child care and early learning, which is absolutely critical to participation in paid work by single parents; affordable housing; a national Pharmacare program; and the expansion of public transit.

Because poverty *is* an income issue, the AFB will (as proposed by the Caledon Institute and Campaign 2000) increase the refundable Canada Child Tax Benefit to a maximum of $5,000. This initiative will be funded by folding the two new Conservative child income benefits into the CCTB and investing an additional $4 billion by 2010–11.

Higher child benefits will go a long way to raising the incomes of low-income families with children, but do not address the central cause of poverty among the working age population: low wages and precarious work. The great majority of low-income families with children are now working poor families, and very few rely on social assistance benefits exclusively for extended periods of time. In 2001, there were three million non-elderly poor Canadians, two million of whom lived in families where at least one person worked.[4]

In round numbers, a single person has to work almost full-time for almost all of the year for about $10 per hour to get above the poverty line — which means that work interruptions alone are enough to push many below the poverty line.

This year's AFB sets a federal minimum wage of $10 and encourages all provinces to match this increase. It also makes significant improvement to Employment Insurance Benefits. The EI changes will increase the number of unemployed Canadians who will be eligible for benefits between jobs, and will raise the amount of income support they receive. This is particularly important for low-paid workers, including part-time workers (most of whom are women) and contract workers. Raising the income replacement rate of these benefits is crucial, particularly for workers who earn little to begin with, since the rates are currently between 50% and 55% of earnings prior to job loss. These reforms are important, but only part of the answer since many of the working poor combine paid employment and self employment (not covered by EI) and get such low wages when they are working that even an improved

GENDER ANALYSIS Income Inequality, Poverty and Wealth

In 2004, one in seven[5] (2.4 million[6]) Canadian women was living in poverty.

In 2003, 38% of all families headed by lone-parent mothers had income which fell below after-tax Low Income Cut-off's, compared to 13% of male lone parent families.[7]

According to Statistics Canada in 2005, women accounted for almost two-thirds of minimum wage workers. 1 in 17 women compared with 1 in 30 men were minimum wage workers. This overrepresentation held across all age groups, with rates for women being mostly double those for men.[8]

Women are much more likely than men to work part-time. In 2004, 27% (over two million) of the total female workforce were part-time employees, compared with just 11% of employed men. Women currently account for about seven in 10 of all part-time employees. Women are more likely than men to work part-time because of child care or other personal or family responsibilities.[9]

EI benefit will fall far short of what is needed for temporary income support.

The recently introduced Working Income Tax Benefit (WITB) provides a miserly maximum of $1,000 supplement to earned incomes, and applies to shockingly few workers. For example, it does not help those working full-time, full-year, at the minimum wage, because its support disappears at a very low income threshold (the credit is reduced by 15% of net family income over $9,500 for individuals and $12,500 for two-earner households). Some have proposed increasing the WITB as an alternative to raising minimum wages. This is an unacceptable approach which can and does result in governments subsidizing markets, particularly low-wage employers. There is no substitute for a minimum wage that will lift a full-time, full-year worker out of poverty — and no jurisdiction in Canada currently does so. Even the OECD argues that higher minimum wages and earned income tax credits must be part of a combined solution to the issue of working poverty if such perverse subsidies to low-wage employers are to be avoided.

Income security reform for working-age families must closely involve the provinces, which are currently responsible for social assistance benefits and supports and services for persons on social assistance and the working poor. For this reason, **this year's AFB establishes the National Fund for the Elimination of Poverty among Working Age Adults, to which funding will be allocated annually, reaching $2 billion a year by 2010–11.** This amount is over and above the amounts allocated by the AFB for investments in programs that assist not just the poor, but the rest of us — like supports for housing, child care, and prescription drugs, and improved child benefits and EI benefits. This fund will be extended in support of provincial poverty reduction plans that meet national goals and objectives. In 2008, there are four such provincial plans underway — in Quebec, Newfoundland and Labrador, Ontario, and Nova Scotia — with more provinces considering how they are going to tackle this issue. This AFB fund is a way for the federal government to support these initiatives, in addition to fulfilling its own unique role.

While reductions in poverty rates among the elderly were perhaps the greatest social policy success story for Canada in the 1960s, the elderly still remain one of the most economically vulnerable groups in our society. The poverty gap for seniors (the total amount by which their incomes fall short of the LICO line) is quite modest (about $600 million) because the poverty rate among seniors is a well-below average of 6.1%), and because the GIS is already close to the poverty line. The AFB therefore increases the income-tested Guaranteed Income Supplement (GIS) of Old Age Security in such a way as to eliminate poverty among seniors (*see Retirement and Seniors' Benefits section*).

The AFB will narrow the gap between the rich and the rest of us by increasing personal income taxes for those at the very top and taxing capital gains at the same rate as earned income. It has been documented how Canadians in the very highest income categories are paying less tax in comparison to all other income groups today than in 1990, and that the overall tax system now bears as heavily on the poor as the rich. This is a perverse situation that should be redressed in the interests of economic fairness.

Parliament can and must act on its long-standing promise to eliminate child poverty — family poverty — in this affluent nation. The problem will not resolve itself. The time to act is now. Unlike many nations, Canada is in the fortunate position of having the resources to get the job done. This year's AFB shows us how.

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2 Heisz, Andrew. 2007. *Income inequality and Redistribution: 1976 to 2004*. Statistics Canada. www.statisticscanada.ca. Morissette, Rene and Zhang, Xuelin. 2007. *Inequality in Wealth: 1984 to 2005*. Statistics Canada. www.statisticscanada.ca. Murphy, Brian; Roberts, Paul; and Wolfson, Michael. 2007. *High-Income Canadians*. Statistics Canada. www.statisticscanada.ca.

3 See: Saez, Emmanuel and Veall, Mike. 2003. *The Evolution of High Incomes in Canada, 1920–2000.* National Bureau of Economic Research. http://www.nber.org/papers/w9607. Saez, Emmanuel and Veall, Mike. 2005, 2007. *The Distribution of Seniors' Income using the Statistics Canada*. Queen's University. http://jdi.econ.queensu.ca/Files/Conferences/Retirementconferencepapers/Veall.pdf. Green, David and Kesselman, Jonathan. 2006. *Dimensions of Inequality in Canada*. University of British Columbia Press.

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5 FAFIA, A Decade of Going Backwards: Canada in the Post-Beijing Era (Ottawa, 2004) p. 4.

6 Womennet.ca, "Income and Poverty Gaps between Women and Men Persist Despite "Prudent" Budgets" (2004) Available online at http://www.womennet.ca/news.php?show&1587

7 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

8 http://www.statcan.ca/english/studies/75-001/comm/2005_09.pdf

9 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

1.8 Post-Secondary Education

Average tuition fees for undergraduate arts programs reached $5,447 in fall 2007. Since 1990, tuition fees have more than tripled in most provinces, increasing at a rate seven times faster than inflation. In graduate and professional programs, increases have been even more dramatic. Tuition fees for medical students top $10,500 and students studying in dentistry pay a staggering $13,000 per year. The Chief Actuary reported in the most recent Actuarial Report of the Canada Student Loans Program that tuition fees are "the primary source of increases in student need" and represent an average of 142% of the average student's available resources. Consequently, one in every two students must borrow to pay for post-secondary education.

The impact of high tuition fees on low- and middle-income families is clear. There is a 20% gap in university participation rates between students from the highest and lowest income quartiles. For those families forced to take on education related loans, completing post-secondary education remains elusive. Financial considerations are the primary reasons cited by college students who do not complete a diploma, and students carrying greater than $10,000 in debt are half as likely to graduate than those with less than $1,000.

In Budget 2007, the federal government increased transfers to the provinces for post-secondary education by $800 million, to begin in 2008. Although this welcomed investment was the most substantial of its kind in recent memory, it still falls well short of making up for federal cuts to transfers experienced during the 1990s. The Canadian Association of University Teachers estimates that an additional $3 billion is required to return to 1990 funding levels (0.41% of Gross Domestic Product).

The Budget 2007 funding increase was also announced without any plans for provincial accountability. Condition-free transfers to the provinces represent 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 ability to deploy effective student financial aid policy.

The 2008 Alternative Federal Budget will make federal re-investment in post-secondary education a key strategy for reducing the debt burden on families. 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 rise to $2.4 billion by 2010–11. 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 2010.

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. It could alleviate the debt burden for women students particularly, who are more likely to borrow and, because of the wage gap in the workforce, are more likely to struggle with student loan repayment.

GENDER ANALYSIS Post-Secondary Education

As of 2007, 57% of full-time students were female.[1]

From 1993–94 to 2003–04, average undergraduate tuition fees have more than doubled, a rate of change four times faster than the rate of inflation. For every one $1,000 increase in tuition fees, there was a 15% drop in enrolment, coming almost exclusively from minority and low-income students.[2]

Investment in post-secondary education and reforming the student financial assistance program is a welcome initiative with a positive impact on the lives of female students.

Student Financial Aid

Currently the federal government employs a confusing yet expensive patchwork of aid programs that has failed to reduce student debt or close the participation gap between the rich and poor.

Downloading education costs onto families has also been reflected in the federal government's ballooning costs for savings schemes. Since 2000, the Registered Education Savings Program has cost the federal government over $1 billion in forgone tax revenue. From 1998 to 2004, the Government of Canada spent $2.36 billion on the Canada Education Savings Grants (the publicly-funded top-up to the RESP tax haven).

Research on RESPs shows that high-income Canadians benefit far more from this program than do low-income households. In 2001, children from households in the lowest quintile (incomes under $25,000) made up only 9.7% of families who were saving for post-secondary education. Households with incomes exceeding $85,000 (the highest quintile) accounted for 31% of savers.

The AFB will end the Registered Education Savings Program, the Canada Education Savings Grant, and other ineffective programs. This includes the very controversial Millennium Scholarship Foundation (MSF), which is fast approaching the final year of its 10-year mandate. Students have criticized the MSF since its inception, saying that the Foundation has not been as effective at reducing student debt as expected, but also that it has taken on a deeply political role by advocating for a higher tuition fee regimen in Canada. The Foundation's research department has also been the subject of scrutiny over funds transferred to former employees in lucrative "research contracts." Many expect the Conservative government to take a different approach in its 2008 budget rather than renew the beleaguered Foundation.

The overall savings from reallocating tax credits (*see Taxation chapter*), estimated by the Canadian Federation of Students to be approximately $2 billion annually when fully phased in, will be used to fund a national system of needs-based grants administered through the Canada Student Loans Program (*see accompanying box*).

Case study: Grants, NOT Loans

Under the existing system, a student with $8,000* in assessed financial need would receive a federal-provincial loan and no more than $3,000 in grants from the Millennium Foundation (which largely replaced provincial grants in the late 1990s).

Under the system proposed by the AFB, the same student could qualify for up to $6,000 in the form of a grant, thereby reducing student loan borrowing by 75%.

**The AFB also proposes to support provincial tuition fee reductions, which thereby reduce financial need and allow financial aid spending to go even further.*

The staggering costs associated with medical school is a strong deterrent for students from low- and middle-income backgrounds and those who do enrol are saddled with massive debt. In order to boost medical school enrolment to tackle a practitioner shortage, the AFB proposes a stop-gap return for service program. For more information about the program, see the Health Care chapter.

Funding for Aboriginal students through the Post-Secondary Student Support Program (PSSSP) has been capped at 2% annual growth since 1996. In keeping with the Standing Committee on Aboriginal Affairs and Northern Development's Sixth Standing Committee Report, the AFB will increase PSSSP funding to $233 million in 2008–09.

University Research

For university research to pay rich dividends to Canadians and their economy in the form of scientific breakthroughs or in-depth social analysis, academic freedom and independence must be respected and supported by government. Unfortunately, the federal government has increasingly taken a hands-on approach to leveraging outcomes from campus researchers. For example, Budget 2007 targeted nearly $1 billion to research in a narrow range of research projects whose goal is to commercialize research outcomes.

Targeted funding to university research that benefits the private sector is also the main thrust of the federal government's new Science and Technology Strategy. Released in 2007, the Strategy outlines several policy initiatives that will coerce universities into joint projects with the private sector to achieve short-term spin-offs.

The AFB will strengthen independent peer-reviewed research in Canada by increasing the federal granting councils' base budgets by 10%. Approximately $70 million will be allocated to the National Sciences and Engineering Research Council (NSERC), $70 million to the Canadian Institutes of Health Research (CIHR), and $60 million to the Social Sciences and Humanities Research Council (SSHRC), for a total of $200 million annually.

Notes

1 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

2 Canadian Federation of Students, *2007 Fact Sheet*, vol. 11 no. 1 found at http://www.cfs-fcee.ca/html/english/research/fact_sheets.php

1.9 Retirement and Seniors' Benefits

Many Canadians, working or retired, worry about financial security in their golden years. The reasons why aren't hard to find. Today's research on pension and income trends offers an unsettling picture.

Only 20% of Canadians working in the private sector have workplace pensions,[1] and almost one-third have no retirement savings at all.[2] Since 2002, over 300,000 high-paying manufacturing and resource sector jobs have been lost. Most new jobs are non-standard and precarious, and offer little room for retirement planning.

As of September 2005, Canadians owe more than they earn. Canada, like the U.S., now has a negative national savings rate, approaching 114% of earnings.[3] An alarming number of retirees — particularly single women, Aboriginal peoples, recent immigrants, and those with disabilities — still live in poverty.

These trends have produced a crisis outcome for working people and retirees. The "haves" with workplace pensions are told their benefits aren't affordable, and many fear losing them in corporate bankruptcy. The "have-nots" are either gouged by excessive RRSP fees, or forgotten altogether.

Despite these discouraging trends, there is good news: it doesn't have to be this way. To meet the needs of our ageing society, working people and retirees deserve better.

For this to happen, decision-makers face a key policy choice: move forward together, or fend for yourself? The answer to this question will determine federal policy on retirement and seniors' benefits.

Will Canada be ambitious, and expand pension coverage through Old Age Security (OAS) and the Canada Pension Plan (CPP)? Or will we ignore elder poverty, and a third of the workforce with zero retirement savings?

