Alternative Federal Budget 2009 A BUIGET FUR SISTAMABLE FUTURE



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INTRODUCTION

What Kind of Stimulus: Tests for Assessing the Federal Budget

The global economic crisis — by all accounts the most dangerous since the 1930s Great Depression — is making its entry into Canada as the grim statistics now rolling in attest. In the final two months of 2008, the Canadian economy lost over 100,000 full-time jobs. Consumer bankruptcies are rising, the housing market is beginning to sag, and the worst is yet to come.

While the situation is in great flux, and Canada's future relies on many unknowable factors, a few things are becoming clear. Most notably, the way nations have been governing their economies is undergoing rapid change. The economic orthodoxy that pushed governments to the sidelines and revered the wisdom of uncontrolled free markets is officially yesterday's ideology.

The immediate challenge for government is to stabilize the credit markets and inject sufficient aggregate demand into the economy to compensate for the collapse of private consumption and investment until the recovery begins. It is becoming clear, however, that governments cannot go back to the way things were before. The paradigm is shifting: Governments are now widely accepted as a vital part of the solution to

the world's crumbling economy, to prevent similar fiascos in the future.

International bodies are encouraging governments, especially those with relatively strong fiscal and external balances such as Canada, to loosen the purse strings, invest in their people, and dispense serious amounts of public funds quickly to counteract the shrinking private economy.

When hundreds of thousands of Canadians are losing their jobs and more feel their jobs are threatened; when businesses are going bankrupt or stand dangerously close to the edge, confidence can only be restored with a major economic stimulus effort. Otherwise, the cycle of fear and retrenchment will only get worse.

A federal fiscal response to the economic crisis has been on hold, due to crass political plays, for far too long. The economic challenges are grim, and Canadians cannot be placated with business-as-usual promises of "let's wait and see" or, equally problematic, an offer of more tax cuts. This is not the time for delays, denials, or delusions.

The federal government must act decisively to combat the forces of recession. On January 27, the too-long-delayed federal response will be tabled in the form of a budget that is widely expected to contain infrastructure investments and tax cuts.

The political drama of a minority government reliant on the approval of opposition parties threatening to form a coalition government if the budget falls short of what's needed brings into focus a core question: How do Canadians judge whether Federal Budget 2009 should be supported or rejected?

Alternative Federal Budget 2009 addresses the economic crisis on two fronts: an immediate jolt via a two-year fiscal stimulus package to help bring about economic recovery, and a plan to put the country on solid economic ground for the long term. The federal budget should unleash a sizeable, effective job-creating economic stimulus plan for the short term. Secondly, it should implement measures to protect vulnerable Canadians from the worst effects of recession. And finally, it should lay a foundation for a more equal and inclusive, more environmentally sustainable, and more diversified, high-value economy in the years to come.

Tests for short-term success

The debate leading up to Budget Day has focused on three key questions: How big should the federal government stimulus plan be—1% or 2% of GDP—and for how long? What kind of stimulus is most effective in maintaining and creating jobs: broad-based tax cuts or spending? And, once the economic recovery is complete, what measures should government take to close a possible structural budget deficit: spending cuts or tax increases?

The Alternative Federal Budget endorses a "go big" approach for the next two years, outlining a stimulus package equivalent to 4.3% of Canada's GDP over two years. The need for bold action has never been greater. A hesitant and cautious approach will profoundly damage Canadian society, leaving deep and enduring scars.

Here we advance five tests for assessing whether the federal budget should be a supported or rejected.

- 1. Revamp Employment Insurance: Any federal stimulus package that fails to increase Employment Insurance (EI) benefits and loosen criteria so that more out-of-work Canadians are eligible to receive these benefits should be rejected. Something is seriously wrong with the system when only 38% of Canadians are eligible for EI; in 1991, 78% were eligible. EI benefits should also be raised from the current 55% to 60% of insured earnings, as the AFB proposes, and the period for receiving these benefits extended to 50 weeks.
- 2. Help for those who need it most: The Federal Budget should also support provincial governments that are implementing comprehensive poverty reduction strategies. This year's AFB takes leadership on poverty reduction by allocating funds for a plan to reduce poverty in Canada by 25% over the next five years. The federal government, by implementing this measure, would make Canada a global leader in poverty reduction, beginning with a major poverty transfer to the provinces to help reach this goal. A federal budget that offers no such aid for Canada's poor and unemployed should be rejected.
- 3. Invest in public infrastructure: The federal budget should include a bold program of job creating infrastructure investments. It should include both physical and social infrastructure investments. It should improve Canada's bridges, sewers, community facilities, etc., and include green infrastructure: home retrofits, water treatment facilities, community energy systems, etc. A strong stimulus plan should also contain a major social infrastructure component: health care, post-secondary education, child-care, and social housing. A broad range of infrastructure investments will ensure balanced job creation between male and female-dominated professions. The assets so created should be owned

and operated by the public or non-profit sector. A Federal Budget that lacks such public infrastructure initiative should be rejected.

- **4. Support and restructure key sectors:** The federal government should take decisive action to preserve key value-added sectors that are in jeopardy because of the Canadian and global economic recession. As the AFB proposes, it should also set out restructuring criteria for achieving green, valued added, diversified, and sustainable development. The systemic consequence of inaction is unthinkable. A Federal Budget that fails to take such action should be rejected.
- 5. Emphasize spending over tax cuts: Broadbased tax cuts are a poor source of job creating stimulus compared to government spending. Furthermore, the maximum benefits from tax cuts go disproportionately to the rich. In uncertain times, the tendency of most tax-cut recipients will be to save the extra money rather than spend it; and much of what is spent will be on imports rather than in bolstering local economies. Permanent tax cuts are especially ineffective and, worse, they draw down revenues the government will need to rebuild the economy and close a structural deficit. A budget that contains such tax cuts should be rejected.

A recent Moody's report confirms the validity of AFB spending stimulus impacts and the ineffectiveness of broad-based tax cuts. It calculates that one dollar of lost revenue from permanent income tax cuts generates only 29 cents of additional real GDP; and one dollar of lost revenue from corporate income tax cuts generates only 30 cents of increase in real GDP.

The Federal Budget should — as does the AFB — target tax measures at low-income Canadians who are most likely to spend the money locally. These should include increasing the seniors' Guaranteed Income Supplement, raising the average supplementary benefit received by the poorest Canadian seniors; improving the

National Child Benefit Supplement and the Canadian Child Tax Benefit. It should more than double supports for the working poor through the Working Income Tax Benefit, and it should double the refundable GST credit.

Tests for long-term success

A simple but striking fact threatens to get lost in the political drama of a minority government budget and the urgent need to stimulate an ailing economy: the way citizens expect governments and markets to conduct themselves has changed profoundly as a result of the global financial meltdown. The change in expectations runs deep, and it means governments need to do more than temporarily suspend their ideological attachment to a deregulated free market style of governance.

The AFB maps out a new direction for Canada. Two principles are absolutely essential to moving forward. The first is restoring federal government leadership. The path of passive, *laissez-faire* government (except to enforce market disciplines and bolster military spending) is unacceptable in the new political reality.

The second principle is rebuilding federal fiscal capacity, which has been decimated over the last two decades, especially since 2000. Massive tax cuts — which have overwhelmingly benefited the most affluent members of our society — have turned Canada into a low-tax jurisdiction within the industrialized world and transformed Canada's progressive tax system into a regressive one. Public services and infrastructure — which are critical to a high productivity economy and from which the vast majority of Canadians gain an enormous benefit — have been dramatically weakened.

A Federal Budget that does not reflect the principles of federal leadership and stronger federal fiscal capacity should be rejected.

The AFB plan for the longer term includes the following components.

Strengthening public infrastructure: AFB 2009 begins to set in place the building blocks of stronger public infrastructure — both hard and soft. For example, the AFB:

- Recognizes that the high cost of housing is the single biggest expense for low, moderate, and middle-income households, it invests heavily to create new affordable homes.
- Recognizes that local communities are on the front lines of the economic crisis, it allocates major resources to municipal infrastructure investment projects, including public transit, water, building retrofits, and renewable energy.
- Extends broadband connectivity beyond its current boundaries to small and rural communities to ensure that all Canadians can fully participate in 21st century life.
- In making massive investments in physical and social infrastructure, ensures that the resulting assets are owned and operated by the public or non-profit sector.

Meeting environmental challenges: AFB 2009 sets in motion an aggressive program to reduce carbon emissions and promote the transition to a green economy. It launches major infrastructure investments and renewable energy research to put our economy on a more sustainable footing and create hundreds of thousands of green jobs. It implements new legislation and regulations to protect our biodiversity, safeguard our water, and more effectively manage our energy and other natural resources. It aims to position Canada as an international environmental leader. Canadians expect no less. According to Environics Research, they want government to give equal priority to both the environment and the economy. AFB 2009 advances this agenda.

Rebuilding public services, reducing income inequality: The income gap between the rich

and the rest of us grew at a faster pace than ever in the past decade, in Canada and globally. The gap used to grow in times of recession and narrow during good economic times, but the past decade of record economic growth left many Canadians on the outside looking in. The richest 10% enjoyed the lion's share of economic growth, while average real pay-cheques remained stagnant. The gap will widen further as more Canadians lose their jobs and have to cope with inadequate Employment Insurance and welfare supports. Canada has no plan to reduce income inequality, though some provinces have begun to take leadership on concrete poverty reduction strategies. AFB 2009 addresses income inequality and implements a federal goal to reduce poverty by 25% in five years.

The AFB also:

- begins to redress the fundamental disparity in living conditions on First Nations' reserves: reducing poverty, improving health, training and education, and launching the infrastructure investments necessary for sustainable development of First Nations' communities;
- initiates a genuine national child care program which is key to advancing women's equality and critical to the social and economic security of all Canadians; it promotes healthy children and families, more inclusive communities, and a more productive economy;
- begins to restore federal support for a world-class post-secondary education system, and commits to augmenting student grants;
- makes major investments in our public health care system, safeguarding it against private for-profit health care companies; it focuses on increasing the supply of health care workers, on improving health care

- infrastructure, strengthening primary, preventative and long-term care, and initiating a national Pharmacare program;
- rejects the do-it-yourself model of individualized pensions which is failing so many seniors, and instead adopts a model of retirement security which delivers adequate and stable public pensions for all seniors.

These measures will bring huge benefits to the vast majority of Canadians and help reduce income inequality and poverty. They are also essential to developing a high-value, diversified economy.

Building a diversified high value economy:

Over the last 10 years, Canada has regressed toward a traditional resource producer role in the international economy. Government neglect and deregulated market ideology are reversing the gains of the previous 50 years, resulting in the massive foreign sell-off of Canadian companies and the decimation of the manufacturing and other value-added sectors. The AFB takes a hands-on approach to high-value industrial development: setting goals, identifying strategic sectors to nurture, and marshalling policy instruments to achieve them.

The AFB also:

- establishes sector development councils comprised of key stakeholders;
- sets up a green manufacturing fund;
- initiates a major reforestation program; and
- establishes a Sector Development Bank;

Restoring a sense of national community: For too long now, Canada's federal government has behaved as though it is an 11th province rather than the most senior level of government mandated to ensure all Canadians equal access to health, education, pensions, and other essential

pillars of membership in a national community. Directly and indirectly, it has weakened the ability of workers to bargain collectively to gain a fair share of productivity gains. The result has been wage stagnation in the face of skyrocketing CEO salaries and record profits. Government deregulation in many sectors such as food, chemicals, drugs, transportation, financial and environment has put at risk the health, safety, and security of Canadians.

AFB 2009 addresses these issues to ensure that our social and economic system is safe, just and sustainable over the long term. The AFB also:

- encourages a vibrant cultural community that is so indispensible to our quality of life, national identity, and economic development;
- takes steps to foster a healthy farm community that can survive and flourish as well as challenge the domination of food production and distribution by the largescale multinational agri-business sector; and
- meets Canada's unfulfilled commitments to advance international human rights and international development, and
- refocuses our overseas military involvement to UN peacekeeping and peace-building activities.

The current economic crisis is the bitter fruit of the spectacular failure of the deregulated free market model. That model has produced fabulous gains in income and wealth for a tiny minority while that of the vast majority has stagnated or dropped. It has weakened the bargaining power of workers, shifting an unprecedented share of GDP from workers' wages to record corporate profits. It has fuelled predatory lending, debt-financed consumption, and transferred financial trouble from government-sponsored pooled risk onto individuals and families now experiencing

historically high household debt levels and historically low household savings levels.

Under the banner of deregulation, privatization, and free trade, the free market model has forced a competitive race to the bottom of taxes and social programs, wages, labour, environmental and social standards. It has weakened and diminished the public sphere and the ability of governments to protect their citizens. It has encouraged the plundering of the environment and brought the planet to the edge of disaster. The free market model is finally imploding under the weight of its own shortsightedness and greed.

The damage from this reckless approach has already been done, and is now filed under lessons learned, as scores of public opinion polls reveal.

On January 27, Canadians will be looking to their federal government to play a lead role in restoring the confidence of its citizens. The core test of the federal government's response to the economic crisis is whether it addresses not only immediate needs, but also begins the process of long-term structural change that will improve Canadians' lives.

This is an opportunity to move in a new direction. But it is also a time when hard-line conservatives will seek to take advantage of Canadians' economic insecurity and disorientation to further advance their free market vision. When the danger is past, they will try to continue much as before: applying further shock therapy to our

social programs and our public assets, with only minor or token adjustments.

Evidence of this intent has become clearer in Canada's fiscal stimulus debate of recent weeks. There appears to be an emerging conservative consensus—also hinted at by Finance Minister Flaherty—in favour of a fiscal stimulus plan weighted heavily toward permanent tax cuts. In this scenario, when Canada gets back on track and economic growth resumes, the federal government would move to eliminate Canada's deficit by cutting program spending and continuing to shrink government, as it has over the last two decades. This approach reflects an ideology now in disrepute and is clearly not the way to go in future years.

It is time for government to think on a grander scale. It is time to establish a new paradigm to ensure that, once the economy bounces back from its current shock, it works for the majority, not just a powerful minority. The hallmark of this year's AFB plan is social solidarity: where people support each other, taking back control of the most powerful tool they have, their government; where the most vulnerable are not left to fall by the wayside; where all groups, sectors and regions are part of the collective effort; where everyone has a stake in its success.

AFB 2009 begins the work of charting a new course for Canada — for all Canadians.

Macroeconomic and Fiscal Framework

When the 2009 Federal Budget is tabled, all eyes will be on what measures it brings forward to stimulate the Canadian economy. This is a huge change in sentiment compared to the 2008 budget, when virtually no public or private sector forecasters saw a recession on the horizon. The AFB was a notable exception, but its concerns were publicly dismissed by the Finance Minister.¹ The Finance Minister has now, belatedly, conceded that a recession for 2009 is assured, and that bold action is needed.

Alternative Federal Budget 2009 released the first year of its fiscal stimulus plan, *Leadership for Tough Times*, on January 6, 2009. This chapter presents the full two-year fiscal stimulus package, situates it within a fiscal framework, and links it to a longer-term restructuring plan.

The status quo Federal Budget will turn to deficit in 2009–10, if not in 2008–09. The federal government has substantial capacity to accommodate this deficit, and go beyond it with a stimulus package of 2% of GDP. Compared to other G-7 countries, Canada's debt burden (debt/GDP) is the lowest by a fair margin. And with an unbroken string of fiscal and current account surpluses over the last decade, Canada is very well

positioned to do its part in a coordinated international effort to combat the global recession.

In doing so, the federal government should not succumb to the temptation to believe that any downturn will be short-lived. The downside risks of not doing enough are too great. Instead, the government should plan its budget as if the economy will be in recession in 2009 and 2010, and that stimulus may be necessary for a longer period. It should err on the side of doing too much, aim to protect employment and incomes, and use the opportunity to make the public investments that lay the foundation for a fairer and more sustainable economy.

A grim economic picture

At the start of the 2009, all major economic indicators are moving in the wrong direction. After a long expansion going back to 1991, the Canadian economy stalled in 2008 and is set to shrink in 2009. Talk of strong economic fundamentals has been buried under an avalanche of gloomy news about financial markets, housing, and bailouts.

In the final two months of 2008, Statistics Canada reported that the Canadian economy lost over 100,000 full-time jobs. The net effect of the December job figures has been to drive the unemployment rate up to 6.6%. In absence of an adequate government response, the AFB projects an unemployment rate rise to 8% by 2010.

The major factors that fuelled the boom are at an end. In recent years, a bubble in real estate prices spurred record residential construction, and unprecedented commodity price increases boosted the fortunes of resource industries and rural economies. These factors were reinforced by robust U.S. economic growth, to the benefit of Canada's export sector. The unfolding global financial crisis represents the popping of these bubbles and will continue to darken the economic picture looking forward.

The Canadian dollar has been caught up in the financial turmoil, falling relative to the U.S. dollar largely due to movements of capital into U.S. Treasury bills. Nonetheless, the decline of the dollar from parity offers some relief for Canada's manufacturing sector, which has lost 400,000 jobs since its 2002—although any benefits are more than negated by plunging U.S. demand.

Attention has shifted from the financial crisis to the real economy. Most private sector forecasters, as well as the federal government and the Bank of Canada (who collectively failed to see the current downturn coming) are now calling for a recession in 2009, that began in the fourth quarter of 2008. However, most still believe that Canada will recover quickly and resume pre-crisis growth rates by late 2009 or early 2010. This seems exceedingly unlikely, given the powerful macroeconomic forces at play, and it is not at all clear what would drive a resurgence so quickly.

Led by falling U.S. demand, Canada's trade picture has darkened. Statistics Canada reported a 7.4% drop in exports to the US in November 2008 compared to the previous month. The decline was led by energy (-19.4%), and industrial products and materials (-7.4%). Automotive ex-

ports, which have been declining steadily over the last year, fell another 4.5% in November. Canada's overall trade surplus contracted from \$2.3 billion to \$1.3 billion between October and November.²

Although the Canadian housing situation is not nearly as grim as what has been unfolding in the U.S., the Canadian market is now in decline. Recent data point to a 10% drop in average re-sale prices in November compared to a year earlier, with a greater hit in the urban centres where prices have soared in recent years.³ Price declines are likely to continue through 2009, if not longer.

Consumer spending and retail sales (adjusted for inflation) have been declining through the fall. In response to bad economic news, households are reducing spending, at least in part because of a large overhang of debt. Statistics Canada notes that the average household has \$1.25 in debt for every dollar of personal disposable income.⁴ According to a 2008 report by the Vanier Institute for the Family, average savings for families are down from \$7,000 a few years ago to \$1,000 last year (and that is the average, pulled up by those at the very top; the median is likely much lower), with the average family \$80,000 in debt.⁵

A shrunken public sector

Canada confronts the 2009 recession with a shrunken public sector. Federal revenues were 15.8% of GDP in 2007–08, which is very low by historical standards, and a reflection of the priority given to tax cuts in recent years. Federal program expenditures were only 13.0% of GDP in 2007–08, with the difference reflecting interest on public debt (2.2% of GDP, a low not seen since the early 1970s) and the budget surplus (0.6% of GDP). Expenditures are now somewhat larger than at the turn of the millennium (when they dropped to 12.1%), but they are still well below average levels in the post-war period by several percentage points of GDP.

The diminished size of Canada's government since the mid-1990s is revealed dramatically in a 2007 study published in Canadian Public Policy by Ferris and Winer. 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 goes to defence), but this research nonetheless indicates how much the public sector has been reduced by both Liberal and Conservative governments. Non-defence-related government spending, according to the authors' estimates, is only 5% of GDP higher in Canada than in the U.S. (37.5% vs. 32.7% in 2004), down from the huge 16% of GDP (50% vs. 34%) gap in 1994.

Stimulus for the Canadian economy

The federal government has been slow to acknowledge the deteriorating economic picture. For most of 2008, the government insisted that economic fundamentals were sound and claimed there was no reason to be concerned. And just when the Prime Minister had appeared to acknowledge the scope of the problem and that his government was prepared to undertake bold measures, Finance Minister Flaherty's November 2008 Economic and Fiscal Statement announced the opposite: an anti-stimulus package. Projecting surpluses for the next three years (based on rosy economic forecasts that virtually no one believed), the government announced \$4.5 billion in cuts to public spending in 2008-09 and a commitment to further debt payment, thereby worsening the recession.

The government erroneously claimed that its massive tax cuts, announced as far back as 2006, constituted a major stimulus package. Implemented at a time when the economy was growing (and when stimulus was not needed), these cuts were widely recognized as having been made for ide-

ological reasons: to further shrink government. Whatever stimulative effect they might have had then has pretty much evaporated. An analysis by the Centre for Spatial Economics found that the fiscal stimulus effect of the Conservative tax cuts scheduled to come into effect in 2009 will be a miniscule \$2.5 billion. More troubling, these tax cuts have put a major hole in the government's finances — reducing revenues by \$30.6 billion in 2009—10 alone — at a time when they are most needed to confront the recession.

It should be noted that the AFB fiscal stimulus plan released on January 6th, 2009 represented a focused first line of defence against the coming recession. The full AFB incorporates the January 6th plan and adds to it in critical areas of health care, defence, agriculture, international development, post-secondary education, immigration and women's equality. While the January 6th plan proposed \$33 billion in new spending in 2009–10, the full AFB boosts that figure to \$36.7 billion (2.3% of GDP) which includes both the tax and expenditure measures. On the jobs front, the January 6th plan would create 407,000 jobs with the full AFB creating nearly 470,000 jobs in the first year due to additional spending.

In the second year, the AFB injects \$30.2 billion (1.8% of gdp) into Canada's economy in 2010-11, which includes the net tax and expenditure measures. The combined effects of a two-year stimulus plan prevents plummeting purchasing power, provides income protection and skills training for Canadians who lose their jobs, and gives the green light to shovelready infrastructure projects. This plan boosts the economy by 3.5% in year one and 2.8% in the second year, mitigating the slowdown and laying the foundation for a new phase of sustainable economic expansion. Spending decreases in year two in part to allow stimulus dollars to be absorbed by the economy and in part to wind down as the economy recovers. The AFB plan, as verified by Informetrica Ltd., will produce an estimated \$1.80 of GDP growth for every net dollar of government spending — a big "bang for the buck." Included in that estimate is the fact that over 31% of stimulus dollars spent by the federal government return to it in higher tax revenue and lower EI expenditures.

