

AFB 2008

ALTERNATIVE FEDERAL BUDGET 2008

A Budget Canadians Can Count On

Budget-in-Brief

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 AFB 2008 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 recession 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 forwards 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. These organizations put 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; 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 actually 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 dis-

placed 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 pot-hole business," Flaherty told the mayors. Apparently, after

the tax cuts announced in the 2007 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, but 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

The AFB 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 — family 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, 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. It is also the most sustainable way

of investing in today's generation, and securing the future of those who come behind us.

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,” and that “we need to take action, we owe it to future generations.”

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 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.

Strengthening national identity, democracy and sovereignty

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.

A strategy to address 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 capabil-

TABLE 1 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.				

ities, 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 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.

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.

TABLE 2 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

AFB Macroeconomic and Fiscal Framework

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.

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 US economy that may already be in recession, and this recession may be longer and deeper than recessions 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 so 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.

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.

Fiscal Framework

The tax cuts announced in the Conservative October 2007 EFU, together with cuts in previous budgets, have greatly eroded the fiscal capacity of the federal government. Fully phased in, the total revenue loss from Conservative tax cuts by 2012/13 is an alarming \$40.2 billion per year.

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. 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. For 2008/09 and the next two fiscal years, we have latent surpluses of \$1 billion, \$3 billion and \$6 billion in the base case. AFB revenue and expenditure measures are then added to the base case, such that the federal budget is balanced in each year if economic growth slows moderately.

Tax Measures

Tax cuts have been the top political priority for the Conservative government.

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 (and regressive at the top of the distribution), with 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. It does this in part by rolling back key Conservative tax cuts.

For more information about the AFB's budget priorities and program funding, the complete Alternative Federal Budget 2008 is available for download at <http://www.policyalternatives.ca>.

TABLE 3 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 3 (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

TABLE 4 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 ₂ e	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