Will Canada protect workplace pensions, or will companies be allowed to rob workers' retirement savings? Will we create publicly-funded opportunities for elder care, or will working women continue to fill the gap?

In each case, the same policy choice applies: move forward together, or fend for yourself. At the moment, despite some improvements, the second choice is winning out on Parliament Hill.

Working people need policies to move forward together in retirement. Canadians shouldn't have to "fend for themselves" while a select few hoard the pension wealth.

These are the measures the 2008 AFB will initiate:

Increase benefits for public pensions

Canada's public pension system, the OAS and Guaranteed Income Supplement (a sub-program of OAS which targets low-income seniors), offers a basic level of income security for Canada's seniors.

The OAS and GIS exist because unions, the women's movement, working people, and seniors campaigned for public pensions. They wanted seniors to have access to public pensions that would be indexed to wage increases and to the rising cost of living.

But benefit levels remain inadequate. As of January 2008, the maximum OAS monthly pension was $502.31, and the maximum monthly Guaranteed Income Supplement (GIS) for single seniors was an additional $634.02 (or $418.69 per person for couples).[4]

Even with this low amount, the OAS and GIS played a major role in lifting seniors out of extreme poverty in recent decades. Because of this, some believe elder poverty has been solved. But this is hardly the case. Today, 257,000 seniors live below the low-income cut-off established by Statistics Canada, and 148,000 seniors earn less than $10,000 per year.[5]

Particularly vulnerable are single women, recent immigrants, First Nations, and seniors with disabilities. Low-income rates for senior women, for example, are double those of senior men (8.4% compared with 3.2%). Most alarmingly, 20.3% of older women living alone live with low incomes — up 3% from last year.[6]

The 2005 and 2006 federal budgets increased GIS benefits by 7%, but this amounted to $39 per month for individuals and $58 per month for couples. This was a modestly positive step, but more must be done.

The AFB will increase GIS benefits a further 8% to strengthen public pensions for seniors. We estimate the cost of this measure to be $600 million in the first year.

Expand the Canada Pension Plan

As several researchers have noted, the best means to extend decent pension coverage involves expanding benefits for the Canada Pension Plan. The CPP covers the vast majority of working Canadians, and has a benefit design most workplace plans can't match.

CPP benefits are indexed to inflation and portable across jobs. CPP benefits are available to same-sex couples, and sensitive to the needs of those who take time off work to raise children. The CPP's Chief Actuary also confirms that the plan is financially sound until long after the "baby boom" retirement will end (2085).

The problem with the CPP (like the OAS and GIS) is its limited benefits. From its inception in 1968, the CPP was targeted to replace no more than 25% of the average industrial wage. As of January 2008, the maximum monthly benefit for individuals at age 65 was $884.58, though many don't qualify for this amount.[7] Also, because CPP benefits are solely based on contributions, equality-seeking Canadians (women, recent immigrants, workers of colour, First Nations, people with disabilities) fare worse, given lower earnings, their predominance in part-time jobs, and the time off many require for family responsibilities.

Though the CPP is an employer-worker funded benefit, it is governed by the Finance Ministers of federal and provincial governments. The federal government also plays an administrative role in designing the plan's administrative framework and operating policy. Since 1997, CPP assets have been invested by an arms-length body (the Canada Pension Plan Investment Board) and, as of 2007, any benefit level changes require proposals to fund them in advance.

The AFB calls on CPP decision-makers to undertake an ambitious expansion of the CPP that will double benefits through one (or all) of the following methods:

- increasing the yearly maximum pensionable earnings (YMPE) for CPP contributions (currently $44,900);
- raising CPP premiums for employers who do not offer workplace pensions; and
- initiating a modest CPP premium increase.

The AFB opposes any effort to create a so-called "defined contribution" or "money purchase" tier of the CPP. Such a reform could lead to the slow privatization of the CPP itself, where investment risk is borne by CPP holders.

The AFB also introduces an elder care or caregiving dropout period for CPP benefit calculations. This measure will assist those caring for family members with disabilities or older relatives.

GENDER ANALYSIS Retirement and Seniors Benefits

Policies that protect senior's benefits are beneficial to women. There has been no comprehensive attempt to address women's poverty in Canada. Existing programs and policies seem inadequate for the task and often work at cross-purposes.[11] Often when a benefit is offered by one level of government it may harm the recipient's eligibility for other benefits at another level of government.

Increasing benefits for public pensions will benefit senior women. In 2003, the low-income rate for women aged 65 and over was 8.7% compared with 4.4% for senior men.[12]

Where Canada Pension Plan (CPP) benefits are based on contributions, many women only qualify for minimal benefits, Guarateed Income Supplements (GIS) and Old Age Security (OAS), due to lower participation rates in the paid workforce.

Enhancing the security of workplace pensions

Canada is facing a protracted crisis in its manufacturing and resource sectors, one with serious implications for workers' pensions. The lack of government action to address this crisis has intensified fears around waves of corporate bankruptcies.

As Industry Canada has observed in its own research, 10,000 to 15,000 workers every year suffer unpaid wage and pension claims in corporate bankruptcies.[8] Thousands of others have seen massive benefit cuts as bankruptcy proceedings favour claims by executives and "secured creditors" over the needs of working families.

On December 14, 2007, Parliament did implement some legislation to address this crisis. Bill C-12 introduced a new Wage Earner Protection Program to help workers recover some wage and pension losses in corporate bankruptcy. Bill C-12 also reaffirmed the integrity of collective agreements against judicial interference by pro-employer bankruptcy judges.

This was a positive step, but more must be done. To protect workplace pensions, the AFB will implement a national pension insurance plan funded by employer contributions, similar to the Pension Benefits Guarantee Fund that exists in Ontario. Such a fund will guarantee the workplace pensions (up to a certain limit) of workers whose pensions are put at risk in corporate bankruptcy. Provinces will also be allowed to participate in this system.

Federally regulated pension plans are governed by the federal Pension Benefits Standards Act. While the PBSA only applies to workplace pensions in the federal jurisdiction, its provisions can serve as a model for standards set by provinces and territories. The AFB will have the PBSA reviewed to ensure that the law and its application are focused on setting the highest standards of protection for the pension rights of workers and retirees.

Registered Retirement Savings Plan (RRSP) Limits

In 2006, Canadians were allowed to contribute 18% of their previous years' income to an RRSP, to a maximum of $18,000. The forgone federal tax revenue from the RRSP deduction amounted to an annual tax expenditure of $8.445 billion.[9] A 2006 study by Statistics Canada found that RRSPs constitute less than 10% of the incomes of seniors, and overwhelmingly benefit those with above-average incomes.[10] Such higher RRSP contribution limits cannot be justified, so the AFB maintains the RRSP/RRP maximum contributions at the 2007 level of $19,000. Maintaining maximums at this level will generate revenue to help pay for the proposed increases in GIS benefits.

Notes

1 Statistics Canada, "Pension Plans in Canada", *The Daily* (June 21, 2007). A additional note for readers: in this paper, the term "workplace pension" is used instead of traditional references to "registered pension plans".

2 Statistics Canada, "Survey of Financial Security", *The Daily* (December 7, 2006).

3 National Advisory Council on Aging, *Seniors on the Margins: Aging and Poverty in Canada* (2005).

4 "Old Age Security — Canada Pension Plan (Rate Card)" (January 2008), www.servicecanada.gc.ca. Benefits for GIS are also cut off for seniors with incomes of over $36,500 per year, and OAS benefits (in 2007) were reduced back for seniors with incomes over $63,511 (only 5% of seniors fall into this category).

5 National Advisory Council on Aging, *Seniors on the Margins: Aging and Poverty in Canada* (2005).

6 Monica Townson, "Financial Security for Women Seniors in Canada", paper prepared for the Canadian Association of Social Workers (September 2007)

7 "Old Age Security — Canada Pension Plan (Rate Card)" (January 2008), www.servicecanada.gc.ca

8 Industry Canada, "Backgrounder: Government Announces Reform of the *Bankruptcy and Insolvency Act* and the *Companies' Creditors Arrangement Act*" (June 3, 2005), www.ic.gc.ca.

9 Department of Finance Canada, Tax Expenditures and Evaluations, 2006

10 http://www.statcan.ca/english/freepub/75-001-XIE/10406/art-1.htm

11 http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty_e.html

12 http://www.swc-cfc.gc.ca/resources/consultations/ges09-2005/poverty_e.html

SECTION 2

Environmental Stewardship and an Effective Strategy to Confront Climate Change

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. Prime Minister Harper has acknowledged that "climate change is perhaps the biggest threat to confront the future of humanity today,"[1] and that "we need to take action, we owe it to future generations."[2]

A 2006 study for the British government by former World Bank chief economist Nicholas Stern reported that climate change could cost the world economy $7 trillion annually if greenhouse gas emissions aren't reduced substantially. This is equivalent to about $1,000 a year for every person on earth — and far more than the costs of reducing our greenhouse gas emissions.

In Canada, urgent action is required to address climate change. But we must also address other important environmental challenges if we are to preserve a clean, healthy environment for Canadians today and tomorrow.

Clean air, clean water, vibrant agriculture, 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. Our society is faced with unacceptably high levels of poverty and increased inequality. The AFB presents initiatives that will address the environmental challenges while supporting low-income households, workers, and communities in the transition to socially and environmentally sustainable economy. To that end, the AFB will implement a comprehensive environmental plan[3] to address the environmental challenges Canada faces and to advance Canada towards being an international environmental leader.

Canada can only take advantage of the "unprecedented opportunity" to which Prime Minister Harper has referred by taking ambitious actions now to put a price on pollution and the depletion of non-renewable resources, and to invest in critical environmental conservation, supported by strategic regulatory measures.

Notes

1 Speech by Prime Minister Stephen Harper in Berlin, Germany, on June 4, 2007. http://www.pm.gc.ca/eng/media.asp?category=2&id=1681

2 Speech by Prime Minister Stephen Harper in Sydney, Australia, on September 7, 2007. http://www.ecoaction.gc.ca/speeches-discours/20070907-eng.cfm.

3 See Green Budget Coalition (2007): *Big Steps Forward: Recommendations for Budget 2008*, available at http://www.greenbudget.ca/2008/main.html, for more details on many of these specific recommendations.

2.1 Climate Change and Carbon Pricing

Canada must take urgent steps to reduce the risks posed by climate change and simultaneously take advantage of the huge opportunities available to world leaders in low-impact renewable energy and energy efficiency. Market-based policies, such as auctioned emission permits and a carbon tax, will play a critical role in shifting economic behaviour, by business, governments, and individual Canadians, to be more in harmony with long-term environmental and human health. Well-designed regulations will help force Canadian industries to be more innovative and competitive. Public and private investments need to be directed to more energy-efficient and less-polluting technologies and infrastructure. These strategies would collectively stimulate new employment in cutting-edge industries and combine with a Just Transition strategy to help workers who may be adversely affected by industrial shifts.

Putting a price on carbon

The most critical budgetary measure is to put a substantive price on carbon. The AFB will put a price on carbon emissions in order to integrate environmental values into market prices and to stimulate greenhouse gas (GHG) emission reductions from both industrial and individual sources.

Specifically, the AFB will establish a price for greenhouse gas (GHG) emissions of $30/tonne carbon dioxide equivalent (CO_2e), rising to at least $75/tonne by 2020. Putting an adequate price on carbon is an essential step in moving Canada's economy towards a low-carbon future, and would help Canada to play a responsible role in the global effort against climate change. The carbon price should be applied broadly, through a combination of a cap-and-trade system, with a rapidly increasing proportion of permits auctioned, and a complementary carbon tax to address small businesses and individual Canadians.

The revenues from these emission sales and the carbon tax would be earmarked specifically for related mitigation and adaptation measures, including: energy efficiency and green power initiatives, investments in public transit and energy retrofits, community and worker adjustment, and green energy tax refunds for lower and middle-income families.

Greening Canada's Economy with True-cost Pricing and Market-Based Instruments

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

True-cost pricing policies will be complemented by the transitional use of policies such as product incentives and "feebates" to shift buying and usage patterns for major purchases, such as heating systems, automobiles and appliances, towards those whose use creates more positive impacts on the environment and human health.

Such EFR policies create many benefits. They reward environmental leaders among businesses and citizens, preserve natural resources for higher value uses, stimulate environmental innovations with global export potential, and expedite the development of economies where economic success brings concurrent environmental and human health benefits, and where self-interested economic choices are more frequently those with the most social and environmental benefits. Furthermore, such policies provide enhanced fairness to citizens and business through the "polluter pays principle" by forcing polluters to pay for the harm they cause.

Putting an adequate price on carbon is the most crucial opportunity to advance EFR, as this recommendation will set a price on pollution that spurs emission reductions throughout the economy.

The AFB will implement structural changes in order to permanently and effectively integrate environmental values into all relevant policy and policy-making processes.

Emissions cap-and trade system for industrial emissions

The AFB will implement a GHG emissions cap-and-trade system for heavy industry, utilities, and other large emitters. This cap-and-trade system will include a steadily 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. The AFB anticipates this system will earn approximately $1.3 billion in new revenues in the first full year of operations from an auction of 10% of the allowable emission, at an estimated price of $30 per tonne. Revenues from emission permit sales would increase substantially as a higher portion of permits is auctioned and as the price level increases.

Complementary Carbon Tax

The AFB will also introduce a carbon tax as an important first step towards integrating environmental values into market prices for consumers and small businesses. This carbon tax will cover most transportation, residential, commercial, and institutional uses of fossil fuel, which account for almost half of Canada's CO_2 emissions, but will *not* apply to industrial users and other large final emitters subject to the Emissions Trading System. The carbon tax will be applied to all non-renewable fuels based on their CO_2 emission factors.

At a rate of $30 per tonne, the carbon tax will initially generate about $7 billion per year when fully phased in. This rate, and the resulting revenues, are expected to rise in future years, in order to provide an increasingly strong price signal to individuals and businesses making strategy and purchasing decisions with long-term energy consumption implications.