The full Afb integrates the short-term stimulus plan and other spending measures into a complete macroeconomic and government balance framework. The framework allows for a more thorough understanding of the deficit, debt, and unemployment effects of stimulus spending. The detailed Afb fiscal stimulus plan is in the companion document, *Leadership for Tough Times*, available at: http://www.policyalternatives.ca/reports/2009/01/reportsstudies2065/.

The AFB invests almost \$7 billion over two years to fix Employment Insurance, expanding its reach to more out-of-work Canadians, increasing benefits to cover 60% of insured earnings, extending benefits to 50 weeks, and offering innovative temporary measures such as allowing workers to job-share to prevent massive job loss.

The AFB puts in place additional measures to ensure poverty does not significantly escalate during these tough times. It provides a transfer to provinces to support their poverty reduction strategies. It increases the seniors' Guaranteed Income Supplement, raising the average supplementary benefit received by the poorest Canadian seniors; improves the National Child Benefit Supplement and the Canadian Child Tax Benefit to help families with children. It more than doubles supports for the working poor through the Working Income Tax Benefit, almost doubles the refundable GST credit, and increases grants for low-income students. Increasing income support programs has a rapid stimulus impact and provides a first-line of defence for low-income Canadians.

The AFB injects \$14.7 billion in 2009 to get long-deferred hard and soft infrastructure projects moving forward. Infrastructure investments are important job creators and vital to improving productivity.⁷ The AFB plan allocates \$5.8

billion in 2009–10 to accelerate investments in green infrastructure, health care, training and education, R&D, and energy retrofits. It greenlights projects that are ready to go and repairs aging infrastructure (roads, sewers, bridges etc.) — making Canada safer, creating new jobs, and leaving a legacy of more affordable housing, more affordable child care, greener infrastructure, and expanded broadband access. The extensive range of infrastructure projects ensures a balance of job creation in both male and female dominated professions

Focusing the majority of the infrastructure funding on municipalities and flowing federal funds through the gas tax mechanism will ensure a quick start to projects and the accompanying job benefits. Moreover, municipalities have the capacity to absorb and spend infrastructure dollars faster, as they have smaller, manageable projects already in the planning stage. On January 14, the Federation of Canadian Municipalities released a list of over 1,000 ready-to-go projects, totalling nearly \$14 billion, that could be started as early as spring 2009 if the resources were available.

The AFB plan is responsive to pressing challenges of the day. It recognizes that some sectors are in serious danger. It sets out key criteria for stabilizing and restructuring Canada's auto and forestry sectors to meet the demands of the future.

The Afb does not implement broad-based personal income tax cuts or corporate income tax cuts. They are a poor source of stimulus compared to government spending. Furthermore, most tax cuts give the largest benefits to the rich. Most Canadians (except those at the very top of the income scale) have had very little to show from the tax cuts of the last decade. In uncertain times, most of the tax benefit will be saved, and much of what is spent will leak from the economy through imports rather than bolstering domestic demand. The Afb targets tax measures at low- and middle-income Canadi-

TABLE 1 Macroeconomic Base Case				
	2007-08	2008-09	2009-10	2010-11
Macroeconomic Indicators (\$millions)				
Nominal GDP	1,535,646	1,566,359	1,566,359	1,605,518
Nominal GDP growth	5.9%	2.0%	0.0%	2.5%
Real GDP growth	3.2%	0.0%	-1.0%	1.5%
Budgetary Transactions (\$millions)				
Revenue	244,510	239,367	231,693	229,175
Program spending	201,165	208,095	218,290	226,800
Debt service	33,100	31,500	32,155	33,892
BUDGET BALANCE	10,245	(228)	(18,752)	(31,517)
Closing Debt (accumulated deficit)	455,738	455,966	474,718	506,235
Budgetary indicators as percentage of GDP				
Rev/GDP	16.0%	15.3%	14.8%	14.3%
Budget balance/GDP	0.7%	0.0%	-1.2%	-2.0%
Debt/GDP ratio	29.7%	29.1%	30.3%	31.5%
Effective interest rate	7.16%	6.91%	6.91%	6.91%

ans who are most likely to spend the money, and spend it on domestic goods and services.

A TD financial study of the 2008 U.S. tax cuts found that over 80 cents of every dollar was put into savings or debt repayment. Of the remaining 20 cents of each dollar of the tax cuts, half was spent on imports, leaving only 10 cents in actual stimulus to the American economy. Given Canada's historically high debt levels, there is no reason to believe the situation would be much different here.

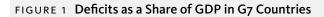
A recent Moody's report confirms the AFB spending stimulus impacts and corroborates the evidence regarding the ineffectiveness of tax cuts.9 It calculates that one dollar of lost revenue from permanent income tax cuts generates only 29 cents of additional real GDP; and one dollar of lost revenue from corporate income tax cuts generates only 30 cents of increase in real GDP. Although permanent tax cuts are touted as better than temporary ones, they too are relatively ineffective compared to public spending, and,

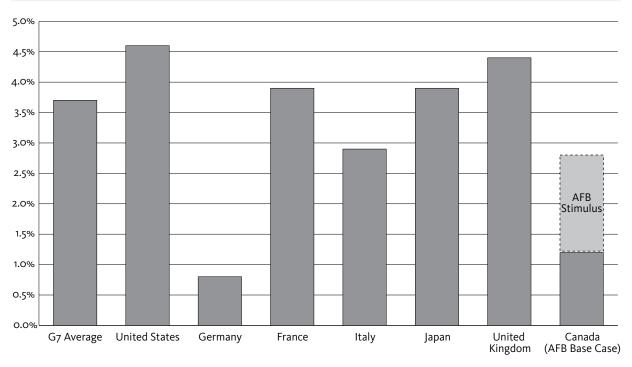
worse, they drain revenues the government will need to avoid a long-term structural deficit.

AFB fiscal framework

The AFB sets out a two-year fiscal planning horizon. It should be understood that this is the first stage of a longer-term plan that lays the foundation for a more equal and inclusive society, as well as a more environmentally sustainable and more diversified high value economy in the years to come. This dimension of the AFB plan is summarized in the overview and is detailed in the chapters that follow.

Our status-quo fiscal planning framework for 2008–09 to 2010–11 assumes no changes in tax or expenditure policies, with outcomes determined by changes in economic assumptions. Our revenue estimates are based on the share of revenues relative to GDP from Budget 2008, while adjusting GDP forecasts. We make a couple of important adjustments in light of recent events. First, spectacular corporate profits have





NOTE Data do not include recent stimulus packages in response to financial crisis, such as the Paulson plan. Canadian scenarios for federal government only. **SOURCE** International Monetary Fund, World Economic Outlook, October 2008, Table A8, and author's calculations (see appendix table).

led to a large increase in corporate income tax revenues. With a recession at hand, we scale back projections to be more consistent with historical levels. Second, we assess the budgetary impact of rising unemployment (lower EI premium revenue and higher EI benefits expenditure). A one percentage-point rise in the unemployment rate would lead to an additional cost of \$1.5 billion per year, equivalent to the current year's planning surplus for EI (premiums received less benefits paid).¹¹ Thus, a return to unemployment levels seen in the 1990s would have huge financial implications for the budget.

Our status quo framework is based on flat real GDP growth in 2008, with real GDP in 2009 shrinking by 1.0%, and a weak recovery of 1.5% growth in 2010. Because of the recession, we also lower our estimates of GDP inflation in 2009 and 2010 to 1.0%. In this scenario, we more substantially lower expectations for corporate income

tax revenues. The balance on the EI account is in deficit in both 2009–10 and 2010–11, based on unemployment rates of 7.4% and 8.0%, respectively.¹² The deficit grows to \$18.8 billion in 2009–10 and to \$31.5 billion in 2010–11.

This base case has been viewed in the past as overly pessimistic, but recent troubling signs here and in the United States, and strong macroeconomic forces worldwide, are now making it very likely. It features a real GDP decline much less than the 2.1% experienced in 1991, Canada's last recession year. Earlier this week the Bank of Canada lowered its 2009 estimate of GDP growth for Canada to -1.2% consistent with the AFB estimate.

Having saved for a rainy day, the federal government is well positioned to use the umbrella of deficit-spending. Canada's debt-to-GDP ratio fell from 68% in 1996–97 to approximately 29% in 2008–09. In addition, in light of devel-

TABLE 2 Summary of AFB Measures			
	2008-09	2009-10	2010-11
Revenues (\$millions)			
Base Case	239,367	231,693	229,175
AFB Tax Measures		-4,729	-3,305
Stimulus Effect		11,270	12,276
Total	239,367	238,235	238,146
Expenditures (\$millions)			
Base Case	208,095	218,290	226,800
AFB measures		31,926	26,904
Total	208,095	250,216	253,704
Debt Service	31,500	33,063	36,415
Balance (Deficit)	(228)	(45,045)	(51,974)
Closing Debt (accumulated deficit)	455,966	501,011	552,984
Rev/GDP	15.3%	14.7%	14.0%
Budget balance/GDP	0.0%	-2.8%	-3.0%
Debt/GDP ratio	29.1%	30.9%	32.4%

opments in the financial markets, the cost of financing a deficit is low. In fact, the government would provide a valuable commodity—secure bonds—to a financial market in the midst of a flight to quality.

The deficit in our base-case scenario equals 1.2% of GDP in 2009—10. However, as Figure 1 shows, this deficit would be at a level that is still well below the most recent average for G-7 countries, and much lower than a forecast 4.6% of GDP deficit in the U.S. — and data in the figure are prior to the most recent fiscal announcements, notably the US\$700 billion Paulson financial bailout and the likely \$825 billion Obama stimulus package, which could mean an historic U.S. deficit of well over \$1 trillion.

In the AFB we table tax and expenditure measures totalling \$36.7 billion in 2009–10 and \$30.2 billion in 2010–11. However, as noted above these measures have associated multiplier effects and the resulting economy wide stimulus is larger in each year, \$54.3 billion in 2009–10 and \$45.0 billion in 2010–11. Thus, the AFB would run a deficit

of 2.8% of GDP in 2009—10, a number consistent with the practice of other advanced countries. In fact, even including the substantial AFB stimulus package, Canada's deficit to GDP ratio of 2.8% would remain under the G7 average of 3.7% of GDP which excludes massive stimulus packages being proposed (including the United States).

The AFB budget measures meant to stimulate the Canadian economy will of course increase the deficit, which would have stood at \$18.8 billion in any event without stimulus in 2009-10. However, a portion of the full cost of those measures would be recovered by the federal government through increased taxation revenue and decreased expenditures. The additional government revenues due to the stimulus are substantial, totalling \$11.3 billion in 2009-10 and \$12.3 billion in 2010-11. With lower unemployment rates, as examined below, come lower Employment Insurance payments, resulting in reduced expenditures. Revenues are also improved as the federal government captures a portion of the stimulus dollars in personal income taxes.

TABLE 3 Stimulus and Employmen	t Effects			
	2007	2008	2009	2010
Base Case				
Unemployment	6.0%	6.6%	7.4%	8.0%
Unemployed (millions)	1.009	1.209	1.356	1.466
Employed (millions)	16.866	17.111	16.964	16.854
GDP (\$millions)	1,535,646	1,566,359	1,566,359	1,605,518
Nominal GDP growth	5.9%	2.0%	0.0%	2.5%
Stimulus Scenario				
Unemployment	6.0%	6.6%	6.5%	6.9%
Unemployed (millions)	1.009	1.209	1.216	1.308
Employed (millions)	16.866	17.111	17.434	17.566
GDP (\$millions)	1,535,646	1,566,359	1,620,636	1,706,107
Nominal GDP growth	5.9%	2.0%	3.5%	5.3%

Corporate income tax revenues decline as profits fall, but their decline is not as dramatic (as a proportion of GDP) as compared to the base case (2.1 vs 2.0).

Canada's federal debt increases by almost \$100 billion by the end of 2010–11. However, more than \$50 billion of that debt would have been incurred in any event without government stimulus. Over that same period the Canadian economy expands by almost \$140 billion compared to only \$40 billion in the base case representing a clear economic win with only a small additional debt burden. The federal debt burden (debt as a proportion of GDP) expands from its current 29.1% to 32.4% by the end 2010-11. Even at this slightly elevated level, Canada easily maintains one of the lowest debt-to-GDP ratios in the G-7. The deficits necessary to ensure a soft landing for the Canadian economy do not deviate significantly from our current debt burden.

The above analysis demonstrates that deficits, even sizeable ones, can emerge from a cyclical shift in macroeconomic conditions. The positive budget dynamics during the growth period of the past decade-and-a-half meant a steadily growing revenue base from which governments have largely cut taxes and repaid debt. Indeed,

it was the Conservatives' last round of tax cuts, announced in late October 2007, which whittled away most of the remaining surplus. Those dynamics are now being thrown into reverse, with commensurate impacts on the budget balance. However, with an eventual return to growth, cyclical deficits will shrink and budgets return to balance.

An examination of government budget balances tells only part of the story. The full picture does not emerge without an examination of the results of those measures on both employment and economic growth. In the base case, nominal GDP is projected to stagnate in 2009, followed by a sluggish rebound in 2010. However, with rapid implementation of the AFB measures, GDP growth could resume as early as 2009, with further acceleration through 2010.

The effects on unemployment and the labour force are also telling. Under the AFB plan, official unemployment continues to rise from the current 6.6% to 6.9% by 2010. That rise is not as rapid as in the base case (which increases to 8.0%), but rising unemployment at any rate masks the job creation potential of the AFB stimulus. In the base case, the rapidly weakening labour market discourages Canadians from seeking work. The

official unemployment rate would increase much more if discouraged workers were included.

In the base case, the size of the labour force stays constant while the population increases; there are simply no new jobs to accommodate the additional workers. Instead, employable Canadians abandon their job search, idling their skills and lowering their incomes. The number of employed Canadians drops from 17.1 million to 16.9 million kicking an additional 260,000 people out of work, starting in January 2009 (over 100,000 jobs were already lost between October and December 2008). In the base case, over 360,000 net jobs would be lost in Canada between October 2008 and 2011. Another 550,000 Canadians, unable to find work, simply drop out of the labour force altogether between 2009 and 2011. If discouraged workers were included the official unemployment rate would rise from 8.0% would rise to 10.6%.

With the implementation of the AFB measures, official unemployment increases, albeit at a slower rate than under the base case (6.9% instead of 8%). More importantly, under the AFB scenario the labour force continues to grow and accommodates 700,000 additional job-seekers. The AFB stimulus creates and sustains approximately 400,000 new jobs in both the public and private sector. These measures are not enough to stop unemployment from rising, but they are enough to encourage some private sector job growth by 2010. More importantly, the stimulus keeps the situation from becoming much worse, employing many Canadians who would otherwise be out of work, and prepares for the eventual economic recovery.

A prolonged string of budget surpluses provided successive governments the opportunity to invest in public services. Unfortunately, those surplus dollars were whittled away through successive tax cuts. With the global economic crisis at Canada's doorstep and our fiscal capacity crippled, deficits are now all but certain. However,

with targeted spending measures designed to maximize the effect of stimulus dollars, the federal government can keep Canadians employed and tide our economy over until the eventual recovery. When the recovery arrives in earnest, fiscal capacity can be rebuilt and deficits erased.

Notes

- 1 Marc Lee, "How Resilient is the Federal Budget to an Economic Downturn?" AFB Technical Paper, CCPA, January, 2008
- 2 Statistics Canada, The Daily, January 13, 2009
- 3 Canadian Real Estate Association, available online at: http://creastats.crea.ca/natl/
- **4** Statistics Canada, *The Daily*, August 29, 2008, at http://www.statcan.ca/Daily/English/o80829/tdo80829.htm
- **5** R. Sauve, *The Current State of Canadian Family Finances*, 2007 Report. The Vanier Institute of the Family. February 11, 2008,
- **6** The January 6th plan estimated a gross \$1.5 in GDP growth for every \$1 of government spending. In the full AFB the net effect of stimulus spending on the federal government's revenues and expenditures is included, driving the net spending down and the multiplication effect up.
- 7 A recent Statistics Canada study found that "Between 1962 and 2006, roughly one-half of the total growth in multifactor productivity in the private sector was the result of growth in public infrastructure. http://www.statcan.gc.ca/daily-quotidien/090114/dq090114a-eng.htm
- **8** "Tax Incidence in Canada, 1990 to 2005", Marc Lee, Canadian Centre for Policy Alternatives, 2007. "High-income Canadians", Brian Murphy, Paul Roberts and Michael Wolfson in Perspectives on Labour and Income, Statistics Canada, September 2007.
- 9 Marc Zandi, Moody's Economy.com
- **10** The scenario used for the Afb is an updated of Scenario 3 from the Alternative Federal Budget Economic and Fiscal Update, CCPA, November 2008.
- 11 Calculations based on data from Human Resources and Social Development Canada, 2009 Report Of The Chief Actuary to the Employment Insurance Commission on the Employment Insurance Premium Rate and Maximum Insurable Earnings.
- **12** CIT revenues-to-GDP fall to 2.0% in 2009–10 and 1.5% in 2010–11.