Large final emitters such as industrial users and utilities will be exempt from this tax where they are included in an emissions trading system. Fuel use for airlines and international marine transport will 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 $30 per tonne of CO_2 emissions means a tax of about 7.1 cents a litre for gasoline, 8.2 cents a litre for diesel, 8.5 cents a litre for fuel oil, and 5.7 cents a cubic metre for natural gas. The tax will go into effect on July 1, 2008.

Recycling revenues from carbon pricing

Revenues raised from emission permit sales and the carbon tax will be directed towards a combination of:

1) investments in further GHG emission reductions, through renewable energy, energy efficiency and retrofit programs, and investments in public transit;
2) a Green Energy Tax Refund, to protect low-income Canadians, and reduce the impact on middle-income Canadians, arising from related cost increases without removing the incentive for behaviour change; and
3) a Just Transition Strategy and Green Jobs Investments to assist affected workers and communities.

Collectively, these measures will further increase success in reducing the risks related to climate change, and also ensure that households, workers, and other vulnerable Canadians are assisted in making the transition toward a greener economy. Any revenues generated beyond what is required in each year for these measures will go into an Environmental Fund. This Fund will make financing available in future years for a variety of environmental and related measures.

GENDER ANALYSIS Environment

> While all Canadians benefit from protecting the environment and reducing emissions, assistance such as the Green Energy Tax Refund for low-income Canadians is particularly important for women, who make up a disproportionate share of this demographic.
>
> The Just Transition Strategy will greatly help women and families whose employment situations may change through the adoption of measures outlined in this chapter.

Renewable energy and energy efficiency

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, but will also generate economic opportunities *and* clean the air and water.

Renewable energy and energy efficiency should be the cornerstones of a national energy plan that addresses the long-term challenges of climate change and securing access to clean, low-impact energy.

The AFB will implement the Green Budget Coalition's 2008 budget recommendations to set and achieve targets on energy efficiency, and to develop and implement a comprehensive renewable energy strategy. These will collectively cost about $1 billion/year for the next three years, and $8 billion over 15 years.[1]

Importantly, these recommendations include many ambitious measures to help Canadians reduce their energy costs and their exposure to the costs of carbon pricing. These measures aim to retrofit all residential and commercial buildings in Canada, with a focus on low-income housing, to install one million residential and small business solar systems, to stimulate new green building, to support renewable energy deployment in the north, and more.

Furthermore, the AFB will allocate $2.4 billion over three years to enhance public transit infrastructure and to help make public transit more affordable for all.

Green Energy Tax Refund

A Green Energy Tax Refund will help low- and middle-income Canadians make the transition towards sustainable energy consumption.

The average household will pay an estimated $270 extra per year as a direct result of higher fuel prices from this $30/tonne carbon price, equal to less than half of one-percent of average household income. But the total impact of direct and indirect costs passed on to households will be larger, particularly on lower-income households, who spend a much larger proportion of their income on energy.

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 a substantive carbon tax should not be delayed until that happens, nor should middle- and lower-income Canadians be forced to bear higher costs without any financial assistance.

Together with the carbon tax, the AFB will introduce a Green Energy Tax Refund, fully compensating lower-income and partially compensating middle-income households for related increases in their living costs, while making the tax system more progressive, and not cancelling out the incentive for emission reductions created by carbon pricing. As the carbon price increases over time, the value of this rebate will be proportionally increased to continue to offset related cost increases for middle- and lower-income households.

This refund will provide $300 per adult and $150 per child in refundable tax credits. For example, a qualifying two-parent family with two children would receive $900 after tax from this refund. All families with household incomes of $70,000 or less (amounting to 60% of all households in Canada) will receive the full credit. The amount will be reduced by 5% for each dollar of family income above $70,000. At this rate, the total cost of the credit will be about $5 billion per year, when fully phased in.

Just Transition Strategy

A Just Transition Strategy will assist workers and communities affected by the transition toward a greener economy. Making the transition to a low-carbon economy will mean job losses in some sectors, but also — driven by emerging green industries and opportunities — 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. The AFB will require transition programs for displaced workers to ensure that the Canadian labour force has the skills required to support a greener economy.

The Just Transition program will fund:

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

advantage of training and educational opportunities;

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

Mitigating impacts on sensitive industries and regions

The AFB will also explore mechanisms that address the competitiveness concerns of Canadian sectors that could become more vulnerable to international competitors facing less stringent GHG policies. These measures should simultaneously aim for strong GHG reduction action by our trading partners and sustainability in Canada's energy production sector, while addressing the particular circumstances of developing countries.

The AFB will also monitor the impacts on Canadians living in remote, rural areas, to see how well the Green Energy Tax Refund — supported by the programs to increase energy efficiency and renewable energy use and to increase renewable energy deployment in the north — are offsetting these Canadians' increased living costs.

This combination of substantive carbon pricing and strategic revenue recycling will finally put Canada on an effective track to addressing climate change. Furthermore, it will 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, it will reduce air pollution and related health problems, lowering the incidence of respiratory illnesses, and improving and extending the lives of Canadians (*See Table 4, Section 2 for more costing details on environmental initiatives*).

Notes

1 Green Budget Coalition, Big Steps Forward, 2007, p. 30–33.

2.2 Nature Conservation and Human Health

Conserving Canada's treasured oceans and lands

The AFB will firmly establish Canada's position as a respected global conservation leader by fully implementing three existing commitments to conserve both marine and terrestrial biodiversity:

1. establishing Canada's national system of marine protected areas by 2012, and implementing integrated oceans management plans for Canada's oceans;
2. completing Canada's systems of national parks, national wildlife areas and migratory bird sanctuaries, and ensuring their long-term protection; and
3. improving incentives under the federal Agricultural Policy Framework for protecting ecological goods and services on agricultural lands.

These steps will create 11 new National Parks, complete six existing National Parks, result in 14 new National Marine Conservation Areas (Parks Canada), 12 new Marine Protected Areas (Fisheries and Oceans), and nine new National Marine Wildlife areas (Environment Canada),[1] and also convert at least two million acres of cropland to permanent cover in the prairie provinces, all at a cost in the range of only $200 million/year.

Such bold actions, along with federal leadership to coordinate complementary work by all levels of government nationwide, are essential to secure the ongoing health and economic strength of our lands, waters, and wildlife.

The Great Lakes and St. Lawrence River: Restoring, protecting, and enhancing the region

The AFB will build upon Canada's progressive Budget 2007 measures by developing and investing in a comprehensive, long-term sustainability strategy to restore, protect, and enhance the environment of the combined Great Lakes and St. Lawrence River region. Priority areas for investment will be:

1. developing a shared, basin-wide vision, among the governments and residents of the surrounding provinces and states, to foster better coordination and consistency

while improving capacity building and supporting action-oriented research;

2. upgrading water and wastewater infrastructure;
3. ensuring the clean up and de-listing of existing Areas of Concern and Zones d'intervention prioritaire;
4. preventing contamination from substances of emerging concern;
5. protection from invasive species; and
6. protecting endangered species and enhancing biodiversity and habitat.

Much of the required funding will be drawn from existing infrastructure funding. Such investments will ensure a clean, healthy source of drinking water for millions of Canadians, strengthen the ecosystem's capacity and resilience to support strong economic and social systems, and facilitate a healthy, growing economy and business climate for area residents.

Notes

1 This investment would directly result in new national parks in: the South Okanogan region of BC; southern Yukon or northern BC; the East Arm of Great Slave Lake, NWT; Manitoba Lowlands; Mealy Mountains of Labrador; one new park in Ontario; four new parks in Quebec and one new park in Nunavut. It will also result in land acquisition to complete the Bruce Peninsula National Park (ON), Gulf Islands National Park (BC) and Grasslands National Park (Sask.). And it will result in boundary expansions to complete Nahanni National Park Reserve (NWT), Tuktut Nogait National Park (Nunavut) and Waterton Lakes National Park (Alberta/BC). This investment would protect sensitive marine ecosystems such as the glass sponge reefs on the west coast, horse mussel mounds in Nova Scotia, Digby Neck, Nova Scotia, the south coast of Newfoundland and cold water corals off the Atlantic and Pacific coasts as well as other important sites.

2.3 Agriculture and Food Security

It is not simple nostalgia to imagine sustainable local agriculture economies. There is immense possibility to create a vibrant rural Canada where small-scale producers and distributors can make decent livings and create healthy communities. Viable alternatives exist.

Since the 1950s, two-thirds of the families active in Canadian farming have left their profession. Large corporations isolated from local economies and the needs of people living within agricultural areas thrive, while families and communities disintegrate slowly. Roots are lost, and important knowledge of ecologically beneficial agriculture is discarded under the pressure to use expensive fertilizers, pesticides, and genetically modified seeds.

The big corporations involved in agriculture are bustling: the agri-business giants that provide farmers with fertilizers, machinery, and other inputs; the transport companies; the firms that process the food; and the wholesale and retail stores — all have increased their revenues, dividing the profits from high food prices among them. Two meat-packing companies control nearly 90% of Canada's beef industry; five transnational organizations control 80% of the Canadian grain trade. The profits from these immense businesses benefit few.

Within these corporate endeavours, small-scale producers struggle to meet their basic needs. Despite consolidation and increased production, farmers have slightly lower average incomes than the general Canadian population. There is minimal support for local food-based infrastructure or co-operative initiatives that allow farmers the opportunity to bargain equally, or grow crops that contribute to ecological diversity. Farming communities near urban areas are increasingly swathed in concrete as it becomes more profitable to sell limited agricultural land for development than continue to farm.

Current federal and provincial food-standard policies favour large agricultural producers, and isolate farmers working within local economies. For example, in many parts of the country new meat regulations designed for large factory establishments have been mandated for all producers. Small-scale operations have to build high-cost processing plants to specifications they will not recover in their economic cycle. Across the board, farmers now spend nearly a dollar in operating expenses for every dollar they make from their agricultural products. As a consequence of this cost-price squeeze, many are leaving the industry, damaging local economies to a point almost beyond repair.

As older farmers migrate to the cities, few young agricultural specialists are available to fill their place. Our ability to provide food for our families from domestic soil is about to diminish permanently. To state it simply, young farmers cannot afford to farm. The average age of Canadian farmers is 50. As they retire, there will be few people left to grow food. In a period of climate change it is foolish to depend on Mexico and China for the majority of our food needs. We need supports to allow young people to grow the food we all depend on.

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 is opposed by private agri-business and conservative-minded governments, who denounce it as interference with "market freedom."

The Canadian Wheat Board — one of the last bastions of farmer co-operation — was targeted specifically during 2007. As the Minister of Agriculture announced the federal government would continue efforts to strip the Canadian Wheat Board of its exclusive marketing authority for barley, the future of Canadian producers was put into question. The farmer-controlled Board provides Western barley growers with a marketing advantage worth $60 million a year — money that flows into their pockets rather than into shareholder returns for multinational grain companies who might otherwise market the crop.

Simultaneously, the government has tabled legislation that will undermine the regulatory powers of the Canadian Grain Commission. The new legislation will leave family grain farmers vulnerable to multinationals, reversing completely the protective intent of the original legislation. These purposeful removals of market leverage for family farmers benefits only their large-scale corporate competitors.

GENDER ANALYSIS Agriculture/Food Security

Agriculture policies that support large agri-business and undermine family farms have a negative impact on women who are often part of the family work unit.

Federal policies that undermine farm marketing boards and regulations protecting family farms reduce the viability of these farms and the livelihoods of many farming women.

In 2001, the University of Regina reported that approximately 40% of farm women work more than 13 hours a day. They do 80% of the household work, 75% of the bookkeeping, 21% of the field operations, and 17% of equipment repairs. More than half (54%) of women were involved in off-farm work, and only 25% felt their farm operations could continue without supplementing it with off-farm income.[1]

Finally, most of the traditional methods to encourage and support local food producers fall within prohibited or restricted trade measure categories. One means of supporting local food production and distribution is to enable local farms to compete with larger corporate producers by providing subsidies. Domestic support subsidies are, for the most part, prohibited or reduced by the WTO *Agreements on Agriculture* (1995). This makes regional initiatives difficult, if not impossible, to support.

Yet, while problems loom, there are effective, well-researched solutions. By supporting local economies through the following measures, farmers can begin to re-claim a fair share of the wealth they produce, and agriculture will once again be a financially viable option for all Canadians.

The *Alternative Federal Budget* will:

- build rural and local food systems by funding infrastructure for direct marketing of local products, and providing low-interest loans for initial start-up-capital for local processing, distribution, and direct retailing;

- invest particularly in locally controlled atmosphere storage, freezing, and cooling facilities so that producers can increase yield, reducing dependence on food from thousands of kilometres away;
- encourage a mandatory 30% procurement of domestic and locally produced products for federal, provincial, and municipal food-based contracts; and
- support initiatives that promote institutional buying from local dairies, vegetable farmers, community-supported agriculture, mills, regional seed co-operatives, and farmer-driven food-box programs.

Besides providing ecological and economic benefits, mandatory procurement will eliminate trade redundancies where many food-producing regions have unnecessary cost by importing equal amounts of exported food products.

The AFB will expand local food systems by creating initial core funding for local branding and geographic indicator initiatives that create a market for specialty products. This encourages growers to maintain heritage varieties and systemic diversity, and creates new markets for domestic products.

In order to enable support for domestic procurement, this initiative will also work to challenge restrictive trade barriers — such as the WTO Green and Blue Box quotas — that make it impossible for domestic farmers to grow and market their goods within local economies.

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

The funding base and regulatory powers of the Canadian Grain Commission will be strengthened so that it can truly support agricultural initiatives. The Grain Commission runs a current annual deficit around $10 million. This deficit equals approximately 43 cents per tonne. This is just one penny per bushel. Increased federal funding or slightly raised user fees will create a strong and effective Grain Commission that can advocate for and with all farmers.

Cooperative approaches to agriculture will be created through financial support for capacity building for new and emerging cooperatives, and by creating long-term opportunities for technical assistance, feasibility studies, leadership, and practical skill training, and implementing advisory services for agricultural networks and federations.

The AFB will commit $50 million annually to establish these important programs.