Kelowna: Health, Education, Water, Housing \$940 \$6 Refund lost funding due to 2% cap on INAC expansion \$276 \$2 Safe care for children in their homes/communities \$78 \$5 So participate in environmental/climate change decision- making \$114 \$1 Funding for Urban and Friendship Centers \$41 \$ Arts & Culture Extend broadband connectivity to rural areas \$600 \$44 Canadian Content: New Media, Television, Museums \$135 \$ Promote Canadian Artists internationally \$30 \$ Increase Canada Child Tax Benefit \$610 \$6 Increase National Child Benefit Supplement \$610 \$6 Increase National Child Benefit Supplement		2009-10	2010-11
Refund lost funding due to 2% cap on INAC expansion \$276 \$256 \$256 \$278 \$3 <td>Aboriginal</td> <td></td> <td></td>	Aboriginal		
Safe care for children in their homes/communities \$78 \$ To participate in environmental/climate change decision- making \$114 \$1 Funding for Urban and Friendship Centers \$41 \$ Arts & Culture ************************************	Kelowna: Health, Education, Water, Housing	\$940	\$629
To participate in environmental/climate change decision- making \$114, \$15	Refund lost funding due to 2% cap on INAC expansion	\$276	\$276
Funding for Urban and Friendship Centers Arts & Culture Extend broadband connectivity to rural areas Extend Broadband Content: New Media, Television, Museums \$135 \$7 Promote Canadian Artists internationally \$30 \$8 \$10 Extend Extend Existing Programs \$22 \$3 \$3 \$3 \$4 Extend Extend Existing NPAP sites, including Community Consultations \$85 \$5 Extend Extend Existing NPAP sites, including Community Consultations \$612 \$612 \$610 Extende Sanada Child Tax Benefit \$612 \$612 \$610 Extense Roadband Child Benefit Supplement \$637 \$610 Extense Roadband Child Benefit Supplement \$637 \$610 Extense And Communities Extende Enviroidal Social transfer for child care \$1,200 \$2,28 Extense And Communities Extende Municipal Fund: General \$1,420 \$2,90 Extense Municipal Fund: General \$1,420 \$1,500 \$1,30 Extense Municipal Fund: Water/Wastewater \$1,500 \$1,30 Extense Municipal Fund: Water/Wastewater \$1,500 \$1,30 Extense Municipal Fund: Water/Wastewater \$1,500 \$1,30 \$2,00 \$3,10 \$4,00	Safe care for children in their homes/communities	\$78	\$78
Arts & Culture Extend broadband connectivity to rural areas Extend Broadband Content: New Media, Television, Museums Extend Broadband Extending New Media, Television, Museums Extending Repairs Extend Extending Repairs Extending Repairs Extending Repairs Extend Extending Repairs Ex	To participate in environmental/climate change decision- making	\$114	\$114
Extend broadband connectivity to rural areas \$600 \$44 Canadian Content: New Media, Television, Museums \$135 \$ Promote Canadian Artists internationally \$30 \$ Next Generation" Training Programs \$22 \$ Support new and Existing NPAP sites, including Community Consultations \$85 \$ Child Care Uniforase Canada Child Tax Benefit \$612 \$6 Increase National Child Benefit Supplement \$637 \$6 Create provincial social transfer for child care \$2,20 \$2,8 Cities and Communities Communities Fund: General \$6,570 \$6 Green Municipal Fund: General \$1,420 \$2,9 Municipal Transit \$1,500 \$1,3 Community Development Funding & Economic Programs \$75 \$7 Green Municipal Fund: Water/Wastewater \$3,65 \$3,1 Defence Slowing Capital Spending \$(100) \$(26 Conclude Military Campaign in Afghanistan \$(52) \$(1,05) Employment Insurance Reform \$3 \$3 Bas	Funding for Urban and Friendship Centers	\$41	\$41
Canadian Content: New Media, Television, Museums \$135 \$ Promote Canadian Artists internationally \$30 \$ Next Generation" Training Programs \$22 \$ Support new and Existing NPAP sites, including Community Consultations \$85 \$ Child Care Increase Canada Child Tax Benefit \$612 \$6 Increase Rational Child Benefit Supplement \$637 \$6 Careate provincial social transfer for child care \$2,20 \$2,8 Cities and Communities	Arts & Culture		
Promote Canadian Artists internationally "Next Generation" Training Programs Support new and Existing NPAP sites, including Community Consultations Support new and Existing NPAP sites, including Community Consultations Child Care Increase Canada Child Tax Benefit Increase National Child Benefit Supplement Soar Support new and Existing NPAP sites, including Community Consultations Create provincial social transfer for child care Support New Artists Cities and Communities Communities Fund: General Soar Support Nunicipal Fund: Water/Wastewater Soar Support Nunicipal Spending Conclude Military Campaign in Afghanistan Soar Soar Soar Soar Soar Soar Soar Soar	Extend broadband connectivity to rural areas	\$600	\$400
**Next Generation" Training Programs \$22 \$\$ Support new and Existing NPAP sites, including Community Consultations \$85 \$\$ Child Care Increase Canada Child Tax Benefit \$612 \$66 Increase National Child Benefit Supplement \$637 \$66 Increase National Child Benefit Supplement \$638 \$67 \$67 \$67 \$67 \$67 \$67 \$67 \$67 \$67 \$67	Canadian Content: New Media, Television, Museums	\$135	\$90
Support new and Existing NPAP sites, including Community Consultations \$85 \$\$ Child Care Increase Canada Child Tax Benefit \$612 \$6 Increase National Child Benefit Supplement \$637 \$6 Increase National Child Benefit Supplement \$607 \$6 Increase National Secondary \$607 \$6 Increase Advances And Communities Increase Mainticipal Fund: General \$6,570 \$7 Increen Municipal Fund: General \$1,420 \$2.9 Increase Municipal Fund: Water/Wastewater \$1,500 \$7 Increen Municipal Fund: Water/Wastewater \$3,650 \$3,10 Increen Municipal Fund: Water/Wastewater \$3,650 \$3,10 Increen Municipal Fund: Water/Wastewater \$3,650 \$3,10 Increen Municipal Spending \$1,000 \$6,260 Increased Entrance requirements of 360 hours \$5,000 \$6,200 Increased Entrance requirements of 360 hours \$5,000 \$6,200 Increased Entrance requirements (no 2-week waiting) \$7,000 \$6,200 Increase Expendit Secondary \$1,812 \$1,900 Increase Expendit Secondary \$1,812	Promote Canadian Artists internationally	\$30	\$30
Child Care Increase Canada Child Tax Benefit \$612 \$66 Increase National Child Benefit Supplement \$637 \$65 Increase National Child Benefit Supplement \$637 \$65 Increase Provincial social transfer for child care \$2,200 \$2,80 Increase Provincial Social transfer for child care \$2,200 \$2,80 Increase Demonstrates Substitute Sund: General \$6,570 Increase Municipal Fund: General \$1,420 \$2,90 Municipal Fund: General \$1,420 \$2,90 Municipal Fund: General \$1,500 \$1,31 Increase Municipal Funding & Economic Programs \$750 \$75 Increen Municipal Fund: Water/Wastewater \$3,650 \$3,10 Increase Municipal Spending \$3,000 \$3,10 Increase Municipal Fund: Water/Wastewater \$3,650 \$3,10 Incre	"Next Generation" Training Programs	\$22	\$22
Increase Canada Child Tax Benefit \$612 \$66 Increase National Child Benefit Supplement \$637 \$66 Increase National Child Benefit Supplement \$637 \$66 Increase National Child Benefit Supplement \$2,200 \$2,88 Increase National Social transfer for child care \$2,200 \$2,88 Increase And Communities Cities and Communities Communities Fund: General \$6,570 \$70 \$70 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$2,90 \$1,420 \$1,420 \$2,90 \$1,420 \$1	Support new and Existing NPAP sites, including Community Consultations	\$85	\$83
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Create provincial social transfer for child care\$2,200\$2,80Cities and CommunitiesCities and CommunitiesS6,570Green Municipal Fund: General\$1,420\$2,9Municipal Transit\$1,500\$1,3Community Development Funding & Economic Programs\$750\$7Green Municipal Fund: Water/Wastewater\$3,650\$3,1DefenceSlowing Capital Spending\$(100)\$(26Conclude Military Campaign in Afghanistan\$(525)\$(1,05Employment Insurance Reform\$504\$5Uniform Entrance requirements of 360 hours\$504\$5Basing benefits on best 12 weeks of earnings\$1,812\$1,9Decreased Entrance requirements (no 2-week waiting)\$765\$8Extend El for workers to retrain\$400\$4Reform costs due to rising unemployment\$426\$6Nature and Environment\$150\$Low-income housing retrofits\$150\$Expand national park system, marine areas, bird areas\$174\$1	Increase Canada Child Tax Benefit	\$612	\$612
Cities and Communities Communities Fund: General \$6,570 Green Municipal Fund: General \$1,420 \$2,90 Municipal Transit \$1,500 \$1,31 Community Development Funding & Economic Programs \$750 \$7 Green Municipal Fund: Water/Wastewater \$3,650 \$3,1 Defence Slowing Capital Spending \$(100) \$(26) Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$1,812 \$1,90 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$\$ Expand national park system, marine areas, bird areas \$174 \$12	Increase National Child Benefit Supplement	\$637	\$637
Communities Fund: General \$6,570 Green Municipal Fund: General \$1,420 \$2,99 Municipal Transit \$1,500 \$1,31 Community Development Funding & Economic Programs \$750 \$7 Green Municipal Fund: Water/Wastewater \$3,650 \$3,11 Defence Slowing Capital Spending \$(100) \$(26 Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$66 Nature and Environment Low-income housing retrofits \$150 \$\$ Expand national park system, marine areas, bird areas	Create provincial social transfer for child care	\$2,200	\$2,800
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Municipal Transit \$1,500 \$1,30	Communities Fund: General	\$6,570	\$-
Community Development Funding & Economic Programs \$750 \$7 Green Municipal Fund: Water/Wastewater \$3,650 \$3,1 Defence Slowing Capital Spending \$(100) \$(26 Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Green Municipal Fund: General	\$1,420	\$2,900
Green Municipal Fund: Water/Wastewater \$3,650 \$3,1 Defence Slowing Capital Spending \$(100) \$(26) Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$66 Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas	Municipal Transit	\$1,500	\$1,300
Defence Slowing Capital Spending \$(100) \$(26 Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend EI for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$66 Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Community Development Funding & Economic Programs	\$750	\$750
Slowing Capital Spending \$(100) \$(26) Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$4 Reform costs due to rising unemployment \$426 \$6 Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Green Municipal Fund: Water/Wastewater	\$3,650	\$3,100
Conclude Military Campaign in Afghanistan \$(525) \$(1,05) Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$6 Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Defence		
Employment Insurance Reform Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Slowing Capital Spending	\$(100)	\$(262)
Uniform Entrance requirements of 360 hours \$504 \$5 Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$4 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Conclude Military Campaign in Afghanistan	\$(525)	\$(1,050)
Basing benefits on best 12 weeks of earnings \$300 \$3 Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$4 Reform costs due to rising unemployment \$426 \$6 Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Employment Insurance Reform		
Raise benefits from 55% to 60% of insured earnings \$1,812 \$1,9 Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend El for workers to retrain \$400 \$44 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Uniform Entrance requirements of 360 hours	\$504	\$534
Decreased Entrance requirements (no 2-week waiting) \$765 \$8 Extend EI for workers to retrain \$400 \$4 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Basing benefits on best 12 weeks of earnings	\$300	\$318
Extend El for workers to retrain \$400 \$4 Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Raise benefits from 55% to 60% of insured earnings	\$1,812	\$1,920
Reform costs due to rising unemployment \$426 \$6. Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Decreased Entrance requirements (no 2-week waiting)	\$765	\$811
Nature and Environment Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Extend EI for workers to retrain	\$400	\$400
Low-income housing retrofits \$150 \$ Expand national park system, marine areas, bird areas \$174 \$1	Reform costs due to rising unemployment	\$426	\$649
Expand national park system, marine areas, bird areas \$174 \$1	Nature and Environment		
	Low-income housing retrofits	\$150	\$75
Protect Great Lakes-St. Lawrence basin \$360 \$3	Expand national park system, marine areas, bird areas	\$174	\$174
	Protect Great Lakes-St. Lawrence basin	\$360	\$360

Agriculture and Farming		
Direct funding to cattle producers	\$100	\$25
Grant for low-income producers switching to organic	\$60	\$60
Creation of "bio-regional" research networks	\$75	\$115
Additional funding for Canadian Grain Commission	\$65	\$65
	-	_
Health Care		
Extend EI for workers to retrain	\$200	\$200
Tuition, debt, seat expansion for health care professionals	\$100	\$150
Funding for migrant workers (Health Agenda)	\$20	\$20
National Pharmacare	\$900	\$1,800
Housing	_	
Affordable housing	\$2,000	\$2,000
International Development		
Development aid towards 0.7% of GNI	\$322	\$718
Immigration		
Newcomer credential recognition program	\$30	\$40
Poverty Reduction		
Increase GST credit	¢2.220	¢2.200
	\$3,339 \$661	\$3,399 \$667
Increase WITB payments		
Poverty Reduction Fund to support provincial initiatives	\$2,000	\$2,000
Post-Secondary Education		
University Research Funding Grant	\$230	\$200
Increased core funding for universities	\$200	\$400
Sectoral Development		
Youth summer jobs	\$98	\$98
Reforestation program	\$200	\$200
Create green manufacturing R&D & training	\$466	\$400
Sectoral Development Councils	\$50	\$50
Auto Innovation Fund	\$150	\$150
Scrappage incentive	\$300	. ,
Mine cleanup	\$100	\$100
Seniors		
Increase GIS payments	\$1,196	\$1,240
Taxation		
Cap Tax-Free Savings Accounts	\$(20)	\$(20)
New 31.5% top personal income tax bracket	\$(20)	\$(20) \$(280)
Cap RRSP contributions at 2008 level	\$(120)	\$(240) \$(240)
Cap INIOT CONTINUATIONS at 2000 IEVE	\$(120)	\$(240)

Maintain 2008 corporate tax rate at 19%

\$(1,470)

\$(380)

Water

Water operator training & conservation	\$75	\$75
	7/3	7/3
Research into watershed and climate change impacts	\$20	\$30
Research into water quality monitoring + increased stations + GEMS	\$150	\$175
Study of water contamination of the tar sands	\$30	
Women's Equality		
Develop gender-responsive budgeting strategy	\$20	
Creation of a Gender Equality Commissioner	\$3	\$3
Strengthen Status of Women Canada + reopen regional offices	\$50	\$50
Independent inquiry on Aboriginal women's deaths	\$20	
Commission on Social Assistance	\$20	

The Tax System

A progressive tax system is needed to finance public services and reduce economic inequality. Over the past decade, however, tax cuts have undermined the tax system's capacity to serve these purposes. Recent Alternative Federal Budgets resisted this trend by proposing to maintain appropriate tax rates on corporate profits, capital gains, and high personal incomes.

The economic crisis that began in 2008 casts tax policy in a somewhat different light. Widespread acknowledgement that the Government of Canada will run a deficit weakens the link between tax revenues and public programs. At least temporarily, it will be possible and appropriate to fund additional public spending by borrowing rather than with additional tax revenue.

Fiscal stimulus entails the government pumping more money into the economy as spending than it draws out as taxes. In this context, it would be counterproductive to insist that every dollar of needed expenditure be raised immediately through higher taxes. Indeed, American tax increases during the Great Depression undercut the stimulative effect of New Deal spending.²

The current economic crisis has reduced the potential to redistribute wealth by taxing corporate profits, capital gains, and high personal incomes. Sharply lower commodity prices and the general economic downturn will reduce Canadian corporate profits relative to previous forecasts. The stock market crash erased billions of dollars of capital gains. These factors will slow income growth at the very top of the spectrum.

In 2009 and 2010, the long-standing tax policy goals of generating revenue and redistributing wealth will be overshadowed by the more immediate budgetary priority of providing economic stimulus. However, building a more progressive tax system has become even more important in the longer term.

Spending vs. tax cuts

The notion that government expenditures should exceed revenues can be used to advocate either more spending or more tax cuts. In its 2008 Economic Statement, the Conservative government contended that tax cuts enacted during the past three years would provide sufficient stimulus for the upcoming fiscal year. More recently,

TABLE 1 Revenues from AFB tax measures (\$millions)

	2009-10	2010-11
Capping Tax Free Savings Accounts	\$20	\$90
31.5% Top Personal Tax Bracket in 2011		\$280
Maximum \$20,000 RRSP Contributions	\$120	\$240
19% Corporate Income Tax Rate	\$380	\$1,470

the Finance Minister has publicly mused about further tax cuts as a source of stimulus in the 2009 budget.

In fact, tax cuts are a poor source of economic stimulus. The value of any given reduction in tax rates depends on the size of the tax base to which those rates apply. If the economy deteriorates (and requires more money), a given rate reduction automatically delivers less money.

This money provides economic stimulus only if it is spent. But most tax cuts give the largest benefits to the rich, who are more likely than average citizens to save rather than spend. Particularly in uncertain economic times, the recipients of tax cuts may choose to save the extra money rather than spend it. Even money that is spent may leave the country to pay for imports rather than staying in the Canadian economy. Recent personal tax rebates in the U.S. have been used as follows: 80% for debt repayment and savings, 10% for buying imported products, and only 10% for buying American-made products.

Public expenditures are a far more effective form of stimulus. They enable governments to ensure that a given amount of money is spent in the Canadian economy in a given time-frame.

Economic uncertainty will likely prompt corporations to retain rather than re-invest savings from corporate tax cuts. (Even in good economic times, the link between corporate tax cuts and business investment is dubious.) Individuals with sufficient income to benefit from income tax cuts will also be motivated to save rather than spend.

Since GST cuts are directly related to consumption spending, they may promote more such

spending than would otherwise occur. But, since these cuts were presented as being permanent, they provide little incentive to make purchases now rather than waiting for prices to fall as the economy weakens.

Tax cuts enacted since 2006 cannot credibly be counted as stimulus in response to the economic crisis. Given the severe limitations of tax cuts as stimulus, the AFB instead emphasizes stimulus through public spending.

Progressive taxes and structural deficits

The major objection to governments providing stimulus is that it could lead to ongoing "structural" deficits. Once government spending significantly exceeds revenues, it will allegedly be difficult to rebalance the budget if and when the economy recovers. Conservative commentators have cited this risk as a reason to limit the amount of stimulus provided.

In a growing economy, however, ongoing deficits are fiscally sustainable as long as they are not large enough to significantly increase the ratio of debt to GDP. Policy-makers should therefore worry more about stimulating the economy than about the budget balance. Furthermore, most of the stimulus in the AFB is investment that will contribute to future prosperity and hence future government revenues.

Another way of preventing structural deficits while providing stimulus is to enact tax measures that will generate substantial revenue as the economy recovers, without collecting too much during the recession. The tax proposals endorsed by previous AFBS will effectively serve this purpose. More progressive taxes tend to be more responsive to the business cycle.

Cancelling planned corporate tax cuts will not draw excessive funds out of the economy — not with corporate profits depressed by the economic crisis. But as the economy and corporate profits recover, it would generate billions of dollars. Similarly, taxing the full value of capital gains

(adjusted for inflation) will generate significant additional revenue only after asset prices recover and create capital gains.

Building a more progressive tax system remains important as a means of narrowing the gap between the rich and the rest of us. The need to prevent unsustainably large structural deficits reinforces the case for more progressive taxation.

Make the GST cut temporary

The Conservative government cut the GST from 6% to 5% effective July 1, 2008. Last year's AFB proposed restoring it to 6% to finance municipal infrastructure. Had this advice been followed, many more infrastructure projects would currently be underway, providing timely economic stimulus. However, with flagging consumer spending now depressing the economy, 2009 or 2010 would be the wrong time to raise consumption taxes.

This year's AFB plans a 6% GST effective July 1, 2011. This will encourage Canadians to make purchases in the two-and-a-half years before the GST rate rises, boosting consumer spending when the economy needs it. In the longer term, the restored GST rate will maintain public fiscal capacity, and the enhanced GST credit will more than compensate lower-income Canadians for the modestly higher GST rate.

Cap tax-free savings accounts

Although most Canadians do not have sufficient savings to maximize their RRSP contributions, Federal Budget 2008 introduced another taxassisted savings vehicle: Canadians will be allowed to contribute as much as \$5,000 annually to Tax-Free Savings Accounts.

Proponents contend that these TFSAs will help low-income earners, who have little incentive to contribute to RRSPs because withdrawals during retirement are clawed back from the Guaranteed Income Supplement. In fact, most

of the gains from TFSAs will flow to the affluent minority of Canadians who have significant annual savings above and beyond their RRSP contributions. The expansion of TFSAs over time will significantly undermine federal and provincial tax revenues from investment income.

The AFB maintains the \$5,000 TFSA given to each Canadian on January 1, 2009, but will not add to it in future years. This policy will enable low-income Canadians to save tax-free without losing GIS benefits, but will not permit the wealthy to accumulate huge additional pools of tax-free savings at public expense.

Tax speculation

Canadian income tax applies to the full value of employment earnings, but to only half the value of capital gains. In 2007, this inequity cost \$5.7 billion in lost personal tax revenue and \$5.7 billion in lost corporate tax revenue.³ It is particularly glaring because 45% of taxable capital gains accrue to the richest 0.7% of tax-filers, who enjoy annual incomes over \$250,000.⁴

The justification for taxing only half of capital gains is that it supposedly encourages investment and that some capital gains simply reflect inflation. But trading financial instruments or property often does not lead to genuinely productive investment, as the current economic crisis painfully illustrates. The AFB will tax the full value of capital gains, over and above inflation, realized after July 1, 2011.

The Canadian tax system treats employee stock options as capital gains rather than as employment earnings, and does not tax such options until they are exercised. Federal Budget 2000 introduced some of these provisions in response to the supposed "brain drain" from Canada to the U.S., a notion that has since been debunked. In 2007, the favourable tax treatment of stock options cost \$1.1 billion in uncollected revenue.

Starting on July 1, 2011, the AFB will tax the full value of employee stock options when they

are given. Recipients will be able to claim subsequent changes in the value of these options as capital gains or losses upon realization.

Taxing high incomes

Beginning in the 2011 tax year, the AFB will establish a new 31.5% tax bracket for income over \$250,000. This change will only affect the richest 0.7% of Canadian tax-filers and will coincide with the expiry of the Bush tax cuts for Americans with incomes over \$250,000.

The AFB will freeze maximum annual RRSP contributions at \$20,000, the maximum currently in effect for the 2008 tax year. Since the RRSP contribution limit equals 18% of earnings, only Canadians making more than \$111,000 annually will be affected by this maximum. The funds retained by limiting RRSP tax deductions will help finance a better Guaranteed Income Supplement for Canada's poorest seniors.

Maintain corporate taxes5

The AFB will maintain the current federal corporate income tax rate of 19% until July 1, 2011. This policy entails not implementing corporate tax cuts scheduled for 2010 and 2011.

On July 1, 2011, the AFB will reinstate the 21% corporate tax rate and 1.12% corporate surtax that were in effect from 2004 through 2007. When added to provincial corporate income taxes, this rate is well below the U.S. average and lower than most G-7 countries. Also on July 1, 2011, the AFB will end the corporate tax deduction for meal and entertainment expenses.

The current Conservative government has adopted and enlarged corporate tax cuts announced by the previous Liberal government. Canada's federal corporate tax rate is currently scheduled to fall to 15% by 2012.

KPMG's 2008 *Competitive Alternatives* report constructed an index of corporate income taxes, other business taxes and employer payroll taxes

for 10 countries. Based on tax rates announced for the coming decade, KPMG concluded that Canada will be tied with the Netherlands for the second-lowest business taxes. Only Mexico will have (slightly) lower business taxes. The other G-7 countries and Australia will have significantly higher business taxes than Canada.

These huge corporate tax cuts have not stimulated additional investment. As a Statistics Canada paper observes, "Over much of the last decade, corporations as a whole have been posting record profits. Meanwhile, business fixed capital investment has been relatively sluggish in recent years." Similarly, the TD Bank notes that the ratio of business investment to profits has fallen to an all-time low.

Before the economic crisis, gross investment by private corporations equaled about 10% of GDP, only slightly above the level that it has consistently averaged since the 1960s. In other words, gross investment (which includes depreciation) approximately equals after-tax profits (which exclude depreciation). Historically, non-financial corporations took out loans and sold stock to fund investment in excess of internally-generated funds. Corporate tax cuts have contributed to a reversal of this pattern. Today, non-financial corporations lend surplus funds to households and "issuance of common stock by Canadian companies has turned negative for the first time since the 1960s."

The C.D. Howe Institute, an organization committed to tax cuts, claims that Canada has comparatively high marginal effective tax rates (METRS) on capital. In calculating this measure, the Institute excludes local business taxes, which are particularly low in Canada, and research and development tax incentives, which are particularly generous here. It includes inventories, which Canadian tax-accounting rules subject to a particularly high METR. However, fixed capital such as machinery and equipment is what matters most for productivity and economic growth.

Marginal tax rates are not the appropriate measure of international competitiveness. An investor deciding where to locate a facility is concerned about the investment's total tax liability (i.e., the average tax rate), not the tax on the last dollar invested (i.e., the marginal rate).

Even if METRS were the appropriate measure, across-the-board CIT cuts are not a cost-effective way of reducing METRS. Finance Canada's Budget Plan 2007 indicated that its permanent Capital Cost Allowance (CCA) changes, which were projected to cost \$145 million in 2008, reduced Canada's METR almost as much as the Budget 2006 CIT cuts, which were projected to cost \$3 billion in 2008.

Federal Budget 2007 also introduced a temporary accelerated CCA for manufacturers at a cost of \$1.3 billion over three years. The C. D. Howe Institute recently revealed that this measure, along with similarly targeted provincial incentives, dramatically reduced Canada's overall METR on capital from 37% in 2006 to 31% in 2007. Not surprisingly, measures tied to new investment have relatively more effect at the margin.

The U.S. government taxes American corporations on a worldwide basis. Profits from the Canadian subsidiaries of American corporations repatriated to the U.S. are subject to American tax minus credits for Canadian tax paid. Therefore, if effective tax rates are lower in Canada than in the U.S., American-controlled corporations pay the difference back to the U.S. government. Japan and the United Kingdom also tax their corporations on a worldwide basis. Further CIT rate reductions and/or targeted tax incentives could simply transfer revenues from the Canadian treasury to foreign treasuries.

The Tax System

GENDER

38% of women tax-filers have no federal income tax payable because their incomes are so low, compared to 24% of men.⁶

Women represent 61% of tax-filers earning \$25,000 or less.

Men represent 77% of tax-filers with incomes of over \$100,000.

Canadian rates are well below American rates, but only the U.S. federal rate applies to profits repatriated from Canada. Clearly, the U.S. federal rate already exceeds the overall Canadian rate in lower-tax provinces. Any further CIT cuts could cause most Canadian subsidiaries of American corporations to pay more U.S. tax.

Notes

- 1 Marc Lee (CCPA), Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005, 2007.
- 2 Paul Krugman, "Franklin Delano Obama?," New York Times, November 10, 2008.
- **3** These costs and the cost for stock options are from Finance Canada, *Tax Expenditures and Evaluations*, 2008.
- **4** Canada Revenue Agency, *Income Statistics*, 2008 (2006 tax year).
- **5** References for this section are available in Andrew Jackson and Erin Weir, "The Conservative Tax Record," in *The Harper Record*, edited by Teresa Healy (Ottawa: CCPA, 2008), pp. 58–60.
- **6** Why Tax Policy Matters to Women: Prepared by Lisa Philipps on behalf of the Canadian Feminist Alliance for International Action, December 2007.

SECTION 1

Securing Our Common Wealth

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 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 confronting First Nations governments and those which are constitutionally the responsibility of federal, provincial, or territorial governments.

First Nations

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 other Canadians. When compared to what the average Canadian citizen receives in programs and funding, First Nations government funding lags significantly behind.¹

As a result, the health and safety of First Nations citizens on reserve is at serious risk. For 13 years, successive federal governments have knowingly contributed to these growing risks by failing to match federal program and service transfers to First Nations with the rates of growth in inflation and population. Due to the hollowing out of capital infrastructure over time, there are unhealthy and rundown schools and health care facilities, overcrowding and mouldy housing, and an overall deterioration in all facilities. The state of this infrastructure also has a negative effect on efforts to develop local economies, just as it would elsewhere in Canada.

No community in this country should have to suffer this indignation, and nothing can justify this ongoing discrimination against First Nations by the Government of Canada. The consequences in human suffering and higher costs to redress the situation have been evident for some time. Action is needed immediately.

Since 1996, the federal government has maintained an arbitrary 2% cap on spending increases for core services. The 2% annual increase for First Nations budgets is less than one-third of the average 6.6% increase that most Canadians enjoy through the Canada Health and Social Transfers, and half as much as the 4% increase recently committed to provinces through equalization.

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 dropped by almost 13% in the same period.³

These inequitable and unsustainable funding levels impair 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 2008–09 is \$829 million⁴ and will continue to grow.

The AFB will therefore allocate \$829 million in fiscal years 2009–12, or \$276 million per year, to eliminate the shortfall created by the 2% cap over the past 13 years. The AFB will develop an appropriate escalator clause to ensure that future investments keep pace with the rate of inflation and First Nations population growth.

While addressing the effects of the 2% cap will prevent First Nations from falling further behind the rest of Canada, it will not address the fundamental disparity in living conditions on First Nations reserves due to hundreds of years of enforced poverty. This underlying poverty must be addressed so that communities can build sustainable economies.

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 that of 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 investment in First Nations communities comparable 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.

As with plans to invest in infrastructure as a stimulus to the Canadian economy, investing in housing and infrastructure on First Nations reserves will create jobs and stimulate economic growth. The AFB commits to working 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.

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 in education, housing and infrastructure, health and economic development, in order 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 Conservative government to meet any of its commitments under the first three years of this agreement, the full five-year funding agreed to at that time remains outstanding.

The Afb allocates \$4.2 billion over five years to First Nations communities, to meet the needs identified by the Kelowna Accord.

Implementation of the Kelowna Accord commitments is a priority and would also have a strong economic effect given that they are targeting infrastructure to lower-income communities. As such, they have been included as part of the AFB Stimulus Plan. Some of the expenditures were shifted forward to "front-end-load" the plan to provide additional stimulus in the first years.

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, however, 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 brought by a First Nation against the Government of Canada.

Aboriginal Peoples

GENDER

The poverty rate of Aboriginal women is 36%.⁷ It is imperative to address the economic security of Aboriginal women in order to ensure their safety. More than 500 Aboriginal women in Canada have gone missing or been murdered over the last 15 years. In an unprecedented move, the United Nations' Committee on the Convention to Eliminate All forms of Discrimination Against Women (CEDAW) called on Canada during its 2008 review to report back on progress towards addressing this dire human rights violation.⁸

Current funding formulas 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.

In addition, the AFB allocates \$342 million over the next three years to support First Nations participation in environmental decision-making, and to support First Nations communities in addressing and adapting 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, in turn, will support a cleaner environment, better health, and increased productivity over the long term.

The cost of investing in First Nations is significant, but the investments allocated by the AFB must also be put in the context of the Crown's contingent liability of more than \$15 billion. 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 the 1996 report of the Royal Commission on Aboriginal Peoples, the lost economic opportunity, lost labour force potential, reduced economic health, and escalating health and social costs of the current situation 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.

Nearly 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 five years.

As with the on-reserve portion of the Kelowna Accord, a portion of the \$800 million is included in the Afb Stimulus Plan.

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. Although 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.

The Afb will therefore 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 Women's Inequality Canada: Submission of the Canadian Feminist Alliance for International Action to the United Nations Committee on the Elimination of Discrimination against Women on the Occasion of the Committee's Review of Canada's 6th & 7th Reports, September 2008
- **8** UN Asks Canada to Report Back on Poverty and Murdered Aboriginal Women: November 24, 2008, Canadian Feminist Alliance for International Action

Child Care and Early Learning

A question of *quality* — A question of *equality*

A decade of consecutive federal budget surpluses will end as a prolonged period of economic growth also closes. Drawing on lessons learned during the Great Depression, the federal government has acknowledged that, in these circumstances, running a deficit will be essential. But it has not acknowledged the extensive and compelling evidence clearly showing that a pan-Canadian child care system is among the most effective short-term and long-term investments a country or region can make in itself.

In addition to being a key component of the eventual achievement of equality for women in the workforce, child care is critical 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. The recent downturn in the economy means that many individuals and families are facing or will face tenuous employment, layoffs, difficult transitions to new jobs and associated challenges with their financial resources. More than ever, this applies to mothers as well as fathers. Ac-

cessible and affordable child care helps parents maintain their labour force attachment and get necessary training or support to deal with employment transition.

Even more importantly, quality early learning and child care (ELCC) benefits the children who access it. Nurturing and stimulative care, in the home and in the community, provides the foundations for lifelong health, learning and skill development. As the global economy puts a greater emphasis on knowledge, creativity and skills, education is emphasized and participation in post-secondary education continues to grow. But we must not neglect the evidence that shows that the most significant stages of human development occur during the early years.

The November 2008 Speech from the Throne warns that "this is a time of extraordinary global economic challenge and uncertainty." Faced with these challenges, the government recognizes that "Canada's economy will only remain as strong as its workers and families." This is undoubtedly true yet worrisome, as the federal government's support for working families today is minimal.

The current federal government has no vision or plan for child care as part of a comprehen-

sive family support policy so it is not surprising to see multiple international reports criticizing Canada for failing to invest in and achieve quality, affordable accessible child care services. Regulated child care spaces exist for less than 20% of Canada's children, despite the fact that three-quarters of mothers of young children are in the labour force. And, outside of Quebec, Canadian parents pay amongst the highest child care fees in the world.

Canada's reluctance to take responsibility for creating a child care system¹ primarily reflects governments' unshakable belief in market-based solutions despite years of evidence confirming that the market has failed child care.

In 2006 the federal government cut dedicated child care transfers to provinces and territories, replacing them with a taxable family allowance of \$1,200 per year, per child under the age of 6. 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. Direct cash transfers to families provide no accountability for the quality and affordability of child care services that parents can access with these funds. A recent report by the CCPA British Columbia office shows that for a two-parent, two-child family, child care still represents the second largest expense behind housing, a finding that we expect holds true across most of the country outside of Quebec.

For the reasons above the AFB through the Stimulus Plan will increase CCTB benefits by 8% to an average benefit level of over \$3,100/year with a budgetary impact of \$612 million in 2009–10 and 2010–11. Although CCTB is means tested, the National Child Benefit Supplement (NCB) is even more heavily weighted towards the lower end of the income scale. The AFB Stimulus Plan would increase NCB support by 15% increasing the average benefit level to \$1,800/year over and above the CCTB increase. The budgetary impact would be \$637 million in both 2009–10 and 2010–11.

Both program increases will help lower income families weather the economic storm. In addition, these program increases provide a powerful stimulus effect as they put money in the hands of those who will spend it.

Providing child care funding directly to families also ignores the experiences of jurisdictions that have similarly and unsuccessfully relied on the market to deliver early learning and care outcomes, leading most OECD countries to reject this model and provide direct funding to accountable child care services instead. A particularly illustrative example comes from Australia where the federal government thought fee subsidies to parents would promote child care choice, quality and affordability. Instead, their policy led to a dramatic increase in parent fees, triggering even higher public subsidies. Despite ongoing concerns about families' ability to access quality services, public funds helped to leverage and enrich the corporate child care sector.

Recently Australia's largest child care corporation, ABC Developmental Learning Centres, went into receivership. With care for over 100,000 children in the balance, the Australian government is now directly involved in this unfolding crisis and has already provided one short-term bailout in addition to the \$300 million in public fee subsidies invested annually. As a direct result of their government's false fixes, Australians are shouldering the costs of market failure in child care and they have no public assets to show for the years of public funding to the corporate child care sector.

Australia's experience is relevant because, to date, Canadian governments have not protected citizens from the corporatization of child care. False fixes, held forth as solutions to Canada's child care crisis, are being proposed to governments by corporate child care and property development lobbyists.

Canada continues to do anything but fund a child care system and therefore we continue to perform poorly when it comes to early learning and child care, particularly for a wealthy country. The OECD discovered that of the twenty member countries for which data was available, Canada ranks last in terms of access among three-to-six-year-olds to early learning and child care programs meeting the OECD's definition of quality. This is a direct result of the fact, also evaluated by the OECD, that Canada places last in terms of public spending on child care services as a percent of GDP. Most recently, a report by UNICEF shows that out of 25 developed countries, Canada places 25th in terms of meeting suggested standards of healthy child development, including early learning and care.

Representative of our poor standing as a country, 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. Investments in early learning and child care programs that are designed specifically by and for Aboriginal communities are widely recognized as a promising approach to improving Aboriginal child and family well being. Indeed, the 2001 Aboriginal Peoples Survey found that less than half, or 46%, of Aboriginal children ages 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 (Statistics Canada).

Despite these findings and the risk posed by corporate child care, Canadians, as shown by multiple polls, have not given up on a national system of ELCC services that are high-quality, affordable, and respond to community needs and plans. A recent survey by Environics indicates over three quarters of Canadians believe the government has an important role to play in addressing the lack of affordable child care. The CCPA conducted a national poll which shows that 85% of Canadians would like to see their government create more low-cost child care spaces. Further, advocates across the country contin-

ue to push for improvements. For example, the Code Blue for Child Care Campaign supported private members Bill C-303, the Early Learning and Child Care Act. This act would establish criteria and conditions in respect of funding for early learning and child care programs in order to ensure the quality, accessibility, universality and accountability of those programs.

Reflecting the majority view, all of the Opposition parties voted in support of Bill C-303 and all included commitments to quality, universal early learning and child care in their 2008 election platforms.

Therefore, the Alternative Federal Budget provides the federal leadership and funding necessary to start building, in cooperation with the provinces and territories, a pan-Canadian system of early learning and child care that is accountable for delivering certain outcomes. Specifically, the Afb allocates funding for provinces and territories to deliver significant operating support to child care providers that meet standards for quality, affordability and inclusion. These operating funds would primarily go towards improving staff training and compensation and reducing the portion of operating expenses paid by parents.

In order to make affordable quality child care universal in Canada, capital planning will also be required but child care and early learning spaces can in many cases be provided in conjunction with existing public infrastructure such as schools and community centres. The key point about capital funding is that it must go towards public infrastructure that responds to community needs and plans. New child care spaces must be publicly owned and community operated. The negative experiences of countries, such as Australia, that have encouraged private corporate ownership of publicly-funded assets, must be instructive as Canada begins to develop its child care system.

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 ownership, 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 1% of GDP, which is consistent with the benchmark recommended by international organizations such as UNICEF and achieved by many of our counterpart developed nations. This level of funding would provide a quality, affordable child care space to all children under six in Canada on either a part-time or a full-time basis.

Research tells us that investment in a quality, universal child care system provides at least 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 helps paint a convincing picture of the economic benefits of child care, and the increased labour force attachment is particularly meaningful as it reflects the increased 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 annual direct operating funding for ELCC to \$5 billion by 2012–13 which, with a capital plan that makes use of existing community infrastructure, will mean all children aged three to five should have access to a quality child care space in their community. This plan addresses the most pressing and evi-

Child Care and Early Learning

GENDER

In 2004, 73% of all women with children under age 16 living at home were part of the employed workforce; 65% of all women with children under age three were employed; almost three out of four employed women with at least one child under age 16 at home were employed full time.²

National publicly funded childcare essential in achieving women's economic security in Canada.

Women's equality seeking groups have been calling for publicly funded childcare for decades to ensure early education for their children and to facilitate the participation of more women in the paid workforce.

ABORIGINAL PEOPLES

The lack of on-reserve child care is even greater than the situation in Canada as a whole.

Although statistics are difficult to ascertain, there is much anecdotal evidence that tax credits do not benefit Aboriginal people equally due to a lower take-up rate. Discriminatory funding from the federal government for child and family services to First Nations as compared to provincial services available to other Canadians is the subject of an ongoing complaint to the Canadian Human Rights Commission.

dence-based need for quality child care services, freeing up provincial and territorial budgets to improve services for younger and older children in the meantime.

Starting in 2009–10, building this system requires the following dedicated federal transfers beyond the \$600 million already committed under the 2003 Multilateral Framework Agreement on ELCC and the Child Care Spaces Initiative:

The AFB will provide an additional \$2.2 Billion in 2009–10 and \$2.8 billion in 2010–11 with the goal of reaching \$5 billion a year by 2013. The initial year of increases in included in the AFB Stimulus Plan.

Some will say that Canada cannot afford to invest in child care in these uncertain economic times. Nothing could be further from the truth. Child care services are an essential part of every community's economic and social infrastructure. The government has indicated that it is willing to spend significantly on parts of the economy that are threatened and are deemed too important to fail. But Canada's approach to child care and early learning has long been a failure for children, families and communities.

Due to the importance of the social infrastructure, the first year of the child care provincial transfer was included in the AFB Stimulus Plan. Child care reinvestment helps us rebuild our social infrastructure and its strong stimulative effect can help Canada's economy grow during the upcoming recessionary period.

Now is the time to acknowledge that child care is also too important to allow our failed

policies to continue. The AFB outlines what is necessary to ensure that quality, affordable, community-owned child care services are available to support children's development and to support families to find and maintain work, upgrade skills and achieve work/life balance. Among other important social benefits, early learning and child care therefore achieves the government's 2008 Throne Speech goal to "support the economy today while building a stronger economy for the future."

Notes

- 1 Again, outside of Quebec
- **2** Statistics Canada, March 2006. *Women in Canada: A Gender-based Statistical Report*, 5th edition. Statistics Canada, Ottawa.

Cities and Communities

We are heading into this downturn after a long boom, but also after much of Canada's social infrastructure and supports have been cut back, or downloaded to the local level. It is at the community level, where over 80% of Canadians live, that the impacts of this economic downturn will be most acutely felt.

Weakening of the Employment Insurance program has left more than half the unemployed in Canada with no coverage, forcing them to rely on social assistance and other forms of support to survive. Social assistance has been whittled away in most provinces and downloaded to the municipal level in Ontario, together with other community services.

Local governments in Canada are heavily dependent on property-based taxes and user fees for about 75% of their revenues. With some of the highest property taxes in the world and little ability to collect revenues from other sources, local governments have been under financial pressure for years. Small and medium-sized communities in Ontario are especially vulnerable to layoffs and closures by major employers, which results in the double impact of reducing

local revenues just as demand for many locally funded social services increases.

Urban sprawl has saddled larger cities with high costs to provide services to farther-flung neighbourhoods. Inadequate funding and investment has led to the growth of a \$123 billion plus deficit for the upkeep and replacement of existing municipal public infrastructure.¹ Local governments will also shoulder most of the costs involved with climate change impacts and investments required for adaptation and mitigation because they are responsible for funding over 50% of all public infrastructure in Canada.

Tougher economic times will be felt all around, but they will be especially severe for certain regions and communities. Local communities will be on the front lines in dealing with the damages from the economic downturn. They are also in the best position to rebuild more sustainable and diversified economies, but they need increased resources and tools to do so.

The AFB's plan for cities and communities is based on the following principles:

Major increases in funding to cities and communities are necessary. Local governments have suffered the most from a "fiscal imbalance," have the least capacity to raise funds, and are also responsible for the majority of our public and community infrastructure.

Accelerated investments in public infrastructure can be effective short-term economic stimulus, but they should also fulfill long-term needs. Now is an excellent time to make these investments because of the \$120+ billion municipal infrastructure deficit, including tens of billions in projects that are ready to go, and the once-in-a-lifetime opportunity to rebuild our communities and economy to be more sustainable and efficient.

Public services and public infrastructure are best financed, delivered, and under the control of the public and/or local government sectors.

Public services should respond to community needs and not be subject or vulnerable to the financial vagaries of private corporations. This may seem like common sense, but the federal government and some provincial governments are forcing local governments to privatize their public services through public-private partnerships (P₃s) or other mechanisms as a condition of receiving funding (see *Privatization* chapter). Acquiescing to private finance resulted in this financial crisis, and P₃s are now riskier than ever. Public services should be used to support the needs of community economic development, and not to subsidize the profits of large multinational corporations.

Infrastructure funding programs should be coordinated with local, provincial, and national strategies to maximize their effectiveness. In particular, infrastructure funding needs to be coordinated in relation to a national transit strategy, as has been proposed by the Federation of Canadian Municipalities (FCM), and through an effective national climate change strategy and

action plan. The AFB also commits the federal government to take a more pro-active role in ur-

ban and community affairs by coordinating and developing a National Communities Strategy. This strategy will support more sustainable forms of urban development and will respect municipal official plans, provincial growth strategies, and the goals of transportation planning agencies.

Municipal infrastructure as stimulus

The AFB Stimulus Plan relies heavily on municipal infrastructure to drive the engine of growth and put Canadians back to work during the coming recession. There are three main planks to the Stimulus Plan. The first provides income support for those with lower incomes or who have lost their jobs. Both the second and third planks rely heavily on municipalities to produce economic stimulus utilizing federal dollars.

Income supports, however, though they can be rapid in their deployment, do not have a particularly large stimulative effect; they are only slightly better than straight tax cuts. And infrastructure investments often suffer from "lag times" in that they take months or years to get going, by which time the recession is over. However, if municipalities are the major beneficiary of stimulus dollars, they are the most likely to be able to spend that money quickly. They have many smaller projects ready to go, but lack the funding.

In total, the AFB Stimulus Plan commits \$13.1 billion in 2009–10 to municipal infrastructure. An amount of this magnitude may test the absorptive capacities of municipalities. They may not have sufficient capacity to spend this money in 2009–10, so unspent portions should be carried over into subsequent years. These absorptive capacities, however, should be tested to the limit instead of risking leaving Canadians out of work because the infrastructure investment was too timid.

Communities Fund

Several of the following measures have conditions attached to assure they produce sustainable outcomes for Canada's future social and economic growth. The crumbling municipal infrastructure, however, demands that a portion of the funds be invested in community-driven needs. The AFB will invest \$6.57 billion in general municipal infrastructure as an important part of the Stimulus Plan in 2009–10.

Green Infrastructure Fund

The current Conservative government has done little to increase federal funding for infrastructure investment. Instead, it has repackaged funding commitments made by previous governments and forced provinces and municipalities to go through a lengthy process to fully consider P3s as a condition of receiving federal funding. After 2009-10, when the gas tax funding committed by the previous Liberal government reaches its maximum, federal funding for infrastructure is slated to increase by only 1.1% a year — less than the expected rate of inflation. The additional P3 requirements have added extra costs for municipalities and provinces, delayed funding and investments, and penalized small and mediumsized businesses.

The AFB will double the amount of federal funding for municipal public infrastructure investment to over \$12 billion a year. The additional funding, equivalent to one percentage point from GST revenues, will restore federal and provincial transfers to municipalities back to the ratio of support they provided a dozen years ago, and will be sufficient to eliminate the municipal infrastructure deficit within 10 years.

To allow the funding to flow through without further delays, the bulk of the initial additional funding will be provided through the same formula and mechanism as is used for the existing gas tax funding. This will be combined into a new federal Green Infrastructure Fund. Funds will be required to be used for environmentally sustainable municipal infrastructure, including public transit, water and waste-water, active transportation infrastructure, building retrofits, community and renewable energy, and roads and bridges, where sustainability outcomes can be demonstrated. Infrastructure projects funded will be required to be owned and operated by the public sector or non-profit agencies and demonstrate a high level of ongoing environmental and financial sustainability. Additional funding will be provided to municipalities to build capacity and develop sustainable community plans through the FCM's Green Infrastructure Fund and other mechanisms, where required.

Additional cost: \$5.1 billion in 2009–10 (Stimulus Plan), \$6.0 billion in 2010–11. The Green Infrastructure Fund devotes \$3.65 billion to water and waste-water, as outlined in the *Water* chapter. The remainder of the \$6.57 billion is devoted to other green initiatives. In 2009–10, the Green Infrastructure Fund puts critical stimulus dollars into assuring future growth.

Public transit funding

Investment in public transit not only provides an immediate economic boost, but also provides benefits to lower- and middle-income families It is better for the environment, and reduces the costs for municipalities of building and maintaining roads.