Sustainable methods of food production will be supported by implementing tax benefits for farmers engaged in organic farming methods, bonuses for converting to organic agriculture, and providing financial support or bursaries for farmers who require training in ecologically-sustainable techniques of food production.

The AFB will allocate $200 million per year to support the transition to sustainable and organic agriculture practices.

The current seed and fertilizer supply will be reformed by: a) banning the privatization of seed stocks; b) eliminating terminator seeds, and adding compulsory labels to products that have been genetically modified; and c) promoting seed saving initiatives.

Economically viable futures for young farmers will be assured by providing opportunities for technical assistance and financial incentives for young farmers wishing to access land, training, and start-up capital.

Our current food system is not designed with any regard for resilience, surge capacity, robust response to crisis, or ecological security.

Instead of ensuring that all Canadians can access a healthy and ecologically sustainable food supply, it benefits mainly large trans-national corporations.

As most food travels approximately 2,500 kilometres from its place of production to market, place-based approaches to agriculture are more cost-effective and ecologically sustainable.

These measures will make farming in Canada a financially viable industry that supports rural and urban economies. By developing vibrant local economies, farmers will no longer need to leave the land, and those struggling to survive will work independent of massive government subsidies.

The long-term benefits and savings for farmers, consumers, taxpayers, and our own communities make these initiatives imperative. It is time to stop the nostalgia, implement alternatives, and bring the farm crisis to an end.

Notes

1 http://www.nfu.ca/faire.htm

SECTION 3

Strengthening Sovereignty, Identity and Democracy

The theme that underlies this section of the AFB is the desire for congruence between Canadian identity — how we see ourselves as a nation (our imagined community) — and the scope of choices available to policy-makers to give weight to who we are and who we want to become. Elected leaders must be able to make fundamental political choices on our behalf; otherwise our democracy is little more than a Potemkin village facade for decisions made elsewhere.

One of the most important factors affecting our national identity is the dominant cultural, economic, political, and ideological influence of the United States. Given the huge power imbalance, no challenge is greater than that of maintaining sufficient "distance" to ensure we have the policy teeth necessary to give expression to Canadian identity.

We have distinct values and interests, which are a function of our history and geography, and our place in the global economy and community of nations. We want to chart a course that gives expression to our founding myths and our historical experiences, and advances the social justice values that have shaped our society.

Our policies, laws, and institutions should reflect our unique social character and blend of individual and collective rights; they should facilitate the management of our complex federation (tri-national and multicultural). We want to chart a course that enhances Canada's reputation as a good global citizen: committed to peace, human rights, respect for international law, responsible environmental stewardship, social and economic justice.

3.1 Foreign Policy

In recent years there has been a disturbing shift in Canadian foreign policy away from Canada's role as peacemaker, honest broker, and independent voice on the world stage to the point where it is affecting our national identity — how most Canadians see themselves in the world and the image foreigners have of Canada.

Under the Harper government, stubbornly aligned with the failed hard-line policies of the Bush administration, Canada is becoming a rogue state.

Its attempt, along with the United States, to block agreement on post-Kyoto emissions reduction targets at the UN Bali conference, was irresponsible and a national embarrassment.

It is marching in lockstep with the U.S. on many issues: the "war on terror", Israel-Palestine, Latin America. It has aligned with the U.S. on nuclear proliferation and human rights — for example, its opposition to the UN Declaration on the Rights of Indigenous Peoples, and to resolutions calling for the elimination of nuclear weapons. Its selective human rights positions replicate those of the Bush administration: for example, its vocal human rights condemnation of China compared with its silence on Colombia — one of the world's most brutal regimes, with whom it is negotiating a free trade agreement (FTA).

It refuses to criticize the Bush regime on any of its foreign or domestic policy measures that violate human rights or international law, or threaten international peace: Iran, extraordinary rendition, torture, surveillance, military commissions act. It refuses to call for an end to the U.S. military trial and the repatriation of Canadian child soldier Omar Kadr, refuses to advocate for Canadians facing the death penalty in the U.S., or shelter U.S. Iraq war resisters.

Its development assistance policies have been realigned to advance its foreign policy priorities, which are dominated by its pro-U.S. military priorities (e.g., Afghanistan). Of the three Ds of Canadian foreign policy in Afghanistan — development, diplomacy, and defence — it overwhelmingly favours the military course.

On the commercial front, Canada is also following the U.S. lead at the WTO, and with the negotiation of FTAs (notably with South Korea which will have negative consequences for manufacturing and set bad precedents regarding intellectual property and investor rights). It is generally taking a hands-off position on foreign direct investment despite the latest wave of foreign takeovers, except when it involves (mainly China's and Russia's) state-owned enterprises.

The Harper government continues to push for deeper integration with the U.S., both within and outside of the Security and Prosperity Partnership (SPP) — economic, energy, regulatory, military, anti-terrorist, intelligence, surveillance, no-fly lists, safe-third country agreements and security certificates (the latter two which have been ruled illegal by the courts). It has embraced U.S.-style tough-on-crime and anti-drug policies, and is pushing hard for the elimination of the Canadian Wheat Board. More than advancing Canada's integration into the U.S., the Harper government is attempting to re-make Canada in the image of the U.S.

Paradoxically, despite Canada's bending over backwards to harmonize its policies, practices and regulations, the U.S. is unilaterally imposing border-thickening measures with no consultation and little forewarning — actions that increase Canada's vulnerability in a more integrated continental economy.

AFB Proposals

The AFB calls for an independent Canadian foreign policy and the renewal of its leadership on the world stage; a foreign policy that is critical of the U.S. policy where warranted; a foreign policy that gives priority to respect for international law and human rights, to the health of the planet, and is committed to peacekeeping and social justice initiatives.

With new direction in foreign policy (and a reallocation of existing expenditures), Canada could accomplish great things in the world. Imagine how many lives could be saved in Africa if our development spending approached the long-promised UN target of 0.7% of GDP. Imagine how many armed conflicts could be prevented if the resources available to our diplomats were increased.

GENDER ANALYSIS Foreign Policy

> A gender-based analysis as is currently undertaken for CIDA-run projects must be undertaken to ensure that Canadian foreign policy does not have a negative gendered impact, both domestically and internationally.

The main fiscal dimensions of AFB proposals which touch on foreign policy — military, development assistance, environment, energy, and economic — are covered in the other chapters.

The AFB will increase spending on diplomatic activities, increase development assistance, and focus more on poverty alleviation. It will hold the line on military spending overall while reallocating resources to sovereignty protection — notably in the North — and allocate resources to UN peacekeeping missions in Darfur and Congo. It will take a leadership role in advancing UN governance, notably in developing effective tools to implement the concept of *Responsibility to Protect,* which Canada pioneered.

The AFB will repeal the *Safe Third Country Agreement*, which has caused hundreds of refugees seeking entry into Canada from the United States to be turned back, and has been ruled by the federal court to violate the Canadian Charter. It will also scrap *Bill C-3*, the government's proposed legislation to deal with the Supreme Court ruling that the safety certificate regime under the Immigration and Refugee Protection Act is unconstitutional. As now written, the special advocate provisions of the bill violate international human rights law standards of due process.

The AFB will also:

- implement a moratorium on the secretive and undemocratic Security and Prosperity Partnership initiative (SPP);
- reject NAFTA provisions that define water as a tradable commodity and establish a federal ban on bulk water exports;

- opt out of the NAFTA investor-state provisions which enable companies to challenge Canadian regulations and laws — including health and environment — in court where they allege that these hurt potential profits;
- suspend bilateral FTA talks with Korea, Peru and Columbia;
- limit foreign takeovers of Canadian corporations in strategic economic sectors, and in areas where strategic technologies have been developed with government assistance, such as MDS's recent sale of its aerospace branch (Canadarm and Radarsat 2) to a U.S. company;
- maintain or strengthen existing sectoral foreign investment restrictions in banking and financial services, telecommunications, broadcasting, cultural industries and airlines; and
- strengthen foreign corporation reporting requirements to Statistics Canada, improving the agency's ability to monitor foreign investment and make timely assessments of foreign corporations' impact on the Canadian economy.

Sovereignty in the North

Government needs to show leadership in developing a comprehensive Arctic policy that links sovereignty and human security. The Harper government has recognized the importance of Canada asserting sovereignty in the North. However, it has been narrowly focused on military issues and failed to be attentive to the social and environmental dimensions. Moreover, Northerners, including Indigenous Peoples' organizations, must be fully involved in the development of Arctic policy.

The AFB will:

- provide more support to Inuit who have lived in the Arctic for millennia and are a prime expression of Canadian sovereignty;
- live up to commitments under the Nunavut Land Claims Agreement and other signed agreements;
- work cooperatively within the UN Law of the Sea Framework and the Artic Circumpolar Council to map the Arctic seabed and ensure that shipping and resource development is environmentally sound; and allocate resources for this purpose;
- work with the U.S. and other national governments towards recognition of the Northwest Passage as an internal Canadian waterway; and
- replace the Harper government's commitment of six Navy patrol ships with a commitment to build two world-class icebreakers for the Coast Guard.

Energy Sovereignty and Security

In 2006, Canada exported 67% of its oil production and 59% of its natural gas to the U.S. Meanwhile, 90% of Quebec and Atlantic Canada's needs and 36% of Ontario's are met through imports, and are thus vulnerable to international supply crises.

The AFB will designate energy, including oil and gas, as a strategic sector subject to national regulation and foreign investment restrictions. It will shift emphasis from production for export to the U.S. to national energy security. It will create a strategic petroleum reserve to protect against short-term supply shocks. It will re-introduce the requirement that there be 25 years of proven oil and gas supplies before allowing exports, and it will rescind the NAFTA energy proportional sharing provisions that mandate U.S. rights to the bulk of our oil and gas production.

3.2 Defence

Military Spending

Canada can no longer be considered a country that spends too little on its military. In 2007, Canada moved from the 7th to the 6th highest military spender among NATO's 26 member nations. This move resulted from a 9% increase in the defence budget between the 2006–07 and the 2007–08 federal budgets. This increase aligned with the Harper government's plan to increase military spending to $20 billion dollars by 2009–10, and the current annual budget of $18.24 billion puts the government right on track to meet this goal.

But what about other Canadian priorities? The Harper government has committed to fulfill only half of the UN foreign aid spending target of 0.7%; affordable housing shortages and homelessness are at crisis levels; poverty continues to plague large numbers of Canadians; child care and early learning spending ranks close to the bottom among OECD countries. These social priorities have been relegated to the back-seat while the Harper government focuses on military spending and procurement.

The drive to increase military spending and a combat role is applauded by the U.S. administration. Canadians, on the other hand, continue to support a leadership role for Canada within international peacekeeping operations. Yet Canada now ranks an abysmal 60th in our overall contribution to peacekeeping forces — lower than Rwanda, Zimbabwe, and Mongolia. The police contribute far more men and women to Canada's current peacekeeping operations than do the armed forces, which have fewer than 20 soldiers participating in UN peacekeeping missions, on average, this year. In contrast, Canada has over 2,500 troops stationed in Afghanistan, and will have spent $7.2 billion on the full cost of the war in Afghanistan by 2008. Canada's troop commitment to the NATO-led mission in Afghanistan is over 95 % higher than our troop commitment to peacekeeping missions internationally.

The focus on Afghanistan is part of the Harper government's plan to shift Canadian military resources from UN-led peacekeeping missions, where Canada has historically played a leading role, to U.S. and NATO-led operations. This shift has never been extensively debated in Parliament; nor does it reflect a change in Canadian public opinion.

TABLE 7

Defence Procurement	Cost (Approx.)	Social Spending	Cost (Approx.)
1 Medium Sized Logistic Truck	$521,739.00	New City Bus in Timmins, ON	$450,000
1 Ch-47 Chinook Helicopter	$111 million	Yearly operating budget of the University of Regina, SK	$123 million
1 Ch-47 Chinook Helicopter with maintenance package	$290 million	75 MRI Machines, A new long-term care home in Newfoundland, a new hospital in Nunavut, and 2 new Sports and Recreation facilities.	$280 million
1 Sikorsky S-92 helicopter (Replacement for the Sea King)	$114 million	3 New sewage treatment plants in Halifax, NS	$133 million
1 Lockheed Martin C-130J (Mid-Range Plane)	$188 million	300 bed Acute Care Facility in the Fraser Valley, BC	$178 million
1 Large Boeing C-17	$850 million	70 affordable housing projects	$826 million

TABLE 8

Medical Equipment needed in Canada to meet OECD levels	Cost per unit	Total Costs
144 CT Machines	Cost approx. $1.2 million	$172.8 million
75 MRI Machines	Cost approx. $2.3 million	$172.5 million
12 PET* Scanner (Positron Emission Tomography)	$4 million	$48 million
Total		**$393.3 million**
Department of Defence savings on helicopter purchase due to changes in the exchange rate		**$499.4 million**
Funds remaining after fully equipping Canadian hospitals with MRI, CT and PET Scan Machines		**$106 million**

* Ontario alone has identified a need for 8–12 PET machines. Thus, this represents a low estimate of the number of machines needed.

Military Procurement

In recent years, Canada has embarked upon the biggest military equipment build-up since the Second World War. The Canadian military will be equipped with new Arctic patrol ships, upgraded frigates, transport and patrol airplanes, trucks, battle tanks, troop carriers, heavy-lift helicopters, and new military bases. Many of these procurements will not only increase Canada's interoperability with the U.S. military, but will also support a larger military force and bolster Canada's ability to participate in complex and aggressive military operations abroad.

The Canadian government has currently committed $15 billion dollars to military procurements, but analysts suggest that the overall expenditures may total closer to $22 billion when the billions of dollars required for operations and maintenance are taken into account. The war in Afghanistan has provided the Canadian government with a justification for current military expenditures. However, most orders will not be delivered until well after the mission (on its current timeline) has ended.

The specific procurements also indicate that the plan is for combat missions in distant theatres of war rather than meeting needs within Canada. For instance, the need for fixed-wing search-and-rescue aircraft, especially on the West Coast, has been put on the back burner while billions have been spent on Cold War-era battle tanks for the army.

With so much money being spent on equipment, the arms industry is enjoying a bonanza. A recent CCPA study found that 40% of military contracts have been deemed non-competitive by the federal government, driving up the cost of equipment as favoured and well-connected firms, mostly American, scoop up billions of dollars. Even worse, maintenance contracts are not being sourced in Canada, and there are ongoing problems with U.S. rules prohibiting dual-citizenship or foreign-born Canadians from working on these contracts.

The allocation of funds to the Department of Defence comes at a cost to other agencies within the Canadian government, and affects the lives of all Canadians. As Table 7 illustrates, the cost of procuring specific pieces of military equipment has significant social opportunity costs.

The Department of National Defence has decided to purchase 16 Chinook helicopters at a cost of $4.7 billion. The price tag for the fleet of helicopters includes their manufacture, parts, and maintenance for 20 years. This allotment of $4.7 billion for the Chinooks was announced in 2006, well before the recent changes in the Canada-U.S. exchange rate, and is based on the Canadian government paying $US4.18 billion, which at that time equalled $C4.7 billion. The money that the government will save because of the rising Canadian dollar alone is enough to fully equip all Canadian hospitals to OECD standards, complete with MRI, PET-Scan, and CT Scan machines (*see Table 8*).

The above examples dramatize the huge social sacrifices inherent in these military procurement expenditures. The Canadian government cannot find money for affordable housing or a proper national child care program, but has allocated billions to purchase new helicopters.

The AFB believes there should be a full Parliamentary debate on Canada's mission in Afghanistan, and, more broadly, on the role of the Canadian military within Canadian foreign policy, including the rationale for large-scale military procurements. The AFB will conduct a full public review of Canadian defence policy and freeze further spending increases pending the outcome of the review.

GENDER ANALYSIS Defence

A thorough gender-based analysis must be conducted when developing and implementing defence policies.

Women, on average, have lower incomes than men and, as a result, benefit more from increased government spending on domestic social programming. Ensuring that military expenditures do not undermine appropriate investments in Canada's social infrastructure will positively impact women.

Canada's foreign policy shift from one of peacekeeping to one that largely focuses on American-led international military goals diverts resources from communities that benefit from peacekeeping exercises and has a disproportionately negative impact on women and children.

3.3 Development

Canada has made major new commitments of development aid to Afghanistan and Iraq. This has had the effect of skewing development priorities in other parts of the world. Canadian forces have been engaged in trading food and water for intelligence about the Taliban. Using aid as a weapon to advance military strategy violates the 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. There are opportunities — for example, the Action Plan for Peace, Justice and Reconciliation — for Canada to support conflict resolution and peace-building activities by working with various factions and parties on the ground.

The Conservative government has also signalled it will be giving higher priority to Latin America in its aid program. With the exception of Haiti and Nicaragua, all other Latin American countries are middle-income countries. Canadian aid should be focused on poverty reduction, not on promoting trade and investment interests of Canadian corporations or supporting the Bush administration's foreign policy agenda that seems to be behind the move to boost aid to Latin America. Sub-Saharan Africa and other low-income countries should be receiving higher, not lower priority. The Conservative government also needs to be pressed to keep the Canadian promise made to double its aid to Africa.

Across the planet, 50,000 people die from poverty-related causes every day. Another 800 million people go to bed hungry each night. One 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 GDP by 2010, as a step toward the UN goal of 0.7% by 2015. However, no new aid money was committed in the 2006 or 2007 federal budgets. The Canadian Council for International Co-operation calculates that Canadian Official Development Assistance (ODA) in 2006–07 will be \$4.6 billion or 0.33 % of our Gross National Income (GNI), and based on the 2007 federal budget commitments, will remain at \$4.6 billion in 2007–08 but fall to 0.32% of our GNI. This is not even half the 0.7% target and is far below the OECD donor average of 0.42%.

GENDER ANALYSIS Development

Women and their families are disproportionately affected by poverty. Canada has a strong record of conducting gender-based analysis within the Canadian International Development Agency (CIDA). All funding projects and programs from the government of Canada must continue to undergo rigorous and effective gender-impact analysis to ensure that projects benefit women as well as their male counterparts.

Upholding aid commitments will benefit the lives of women in those countries/communities receiving funding.

The AFB will set Canada on a firm schedule to reach the 0.7% target within ten years, by the year 2017. The AFB will increase foreign aid by \$460 million in 2008–09, by \$802 million in 2009–10, 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.

3.4 Celebrating Canadian Culture

Overview

Over the past year, the federal government undertook a series of measures that have strengthened the arts and culture sector in Canada, but have weakened its voice on the world stage.

It has added $30 million to the base budget of the Canada Council for the Arts; created a new $30 million funding program, *Building Communities Through the Arts and Heritage*, $7 million of which is dedicated to professional arts activities; affirmed its commitment to the Canadian Television Fund by engaging to maintain its contribution for the current and next years at the 1996 level of $100 million; invested almost $100 million in the infrastructure of several national cultural institutions such as the National Arts Centre, the National Gallery, and the Museum of Nature; and created a $5 million dollar summer internship program for museums.

At the same time, the billion-dollar reallocation program has seriously eroded Canada's cultural presence abroad by eliminating supplemental funding for artists and arts organizations working abroad, as well as Canadian officials supporting them in our missions around the world.

This repositioning of the third pillar of Canadian foreign policy, begun under the previous Liberal government, has now been completed under the Conservatives. While celebrating the UNESCO Convention on cultural diversity and investing in its promotion, the federal government continues to pursue a disjointed path in sharing Canada's rich cultural diversity with the world.

The arts and culture sector continues to diversify as interactive media grow in importance. Canada is now home to over 45 companies developing interactive games, which rely heavily on the talents of artists, composers, and designers. Last year, these firms recorded over $ 1.6 billion in revenues. The new applications for delivery of content such as music, film, television, and made-for-the-net programming represents significant increases to Canada's GDP.

The arts and culture sector, like other segments of the Canadian labour force, is facing a major challenge as the baby boomer generation prepares to retire. The challenges of attracting new talent, retaining them, and transferring knowledge to them is one that cuts across all disciplinary and industrial divides. The federal government has not acknowledged this reality in a substantive or material way. Continued success in celebrating the richness of Canadian artistic and cultural expression is reliant on finding a comprehensive and effective solution to these challenges.

Stoking the momentum

Canada's economy is undergoing a radical change. We are witnessing the emergence of an information or creative economy. While the manufacturing base continues to falter, the information/creative economy shows signs of growth and diversity. Securing government support for this sector of our economy is critical.

The federal government faces several important decisions that can support the momentum in the arts and culture sector or hobble it by inaction or retrograde decisions.

- The billion-dollar reallocation program has specifically targeted the Department of Canadian Heritage and several of its portfolio agencies for the 2007–08 fiscal year. While specific cuts have not yet been announced, AFB 2008–09 will redress any harmful measures that may result from this reallocation exercise and reaffirm the importance of the arts and culture sector to the creative economy.
- The not-yet-proposed reforms to the Copyright Act provide the federal government with a unique opportunity to foster and reward creativity and innovation. These reforms should reflect the balance of interest approach traditionally taken by government to meet the needs of creators, copyright owners, licensees, and other user communities.
- AFB support for the independent audio-visual media sector will embrace the new forms of production and distribution for television, and webcasting. Success in these areas can mean important new international markets for Canadian cultural materials.
- The AFB will put forward a comprehensive federal museum policy, bringing an end to ad-hockery as reflected in the scramble of Canadian cities to host the National Portrait Gallery. It will protect the legacy of Canadians from an inadequate and patchwork approach to our museums. As estimated by the Canadian Museums Association, the AFB will allocate an additional $75 million per year for this policy.
- The AFB will introduce measures to improve the access of self-employed Canadians to national social benefit programs. Income tax policies must also ensure that artists and other Canadians are not unduly penalized for fluctuating income levels. The AFB also will modify the rules of Registered Retirement Saving Plans to ensure that self-employed Canadians will have a reasonable retirement income.
- The federal government is considering removing foreign ownership restrictions in the arts and culture sector. It has introduced measures that seek to minimize regulation in the telecommunications sector, and there are indications these

GENDER ANALYSIS Arts and Culture

Increasing access and coverage of Employment Insurance Benefits will advance the economic security of self-employed, independent contractors.

Only one in three unemployed women collects EI benefits, down from 70% in 1990.[1]

In 2003, more than one woman in ten was considered self-employed and was not eligible for EI benefits.[2]

may well extend into the audio-visual/broadcasting sector. The wholesale removal of such restrictions will weaken the ability of Canadians to see and hear their own stories and experiences at home and to share them with the world. The AFB will reverse such measures and ensure that private equity firms don't become a vehicle for circumventing foreign ownership rules.

- Canada's artists, creators, and arts professionals have engaged world audiences for decades. Current federal support programs for these efforts lack coherence or coordination. The AFB will bring coherence to these programs and increase its support by $25 million per year.
- The AFB will allocate $500,000/yr to a knowledge transfer program for the arts and culture sector.

Notes

1 Canadian Labour Congress, Submission by the Canadian Labour Congress to the Canada Employment Insurance Commission regarding the 2007 Employment Insurance (EI) Premium Rate Setting, (2003) 3 (1–11). found at http://canadianlabour.ca/index.php/Unemployment_Insuran/1045

2 Statistics Canada. 2004

SECTION 4

The Changing Nature of Work and the Economy

Canada's economy is experiencing a profound structural change that will define and (in many ways) limit our economic prospects for decades to come. We are increasingly specializing in the production and export of unprocessed or barely processed natural resources — especially energy and minerals.

The growth of resource extraction and export, along with the startling erosion of our value-added manufacturing capabilities, has reversed Canada's previous progress toward becoming a more diversified and developed economy. Although deliberately fostering the development of value-added industries and reducing our national dependence on resource exports has been a policy preoccupation of Canadian governments since before Confederation, governments in the current era have adopted a much more passive role in economic development decisions. The market-driven specialization of Canada as global resource supplier has once again predominated, and free trade agreements (especially the NAFTA, which explicitly assigns Canada a role as energy storehouse for the U.S. economy) have been important in cementing this trend.

The Alternative Federal Budget believes that Canadians should take a long, hard look at the long-run consequences of this resource-led restructuring of our entire economy, and what it implies for our national economic and social prospects. We should not automatically assume that just because over-heated global commodity markets have driven prices for certain resources to extremely high levels (for now, anyway), we should therefore reorganize our entire national economy in response.

During this time of tremendous economic uncertainty and upheaval, many workers in Canada feel vulnerable. Workers facing unemployment are often one or two pay-cheques away from living in poverty, and it is tremendously important that the EI program is there to protect them.

Public services play a key role in mitigating the impact of economic instability for Canadians. The Conservative government is embarking on an aggressive campaign to privatize public services despite the fact that, in general, public delivery of public services is more efficient, less expensive, higher-quality, and more accountable than privatized delivery. Furthermore, decent public services ensure that everyone, regardless of their level of income, has an opportunity to benefit, thereby reducing inequality and improving the economy. High-quality public services increase our overall and collective economic, social, and environmental security.

In many rural and urban areas across Canada, local communities and economies are suffering. Fortunately, we still have a wealth of skilled and passionate people who work hard in and for their communities. Across Canada, these people have already helped counter decline by pushing for policies and programs that put local communities and their socio-economic well-being first. However, these efforts to rebuild and revitalize need the federal government's support.

4.1 Employment Insurance

Employment Insurance is a federal responsibility, and has been an important national social insurance program since its inception in 1940. EI has evolved over the years to cover risks beyond job loss, and now includes sickness, maternity, parental, work-sharing, and compassionate care benefits. In 2005, the Supreme Court of Canada affirmed this evolving federal responsibility as an appropriate response to the new realties of the workforce in Canada.[1]

The EI program is facing new challenges in 2008, as economic growth in Canada stalls and the U.S. economy slips closer to a recession. The EI program has been a key source of countercyclical stimulus in previous economic downturns[2] and will provide important macroeconomic stabilization in the current context.

However, the cutbacks in UI/EI in the 1990s have diminished the income protection it provides for Canadians. 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. Immigrants and youth are particularly disadvantaged by the special entrance requirements for new entrants to the labour force.

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. A 2007 study prepared for Status of Women Canada and the CCPA found that women are particularly disadvantaged by the hours system and gender differences in non-standard employment.[3]

During this time of tremendous economic uncertainty and upheaval, many workers in Canada feel vulnerable. Workers facing unemployment are often one or two pay-cheques away from living in poverty, and it is tremendously important that the EI program is there to protect them.

Not only is it much harder to qualify for EI, but benefits have also been cut to 55% of insured earnings, for a maximum weekly benefit of $435, 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 restructuring flowing from changes in trade and the high Canadian dollar. This is untenable at a time of major job loss and massive economic restructuring, when re-training is urgently required.

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 measures passed Second Reading in the House of Commons (Bill C-269), but have not yet moved on to Third Reading.

The Parliamentary Committee made 28 recommendations in total. Recommendation 10 calls for 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. Recommendation 15 calls for an increase in 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 the lower unemployment level. To cover these costs, the AFB will maintain, rather than cut EI premiums, and raise maximum insurable earnings under EI from $41,000 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 investments in training through EI. In 1997, responsibility for training was devolved to the provinces, and this has led to a situation where Canada spends much less on training than do other countries in the OECD. Increased funding for training for the unemployed is urgently required, and so is support for 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).

EI is financed on the basis of a payroll tax, paid by both workers and employers. Workers are required to contribute 1.73% of covered earnings, and employers contribute 1.4 times this amount — in recognition of the fact that employers exercise greater control over the employment relationship. EI premiums have been drastically reduced in recent years, and the current rate-setting mechanism provides absolutely no contingency for an unforeseen economic downturn. The combined surplus in the EI account exceeds $54 billion — money that workers have contributed over the years which is now being used to pay down the debt rather than provide benefits to workers.

The EI rate-setting mechanism is badly flawed, as a recent study by the Canadian Institute of Actuaries reveals.[4] The CIA report was critical of the absence of a rate stabilization fund and the lack of independent actuarial advice in setting EI premiums. The AFB supports an independent and transparent rate-setting process. The 2007 Speech from the Throne promised to correct flaws in the current system, and these are long overdue.