Federal funding for public transit, first committed in Bill C-48, is set to expire this year. The Canadian Urban Transit Association estimates that \$40 billion is required over the next five years to rehabilitate and expand existing systems. The AFB will increase and extend federal funding for public transit by ramping it up to \$2 billion a year, as the FCM has called for. This new funding will be provided through provinces, together with agreements that involve the development of a national public transit strategy that connects urban public transit with improved inter-urban

transit. This strategy will build on the work of regional transportation agencies and be aligned with existing funding frameworks.

Cost: \$2.7 billion over 2 years: \$1.5 billion, \$1.2 billion

Public Assets Financing Agency and Public Assets Fund

In its 2007 Budget, the Conservative government committed \$1.25 billion to a P3 Fund to subsidize the privatization of public assets. The AFB will eliminate this wasteful use of the public's money and instead create a Public Assets Financing Agency to help provinces, municipalities, First Nations, and other public bodies (including hospitals and universities) to secure lower-cost financing for public infrastructure investments. This agency will issue bonds available to the public, including specific regional and sectoral bonds (e.g., renewable energy or education bonds), and be backed by federal guarantees. This will allow the Canadian public and pension funds to invest directly in projects in their region or sector that provide long-term public benefits with a high level of security.

Federal support for these projects will include a federal financing guarantee and incentives through a new Public Assets Fund. This Fund will provide partial funding of up to 25% of the cost of projects that demonstrate innovative public design, public-public partnerships, and correspond to particular needs.

Cost: Funding redirected from P3 Fund.

Community development funding

The AFB will double the funding provided through provinces to communities in the Community Development Trust to \$2 billion. This funding will help vulnerable communities to adjust, build capacity, and diversify their economies.

Additional cost: \$1 billion in trust, to be expended over 2 years.

Department of Communities

The AFB will establish a federal Department of Communities with a senior minister, as was outlined in AFB 2008. This Department will be responsible for administering programs to: 1) reinvest in and renew Canada's community public infrastructure; 2) develop a national communities strategy to coordinate federal urban initiatives in Canadian communities; 3) support and promote a community economic development approach to help provide communities with the resources and tools they need; and 4) provide communities with a single point of access to the federal government on municipal and community issues.

Public Assets Office

The Canadian public, through the federal government, own valuable assets in communities all across Canada in the form of land, buildings, and other structures. Many of these hold important historical, cultural, social, economic, or strategic value. Unfortunately, the Harper government, having blown the surplus with its tax cuts, is now selling off these public assets for much less than they are worth through P3 deals and other forms of privatization. Retaining public ownership of these assets is crucial, as it provides the federal government with a major tool to promote positive change in communities all across Canada. The AFB will eliminate the federal P3 office and instead create a Public Assets Office through the Department of Communities to work with communities to maximize the benefits of public assets and public programs, exchange local best practices, and administer the Public Assets Fund.

Positive procurement

The AFB will put in place a federal procurement strategy to maximize the environmental, economic, and social benefits of federal government procurement. Setting stronger environmental requirements will not only be better for the environment, but they could also play a leadership role in setting a standard and creating a strong demand for these products in Canada, and providing a boost to these industries. The AFB will start by putting teeth in the federal government's now largely voluntary "Policy on Green Procurement" by requiring government departments and agencies to take account of and report on the environmental costs and benefits of their procurements. Minimum standards and requirements standards for many products will be set.

The AFB will also put in place strategic procurement policies to increase these economic and social benefits. This will include policies to maximize local and social benefits of procurement, modelled on successful programs at the provincial and municipal level. It will also involve strategic policies to lever the economic benefits of federal government procurement and infrastructure investments.

These types of industrial policies (which Canadian manufacturers have called for and other industrialized countries have had in place for a long time) will mandate made-in-Canada procurement levels. More importantly, it will involve working transparently and collaboratively with industry on procurement plans. This will help Canadian industry to develop new environmental products and processes together with directed R&D efforts.

Community economic development programs The AFB will introduce new community economic development (CED) programs by restoring and expanding funding for the Social Economy Initiative that was cancelled by the Conservative government. These programs are even more necessary now, and so the support will be almost doubled from the \$132 million that had been allotted previously. The following CED programs will be funded through this initiative:

Cities and Communities

GENDER

Increasing funding to cities and communities is a benefit to women when monies are invested in local services, including public transit. On average, women are paid less and rely more than men on public transportation and public services such as affordable housing, libraries, recreation centres, etc.

ABORIGINAL PEOPLES

The challenges facing communities across Canada apply even more strongly in Aboriginal communities, which are more significantly rural and remote, although the proportion of urban communities is generally underestimated. The fact that the responsibility for reserve communities is entirely federal means that investment strategies employed with provinces and municipalities must be restructured for delivery by federal and First Nations governments.

Community Development and Neighbourhood Renewal Corporations:

Funding will be provided to establish and support a national network of Community Development Corporations (CDCs) and Neighbourhood Renewal Corporations (NRCs). These non-profit community-run organizations will provide resources and funding for community projects to develop local communities, create jobs, build capacity, and promote community wellbeing.

Local Employment Development

Agencies: Funding will include support for employment programs that provide broad-based support — including life skills, hard skills, placement, child care, and transportation — as well as training for the unemployed. These will help to develop the foundation for jobs and conservation corps-type programs that could be rapidly

- expanded if unemployment increases significantly.
- Social Enterprise Trust: The AFB will create a long-term capital fund to finance non-profit and cooperative community enterprises in Canada. This funding will be used to leverage additional investments from foundations and other investors to grow social enterprises.
- **Cooperatives:** The AFB will increase support for cooperatives by expanding the Cooperative Development Initiative.

This will support the development of worker and producer cooperatives to combat economic decline in communities, promote a more democratic economy, and strengthen community ownership of economic assets.

Additional cost: \$250 million a year.

Notes

1 Mirza, S. Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure. Nov 2007

Culture and Communications

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

Canada's arts and culture sector is not only a key to explore our national identity as Canadians, but also an intrinsic element of society. The cultural sector employed 616,000 people directly in 2003, or about 3.9% of total employment, and, when the sector's indirect and other effects are included, over 1.1 million people in 2007. This is compared to 2001, when the cultural industries were responsible for directly employing 611,000 Canadians, or 4.1% of Canada's overall workforce (the natural resources sector employed about 600,000 Canadians in the same year)².

According to the Conference Board of Canada, in 2007 the cultural sector's "economic footprint" in Canada amounted to just over \$84 billion (\$84.6B), or 7.4% of the country's GDP.³ In 2005, Canadian consumers spent \$25.1 billion on goods and services from the cultural sector, as compared to the \$7.84 billion spent by all levels of government in 2005–06.⁴ Public funding of

the not-for-profit performing arts alone generates a return in tax revenue of 176%.⁵

In analyzing statistics covering several budget cycles, it can be established that the arts and cultural sector makes an important contribution to the Canadian economy; however, this is not the only reason why the federal government should prioritize its support to this sector. Inspiring Canada's youth through arts education, promoting innovation, and encouraging diverse modes of expression are equally important elements of a healthy society. The arts and culture sector has one of the highest rates of self-employment in the Canadian economy (25%) and includes many different lines of creative activities: from broadcasting to book publishing, to the performing arts, music and sound recording, film, video, and new media. The arts explore and celebrate our diverse and evolving collective cultural heritage, including the vital contributions of Aboriginal peoples and new Canadians.

Artists, creators, and arts professionals are deeply rooted in their communities and are regarded as living indicators of the quality of life within cities, towns, and villages. Moreover, in order to continue growing the Canadian work-

force and attracting skilled professionals from abroad, Canada must be a destination which provides a high standard quality of life through its arts and culture sector.

How the economic crisis has affected funding to the arts

Just preceding the current economic crisis, the federal government's spending on culture, measured as a percentage of GDP, was 0.3% lower than in 1999.⁶ Recently, the federal Government conducted several departmental reviews, either in the forms of formative, summative, expenditure, or strategic reviews. Of these, in 2007, 17 departments undertook strategic reviews of their programs and spending - amounting to \$13.6 billion, or about 15% of total direct program spending. The following list of departments/agencies identified savings to be redirected to new initiatives:

- · Canadian Food Inspection Agency
- Canada Revenue Agency
- · Canadian Heritage
- National Museums
- · Parks Canada
- · Statistics Canada
- Library and Archives Canada
- Department of Finance Canada
- Canadian International Development Agency and International Development Research Centre
- Foreign Affairs and International Trade

Upon completing the review process, cuts were made to several departments, over half of which relate to the arts and culture sector.

By the end of August 2008, over \$42 million of program and service cuts were made by the Department of Canadian Heritage and redirected to other government's priorities, like the 2010 Olympic Torch Relay. To these cuts, one must

add the \$4.7 million PromArt program axed by the Department of Foreign Affairs and International Trade.

Programs like the Canadian Independent Film and Video Fund and the National Training Program for the Film and Video Sector were eliminated, effective April 1, 2009. These relatively small programs (\$2.5 million in the latter case) have an important impact within the film and video sector and represent an important investment in the development of the Canadian creative economy.

Earlier last year, we learned of the Department's decision to put an end to the E-culture program (the Canadian Cultural Observatory, including culturescope.ca and culture.ca). To explain this decision, the Department maintained that the program had met its objectives and was no longer needed, given the current availability of search engines on the web. This move is one of many reflecting the Department's intention to consolidate its many web sub-sites into a megadepartmental site, as well as an intranet site for the use of departmental officials.

The Canadian Museum Association also reminds us of the cancellation of the Exhibition Transportation Service.

Another of the programs affected was the Canada New Media Fund, designed to further the development, production, and marketing/distribution of high-quality, original, interactive or on-line Canadian cultural new media works, in both official languages, at home and abroad. The New Media Fund was a decade-old grant and advance program administered by Telefilm but funded by the Department of Canadian Heritage, operating under one- and two-year renewals. This cut (\$14.5 million) brought the overall budget reductions in the cultural sector to \$60.6 million.

In light of the 2008 cuts to the arts sector, the AFB looks to the federal government to use the outcomes of the review processes to formulate more effective and efficient programs directed

at the following priorities, as mentioned by the previous Minister of Heritage during the last federal election.

What role does the federal government play in shaping what is happening as a result of the crisis?

The AFB will re-affirm the federal government's role in not only stabilizing the arts and culture sector, but also ensuring its continued growth. The AFB looks forward to a transparent process of progression, upon the recent completion of extensive reviews of culturally related departments and programs. In moving forward under the AFB plan, the federal government will be a leader in encouraging access to the arts and culture for all Canadians, to help develop markets abroad for our cultural products, and to integrate arts and culture in its foreign policy agenda. To do so, the federal government must refrain from devolving its leadership role to provincial jurisdiction, but instead work in close cooperation to complement the assets of the provincial and municipal governments.

Arts and culture are rallying points for national identity, cultural diversity, and unified Canadian values. By fostering access to the arts to Canadians of all ages, geographic origins, ethnic backgrounds, and languages, the federal government can use arts and culture as a tool to achieve social stability, economic innovation, and an international profile.

How the federal government can provide stability to the arts and culture sector

There are four broad areas where federal investment must be increased in order to foster stability and growth within the sector as Canada encounters an economic crisis.

Culture and Communications

GENDER

Investing in culture and the arts is of benefit to women through expressing artistic and cultural identities.

Such an investment also benefits women employed in this sector. Two-thirds of women work in occupations traditionally held by women, such as nursing, teaching, sales, and clerical positions." Recruitment for training initiatives in all sectors should respect diversity of age, race, gender, and socioeconomic position.

Extending broadband connectivity and providing training and free access points is beneficial to women to promote inclusion in an increasingly technological world.

ABORIGINAL PEOPLES

Support for arts and culture is an essential tool in responding to the attempted extinguishment of Aboriginal culture through assimilationist policies throughout the history of Canada. The employment benefits are significant, given the high proportion of Aboriginal people within the arts community, and the unique perspective of Canada's Aboriginal artists is an essential part of Canada's unique contribution to the arts internationally.

There are approximately 200 First Nations communities identified by the federal government which do not have adequate internet facilities. Economic development, education, and the increasing role of the internet in linking Canadians across Canada are hindered by this lack of investment in connectivity.

Canada and the world

The AFB seeks to ensure the promotion of Canadian arts and culture internationally through audience and market development, and by bolstering resources to Canadians in our embassies and missions around the world in support of these efforts. Exports in the international trade of cultural goods in 2007 were just under \$2 billion, while imports were nearly \$4 billion. The resulting trade deficit was about \$2 billion. Programs like Trade Routes and PromArt must

and will be replaced with efficient initiatives to promote Canadian arts abroad, in order to secure a surplus in trade, as well as cultural diplomacy abroad.

In line with promoting Canada's arts and culture sector abroad for economic stimulus, there is also a strong need to invest in cultural diplomacy. In 1995, John Ralston Saul wrote that Canada's profile abroad is largely its culture: that is our image. That is what Canada becomes in people's imaginations around the world when the time comes for non-Canadians to buy, to negotiate, to travel. International attitudes toward Canada will already have been determined to a surprising extent by the projection of our culture abroad.8 In the 2007-08 DFAIT Report on Plans and Priorities, there is neither mention of a public diplomacy strategy nor of cultural activity. It is essentially an economic and military document. If cultural programs in the area of international trade and diplomacy continue to remain piecemeal and underfunded, Canadian public diplomacy will cease altogether, and Canadian culture will be in danger of fading silently away.9

Canada's next generation

Infrastructure for training the next generation of artists, creators and producers, particularly in the film, video, and new media areas was either cut or is in jeopardy, even though it is critical to the success of the creative economy.

There is also a significant issue of succession planning, which must be addressed by investment in training, knowledge exchange, and networking at all levels of institutional hierarchy. Change in the Canadian labour market as retirements among baby boomers become prevalent is occurring in all sectors of the economy. The cultural sector is but one area where recruitment, retention, and succession are time-sensitive issues where investments are needed. The AFB encourages the development of a national mentorship program to facilitate the transfer of

knowledge and skills to the succeeding generation of Canadians. Such a program is essential to maintain the dynamism of the Canadian labour force in the arts and culture sector and beyond.

Content for Canadians

Generation of Canadian content for all broadcast/ program distribution media — the Canadian Television Fund and other mandated investments by broadcasters and broadcast distribution undertakings — must continue to be cornerstones of the expansion of distribution platforms of all kinds.

Investments in major programs and institutions must be used as tools to produce content by Canadians, about Canadians, and for Canadians. The AFB supports initiatives bolstering multiplatform content creation and distribution, as well as increased infrastructure for new media. This should be reflected by the involvement of a diverse set of institutions, be they traditional or those developing in platform and media.

Returning to the need for a National Museum Policy, investing through agencies like the Canada Council for the Arts, and providing support for new media industries are all ways in which the federal government can provide stability and encourage sector growth.

Given the high returns on investment for arts funding, the Canadian Content items were included in the AFB Stimulus Plan. To further encourage economic stimulus through the arts, some of the expenditures were "front-end loaded."

Canadian partnerships

While the AFB contends that the federal government must be a bold investor in the arts and culture sector, we also commit the government to guiding partnerships with Canada's private and third sector. In order to secure infrastructure for the arts as well as innovation, projects must be spearheaded with the public good in mind, and make use of philanthropic resources from the private and public realms. Projects such as the National Portrait Gallery and the Museum

of Human Rights emphasize the need for shared responsibility among private citizens, corporate Canada, and governmental agencies. The AFB believes that a shared culture is reflected by a shared responsibility for the arts; therefore, increased investment and leadership on behalf of the federal government will be used as a stepping stone to point other agents of funding along this path.

The AFB will undertake:

- Promotion of Canadian artists and cultural materials internationally —
 - a. to be implemented through programs replacing Trade Routes and PromArt: \$30 million a year;
- 2. Next Generation Training programs in areas of new media, broadcasting, arts, and in succession planning: \$22 million a year.¹⁰
- 3. Canadian content: Investing in significant programs as tools to produce strong Canadian ontent (included in AFB Stimulus Plan)
 - a. Canadian Television Fund: \$150 million (with \$150 million matched funds from private sector for a total impact of \$300 million);
 - b. New Media Fund: \$14.5 million a year;
 - c. National Museum Policy: \$75 million.

Communications

Canadians have always known that communications networks are essential to social and economic development. In the past, Canadian telephone service was world class. To make sure distant, hard-to-serve areas were connected, telephone providers operating in lucrative urban areas were required to participate in cross-subsidization programs. In addition, the importance of telecommunications to national sovereignty and security was acknowledged by establishing Canadian ownership requirements for telecommunications providers. Over the last two

decades, however, telecommunications policy has been increasingly driven by an industrial strategy linked to technological innovation and competitiveness. As a result, regulations were dismantled, and with them a national vision of the importance of the sector to Canadian identity and prosperity.

This policy direction is not having the intended results. A recent review of telecommunications policy found that "Canada has not remained at the leading edge of development and deployment in the two key growth areas of the telecommunications sector — broadband and wireless." According to the most recent OECD report, over a five-year period Canada has moved from 2nd to 10th place on the list of connected nations, with only 26.6 broadband subscribers per 100 inhabitants. Survey after survey shows Canadian broadband quality and access falling behind countries in Europe and Asia.¹³

In order to re-establish its position nationally and internationally, Canada needs a national strategy that promotes social and economic development by expanding broadband connectivity nationwide. This will require substantial infrastructure investments under the *Building Canada Fund*. ¹⁴ In addition, it will require new investments in community-based programs that help Canadians make effective use of the new technologies and an ongoing process of consultation that ensures that the diverse needs of communities are met.

Extending Broadband Connectivity

"Canadians increasingly recognize that broadband is not simply a 'nice to have' technology. It is a fundamental requirement for many smaller communities and the prosperity of Canada as a whole," says Infrastructure Canada's *Building Canada Fund* background paper. However, abundant broadband capacity at affordable prices is still a distant dream for 3.5 million Canadians. In 2007, 37% of Canadian communities, many of them in rural and remote areas, were still unserved by broadband.¹⁷

The mis-classification of low bandwidth connections as "broadband" is also a problem. Many communities currently classified as having access to broadband connections need to be upgraded if they are to make effective use of many Internet applications. Further to this, if we want to compete in the global economy, Canadians will need to be able to provide content (upload) as well as download at high speeds.

To improve Canada's declining public telecommunications infrastructure, starting in 2009–10, and over a period of five years, we will invest \$2 billion from the *Building Canada Fund* in a pan-Canadian infrastructure project to extend broadband connectivity beyond its current boundaries. The goal of this strategy is to ensure that every Canadian has access to sufficient broadband to allow effective participation in the social, political, and economic life in the 21st century. While much current infrastructure needs to be revisited, connecting rural and remote populations will be a priority.

As well as helping rural communities connect, broadband expansion can also provide economic stimulus in rural areas. Given the job creation potential of this type of expansion, rural broadband expansion was included in the AFB Stimulus Plan, with \$1 billion of the five-year investment occurring in the first two years.

In the communications world, today's fast lane is tomorrow's slow lane; so a National Inclusion Strategy does not end when all communities are connected. Technologies are constantly evolving. Our strategy recognizes that a long-term commitment is required to become once again one of the world's most connected nations.

Supporting a National Public Access Program (NPAP)

Once access to broadband connections is established, there can still be many barriers to the effective use of these new tools. Among these

barriers are: low income and education levels, 19 language and cultural concerns, and literacy and disability issues.

The National Inclusion Strategy will expand federally-supported programs directed towards those with limited access and ability to use the technology. The national network of 3,500 community technology centres that help more than 100,000 people per day²⁰ to incorporate new technologies into their lives will form the backbone of the NPAP. These sites and their young facilitators, along with a legion of volunteers, provide job search and software training, technology literacy programs, access to community services, and cultural integration opportunities. They partner with the local private and public sector to provide services and experienced personnel in many different areas — from film editing to website building. Along the way, thousands of young people gain valuable job experience. Both internal and external evaluators have agreed that this very cost-effective program has been a success story for years.21 In this budget, support for existing centers will be expanded and a program to restart funding for new centres will be established.

The following are examples of needed enhancements to the existing program:

- Double the available funding for equipment and make funds for new equipment available once every five years.
- Ensure the equivalent of one full-time youth intern per year per site and add an additional 1% to funds available for intern training.
- Increase from 10% to 15% the amount that may be budgeted for site administration.
- Replace single-year with multiyear funding contracts to enable site administrators to plan their programs and find local partners.

In the process of establishing new centres, rural and remote areas will be assessed inde-

pendently from urban areas, recognizing the differences in their requirements.

We will invest \$250 million over three years to support new and existing NPAP sites.

Community Consultation

The National Inclusion Strategy recognizes that there is a great deal of variation, both in terms of connectivity and community support requirements, in different locations. To be effective, it must be flexible and provide local solutions to local needs. Above all, this program must be community-driven — with communities defining their requirements and the strategy needed to support them. A process of ongoing and wideranging consultations with local stakeholders will ensure that all regions, rural, remote and urban, are connected and receive the support needed to make effective use of broadband connectivity.

A sum of \$750,000 will be set aside to research and verify community broadband connectivity and support requirements.

Notes

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- 5 Statistics Canada. (2005) Economic Contribution of Culture.
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- 8 Maxwell, Rachael. (2007). *The Place of arts and culture in Canadian Foreign Policy*. Ottawa: Canadian Conference of the Arts, p. 22,23.
- 9 Maxwell, p.34.
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- 12 Telecommunications Policy Review Panel. (2006) Final Report. Chapter 1. Industry Canada. http://www.telecomreview.ca/epic/site/tprp-gecrt.nsf/en/rx00055e.html
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Ensuring Women's Equality

In this time of global economic crisis, the Government of Canada will be carefully weighing its response to protect Canadian domestic interests. Recent budgetary and policy measures suggest that the government's domestic interests are focused on shrinking the role of government, offering tax cuts and credits to ease the financial burdens of those who need it least, and fraying the social safety net on which so many Canadians rely.

In the mid-1990s, the federal deficit was eliminated on the backs of women and the poor. Social Assistance rates were slashed, federal spending was cut, and women and women's equality in Canada suffered greatly for it. The government's response to the economic crisis must take into consideration women's equality rights to best protect Canada's social security. The Alternative Federal Budget will ensure that an economic attack on women's economic security, as seen in the mid-1990s, will be avoided.

Women make up the largest share of the precarious and part-time work force, where jobs are most likely to be cut in times of recession. In 2004, 27% (over two million) of the total female workforce were part-time employees, compared with just 11% of employed men. Women account for about seven in 10 of all part-time employees, and are more likely than men to work part-time due to care-giving responsibilities.¹

Women's incomes for full-time employment are lower than those for men. In 2003, the average annual pre-tax income of women aged 15 and over from all sources was 24,400, just 62% the figure for men.² Women tend to be over-represented in the service sector where, in most cases, benefits and severances packages are non-existent. As governments ponder multi-million-dollar bailouts for the private sector, many women are unable to make ends meet and are bearing the brunt of this economic crisis.

The current government inherited a surplus of \$13 billion, which has been eliminated in the past two years through tax cuts and credits that are of no benefit to 38% of women in Canada because their net income is too low to be taxable.³ This government has not initiated any significant social investment targeted to support those who need it most. In response, the Alternative Federal Budget will invest \$20 million in developing a federal gender-responsive budgeting strategy to

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best consider the national budget and financial policies for their differential impacts on women.

As a signatory to the United Nations' Committee on the Convention on the Elimination of All forms of Discrimination Against Women (CEDAW), Canada has an obligation to uphold equality rights in policy-making. During Canada's last review in October 2008, the CEDAW committee raised concern about Canada's lack of accountability around the implementation of CEDAW recommendations. The AFB will introduce rigorous gender-based analysis in all departments. It is crucial that this analysis be accountable to a body that is at arm's-length of government. The AFB will invest \$3 million in a Gender Equality Commissioner to ensure that policies do not discriminate against women, but rather work to advance women's equality as per the recommendations made by the CEDAW Committee.

The AFB will also invest \$25 million to strengthen Status of Women Canada and to support women's organizations to conduct civil society gender-based analysis on policies to inform government analyses.

In an unprecedented move since Canada ratified CEDAW in 1981, the CEDAW Committee requested that Canada report back in one year on issues that were of particular concern to Committee members: the alarming rate of missing and murdered Aboriginal women in Canada, and impoverishing social assistance rates that in no way reflect the real cost of living.

In response, the AFB will invest \$20 million in an independent inquiry on the missing and murdered Aboriginal women. While such a comprehensive inquiry is expected to take more than a year, it will help to inform the Government of Canada's one-year report to the United Nations CEDAW Committee.

Welfare rates have been dropping across Canada. Women make up 55% of welfare recipients. Between 1989 and 2005, the cost of living rose 43%, close to Statistics Canada's Low-Income

Ensuring Women's Equality

ABORIGINAL PEOPLES

Aboriginal women are doubly affected by discrimination from both gender and racial perspectives, resulting in the highest rates of poverty, unemployment, and criminal victimization. The tragedies of missing Aboriginal women and the lack of efforts by police at various levels to address this situation is a national disgrace.

Efforts by the Government of Canada to address matrimonial real property rights have ignored the views of Aboriginal women and fail to deal with the root causes of the situation or provide practical and meaningful solutions.

Cut-Offs (LICOS). In 2006, welfare incomes of single women were, on average, 40% of the poverty line and 61% for women with a disability.⁴ This has led to incredible inequalities for women in Canada.

The Alternative Federal Budget will invest \$20 million in a Commission to revisit the current federal/provincial/territorial arrangements regarding Social Assistance and, in consultation with women's and anti-poverty organizations and the National Council of Welfare, will propose adjustments to current welfare rates. The rates will be subject to national standards via the Canada Social Transfer so that rates meet the real costs of food and housing. Governments will be responsible for publicly reporting social assistance rates and eligibility requirements to ensure that standards that reflect international obligations are kept.

The AFB will look to strengthen the pre-eminent women's equality agency, Status of Women Canada, by investing \$25 million to increase its capacity, re-open recently closed regional offices, and support the work of women's organizations to research, advocate, and lobby for women's equality and the full implementation of the CEDAW Convention.

Notes

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Health Care

Canadian support for Medicare remains very high, in contrast to very low public expectations that governments will act to protect and even expand our universal health care system. This crisis in confidence is reinforced by fears that a weakening domestic and international economy will be used to justify ideologically-inspired cuts to health care and other public programs that determine health, such as housing and education.

A strong economy is essential to a strong and viable health care system. At the same time, health care is a significant economic engine. It is the third largest sector of the economy, employing more than one in 10 Canadians, the overwhelming majority of whom are publicly-employed. In addition, public health care expenditures are responsible for spin-off jobs that employ workers in many other sectors. For example, public hospitals are large institutions that purchase a wide range of services and goods, including pharmaceuticals and technology. They engage local businesses in infrastructure renewal. The public administration of health insurance is efficient and reduces the cost to employers of private insurance for their employees.

Moreover, public health care is one of the most important bulwarks protecting the population from the current economic crisis. According to the *Wall Street Journal*, for example, "illness was the chief cause for up to 15% of Freddie Mac's delinquencies" in the United States during 2008, as families were forced to choose between health care and mortgage payments (*Wall St. Journal* November 25, 2008). In this moment of crisis, it would be irresponsible for the Canadian government to abandon Medicare to the forces of private capital. Rather, we need targeted measures to protect and even expand Canada's public system.

These measures include, but are not limited to the following.

Stopping and reversing the privatization of our health care system

The federal government's financial contributions to provincial and territorial Medicare programs support high national standards by redistributing tax dollars equitably across the country for health care. The Canada Health Act established the terms and conditions under which provinces and territories qualify for federal cash transfers. In

simple terms, the principal enforcement mechanism within the Act is "no compliance, no cash."

In 2004, the federal government committed \$41 billion in cash transfers for health care over 10 years. This included an investment of \$4.5 billion to reduce wait times in five target areas (cancer, cardiac, diagnostic imaging, joint replacement, and sight restoration). In fiscal 2006–07, Ottawa's cash transfer to the provinces and territories for health totalled \$20.1 billion, estimated at 8.5 cents of each tax dollar. (This compares to 7 cents per taxpayer dollar for the Department of National Defence.)¹

Regardless of questions about the adequacy of these amounts, the expenditure is undermined by the absence of federal leadership at the policy level. There has been a significant increase in regional disparities and rising inequities in access to health care based on income, culture, location, sex, age, and health status. This is in direct violation of both the principles and the letter of the Act. At the same time, the use of forprofit providers is increasing the cost of health care for public payers, leading to de-listing, an erosion of wage and living standards for health care workers, and decreased access, particularly to outpatient services. Evidence shows that the use of for-profit surgical and diagnostic facilities has worsened wait times, and created a disincentive among provinces to invest in hospital and community health infrastructure.

Private surgical and diagnostic clinics draw both human and other resources from the public system, including nursing and other non-medical staff, thereby crippling the ability of the public system to respond to patient needs in a timely manner. In addition, physicians who work in both public and private systems often leave their patients to wait longer in the public queue in order to provide care to patients willing and able to pay. A recent study by the Ontario Health Coalition found many examples of illegal fees being charged by private surgical and

diagnostic clinics across the country to enable this kind of queue-jumping.

The Alternative Federal Budget ensures that the Canada Health Act will be enforced and that the remaining four years in the current ten-year agreement among federal, provincial and territorial governments will include conditions on federal cash transfers for health. A key condition is that cash transfers will go to non-profit providers to supply medically necessary rehab, surgical, and diagnostic services.

To ensure that provincial and territorial health insurance plans enhance equity, a moratorium will be imposed on the delisting of medically necessary hospital services, as defined by the federal Minister of Health in 1995. Such a moratorium will be tied to federal transfers and will enable provincial and territorial governments to develop proposals to expand current coverage under the public system.

A new agreement on wait time reductions will be negotiated to support a coordinated strategy employing better management techniques to reduce wait times within the public system. The strategy will link federal transfers for wait time reductions to the use of non-profit and publicly-funded providers.

Responding to the acute shortage of health care workers

The public health care system continues to face the effects of acute shortages of health care workers. As the Alternative Federal Budget has said in the past, the wait-times issue is, in fact, a labour issue. To strengthen public health care, we must have a strategy to expand the supply of health care workers. Too many workers are leaving their professions because of overwork, understaffing, and poor working conditions. Too few workers are being trained and welcomed into the system. Many workers are not able to use their skills to their full competencies, and the skills of internationally trained workers are not recognized.

Other workers find it impossible to find job-laddering training possibilities in their workplaces.

The shortage of health care workers is a national issue, especially in First Nations communities. Severe gaps in services exist in First Nations communities, and First Nations peoples are underrepresented in all health care fields, compared to the general population. The numbers of First Nations students in health education programs in universities and colleges is increasing, but there are very few First Nations doctors, and even fewer First Nations faculty in universities. The different jurisdictions in health are a complication when discussing health education and accreditation. Post-secondary health education programs are starting to incorporate First Nations cultural safety, but there is still work to be done.

The AFB will dedicate resources out of the Employment Insurance fund (\$200 million each year over the next three years) to pilot a job laddering program for health care workers who are already working in health care, but who need either training or a clear path toward recognition of their international credentials. Health care worker retraining is combined with other EI worker retraining in the AFB Stimulus Plan for a combined total of \$600 million per year.

These spending measures are also highlighted in the EI chapter. This will develop the potential of the health care labour force and ease the shortage of health care workers within the public system.

AFB resources will be directed beyond the current fiscal year to expand seats in medical and nursing programs and other health professional programs. The AFB will continue its grant to pay 50% of tuition fees up to \$5,000 per year based on financial need. The AFB will give priority to institutions committed to reducing their fee structures. \$100 million in 2009—10 and 150 million in 2010—11 will be devoted to health care professional education.

Attention will also be paid to working with provinces and territories to determine benchmarks for adequate staffing ratios across the range of health professions and occupations.

Strengthening Medicare to include long-term care and home care

We are facing a crisis in long-term care which is going to get worse if governments do not provide public solutions. Long-term care has been handed to private firms. These firms are not interested in providing services in smaller, rural, and remote areas. Meanwhile, not-for-profit home care providers must increasingly compete with for-profit corporations, to the detriment of good jobs and patient care.

In both sectors, jobs are being replaced by contingent, part-time, low-wage jobs, or, in the case of home care workers, by a return to piecework where the workers don't even get paid for travelling time to clients or fuel for their cars. As a result, their actual rate of pay falls below the minimum wage.

Many immigrant health care workers, who are overwhelmingly women, are highly vulnerable to exploitation because of their working conditions and lack of access to citizenship rights, exclusions from labour and human rights laws, and the unjust practices of recruitment agencies.

Increasingly, women provide home care to family members on an unpaid basis because hospital stays are getting shorter. The problems of not planning for home care needs in the public sector are very clear.

Accordingly, the AFB will implement the Romanow Commission recommendations on the expansion of public health care. A new Home and Community Care Act will incorporate the principles of the Canada Health Act and establish national standards for the expansion of publicly-funded and publicly-delivered home care, long-term care, community health, dental, mental health and social services. Attention will be paid to special rural and remote needs.

The AFB will also set aside money for community organizations and unions to work together to develop a broad legislative agenda that will meet the needs of immigrant health care workers.

The removal of cultural and other barriers to health care among First Nations and Aboriginal peoples

It is clear that the health care system is not designed to meet the needs of First Nations and Aboriginal peoples, and that the ongoing shortage of human resources is making things worse. Although Canada as a whole regularly places among the top five nations in the world in terms of the United Nations Development Program's Human Development Index (HDI), the First Nations population was ranked 63rd under the HDI. This gap reflects a tremendous differential in the well-being of Native and non-Native people.

Access to health care services and differences in care for those receiving services also has a considerable impact on health status and mortality. First Nations have acknowledged that lengthy wait times pose a barrier to health services. But cultural barriers create further problems for First Nations people trying to access adequate and appropriate health care. The inclusion of First Nations activities and tradition into health care and health care practices has been shown to positively impact the use of health services.

Language and cultural barriers, high costs of health care, transportation, unavailable local services, and inadequate services are some of the barriers that must be addressed to begin to bring First Nations health care to a level comparable to that of the non-Native population. Jordan's Principle (see below) must be fully implemented, with the full involvement of First Nations in the process. The AFB Stimulus Plan takes initial steps in that direction with the full funding of the Kelowna Accord, which includes a major reinvestment in Aboriginal health infrastructure.

Jordan's Principle

Jordan's Principle honours a young First Nations child from Norway House Cree Nation, Manitoba, who was born with complex medical needs and languished in hospital for two years while the federal and provincial governments argued over who would pay for his at-home care. Jordan died in hospital, having never spent a day in a family home. Where a jurisdictional dispute arises around government services to a Status Indian or Inuit child, Jordan's Principle requires that the government of first contact pays for the service to the child without delay or disruption.

A national evidence-based public pharmaceutical program

It is time to extend the principles of Medicare and the Canada Health Act to essential medicines. Too many Canadians are denied access to essential medicines they require because of financial barriers. Canada needs a national drug plan that will be publicly-funded and administered, that controls costs, provides universal access, and ensures the safe and appropriate use of drugs. Pharmacare will cover essential drug costs in the same way that Medicare now covers the costs of hospitals and physicians.

Our current patchwork of public and private drug plans is inequitable, because obtaining coverage for drug costs is not determined by need, but by where you happen to live and work. The present system is also incapable of resisting the negative influence of pharmaceutical companies on cost and safety, and has not ensured that our use of drugs is safe and appropriate. The current rate of increase in drug costs is unsustainable.

In addition, the decline in the number of working Canadians covered by employer-sponsored supplementary benefits means that more and more people are struggling to pay for prescription medicines directly out of pocket. Like Medicare, Pharmacare will benefit all Canadians, be advantageous to employers, and bring our health care services up to the standard that

exists in almost every other developed country. A Pharmacare plan will benefit employers by moving responsibility for this expensive aspect of the health care of their workers to an equitable and cost-controlled public system.

The AFB commits to reopening serious discussions with the provinces and territories with the aim of establishing a universal public drug plan that will be cost-shared between federal and provincial governments and employers, and be based on a national formulary, independent evaluation, and bulk-purchasing. To protect the Pharmacare program, all direct-to-consumer advertising will be banned and brand-name companies will not be allowed to extend patent life on their products so as to restrict the availability of generic drugs. The AFB will devote \$900 million in 2009—10 and \$1,800 in 2010—11 to the creation of a national formulary in preparation for a more robust Pharmacare plan in the future.

Capital investment and health infrastructure

The AFB will create and fund a national health care capital investment program, in partnership with the provinces and territories. This new health care capital funding program will be integrated as ongoing core funding. An annual investment rate of 0.4% of GDP (less than the peak in the 1960s but approximately one-third higher than the average in the past 20 years) will provide sufficient funding to address current needs and to draw down the backlog of unmet needs.

The AFB will also tie all health care infrastructure funding to public, non-profit ownership, control, management, and operation of the facilities, equipment, and services. The current approach to private sector involvement in funding infrastructure through Public-Private Partnerships (P3s) or private finance mechanisms must be abandoned in favour of public financing approaches.

Health Care

GENDER

Women do not benefit from a two-tier health system that supports for-profit health care providers, but rather a strengthened publicly-funded system. Making federal transfers to provinces contingent on ending the use of for-profit health service providers is of benefit to women and their families. Women are less able to afford private services or receive health benefits from their workplace. De-listing of services from provincial health care and the high cost of essential medicines are detrimental to women's health and economic security.

Women are far more likely than men to assume caregiving roles for family members, in many cases leaving the paid workforce to do so. This has a profoundly negative effect on the economic security of the caregivers and their families at a time when they may already be faced with increased costs of medication and home care equipment.

Gender-based analysis is crucial in developing equitable policies. The analysis and advocacy policies outlined in this chapter are of benefit to women.

Public health

Tuberculosis remains a critical concern in many First Nations communities and other indigenous populations across the world. First Nations TB rates are 29 times higher than among the non-Aboriginal population born in Canada. This rate is driven by poverty-related issues, including overcrowded housing, food insecurity, and poor access to health care. Although programs have been designed to combat tuberculosis, indigenous populations globally have been left out of such efforts, due to cultural barriers, language differences, geographic remoteness, and economic disadvantages, to name a few.

Studies have shown that the increased incidence of Type-2 diabetes among Canadians, including among First Nations people, is linked to poverty. The Public Health Agency of Canada

has had a Diabetes Strategy aimed at prevention, but it is poorly funded.

Efforts such as the Global STOP TB Initiative (managed by the World Health Organization) should be continuously supported to help design and lead a strategy targeted specifically at reducing rates of tuberculosis among indigenous peoples globally. The AFB commits to supporting this initiative and will tie it to other poverty reduction strategies.

An active redistribution of wealth is an urgently needed health strategy. Accordingly, tax policies will be designed to ensure that wealth redistribution is a stated objective within a health strategy.

Gender and sex equality

In 2000, Health Canada unveiled its strategy to support a gender-based analysis in a document entitled *Health Canada's Gender-based Analysis Policy.* Since then, however, there has not been significant progress. The current government, in fact, has undermined some of the earlier gains, demanding that programs provide "value added" to its overarching policy thrust.

The Alternative Federal Budget takes into consideration the work of the Assembly of First Nations Women's Council, which developed a culturally-relevant and culturally-sensitive Gender Balanced Analysis (GBA) Framework in 2007. This GBA is working in a First Nations context, pursuing a "balanced approach" which is more aligned with First Nations culture and notions of egalitarian societies.

Not only should gender-based analysis (GBA) be implemented at the onset of any project or program, but budgeting for the GBA itself is essential, and the AFB commits to providing it..

The AFB also commits to funding women's advocacy groups which are active in both health and drug policy. (For more details, see the *Women's Equality Chapter*.)

Notes

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Housing

More than three million Canadian households are precariously housed. The roots of the current nation-wide affordable housing crisis stretch back two decades to funding cuts and downloading that gutted Canada's previously successful national housing strategy. That cost-effective strategy had delivered up to 20,000 good-quality, affordable homes annually in the 1980s. By the year 2000, the federal government was funding 1,000 new homes or even less annually.

The bad news is that even before the global economic tsunami washed over Canada in 2008, a record number of households were suffering; and many more will be swept into the housing abyss in the coming months. The good news is that the solutions — including new investments in affordable housing — are not only good for those who need a home, but they will deliver new jobs, boost other economic activity and even increase tax revenues for government.

Growing homelessness, growing housing insecurity

The most visible sign of deep and persistent housing insecurity are the hundreds of thousands of

people who are homeless in almost every part of the country. Less visible, but still feeling deep pain, are the millions forced to live in unaffordable, over-crowded and/or substandard housing. While the worst impact is among low and moderate-income households, even middle-income Canadians are finding it hard to find a place to call home in the country's private ownership and rental housing markets.

The nation-wide housing crisis has not only put more than one-in-four households close to the brink of homelessness, but it has triggered a profound health crisis. Poor housing is directly linked to poor health and premature death.³ Increasingly, business organizations are warning that housing insecurity and homelessness also puts a drag on economic competitiveness as workers — even those with reasonably good pay cheques — struggle to find a home.⁴

In 2006, the United Nations' Committee on Economic, Social and Cultural Rights called homelessness and inadequate housing a "national emergency" in Canada.⁵ This finding was confirmed by Miloon Kothari, the United Nations' Special Rapporteur on the Right to Adequate Housing, following his official fact-finding

mission in October of 20076. "There has been a significant erosion of housing rights [in Canada] over the past two decades," noted Mr. Kothari, the leading UN expert on housing issues. "Canada's successful social housing programme, which created more than half a million homes starting in 1973, has been discontinued."7 In the international tables on national housing investments, Canada has been slipping lower. The Organization for Economic Co-operation and Development reports that in 1980, Canada ranked number two among the dozen richest countries in the world for government spending on housing as a percentage of GDP.8 Canada dropped to third spot in 1985, fifth place by 1995, and seventh place by 2003 (the latest year for which figures are available.)

Affordability and supply: Two dimensions of the housing crisis

There are two important dimensions to Canada's housing crisis: affordability (housing that is too expensive for household incomes); and supply (not enough homes to meet the need). Some Canadians also need support services to help them find and maintain their housing. A comprehensive national housing strategy needs to include affordability, supply and support measures and also requires three other components: Repair and energy retrofit (to ensure existing housing meets proper standards); emergency relief (services and transitional housing for people who are homeless); and an on- and off-reserve Aboriginal component that ensure that Aboriginal housing is under Aboriginal control.

The high cost of housing is the single biggest expense for most low, moderate and middle-income households. In recent years, the cost of housing has grown faster than the rate of inflation in most parts of the country, even as incomes have been stagnant¹⁰. The cost of energy has risen even faster — putting an extra squeeze on already over-burdened households.

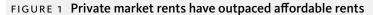
Federal erosion of housing policy and spending

The federal government began to cut housing spending in the mid-1980s, and then decided to cancel all funding for new affordable housing supply in 1993. In 1996, the federal government announced plans to download most federal housing programs to the provinces and territories—which left Canada as the only major country in the world without a national housing program. In 1998, the federal government amended the National Housing Act to erode the ability of Canada Mortgage and Housing Corporation to deliver new affordable homes. The government ordered CMHC to concentrate on commercial activities. Other programs and funding were also cut.

As the federal government slashed funding and programs, politicians hoped that the private ownership and rental markets would pick up the slack. Under the standard micro-economic theory, increased demand for affordable housing created by the withdrawal of federal funds would stimulate private developers to offer more homes. In the real economy, the theory turned out to be about half right. There has been a nearrecord level of new housing construction in most parts of Canada in recent years. But most of the new housing has been ownership — which leaves out the one-third of Canadians who rent. And the high cost of the new housing (both ownership and rental) has tended to drive up the cost of housing across the market.

Half of Canadians priced out of private ownership/rental markets

While low mortgage rates and a good supply meant that higher-income renter households were able to move into ownership, rapidly increasing shelter costs meant that an increasingly number of Canadian households were being priced out of the private markets.