The AFB will make improvements to service delivery. The current Service Canada model streams workers towards Web-based applications, with little support for those with computer literacy and/or language challenges. This dependence on computer-based applications and central call centres makes it more difficult for claimants to access EI services. The devolution of training services to the provinces can also be an obstacle to accessing these services. The AFB will invest in well-trained workers who can counsel EI applicants and deliver the personal quality of services that many EI claimants require.

GENDER ANALYSIS Employment Insurance

Women in Canada will greatly benefit from reforms to the Employment Insurance (EI) system.

In the five years following the introduction of the EI Act in 1996, women's access to benefits decreased by 6%. Men's access decreased 1%.[5]

Seven out of 10 part-time employees are women. Only 42.8% of unemployed part-time workers qualified for EI.[6]

Those who claim maternity or parental benefits must work 600 hours in the previous 52 weeks. Women are more likely to work part time, and are therefore less likely than men to qualify for parental benefits.

Changes toward electronic service delivery for both EI and Old Age benefits at Service Canada have a disproportionately negative effect on older women and women whose first language is not English or French.

Notes

1 Reference re Employment Insurance Act (Can.), ss. 22 and 23, 2005 SCC 56, [2005] 2 S.C.R. 669

2 2004 Monitoring & Assessment Report, HRSDC, March 2005

3 Monica Townson & Kevin Hayes, Women and the Employment Insurance Program, CCPA, November 2007

4 A Look Back and a Way Forward : Actuarial Views on the Future of the Employment Insurance System, Canadian Institute of Actuaries, November 2007

5 Critoph, Ursule. 2003. "Who Wins, Who Loses: The Real Story of the Transfer of Training to the Provinces and Its Impact on Women", *Training the Excluded for Work Access and Equity for Women, Immigrants, First Nations, Youth, and People with Low Income*, ed. M. Griffin Cohen, UBC Press, Vancouver; Hayes, Kevin. 2003. *Falling Unemployment Insurance Protection for Canada's Unemployed—An analysis of B/U ratios (UI beneficiaries to unemployed) by age and gender from 1990 to 2001*, Canadian Labour Congress, Ottawa. http://canadianlabour.ca/updir/unemployed-fallingEn.pdf

6 Canadian Labour Congress, Submission by the Canadian Labour Congress to the Canada Employment Insurance Commission regarding the 2007 Employment Insurance (EI) Premium Rate Setting, (2003) 3 (1–11). found at http://canadianlabour.ca/index.php/Unemployment_Insuran/1045

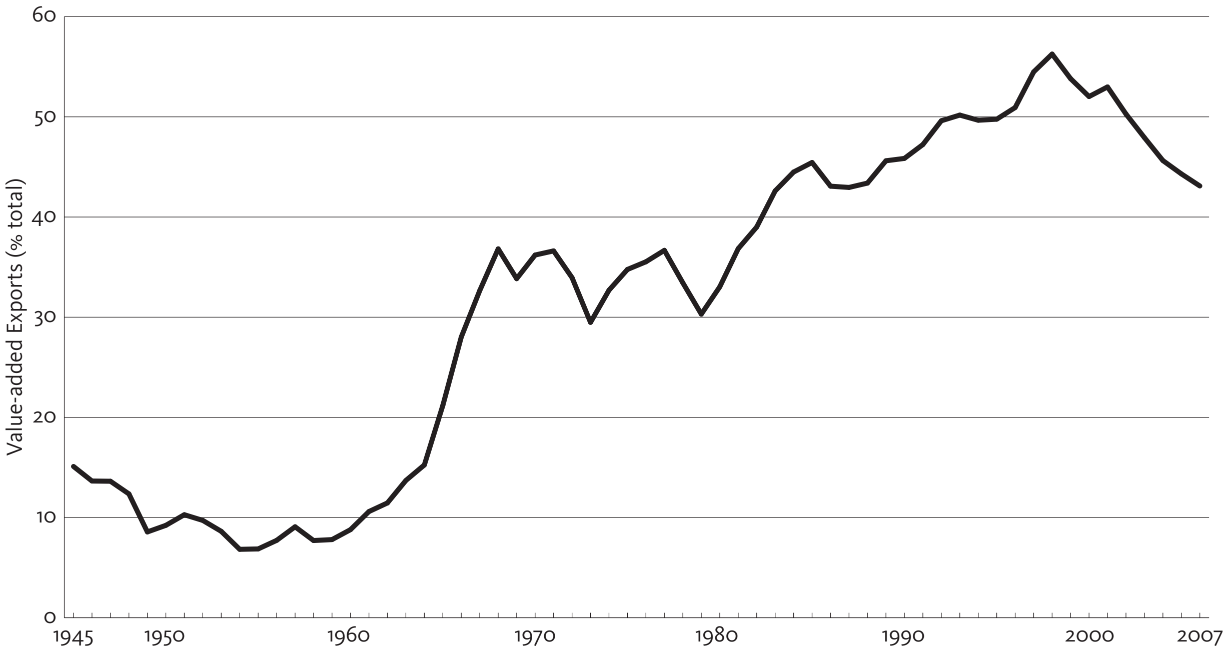
4.2 Sectoral Development Strategy

Introduction

Canada's economy is experiencing a profound structural change that will define and (in many ways) limit our economic prospects for decades to come. We are increasingly specializing in the production and export of unprocessed or barely processed natural resources — especially energy and minerals. The phenomenal growth and prosperity of export-oriented resource industries has both positive and negative effects. On the positive side, it generates incomes and export revenues, some of which "trickle down" from the resource sector into other industries and regions of the country. The resource boom has clearly been an important factor behind the strong nominal income and spending growth that has contributed, until recently, to relatively healthy overall growth and job-creation in the Canadian economy. At the same time, however, the resource boom also carries several negative consequences, including longer-term risks posed to our currency, our value-added industries, our federation, our environment, and our role in the world.

The growth of resource extraction and export, along with the startling erosion of our value-added manufacturing capabilities (a very negative development which is the flip side of the resource boom) has reversed Canada's previous progress toward becoming a more diversified and developed economy. Indeed, deliberately fostering the development of value-added industries, and reducing our national dependence on resource exports, has been a policy preoccupation of Canadian governments since before Confederation. A long series of important policies — from the National Policy, to the Auto Pact, to Technology Partnerships Canada and other measures — were aimed precisely at trying to ensure that Canadians harvested more value, more jobs, and more stability from the resources we were blessed to own. In the current era, however, where governments have adopted a much more passive role in economic development decisions (for both ideological and fiscal reasons), the market-driven specialization of Canada as global resource supplier has once again predominated. Of course, free trade agreements (especially NAFTA, which explicitly assigns Canada a role as energy storehouse for the U.S. economy, by virtue of its nefarious energy-sharing provisions) have been important in cementing this trend.[1]

FIGURE 1 **Share of Canadian Exports from Value-Added Products**



Graph shows proportion of Canadian merchandise exports consisting of finished products, machinery and equipment, automotive products, and consumer goods; excludes resource-based products and bulk commodities.

The impacts and consequences of this historic structural change in Canada's economy will be very long-lasting. Yet, despite the vast stakes, this evolution is not the direct result of any deliberate government or collective decision. It reflects the power of global market forces, and private investment decisions, over our economic destiny. Of course, by accepting and even celebrating the power of private businesses to fashion our economic future in this way, Canadian governments (and the federal government, especially) are ratifying their choices.

The Alternative Federal Budget believes that Canadians should take a long, hard look at the long-run consequences of this resource-led restructuring of our entire economy, and what it implies for our national economic and social prospects. We should not automatically assume that, just because overheated global commodity markets have driven prices for certain resources to extremely high levels (for now, anyway), we should therefore reorganize our entire national economy in response. We should not automatically ratify the decisions by immensely profitable resource companies to commit hundreds of billions of dollars to new resource extraction projects that will shape our national economy for a generation, without carefully reviewing (and regulating) the broader consequences of those massive investment decisions. And we should not accept that Canada's entire economy is being fundamentally remade, before our eyes, without conscious, collective deliberation.

These are huge, epochal economic issues that require more detailed description and analysis. A companion AFB Technical Paper will consider these structural challenges, and possible policy responses, in more detail. This section of the 2008 Alternative Federal Budget will summarize the evidence regarding Canada's backwards structural evolution, and then describe two sets of policies. The first is aimed at deliberately slowing and controlling the resource boom. The second attempts to foster and support value-added economic activity in Canada, in order to moderate the extent to which our future economic eggs are placed in the energy export basket, and ensure that Canadians receive maximum long-term value for the resources that happen to be buried beneath our feet.

The Dimensions of Regression

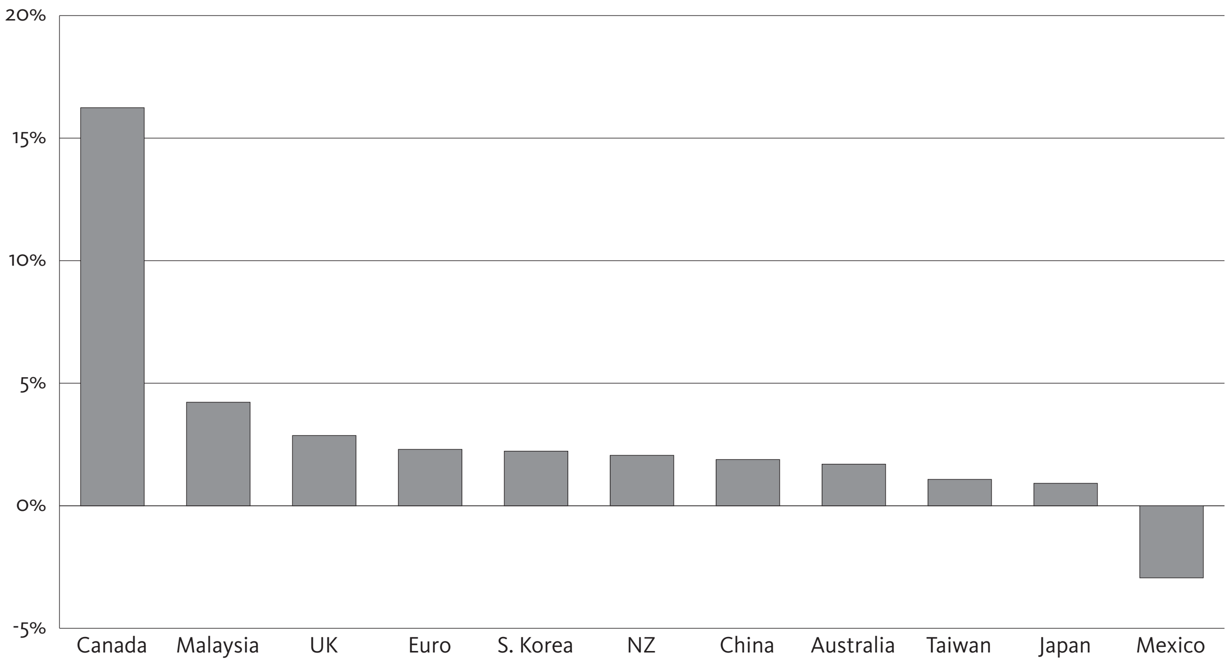
One very simple graph summarizes the extent to which Canada's economy is currently hurtling "back to the future" as a result of the resource boom on one hand, and the corresponding decline of value-added activities on the other.[2] Figure 1 illustrates the proportion of Canada's total merchandise exports which consist of higher-value-added products (such as machinery, automotive, and consumer products), as compared to unprocessed or barely-processed resource products (including energy, minerals, raw forestry products, and agricultural products). This ratio has grown fairly steadily over most of Canada's history, reflecting our qualitative economic development and our growing capacity to produce a broader range of products (for both the home and global marketplaces). Deliberate government programs (including pro-active measures once known as *industrial policy* — now perhaps more appropriately termed *sectoral development policy*) played an important role in this gradual progress. So did broader economic and social factors, such as the fact that Canada's currency was undervalued for much of the 1980s and 1990s, and the fact that Canada's public health care system significantly reduced labour costs for private employers (in contrast to the U.S.); both these factors were important in attracting investment in value-added manufacturing industries.

Since 1999, however, Canada's economic trajectory has been fundamentally altered, as the result of a powerful combination of factors. From a peak of 57% that year, the proportion of our exports consisting of higher-value-added products has plunged by about one-third — to as low as 42% in 2007. This reflects both an increase in unprocessed or barely processed resource exports (these exports have increased mostly because of very high prices for these commodities, but also because of modest increases in the real quantities of resources being exported), and a decline in value-added exports. Manufactured exports have declined as a result of a slowdown in the U.S. market (the destination for most of our exports), competition at home and abroad from new global producers (such as China), and the rise of the Canadian dollar (which has made Canadian-made products very expensive to global customers).

The dramatic run-up in the Canadian dollar is both a consequence and a further cause of Canada's structural economic regression. Rightly or wrongly, currency markets have come to associate Canada's currency with global commodity prices (especially world oil and minerals prices). Our currency has appreciated against the U.S. dollar by over 60% in the last five years. The rise in Canada's currency has been the most dramatic of all the major U.S. trading partners. Indeed, the rise in Canada's dollar against the U.S. dollar has been three times as large as the overall decline in the U.S. dollar (measured against the broad basket of global currencies); this suggests that most of the upward pressure on the loonie reflects unique factors in Canada's economy and policy, not just a general, global weakness in the U.S. currency.

Canada is unique in the world in its decision to tolerate such a large appreciation against the U.S. dollar, despite its very heavy reliance on the U.S. market for its exports; the combination of uniquely rapid appreciation with unique dependence on U.S.-bound exports leaves Canada far and away the most vulnerable country in the world to currency fluctuations (*see Figure 2*). No

FIGURE 2 **Export-Weighted Appreciation Against U.S. Dollar Since 2002**



Graph shows proportional rise of national currency against the U.S. dollar from 2002 (year average) to end-January 2008, weighted by the proportion of each country's GDP that is exported to the U.S. market.

producer in global markets could tolerate a 60% erosion of its relative cost competitiveness without experiencing dramatic and painful consequences — and Canada is no exception.