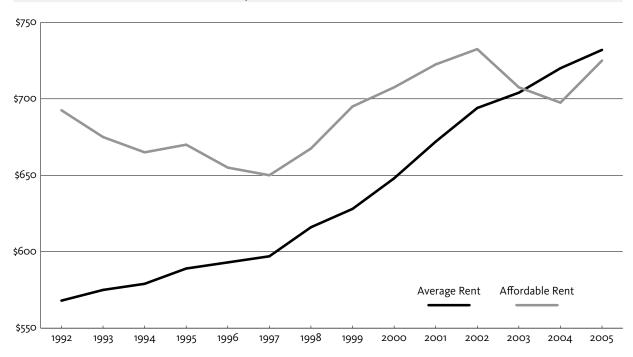
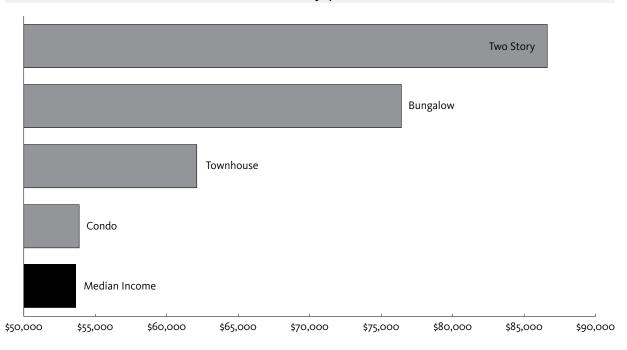


FIGURE 2 Median income for owner households barely qualifies for standard condo



By 2003, the average private market rent in Canada was higher than the income for half of the country's renter households. Renter household income has been mostly stagnant — and actually fell from \$29,300 in 2002 to \$29,000 in 2005. Yet private market rents have been increasing rapidly in recent years — faster than the rate of inflation. The affordability gap for renters — the distance between what a renter household can afford to pay (based on 30% of annual income) and the amount charged by private landlords — is growing wider, especially in the metropolitan areas where most renters live.¹¹

By 2008, more than half of all owner households were effectively priced out of the ownership market, according to RBC Economics. Half of all owner households had an income of \$54,000 or less (median income), yet RBC calculated that the qualifying income for a standard condominium was \$54,000 and the income required for a two-storey home was \$86,612.

As long ago as 1948, Humphrey Carver, one of Canada's most prominent housing experts, noted that "obviously the most convenient and economical way of providing the community with an adequate supply of decent accommodation is through the economic market for new housing." However, he noted that neither Canada, nor any other country in the world, was able to meet all its housing needs through private markets. He concluded: "it will be necessary to devise a means whereby a larger proportion of the national income may be directed into the production of housing. It will be necessary to supplement the supply of housing created by the private market."¹³ Over the next four decades, the federal government invested in affordable homes — following Carver's advice — to ensure that low, moderate and middle-income households had a place to call home. By the mid-1980s, however, his admonition was forgotten as federal politicians sought to cut spending and rely almost entirely on private housing markets.

Federal spending on housing stagnant

Canada's population has been growing, and the number of households precariously housed has also been increasing. But federal spending on housing has been mostly stagnant for the past two decades. The federal government spent about \$2 billion on housing spending in fiscal 2007–08. That's about 0.1% of Canada's GDP (a standard way to measure housing spending over time) — the lowest level in the past two decades. 14 There was a spike in housing spending in fiscal 2006-07, as the one-time allocation of \$1.4 billion authorized by the minority Parliament of 2005 was booked. One of the best ways to measure housing spending over time is to look at per person spending over the years as the population grows. On that score, the federal government is at its lowest level since the late 1980s.

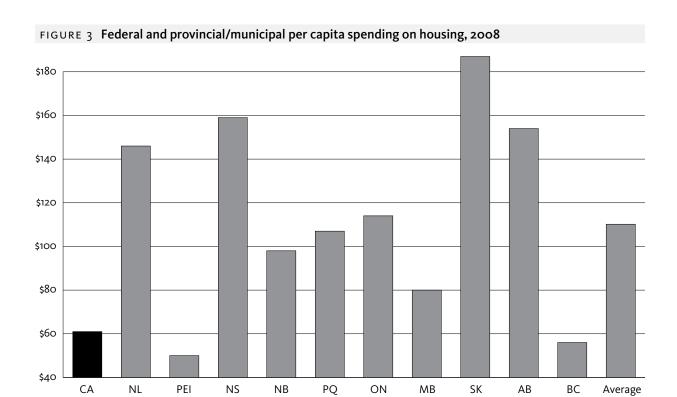
Not only is housing spending in Canada falling behind our international partners, but federal housing spending per person is about half the level among provinces and municipalities¹⁵.

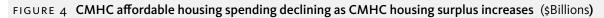
As housing insecurity began to rise during the 1990s, the federal government responded with a patchwork of funding and programs that is thinly financed and poorly co-ordinated.

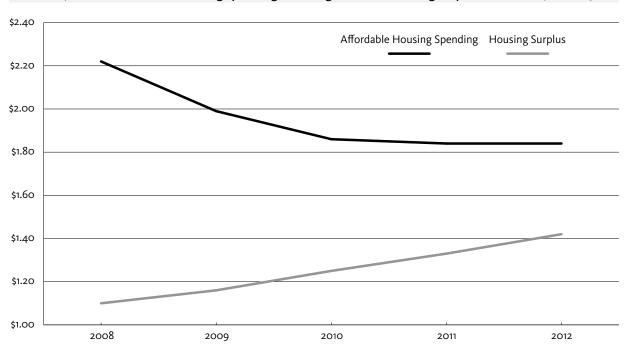
Emerging patchwork of funding and programs

In 1999, the federal government launched its national homelessness strategy in ten cities. By the fall of 2008, when the federal government announced a five-year extension of the program now called the Homelessness Partnering Strategy, the funding was spread among 61 communities. Large parts of Canada receive no homeless dollars, even though they have people who are homeless. The funding is frozen at \$135 million annually — basically the same level since 1999.

Also in 1999, the federal government ramped up spending on its national housing rehabilitation program (Residential Rehabilitation Assistance Program). RRAP funding was extended for







five years in September of 2008, with the dollars frozen at \$128 million annually.

In 2000, the federal government announced plans for a federal-provincial-territorial housing program that was launched in 2001 with \$680 million in federal dollars over five years—and matching dollars from the provinces and territories. Two years later, the federal government added \$320 million. However, the roll-out of the dollars has been uneven, as some provinces have failed to offer their share.

In the minority Parliament of 2005, the New Democratic Party convinced the governing Liberals to convert \$1.6 billion in corporate tax cuts into a new national housing fund. The new Conservative government decided to allocate \$1.4 billion in 2006 (even though it voted against the spending in 2005). That money was divided into housing trust funds under the control of the provinces and territories for off-reserve Aboriginal and non-Aboriginal housing.

The patchwork of funding and programs has helped to fund some new housing and services, but it hasn't stopped the overall erosion in federal housing spending. Looking over the next four years, Canada Mortgage and Housing Corporation projects that affordable housing spending will continue to decline. When the federal government started its download in 1996, it locked in place a steadily-increasing annual drop in housing spending. Over the next decade, federal housing funding will continue to decline sharply.

CMHC generating billion-dollar-plus surplus The 1998 decision to "commercialize" Canada Mortgage and Housing Corporation and reduce its housing commitments has led to a steadily rising housing surplus for the federal government's housing agency. The CMHC annual surplus is more than \$1 billion and is expected to climb to \$1.4 billion by 2012. None of this is reinvested in urgently-needed new homes.

The AFB housing plan

For the past decade, housing advocates and others have been calling on the federal government to invest an additional \$2 billion annually in housing. This is called the "One Percent Solution" and is based on the observation that in the mid-1990s, federal housing spending of \$2 billion represented about 1% of the overall federal budget.

The AFB plan calls for spending to be ramped up to an additional \$2 billion annually over the next three years. Affordable housing is among the most effective ways of providing stimulus to the Canadian economy in the face of the upcoming recession. As such, housing investments are accelerated in the AFB Stimulus Plan totaling \$2 billion immediately in 2009–10 and maintaining that level in 2010–11.

The AFB plan calls on the federal government to maintain its current investments so that the annual cut in housing funding—set in place in 1996—is reversed. In addition, the AFB plan calls for an annual investment of up to 50% of the CMHC operating surplus back into housing, which would generate \$500 million or more annually without additional spending.

The AFB plan would allow for:

- 10,000 new affordable homes (or more) in year one;
- 15,000 new affordable homes (or more) in year two;
- 20,000 new affordable homes (or more) in year three;
- Permanent and enhanced funding for the federal homelessness strategy;
- Permanent and enhanced funding for the federal housing rehabilitation program;
- A national energy retrofit program to allow low and moderate-income households to conserve home energy.

The new and reinvested funding would add up to \$7.5 billion over three years (\$2 billion a year in new housing funds and \$500 million a year in reinvested CMHC surpluses). That \$7.5 billion will generate almost double its value in economic activity and indirectly induce billions more in economic activity, along with tens of thousands of jobs. Every dollar invested in housing will generate almost two dollars in additional economic activity;¹⁶ and up to fifteen dollars in induced activity¹⁷. Every thousand units of new housing could generate 2,210 person-years of employment.¹⁸

Notes

- 1 Rea, Willa et al (2008), "Changing Patterns in Canadian Homeownership and Shelter Costs, 2006 Census", Ottawa: Statistics Canada, page 22.
- **2** Canada Mortgage and Housing Corporation (2008), "CHS Public Funds and National Housing Act (Social Housing), Ottawa: CMHC, table 52.
- 3 See, for instance, Marmot, Michael (2008), "Closing the Gap in a Generation", Geneva: World Health Organization; Canadian Population Health Initiative(2004), "Housing and Population Health", Ottawa: Canadian Institute for Health Information; Khandor, Erika et al (2007), "The Street Health Report 2007, Toronto: Street Health.
- 4 See, for instance, Drummond, Don (2003), "Affordable Housing: In Search of a New Paradigm", Toronto: TD Economics.
- 5 Committee on Economic, Social and Cultural Rights (2006), "Concluding Observations of the Committee", Geneva: United Nations' Economic and Social Council, paragraph 62.
- **6** Kothari, Miloon (2008), "Report of the Special Rapporteur on Adequate Housing", Geneva: United Nations' Human Rights Council, paragraph 6.
- 7 Ibid, paragraph 7.
- **8** All rankings from source OECD, Social Expenditures Database (2008).
- **9** See, for instance, Rea, Will op cit; and Engleland, John et al (2008), "The Dynamics of Housing Affordability", Ottawa: Statistics Canada.
- 10 Statistics Canada SLID data reports that median income for all households grew by 15% from 1997 to 2006, while median shelter costs for all households grew by 34% over that same period.

Housing

GENDER

Iln 2003, 72% of unattached women aged 65 and over who rented were considered to have housing affordability problems (more than 30% of household income spent on housing costs). Similarly, 42% of renter families headed by lone mothers had housing affordability problems, as did 38% of unattached female renters under the age of 65.

Women are more likely than men to experience housing affordability problems. Among unattached seniors who rented in 2003, 72% of women, compared to 58% of men, were considered to have housing affordability problems.

Among unattached homeowners under age 65, 24% of women, compared with 11% of males, had housing affordability problems.¹⁹

ABORIGINAL PEOPLES

First Nations communities have the highest rates of overcrowding and homelessness in Canada. Estimates indicate that there is a backlog of 87,000 new homes and 44,000 retrofits required to meet existing need. With the highest population rate in Canada, this need will only increase without immediate and significant investment, as put forward in this Alternative Federal Budget.

- **11** Renter income and average market rent numbers from Statistics Canada and Canada Mortgage and Housing Corporation.
- 12 RBC Economics (2008), "Housing Affordability", Toronto: RBC Economics
- 13 Carver, Humphrey (1948), "Houses for Canadians", Toronto: University of Toronto Press.
- 14 Housing expenditures from Statistics Canada, Government Revenues and Expenditures (2008 and previous years); GDP numbers from Statistics Canada, Economic Indicators (2007 and previous years); population estimates from Statistics Canada (2008 and previous years).
- 15 Housing expenditures for provinces and municipalities from Statistics Canada, Government Revenues and Expenditures (2008).

- **16** Informetrica Multiplier 1.76 for Government Infrastructure like Affordable Housing
- 17 Oregon Housing and Community Services (2005), "Housing As An Economic Stimulus", Salem: Government of Oregon.
- **18** Clayton Research Associates (1993), Economic Impact Analysis of Investment in Co-operative Housing, Toronto: Co-operative Housing Association of Ontario.
- 19 Women's Inequality in Canada: Submission of the Canadian Feminist Alliance for International Action to the United Nations Committee on the Elimination of Discrimination against Women on the Occasion of the Committee's Review of Canada's 6th & 7th Reports, September 2008

Immigration

The changing Canadian demographics Statistics Canada Census reports have long revealed that immigrants to Canada have been increasingly from countries other than the U.K., France, or any Northern European country.

In 1986, the Census found that nearly 16 million Canadians had roots other than British or French. Not a surprise, really, given that since the 1970s our immigration policy has focused on granting permanent residency to largely racialized immigrants from the global South. Back then, 70% of new Canadians hailed from Asia, Latin America and the West Indies.¹

More recently, and according to annual publications from Citizenship and Immigration Canada between 1997 and 2006, immigrants to Canada were more likely to come from countries other than the U.K., France, or any Northern European country, for that matter. The 2006 Census figures confirmed that 83.9% of the immigrants who arrived between 2001–06 were born in regions other than Europe. Statistics Canada also pointed out that 75% of the immigrants arriving during this period were racialized.² (This is the contemporary version of terms such as "visible minority" or "persons of colour".) Today, rough-

ly 80% of the annual numbers of immigrants to Canada originate from the Mid-east, Asia, and the Pacific regions of the world.

That contemporary immigration flows are increasingly coming from diverse ancestries and are predominantly racialized individuals is an important public policy consideration.

Immigration is extremely important to this country, not least of all because we have an aging population and a declining birth rate. According to the 2006 Census, the number of people aged 65 and over increased by more than 446,700 compared with 2001 (+11.5%), topping the 4 million mark for the first time (4.3 million). This is nearly four times as many seniors as in the first quinquennial Census in 1956.

Within a decade, some 8 million individuals, or one in five Canadians, will be in their retirement years. With over 17 million currently in the labour force, the impact of this demographic reality will be dramatic. Indeed, in 2007, Statistics Canada projections showed that immigrants are likely to be the primary source of population gains by 2030.³

Canadian immigration policy

There are three categories under which people can enter Canada: Economic, Family, and Refugee. In 2007, out of a total of 236,758 immigrants, 55% were in the Economic class, followed by Family class (primarily women) at 28%, Refugees at 12.%, and Other 5%.

Immigrants are highly credentialled individuals. Statistics Canada 2006 data show that close to one-third of immigrants are university graduates, compared with 23% of the general working-age population. Furthermore, there has been a huge jump in qualifications of the newest arrivals, with more than half of those who came between 2001–06 holding university degree. Immigrants now account for close to half of all those in Canada who hold a Ph.D, and 40% of those have Masters degrees.

Canada is fortunate to receive such a large number of highly credentialled newcomers. Our economic viability benefits from newcomers who are well positioned to contribute to a "knowledge-based" economy. However, the economic experience of immigrants and newcomers suggests we are underutilizing their skills and talents, with dire results.

Of the nearly one in three (30%) of Canadians living in low-income situations between 1995 and 1999,, immigrants accounted for 22% of them, compared to just 11% of non-immigrants. This inequity accentuates a grave injustice.

Canadian attitudes toward immigration and immigrants

Canadians are often portrayed as having a national culture that embraces diversity and celebrates multiculturalism. But many, especially in the settlement sector, have always suspected that in practice Canadians harbour an ambivalent attitude to immigration.

This was confirmed by a Strategic Council poll in 2005 which found that, while 46% of Canadians were generally in favour of the then-government's policy, 40% of those surveyed expressed the view that immigrants from some countries "make a bigger and better contribution than others." The breakdown is disturbing: almost 80% claim that European immigrants make a positive contribution, the number falling to 59% for Asians, 40% for Indians, and plummeting to 33% for those from the Caribbean.

As false as this perception is, it is clear that racism continues to thrive in the immigration discourse, but is not confronted enough. Increased federal spending is needed for aggressive antiracism educational initiatives and the speedier integration of immigrants into the labour force at levels commensurate with the level of skills and experience they bring.

How are immigrants faring economically?

A major stumbling block for immigrants is being able to have their international education, credentials, skills, and experience fairly recognized. The pattern has been bold statements made to change this situation, followed by inadequate federal resources and commitments.

A 2008 Statistics Canada study of economic gains over a 25-year period (1980–2005) found that a significant economic equality gap persists for immigrants. Immigrants are twice as likely to earn significantly less than their age peers, despite having higher qualifications. A recent male immigrant with a university degree earns 48% of that of his Canadian-born counterpart. Furthermore, 10 years or more are required for this cohort to reach wage parity with their Canadian-born peers.

Although the Conservative government had promised to create a *Canadian Agency for Assessment and Recognition of Credentials*, to provide "pre-assessment of international credentials and experience." the reality has been to merely establish a Referral Office with a much reduced budget of \$6.4 million instead of the original \$18 million. The diminished role of the Refer-

ral Office means rather than efficiently assessing and recognizing newcomers' credentials, the underfunded agency will in effect be a revolving door and merely refer newcomers to one of the existing 400 professional regulatory doors that assesses their credentials.

Canada's labour force is tremendously dependent on immigration for both labour force and population growth. Failing to ensure that highly-credentialled, and not incidentally racialized newcomers are working at good jobs commensurate with their abilities is nothing short of colour-coded economic folly for the nation.

The AFB will reinstate the original Canadian Agency for Assessment and Recognition of Credentials and increase its budget to \$70 million over two years. The AFB will further assure that the agency's initial mission is maintained.

The large cohort of under-utilized immigrant talent with international training and skills that include building bridges, transport and social infrastructure systems can both build their lives and contribute to building the country.

The AFB will reorient existing funding to target programs involving settlement agencies, labour unions, and municipal governments that will inventory and match the skill sets of internationally trained civil engineers, architects, biologists, health care and construction workers with the representative jobs associated with public infrastructure renewal and expansion.

Temporary workers

There has been a lopsided and excessive investment in flawed immigration/labour market programs such as Canada's Temporary Foreign Worker Program (TFWP). Federal Budget 2007 directed more than \$84 million into Canada's Temporary Foreign Worker Program, an amount that was 12 times the meagre \$6.4 million budgeted for a Foreign Credentials Referral Office. The skewed financial allocations are compounded by significant problems with this program. La-

Immigration

GENDER

Women's immigration to Canada is, for the most part, dependent on the successful admittance of male partners or relatives.

Women are a third as likely as men to be admitted to Canada as the principal applicant in the economic class for immigration (skilled workers and business immigrants).⁸

Only 10% of economic immigrants are women, while 37% of all immigrant women are classified as "spouses or dependents" of economic immigrants. Of all immigrant women, 36% are family class immigrants sponsored by close family members in the economic class.9

10% of all immigrant women are refugees.10

bour, faith, and migrant worker advocacy groups, among others, have documented numerous cases of unethical recruitment practices, exploitative brokers, numerous and extreme wage/working condition violations, and a comprehensive absence of compliance, monitoring, and enforcement mechanisms. Since 2006, the federal allocations to this program have made things much worse — not better.

According to CIC's statistics, 112,658 workers were admitted to Canada on temporary permits in 2006, a 13% increase from 2005. By the end of 2007, the number had jumped to over 200,000. Considering that in 2007 the total number of permanent residents was just over 230,000, this dramatic rise in TFW's numbers represents a massive shift away from permanent residency to temporary status.

In addition, "temporary" has come to mean two-year stays that are often extended at the request of employers who can benefit from the lax regulatory environment that ensures worker rights are not respected. The data also show that lower-skilled workers make up a significant proportion of the migrant work force. Clearly, these workers are filling a permanent labour shortage. Canada's Temporary Foreign Worker program has strong notes of being a Transitional Worker Program for many migrant workers, who must endure years of what can often be essentially indentured servitude.

The Temporary Workers Program represents a deeply flawed shift towards an immigration framework that wrongly promotes temporary residency rather than permanent residency status for newcomers. Canada must not abandon its commitment to embracing newcomers as permanent residents, and it must certainly not resort to temporary permits as the primary solution to labour market renewal, because it creates a class of vulnerable and disposable workers. As a country reliant on immigration for its development as a nation, and for population and labour force growth, Canada needs to have budgetary and policy resources to enable newcomers to contribute their full potential to our economy and communities as full and equal citizens.

The AFB will place a moratorium on parts of the Temporary Foreign Worker Program (TFWP), particularly initiatives since 2006 that have been fast-tracked for employers' benefit (E.L.M.O.), and the low-skilled pilot initiatives. Instead, the AFB will commence a comprehensive assessment of other TFWP categories, such as the Live-In-Care Giver Program and the Seasonal Agricultural Program, in order to assess the consequences of the program. As well, the AFB will implement a clear and efficacious path for all classes of migrant workers who wish to apply for permanent residency status.

Finally, the Afb will end immigration policies that perpetuate gender and class inequity. The Tfw program, the Live-In-Caregiver program, and the recently introduced Canadian Experience Class (CEC) are clear setbacks to an equitable immigration system in Canada.

The Canadian Experience Class initiative only gives highly skilled temporary foreign workers and some international students the ability to apply for permanent resident status based on two years of work. This means their employer has an overly strong role to play in affirming or negating the newcomers' application for permanent residency status.

Similarly, there are many documented cases of abuse of workers who came to Canada under the Live-in-Caregiver program, 95% of whom are women. Because they need to be employed for two years before applying for permanent residence, they are often reluctant to complain about abuses for fear of losing their jobs and therefore their chances of gaining permanent status.