The skyrocketing dollar is resulting in a terrible downturn in investment, production, and employment in Canadian manufacturing, exacerbating other challenges facing our value-added industries (such as competition from China, the restructuring of the North American auto industry, and other factors). At time of writing, the Canadian manufacturing sector had lost some 350,000 jobs since 2002, when the loonie first started rising. For every new job that has been created in resource industries during the current boom, at least five jobs have disappeared from manufacturing. Canada's structural regression is not opening up nearly as many economic doors as it is closing.

It is worth considering carefully why it is that higher oil and minerals prices have translated so directly and obviously into an overvalued Canadian currency — because how we understand this relationship will help us decide what to do about the problem. The upward pressure on the dollar does not result from a resource-driven improvement in Canada's trade balance. In fact, our trade balance has deteriorated markedly with the rising loonie: a flood of lower-cost imports is more than offsetting the rising value of our resource exports. Nor does the loonie's rise reflect a real inflow of new foreign investment aimed at developing our tar sands, mines, and other resource facilities. Here, too, the outflow of real foreign investment by Canadian companies (lured by lower cost opportunities in other countries) has generally outweighed the inflow of new real investment to Canada by foreign companies.

Rather, the link between oil prices and the loonie has likely been effected mostly through financial channels, as follows:

- Canadian resource companies (especially oil and gas companies) have collected immense, unprecedented profits as a result of the global commodity price boom.
- Their share prices have soared, attracting interest from foreign financial investors.
- Many resource companies have been taken over completely by foreign companies.
- The value of these takeovers expanded dramatically in 2007, to over $100 billion.
- The resulting inflow of foreign *financial* capital (not, for the most part, *real* foreign investment) has further driven up the dollar.

This suggests that measures aimed at regulating both the profitability of resource extraction and the foreign takeover of Canadian resource companies would have a powerful impact in limiting the upward pressure on the Canadian currency from the current resource boom (however long that boom lasts).

Managing the Resource Boom

The 2008 AFB will implement the following measures to ensure that the future pace of mineral and energy development is more consistent with the broader economic and environmental well-being of Canadians:

- *Restore the federal corporate income tax rate to 28% (the initial level that prevailed before deep federal CIT cuts beginning in 2003) for the oil and gas industry.* That will raise approximately $1.75 billion per year in new federal revenue.[3] The application of differential corporate tax rates for particular sectors has been a feature of federal tax policy at many times in the past, motivated by the desire to stimulate particular sectors (such as secondary manufacturing and processing) or tax particularly lucrative sectors (such as energy or finance). Recent federal governments have moved away from this deliberate tailoring of sectoral tax policies (reflecting a superficially more "neutral" approach to taxes), but the differential tax rate we propose is by no means unprecedented in Canada's recent economic history. In 2006, the average after-tax return on equity of the Canadian oil and gas industry reached almost 20% — almost twice as high as the return on equity in other non-financial industries in Canada.
- *Implement a new federal environmental review and approval process regarding new mining and oil sands investments, aimed at controlling aggregate greenhouse gas emissions from those projects in line with federal emissions reduction targets.* Approval for new investments would thus be contingent on the industry's overall progress in reducing emissions from existing and future projects.
- *Strengthen the regulatory powers of the National Energy Board regarding approval permits for exports of oil and natural gas, and the construction of new export-oriented pipelines.* Approvals for new exports and pipelines must be contingent on satisfactory assurances to the Board regarding security of supply for Canadian consumers, the availability of Canadian natural gas supplies to meet federal targets regarding greenhouse gas emissions, and commitments by producers to the expansion of value-added resource projects (such as upgraders and petrochemical facilities) in Canada.
- *Reform Investment Canada legislation to establish a transparent and binding net benefit test for foreign acquisitions of Canadian-based companies.* To receive approval for a foreign takeover, purchasers

must agree to meet negotiated levels of new real investment spending in Canadian facilities (including investments in value-added facilities, such as refining and processing), preserve Canadian employment levels, and demonstrate that new production and income generated as a result of their acquisition more than outweighs the new liability created to the foreign owners (and the consequent ongoing payment of capital income to those owners).

- *Establish a new joint Aboriginal Benefits Agency to negotiate with the owners of new energy and minerals projects on federal lands to meet targets for the employment of Aboriginal persons and other economic benefits to Aboriginal communities.* Every resource project approved on federal lands must reach an agreement with this Agency regarding the extent and timetable of benefits. The Agency will be governed jointly by the federal government and Aboriginal representatives; its operations will be funded through application fees from resource developers.
- *The collection of royalties on resource extraction in Canada is a provincial responsibility under our Constitution.* Scandalously low provincial energy royalties have contributed to the unsustainable gold-rush-style expansion of tar sands projects. Recent measures announced by the Alberta government will not significantly alter this situation.[4] The unfettered rush to develop energy resources is producing wasteful cost overruns and unnecessary pressure on economic and social infrastructure, and also imposes real economic and environmental costs on all Canadians. At the same time, the huge revenues associated with energy products are fundamentally altering the fiscal make-up of the Canadian federation.[5] The 2008 AFB will therefore impose a 25% excess profits surtax on petroleum production, to be integrated with the new federal carbon pricing strategy. Any future increases in provincial royalty rates will be deductible against this excess profits tax (such that the federal government receives excess revenue only when provincial royalty rates are too low).[6] The purpose of this tax is

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Restoring the corporate income tax rate will be of benefit to women if revenues generated by the increased rate are re-invested in social spending, including in programs which increase women's access to highly skilled well-paid work, training and employment programs, and family supports, including a national early learning and child care program.

Other broad based social investments in services like public transportation and safe and affordable housing will also serve to strengthen Canada's social architecture, thereby going a long way to ensure women's economic security.

Canada has lost tens of thousands of jobs that pay family-supporting wages because Canada's manufacturing sector is in crisis.[8] Canada has lost more than a quarter million manufacturing jobs, about one in ten positions since 2002. These jobs paid wages of $20.68/hour on average.

Canadian workers displaced by firm closures and mass layoffs who can find other jobs suffer an average decline of 25% in annual earnings which equates to a loss of about $10,000 for a typical manufacturing worker. Given the loss of one-quarter of a million manufacturing jobs, the total loss of Canadian earnings is estimated at $2.5 billion annually.[9]

These changes have a profound impact on the lives of women who not only work in this sector but who also live in communities reliant on the sector for survival. Economic slumps often translate into loss of social services such as hospital and school closures which greatly disadvantage women and their families.

twofold: to slow down the unsustainable pace of resource development (which has imposed costs on the rest of the economy, in part through the overvalued currency), and to encourage oil-producing provinces to raise their own royalty rates to fairer, more sustainable levels — thus ensuring that Canadians receive more value for the resources that they own. (Because they are contingent on the level of provincial royalties, funds from the excess profits tax are surplus to the specified measures and programs outlined in this document and would be deposited into general federal revenues.)

Fostering Higher-Value-Added Activities

The 2008 AFB will utilize revenues from the restoration of corporate income taxes on the oil and gas industry to fund the following initiatives aimed at enhancing the longer-term success of industries which add value to Canadian resources, and diversify our economy:

- *The AFB will establish a Value-Added Development Agency, funded from the additional tax revenues accruing through the restoration of corporate income taxes in the oil and gas sector.* One-third of those funds will be directed to supporting efforts aimed at fostering higher-technology processing and secondary manufacturing within Canadian resource-based industries (including energy, minerals, forestry, and agriculture). The remaining two-thirds will be dedicated to supporting new investments and projects in other strategic, higher-value-added tradable industries — including strategic manufacturing sectors such as auto, aerospace, electronics, environmental equipment, telecommunications, engineered building products, and others; emerging high-technology clusters (such as life sciences and alternative energy industries); and high-value tradable services industries (including high-value tourism, communication, and transportation industries). The Agency will have various delivery mechanisms at its disposal to support incremental sectoral development initiatives, including grants, repayable loans, technology assistance, and even equity participation in new ventures. The Agency's goal will be to use its own funds to leverage maximum investment spending by other partners in supported ventures. Prospective projects will be evaluated and ranked on the basis of broader economic and social criteria, including the use of innovative technology; the export potential of products; contribution to environmental goals; and specific employment targets. The Agency will be governed by an independent board of directors which includes regional, labour, and aboriginal representation. Initiatives financed by the Agency will require input and approval from relevant Sector Development Councils (*see below*).
- *The AFB will establish a new Canadian Auto Strategy, building on recommendations from the Canadian Automotive Partnership Council (a group which includes auto assemblers, parts makers, and auto workers).* As part of this strategy, the federal government will commit to match provincial government participation in future strategic auto investments in both assembly and parts projects (funded from the Value-Added Development Agency above), to a maximum of $750 million in total federal contributions over the next five years.
- *Also to be implemented will be a new Canadian Forestry Strategy, with*

recommended measures proposed by business, labour, and environmental stakeholders, to address the unprecedented crisis in forestry that has devastated dozens of northern communities. This strategy will also disburse supports for new investments in forestry technology, to a maximum of $750 million in federal contributions over the next five years.[7]

- *A special focus in all projects supported by the Value-Added Development Agency will be placed on implementing and advancing green technologies, including advanced energy-conservation and pollution abatement equipment.*
- *The AFB will establish multi-stakeholder Sector Development Councils in identified sectors (including major resource industries, key manufacturing sectors, and strategic tradeable service industries such as tourism, film and broadcasting, and business services).* On a parallel track, environmentally-focused cross-sector Green Jobs Councils will be established to promote the adoption of advanced environmental technologies and the development of Canadian-based industries to supply those technologies (such as wind power equipment, energy-efficient automotive components, and others). The Sector Development Councils are responsible for identifying major economic challenges and opportunities facing the identified sectors, and developing policy responses. Each Council must include representation from business, labour, government, and non-governmental stakeholders. The operation of the Councils is funded with an annual $50 million budget, paid from the Value-Added Development Agency. Identified projects and policies recommended by the Councils can apply for additional funding from the Agency.
- The *Bank of Canada Act* explicitly instructs our central bank to act in the interests of broad economic stability. Unfortunately, in recent years the Bank (backed by the federal government) has interpreted this mandate far too narrowly, focusing solely and strictly on inflation control. The federal government's formal agreement with the Bank of Canada regarding inflation targeting should be amended to clarify that the Bank's pursuit of inflation targets must be conducted in the context of protecting broader financial and macroeconomic stability, including the exchange rate and Canada's external competitiveness — consistent with the current *Act*. The run-up in Canada's currency reflects the broader structural changes discussed in this chapter, more than monetary policy. But the Bank of Canada's recent actions (first increasing interest rates to control domestic inflation despite the damage being done by the currency, and then failing to match U.S. interest rate cuts as the continental economy dramatically weakens) have made matters worse. The Bank must be directed to pursue its mandate more broadly and flexibly. Other export-dependent economies (including Japan, Mexico, China, and Taiwan) actively and successfully manage their currencies to retain cost competitiveness in global markets. The claim by the Bank of Canada and the federal government that currencies cannot be actively managed is clearly false; Canada's inaction on the currency has imposed a disproportionate burden of adjustment on our economy to the decline of the U.S. dollar and other global developments. Ultimately, of

TABLE 9 Sectoral Development Strategy Summary of Proposed Measures

Revenues:	$1.75 billion
Restore corporate income tax rate to 28% for oil and gas sector.	Unknown*
Excess profits tax on petroleum production	
Expenses:	$1.75 billion
Annual contributions to Value-Added Development Agency, including: • Auto Strategy ($750 m over 5 yrs) • Forestry Strategy ($750 m over 5 yrs) • Sector Development Councils ($50 m/yr)	
Regulatory Measures (no fiscal impact): • Environmental approval for new oil sands projects • Restore NEB power to regulate energy exports • Amend Investment Canada Act re foreign takeovers • Create Aboriginal Benefits Agency • Revise Bank of Canada target instructions • Changes in foreign trade policy	

* Tax revenue is contingent on level of provincial energy royalties collected; this revenue is therefore not budgeted within the AFB and is surplus to identified needs.

course, a balanced international solution to the problem of currency instability is required — one that imposes a fair share of the adjustment burden on all regions (especially those enjoying large trade surpluses).

- *Federal trade negotiators will be directed to make adjustments to our trade policy consistent with our broader effort to maximize the domestic spin-offs from resource development, and foster a more diversified and sustainable industrial base.* In particular, free trade negotiations with Korea (a country which imports Canadian resources and exports back a much larger quantity of higher-value manufactured products) will be stopped, as will FTA negotiations with Colombia (a country whose notorious record of human rights abuses would implicitly be approved by a Canadian trade deal). Negotiations will be opened with China aimed at ensuring an ongoing reduction in the quantitative and qualitative imbalance in bilateral trade with that nation, setting targets for future Chinese purchases of higher-value-added Canadian manufactured goods. Failing success in those negotiations, Chinese access to Canadian markets will be curtailed through targeted tariffs and other safeguard measures. Discussions will also be initiated with the U.S. and Mexico to eliminate Chapter 11 provisions from NAFTA; failing success in those negotiations, Canada will unilaterally repeal Chapter 11.

Fiscal Implications

The measures described in this chapter are fiscally neutral, in that all of the new revenues raised as a result of higher corporate income taxes in the oil and gas sector are allocated to measures aimed at better managing resource development and fostering the development of higher-value-added industries in Canada. Table 9 summarizes the fiscal impacts of this section of the Alternative Federal Budget.

Notes

1 The shameful actions of Exxon-Mobil, in using NAFTA's Chapter 11 mechanisms to challenge Newfoundland's recent attempts to require petroleum producers in that province to fund provincial energy-related R&D activity is just the latest example of how NAFTA hamstrings Canada's ability to maximize the domestic benefits of resource developments. Exxon-Mobil recently reported the largest annual corporate profit in world history (over $US 40 billion).

2 The term "value-added" activities can refer to industries which aim to enhance and diversify value-added production through secondary processing and manufacturing of resources; the growth of other tradable industries (including both manufacturing and tradable services) which reduce our reliance on resources; and the more intensive qualitative and quantitative development of the supply industries which feed into resource extraction. All of these industries would help Canada to both reduce its reliance on raw resource extraction, and to maximize the domestic economic spin-offs from resource activity.

3 Pre-tax profits in the oil and gas and related services sector have averaged $25 billion per year in the past three years (and with oil prices testing all-time record levels, those profits are certainly not going to decline in coming years). Restoring the basic federal rate to 28% (from 21% at present) for this sector will raise an additional $1.75 billion per year (7% of $25 billion).

4 In fact, ironically, the impact of the Alberta royalty proposals on the bottom-line of new oil sands developments has been more than outweighed by the new proposed federal corporate income tax cuts — so that on balance the overall tax environment has become *more* amenable to new oil sands developments.

5 Measured in terms of per capita GDP, the three oil-producing provinces — Alberta, Saskatchewan, and Newfoundland — are now the only "have" provinces in Canada (with per capita GDP exceeding the national average). Every other province (including Ontario) is now a "have-not" province.

6 The excess profits tax would be structured as follows. Oil and gas companies are charged a surtax equal to 25% of any net after-tax income reported the preceding year, in excess of that sufficient to generate a 15% return on average shareholders' equity. Any post-2007 increase in effective provincial royalty rates (measured as a share of gross revenue) would be deductible against the surtax, up to the point of reducing the surtax to zero. This tax establishes a "use it or lose it" incentive for provincial governments: they must increase their royalty regimes sufficient to reduce after-tax return on equity in the oil and gas industry to no higher than 15% (a level which is still far higher than average returns experienced in Canadian businesses as a whole), or else the federal government will occupy the corresponding fiscal space. Because the revenues from this excess profit tax will be contingent on provincial royalty rates, they are not predictable and hence are not counted within this budget.

7 Federal participation in the auto and forestry strategies would thus together constitute just over 15% of the total investments made by the Value-Added Development Agency ($1.75 billion per year).

8 http://canadianlabour.ca/index.php/Made_in_Canada_Jobs

9 http://canadianlabour.ca/index.php/Made_in_Canada_Jobs

4.3 Privatization, Contracting-Out, and P3s

The Conservative government is embarking on an aggressive campaign to privatize public services. This agenda includes:

- *Sale of public buildings and assets owned by Canadians.* Seven federal buildings have already been sold for $350 million less than what they are worth.[1]
- This was part of a deal where the federal government also committed to pay over $3 billion to lease the buildings back over 25 years, about $2 billion more than it would cost the federal government to operate the buildings over that period.
- More bad deals for the public are on the way: the sale of at least 31 more buildings are planned. The major beneficiaries of these deals are the private investors and the investment banks that get a portion of each deal.
- *Pushing P3s on other levels of government.* The Harper government is also using federal spending powers to force other levels of government to privatize public services. The 2007 Budget announced that:
- municipalities and provinces will have to consider "public-private partnerships" (P3s) as a condition of any large infrastructure projects under the Building Canada Fund and the borders and infrastructure fund;
- $1.25 billion of the public's money will be put into a P3 Fund to subsidize the privatization of public services at all levels of government; and
- a federal P3 office will be set up to both promote and assess P3s.
- Subsequent to the 2007 budget, the Harper government announced that the Portrait Gallery of Canada would be a P3 initiative. In November it released a Request for Proposals asking for bids from private sector developers in nine predetermined cities for the development of the Portrait Gallery of Canada. Already commentators are estimating that this will cost more than the plans for a public portrait gallery in Ottawa would have.
- *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).

- *Increased contracting-out.* The federal government will spend about $10.4 billion on contracting-out this year, costs that have increased by about 48% (or 7% a year) since 2000–01.
- *Accountability loopholes promote privatization.* Tight accountability and expenditure control on public program spending, but weakened accountability over lucrative contracts for the private sector will spur more privatization.
- *Trade deals that undermine public services.* The federal government is strongly promoting the Trade, Investment and Labour Mobility Agreements (TILMA) or a significant overhaul of the existing Agreement on Internal Trade between provinces. Currently, internal trade is not a significant problem, but these NAFTA-like agreements will severely limit the ability of provincial and local governments to introduce new public programs, enact positive regulations, and provide public services.
- *Increased commercialization* and privatization of higher education, training, and federal research and development facilities.
- The Conservative government has also shown support for greater involvement of for-profit clinics and surgeries as part of the health care system.

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 lead to:

P3 Sale Leaseback Schemes Cost the Public Money

Last summer, the Harper government sold seven publicly-owned federal buildings to the private sector while guaranteeing the purchaser that it will guarantee full occupancy for the duration of the lease.

The sale of these seven buildings is the tip of the iceberg. The government has tentative plans to sell 31 additional real property holdings, many of which are heritage properties.[7] Canadian embassy properties all over the world are also slated to be sold.[8] The Fraser Institute has recommended privatizing National Parks and Heritage Sites, as well.[9]

Informetrica analyzed the sale of the first seven buildings and estimated that they were sold for at least $350 million below what they would actually be worth at the end of the 25-year lease.[10]

Informetrica also found that the Canadian public is still responsible for paying for about 30% of the capital costs associated with these seven buildings, as well as any unanticipated and operational costs, millions in capital improvements and maintenance for properties the public no longer owns.

The recommendation to sell the properties neglected to account for contract management costs, which Informetrica estimates to be ordinarily 10% of total contract costs, or in this case about $165 million.[11] The study that recommended selling these properties incorrectly forecast 20% savings from private management even though the management of the buildings had already been contracted to the private sector.

The costs associated with the sale of these buildings is a good example of why privatization doesn't make sense. Real estate experts recommend that federal properties can be maintained for a re-investment price tag of 2-to-3% of a capital costs per year should governments have the political will to do so.[12] The Alternative Federal Budget will direct Public Works Government Services Canada to create a long-range re-investment plan for the properties the public owns and that the funds be set aside to ensure that that the capital re-investment occurs on a regular basis.

Contracting-out hurts young workers

Currently, the Federal Government spends about $220 million a year on temporary staffing services.[13]

Workers hired through this mechanism, mostly young people and women, receive lower wages than workers who are directly employed by the government, while often the agency itself is paid more. Temporary workers 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.[14]

The 2006–07 Public Service Commission report focuses on the problem of temporary staffing in the Federal Public Service. The PSC recommended that departments and agencies reduce temporary hiring and user permanent employment recruitment to better address the long-term needs of Canadians and their government.[15] Although reporting on temporary staffing overall, the PSC is concerned about the over-use of temporary staffing agencies because they aren't covered by the Public Service Employment Act, and as such are less accountable.[16]

The AFB contends that the federal government has both the capacity and the obligation to promote high employment standards through its own staffing practices. Re-allocating 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 potentially eliminating substantial consultant costs.[17]

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.

- 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, regardless of their level of income, has an opportunity to benefit, thereby reducing inequality and improving the economy. High-quality public services increase our overall and collective economic, social, and environmental security.

The federal November 2007 mini-budget put in place another $60 billion in tax cuts over the next five years. Most of the benefit of this latest round of tax cuts will ultimately go to corporations through much lower corporate income tax rates. These latest tax cuts also threaten to turn federal government surpluses into deficits if the Canadian economy slows down even moderately.[2]

The Harper government will no doubt use any such downturn as an opportunity to cut public services, which will 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.[3] Independent analysis has also concluded that benefits are often outweighed by higher costs.[4] Even promoters of P3s have acknowledged that the costs are higher.[5] Governments face 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 left gaping loopholes in accountability for government contracts and other privatization deals. Contracts are almost all excluded from stronger disclosure, access to information, and review by the Auditor-General.[6] This is resulting in reduced overall accountability for government spending and a corrosive trend towards private contracts and away from funding for public agencies and non-profits.

The lack of accountability associated with private contracts makes it difficult to accurately estimate the extent of the waste. However, based on the limited financial information that is available, if a review of federal government contracting was to be undertaken, it seems very likely that significant savings can be found by keeping services in the public realm (*see "Contracting-out in the federal public service" sidebar*).

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 billions in annual savings from lease payments and transactions costs;
- turn the proposed federal P3 office into a Public Assets office (*see Cities and Communities Chapter*);
- eliminate the federal P3 Fund, saving $1.25 billion over the next eight years, and establish a long-term plan to use part of the

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. In the 2006–07 year, the federal government spent about $10 billion on contracting-out ($10.4 billion).[18] In 2007–08, it estimates it will spend only a fraction less than in the previous year ($10.1 billion). This is still about 48% more than the government spent in 2000–01 (about $5.8 billion).

Contracting-out is often wasteful and unaccountable. In 2006, the Defence Department's chief of review services published one of the only analyses of the Canadian program responsible for defence contracts in Afghanistan. The review raised questions such as confusion over contract terms, lack of flexibility compared with military operations, and a shortage of well-trained military personnel to oversee the program.

The report estimated that hiring contractors costs roughly 10 times more than using regular soldiers as support staff, accounting for slightly more than 22% of the military's total cost of operations. The government has neglected to conduct thorough public audits of the use of private contractors. In the cases where contractors are audited, there is no requirement that the results be shared with the public. The Defence Department has blocked requests under Access to Information to release its contracts, saying that the mountain of information associated with the contracts are so vast that it would take 210 working days to respond.

The AFB will require that a transparent and comprehensive ongoing review of all contracting-out costs be undertaken and compared to the costs of public delivery. We anticipate that a review of existing contracting-out will generate significant future savings, as well as more accountable and citizen-centred public services.

savings to re-invest 2% of the capital cost of federal real estate for ongoing maintenance (*see sidebar and footnote 11*).

- 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 commission a comprehensive review of federal government contracting-out to reduce its use in those areas where it enhances the broader public good to do so;
- introduce full disclosure and accountability for government contracts and P3s;
- implement full cost accrual accounting through the federal government estimates and procurement process;
- strengthen or re-establish social support, cultural and scientific programs that have been eliminated or weakened as a result 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; 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.

Notes

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

2 Marc Lee, 2008. *How Resilient is the Federal Budget to an Economic Downturn?* AFB Technical Paper #2, January 2008. http://www.policyalternatives.ca/Reports/2008/01/ReportsStudies1800/index.cfm?pa=BB736455

3 Blair Redlin, 2007. Less ideology, more case studies : some real world results. http://www.cupe.ca/updir/P3s_-_CUPE_presentation_to_Canadian_Institute_Nov_07.ppt; Natalie Mehra 2005. *Failed, Flawed, Abandoned: 100 P3s Canadina and International Evidence*. Ontario Health Coalition. http://www.cupe.ca/www/privatization/15959); http://www.cupe.ca/p3s;

4 "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)

5 TD Economics, 2006. Creating the Winning Conditions for Public-Private Partnerships (P3s) in Canada. http://www.td.com/economics/special/db0606_p3s.pdf)

6 CUPE proposes changes to federal accountability act. http://www.cupe.ca/government/CUPE_proposes_change)

7 *Interim Report, Real Estate Study*, prepared for PWGSC by BMO Capital Markets & RBC Capital Markets Real Estate Group November 2006

8 *The Great Embassy Selloff* Pat Dare Ottawa Citizen October 20, 2007

9 *Can Markets Save Canada's National Parks*, Sylvia LeRoy, Kenneth Green, Fraser Institute April 2005

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

11 Informetrica derived this percentage by using an internationally respected source, the Brookings Institute which recommends that contract management costs should ordinarily be costed at about 10%. Informetrica . Michael McCracken, Informetrica, Testimony to the Standing Committee on Government Operations and Estimates, December 5, 2007

12 James McKellar, Professor of Real Property, Academic Director, Real Property Program, Schulich School of Business, York University, in testimony to the Standing Committee on Government Operations and Estimates May 1, 2007

13 *Temporary Help Services Post-Consultation Report,* Conference Board of Canada, November 24, 2006 p.2

14 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)

15 http://www.psc-cfp.gc.ca/arp-rpa/2007/index-eng.htm

16 *Hiring Spree Will Help Wean PS Off Reliance On Giving Temps Full-Time Jobs: Watchdog,* Kathryn May, The Ottawa Citizen, Wednesday January 2, 2008

17 Office of the Auditor General of Ontario, Chapter 3.14 Temporary Help Services The audit found that "overall, the temporary agency staff that we reviewed were paid more—sometimes substantially more—than comparable government employees. For example, one temporary help employee was paid $125 per hour when a comparable government employee would have received only $60 per hour." p. 276.

18 The government estimates that the major areas where contracting for services in the federal public services occur are in Professional, Special, Purchased, Repair, Maintenance and Information Services. 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.

19 http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X

GENDER ANALYSIS Privatization, Contracting Out and P3s

Cuts to public services; increased user fees and compromised access have a negative impact on women.

Lower income individuals, many of whom are women, typically rely on public services for support. The average earnings of employed women are lower than those of men, even when employed full-time. In 2003, women working full-time, full year had average earnings of $36,500 or 71% of what their male counterparts earned.[19]

Acknowledgements

From its beginnings, the fundamental premise of Alternative Federal Budget is 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, church, students, teachers, education and health care, cultural, social development, farm, child development, women, international cooperation, disability, Aboriginal, think tanks, etc.

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

The Alternative Federal Budget is a "what if" exercise — what a government could do if it were truly committed to an economic, social and environmental agenda that reflects the values of the large majority of Canadians — as opposed to the interests of a privileged minority. It demonstrates in a concrete and compelling way that another world really is possible. The AFB is an exercise in economic literacy — to demythologize budget making. It is an exercise in public accountability. And finally, it is a vehicle for building policy consensus amongst progressive civil society organizations and providing the policy fuel for popular mobilization.

The AFB's credibility speaks volumes about what can be achieved by a dedicated group of volunteers working together far away from the ivory and glass towers of the government and corporate worlds. We would like to acknowledge the very valuable financial assistance provided by the Canadian Labour Congress, the Canadian Auto Workers, the Canadian Union of Public Employees, the Canadian Union of Postal Workers, the National Union of Provincial and General Employees, the Public Service Alliance of Canada, the Communications, Energy and Paperworkers Union, and the United Steelworkers.

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