The CEC initiative has a further gender dimension. Men generally have better access to higher education than women, especially those from countries in the Global South. Immigration statistics for 2006 show that 51.1% of men coming to work on temporary work permits qualify for CEC due to their higher skill levels, while only 22% of women with temporary work permits qualify. The CEC thus discriminates against women.⁷

The same can be said about people from underprivileged classes who do not have equal access to formal education and therefore do not fit into the categories of the CEC. Yet their competencies are needed in Canada, as the large annual flows of temporary workers demonstrate. People considered "lower skilled" are recruited by employers in Canada and often find themselves working in significantly worse conditions than workers with permanent status.

For instance, more than 20,000 agricultural workers come every year to work on temporary permits on Canadian farms. These "temporary" workers leave their families and in some cases return for years to work for the same employer, spending between four and eight months a year in Canada. Even though they spend years working in Canada, they cannot acquire permanent status because of the "low-skilled" nature of their work.

The AFB will allow those entering Canada on temporary work permits, no matter the cat-

egory, to apply for permanent residence. New immigrants should universally have the right to bring family members.

While the demographic need to improve labour market integration for immigrants is clear, it would be a mistake to forget that immigration policy is also about nation-building and the humanitarian reasons why people decide to emigrate.

Notes

- 1 Action, Access Diversity: A guide to multicultural/antiracist organizational change December 1991 Section 1. A
- **2** *The Daily*, "2006 Census: Ethnic origin, visible minorities, place of work and mode of transportation" April 2, 2008
- 3 Globe and Mail, "All immigration by 2030" March 14, 2007
- 4 Globe and Mail August 12, 2005 Page A6 (personal archives)

- 5 Minister Diane Finley, Speaking notes for The Honourable Diane Finley, Minister of Human Resources and Social Development public policy forum conference, "Integrating Immigrants: Building Partnerships That Work" Toronto march 19, 2006
- 6 Department of Finance Canada Budget 2007, "Chapter 5-A stronger Canada through a stronger Economy: Knowledge Advantage." NB: In addition to the 50.5 million over two years for the TWFP a \$33.6 million allocation was made via CIC to improve the security side of the TFW program for a grand total of over \$84.1M. Budget 2007 by comparison allocated \$6.4 million to annual operation of the FCRO.
- 7 http://www.ccrweb.ca/documents/CECcomments.pdf
- 8 Statistics Canada. March 2006. Women in Canada: A Gender-based Statistical Report, 5th edition. Ottawa.
- 9 Ibid.
- **10** Ibid.

Poverty Reduction

A decade of blistering economic growth in Canada has just ended, leaving behind a dramatically widened gap between the rich and the rest of us.

This is the first time in almost a century that such strong, sustained economic growth did not result in widespread prosperity for the majority of Canadians. Instead, the lion's share of the gains went to the most affluent.

Many Canadians head into the 2009 recession with little or nothing to fall back on. Canadians' average savings rate plummeted from \$7,600 a year in 1990 to \$2,000 in 2008.² Average total debt load per household is up by 71% in real terms between 1990 and 2008. Average household debt, at \$90,700 in 2008, represents a record 140% of disposable household income, compared to only 91% in 1990.³

If the federal government does not act swiftly and decisively, the economic fragility of Canadian households, businesses and communities could quickly accelerate into one of the deepest and most protracted periods of economic turmoil Canada has faced.

Millions of Canadians are at risk of losing their job, their pension and their home. The economic landscape is about to be littered with mortgage foreclosures, credit card defaults and personal bankruptcies, causing the downward spiral to continue. That process has already begun: consumer bankruptcies shot up by 23% between October 2007 and October 2008.⁴

This will only add to the millions of Canadians already struggling. Despite record low unemployment, Canada's poverty rate has decreased only minimally since the start of the decade, and has yet to reach the low-point attained prior to the recession of the early-1990s.

In 2006 (the most recent data available), 10.5% of Canadians — over 3.3 million people — were living in poverty (below Statistics Canada's low-income cut-off after-tax). Using the federal government's Market Basket Measure, the 2006 poverty rate is even higher, at 11.9%.⁵

Poverty remains particularly persistent among racialized communities, Aboriginal people, people living with disabilities, recent immigrants, and single parents. Women's incomes are systematically lower than those of men, in any group.⁶

Sustained poverty saps energy, health, and innovation out of individual lives and whole societies.

The blight of poverty has been ignored in the past decade, which comes at great cost. The cost of poverty is estimated at a staggering \$32 to \$38 billion in Ontario alone (or equivalent to about 6% of Ontario's GDP.⁷

The time to act is now, before a long and deep recession takes root.

Even before the global recession hit Canada, there were millions of Canadians struggling to meet basic needs such as housing. By 2007, Canada's homeless population had surged to between 200,000 and 300,000.8

One in four households pay more than 30% of their incomes on housing.9 About 8.8% of Canadians, or 2.7 million people, experience food insecurity.10 The cost of living keeps rising, but paycheques haven't kept pace. For 30 long years, real average wages have remained stagnant.11

Incomes of families in the bottom half of the income spectrum have barely returned to income levels of the 1970s, in inflation-adjusted terms. ¹² Maintaining the status quo of the dream of the middle class has required a social revolution — it takes two income earners for Canadian families to make it in the middle class today.

Far from helping maintain that dream, public policy shredded the supports behind it. Cuts to public services have weakened jobless benefits and income supports for vulnerable Canadians.

In 1991, the middle of the last recession, 78% of Canada's jobless received Employment Insurance (EI) benefits. By 2008, that number had fallen to 39% — and only 36% of unemployed women received EI.¹³

At the provincial level, welfare is much less accessible. Benefit levels (in real inflation-adjusted terms) peaked by 1994 and today provide a fraction of their earlier purchasing power. Of 53 provincial and territorial welfare income scenarios recently examined by the National Council of Welfare, only one — for a lone parent with one child in Newfoundland and Labrador — resulted in welfare income meeting or exceeding

the Low Income Cut-Off After Tax (LICO-AT), a widely used proxy for poverty lines in Canada.

Canadians are entering the current recession with weakened automatic stabilizers compared Canada's last recession.

In the place of sustaining income, an army of voluntary and non-profit organizations have provided damage control and helped sustain Canada's vulnerable. This elaborate network of community-based programs already faces chronic underfunding. With jobless numbers rising by the week, the "third sector" will be sorely tested.

Without sufficient government and community supports, Canadians will be left on their own to weather the storm—and many have only a flimsy or non-existent financial cushion to protect them.

There is an alternative; it starts with a plan A country as wealthy as Canada, which is the ninth largest economy on the planet, can do much better.

Canada's governments, at both the federal and provincial levels, enter this period of economic challenge with a fiscal foundation that is the envy of most nations.

The IMF urges countries such as Canada to do more to offset the global economic downturn, in part by placing greater focus on low-income households.

Canada must also do its part to help protect the most vulnerable in the world from escalating hunger, disease and violence during this period of economic uncertainty. This federal responsibility to protect is addressed in the AFB chapter on international development.

At home, the federal government can make Canada more recession-proof by fixing EI, expanding the stock of affordable housing, investing in strong community infrastructure, and increasing access to early learning and child care and to post-secondary education and training.

The federal government can pursue these plans directly and it can also support provinces actively pursuing similar goals.

Several provinces have already taken the lead in tackling poverty, and the momentum is building. Quebec took on the challenge in 2002, and Newfoundland and Labrador came out in 2006 with bold plans. Ontario announced its strategy in December 2008. In the past year, Nova Scotia and New Brunswick launched consultations aimed at establishing poverty reduction plans, and the Manitoba legislature is debating proposals.

The Premiers of the Atlantic provinces recently urged the federal government to develop a national poverty reduction strategy to work in concert with provincial efforts.

Also in 2008, three Senate reports and the House of Commons Committee on Human Resources stressed the need to develop a federal strategy to reduce poverty, identifying the two roles the federal government must play.

A federal poverty reduction plan must be grounded in concrete, legislated targets and timelines. The benchmarks must be frequent enough that a government can be held accountable for progress within its mandate.

Now is the time for all federal political parties to commit to such a meaningful plan. The policies needed to make a dramatic difference are well known, and other jurisdictions that are setting clear targets and timelines are getting results.

The AFB Economic Stimulus Plan highlights the key role of a healthy EI system and the importance of federal programs that can prevent or reduce poverty among the elderly, the working poor, children and indeed all low-income households. Additional information on EI changes can be found in the EI chapter.

It proposes enhancing the Guaranteed Income Supplement by 15%, increasing the average supplementary benefit received by the poorest Canadian seniors by \$785 a year costing \$1.2 billion a year. The AFB Stimulus Plan improves the National Child Benefit Supplement by 15% and

the Canadian Child Tax Benefit by 8% costing \$612 million and \$637 billion respectively. The effects of the Child focused changes are further explained in the Child Care Chapter.

It more than doubles supports for the working poor through the Working Income Tax Benefit to \$1,000 a year worth \$661 million a year. And it virtually doubles the refundable GST credit, raising the average credit from \$369 to \$700 and costing \$3.3 billion a year.

The AFB stimulus package also proposes an innovative transfer to the provinces for the purposes of poverty reduction, worth \$2 billion in both the first and second year.

This money is over and above other AFB measures to combat poverty that are uniquely federal. It is specifically designed to assist provinces and territories to meet clear targets and timelines on the road to a focused and achievable goal: the prevention and reduction of poverty.

This transfer sets in place a multi-year objective with interim steps and a plan of action that will reap returns on these investments for years to come.

The goal of the Afb's federal poverty reduction transfer is to reduce poverty in all jurisdictions by 25% over the next five years, with particular attention to Canada's most vulnerable groups. This would lift 770,000 Canadians out of poverty.

A comprehensive federal plan should also include a more immediate goal: All Canadians should receive an income that reaches at least 75% of the poverty line within two years. This is both an important short-term marker of progress and a strong contribution to a consumer-led economic recovery.

The AFB acknowledges debate over how to measure poverty in Canada. It recommends the federal government adopt official poverty indicators immediately, so that progress can be uniformly and consistently tracked over time.

The transfer to the provinces is conditional on a commitment to the reduction of incomedefined rates of poverty. These dedicated funds underscore the principle of federal-provincialterritorial cost sharing to redress the flagrant inadequacy of welfare programs across this country in terms of standards of access and benefit levels.

The AFB poverty reduction strategy focuses on the following key poverty reduction benchmarks, to ensure progress and assess change:

- Within two years, Canada's governments should ensure all homeless people have access to good quality, appropriate housing, with a goal to ending all homelessness within eight years.
- Canada should reduce by half the proportion of low- and middle-income households that pay more than 50% of their budgets on housing by 2015.
- Canada should reduce by half the number of Canadians who report both hunger and food insecurity within two years (based on the Canadian Community Health Survey).
- Canada should move towards a 98% target for high school completion, with particular attention to traditionally disadvantaged groups, demonstrating annual improvements in access to postsecondary education and training for lowincome Canadians.
- Canada should increase the number of affordable, high quality child care spaces, ensuring at least 75% of Canadian children under 12 have access to early childhood learning and care.
- Canada should expand access to free, community-based supports for youth, the elderly, and other Canadians (including enhanced community mental health and home support services), to minimize social isolation and improve the availability of health-promoting services and opportunities.

Poverty Reduction

GENDER

In 2003, 29% of working age lone mothers received Social Assistance.

During its October 2008 review of Canada, the UN Committee for the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) noted Canada's impoverishing Social Assistance rates as an area of deep concern and called upon Canada to report back to the Committee in one year on steps taken to remedy the deeply flawed and under funded welfare system.

Women make up more than half of Social Assistance recipients. Particular groups of women are especially vulnerable economically and socially and are more likely to need to turn to welfare for income support. These include younger women (under 25 years of age), older women (aged 55–64), lone mothers, women of colour, and Aboriginal women, especially Aboriginal women who live on reserves.¹⁵

Most workers in Canada earning minimum wage are women. Minimum wages in Canada range from \$7.75 per hour (PEI and New Brunswick) to \$10 per hour (Nunavut). In all jurisdictions except Nunavut, a full-time minimum wage income falls below the Statistics Canada's Low-Income Cut-Off.¹⁶

ABORIGINAL PEOPLES

Aboriginal peoples are the poorest in Canada. They did not prosper during the recent economic growth period and will be hardest hit by the current downturn. The investments recommended by the Alternative Federal Budget in this area and its continuing support for the Kelowna Accord, which was intended to alleviate the worst of this poverty, are greatly appreciated.

The \$2 billion/year Poverty Reduction Transfer to the Provinces will have the following requirements:

• In the first year of this five-year strategy, there are no strings attached to the amounts transferred to the provinces

- and territories. Those provinces already engaged in improving income supports and social infrastructure should use these funds to offset the costs of moving more quickly on their poverty reduction plans. Those provinces and territories that have yet to move forward on such initiatives should take advantage of the reduced costs to do so.
- In subsequent years, however, only provinces that can demonstrate improvement in income supports and show progress on a significant number of other outcome indicators will continue to receive federal support. If progress towards these targets is not achieved, then funding is cut for the following year.
- Provinces that wish to re-access federal support will have to provide a clear plan for getting back on track.
- Over the life of this transfer, the AFB
 recommends that the federal Human
 Resources and Social Development
 minister convene an annual meeting
 with provincial/territorial counterparts
 to review progress on poverty reduction
 strategies and provide a public account of
 the discussions and reports presented at
 this meeting.
- The intent of this transfer is to ensure the lion's share of these funds help provinces improve social assistance and disability benefit rates and eligibility.
- In most jurisdictions it has become difficult to access social assistance and disability benefits without having to liquidate almost all household assets (savings, RRSPS, owned properties, latemodel cars). This type of asset-stripping could add to the economic downward spiral that government actions are seeking to interrupt.

- Effectively, this program of action and funding mechanism reinstates minimum national standards for the adequacy and accessibility of income assistance. This has proved necessary since the great social experiment of the 1990s dissolution of the Canada Assistance Plan in 1996 has failed to meet the minimal test of government: the responsibility to protect, particularly its most vulnerable citizens.
- Provinces may also use some portion of these funds to enhance their support of the "third" sector, or the infrastructure of non-profit agencies and networks of volunteers that help communities maintain continuity, support and social cohesion, in good times and bad.
- Some jurisdictions may also choose to expand supported housing or education supports for low-income Canadians.
- The level of transfers to the provinces in this five-year plan may need to be revised, depending on the depth of the downturn. But it is expected, in combination with the other federal interventions to support incomes and create jobs, that the depth and duration of the downturn will be minimized by virtue of establishing and funding a national poverty reduction strategy.
- The five-year plan will need to be reviewed to ensure that, over the next decade, poverty is further decreased, with renewed targets and timetables.

Conclusion

While a focused strategy of poverty reduction takes time and money, the benefits far outweigh the costs, and paying now saves much larger expenditures down the road. Like the wave of infrastructure development Canada is considering, it is a relatively short-term set of investments

that yield returns for decades, even generations. More importantly, it reshapes Canadians' collective future.

The global economic crisis has rebunked the old trickle-down theory that said focus everything on the best and forget about the rest. A comprehensive poverty reduction strategy reorients the outcome of the economic crisis towards a system that is ultimately more socially resilient, more self-financing and more sustainable, in every sense.

Notes

- 1 Saez & Veall, Green and Kesselman.
- 2 Forthcoming Vanier Institute, State of the Family 2009.
- 3 Ibid.
- 4 Industry Canada December 4, 2008
- 5 HRSDC.
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2008. Aboriginal Peoples in Canada in 2006: Inuit, Metis and First Nations, 2006 Census. Catalogue no. 97-558-XIE; Zietsma, Danielle. 2007. The Canadian Immigrant Labour Market in 2006: First Results From Canada's Labour Force Survey. The Immigrant Labour Force Analysis Series, Statistics Canada. Catalogue no. 71-606-XIE2007001.

- 7 Ontario Association of Food Banks.
- 8 Gordon Laird. 2008. Shelter homelessness in a growth economy: Canada's 21st century paradox. Calgary: Sheldon Chumir Foundation for Ethics in Leadership.
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- 11 Russell & Dufour.
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- 13 Statistics Canada, Dec 15 2008.
- 14 National Welfare Council.
- 15 Women's Inequality in Canada: Submission of the Canadian Feminist Alliance for International Action to the United Nations Committee on the Elimination of Discrimination against Women on the Occasion of the Committee's Review of Canada's 6th & 7th Reports, September 2008
- **16** Ibid.

Post-Secondary Education and Research

In fall 2008, Statistics Canada reported that average user fees ("tuition fees") for undergraduate students had risen to \$4,724, up 3.6% from 2007–08.¹ Combined with the additional fees that most institutions charge for various services to circumvent provincial tuition fee regulation, total compulsory education fees climbed to more than \$5,419. In specialized programs such as medicine and dentistry, students are forced to pay more than double that amount, driving student debt for many future health professionals into six figures. (The Health Care chapter introduces new spending measures to moderate these fee increases.)

Despite rhetoric from some provincial premiers and university administrators, tuition fees have not been raised simply to ease institutions' inflationary cost pressures. To the contrary, tuition fee increases have more than doubled the rate of inflation since 1990. If user fees were frozen to the rate of inflation in 1990, they would not have reached today's levels until 2043 (see Figure 1). This explosive growth of tuition fees has prevented students from low-income backgrounds from closing the university participation gap. Today, low-income students are almost half

as likely to participate in university as students from the wealthiest quartile.

The Alternative Federal Budget will make strategic investments in the following areas to shape a greater equality of access to post-secondary education for all Canadians.

Core funding

The federal government has been transferring cash to the provinces to support post-secondary education since 1967, reaching a historic highwater mark in the early 1980s at approximately 0.56% of gross domestic product (GDP). The funding cuts made by Prime Ministers Mulroney and Chrétien in the 1980s and 1990s, respectively, reduced federal contributions to core funding for post-secondary education to approximately 0.19% of GDP.2 A recent funding increase implemented in the 2007 Federal Budget was a step in the right direction, but the Canadian Association of University Teachers estimates that the federal government's contribution is at least \$1.2 billion short of 1992-93 levels when adjusted for inflation and population growth.

Lagging federal funding for colleges and universities results in higher tuition fees as costs are passed on to students and their families. Lacklustre funding also diminishes the ability of institutions to hire an adequate number of instructors and support staff.

The current unstructured status of cash transfers to the provinces has meant that, even when the federal government increases funding, it has no assurances that the funding will benefit students. Unlike in the area of health, there are no guiding principles to maintain high standards in quality and affordability. As shown in Table 1, provincial governments have taken wildly different paths to university and college financing despite receiving roughly and proportional share of federal support for post-secondary education. With a few notable exceptions, students in provinces with lower per-student provincial funding pay higher tuition fees.

The AFB will introduce a new post-secondary education transfer to be guided by national legislation to ensure a national vision for a strong public post-secondary system. New funding in the AFB will return the federal cash contribution to pre-1992 levels, with \$200 million in 2009–10 and \$400 million in 2010–11.

Student financial aid

A counter on the Canadian Federation of Students' website tracks the ongoing accumulation of student debt. Increasing at more than one million dollars a day, the student debt clock surpassed \$13 billion in January 2009. That's more debt than several provinces, and it does not include the billions of dollars in public student loan debt owed to various provincial loan programs.

Student debt is the side-effect of Canadian public policy that downloads the costs of public education to the individual. Tuition fee increases and an ineffective student aid regime combine to make today's generation of students more in-

Post-Secondary Education and Research

GENDER

Women students will benefit from grants of increased value. Gendered pay inequity persists, with women earning 70 cents for every dollar a man earns. The average income for women for the 2005 tax year (the latest tax statistics available) was \$26,900, compared to \$43,700 for men.⁴ Given women's typically lower salaries, it will take women longer to pay off student debt, thus incurring greater loan costs.

Women do not have equal benefit from federal education tax credits due to lower taxable earnings. More than one-third (38%) of women do not earn enough income to even pay federal income tax, compared to 24% of men.⁵

Aboriginal women are among the poorest women in Canada. They are marginalized in the labour force, mainly working in lower paid and unstable jobs. They face higher unemployment rates and lower incomes. They do not have the same level of educational attainment as non-Aboriginal women.⁶ Increased grants for Aboriginal students will help lift Aboriginal women out of poverty.

Increased investment in research is welcomed by women's equality advocates. Research monies for in social sciences to advance women's equality have become increasingly difficult to access. In September 2006, the funding mandate of Status of Women Canada changed to no longer fund research initiatives.

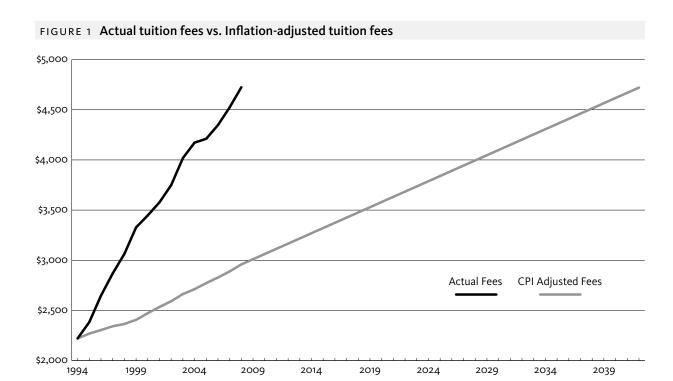
ABORIGINAL PEOPLES

Canada's support for the Treaty right to education of First Nations people has been sorely inadequate, resulting in over 2,000 students per year being denied the opportunity of continuing education and consequent impacts on employment rates. Indian and Northern Affairs Canada's recently announced review of post-secondary funding to First Nations is of grave concern as changes to funding mechanisms are not being negotiated with First Nations and appear aimed at reducing federal responsibility in this area.

Increased investment and better accountability mechanisms to ensure results are needed and must be achieved through a partnership with First Nations governments.

TABLE 1 Provincial vs. federal funding											
Province	NL	PE	NS	NB	QC	ON	МВ	SK	АВ	ВС	CAN
Per student funding (\$)	10,298	7,063	5,070	6,427	12,186	7,946	11,754	19,9123	14,491	12,581	10,578
Fees as a proportion of operating budget	14.8%	21.5%	41.9%	38.1%	15.8%	35.7%	24.4%	26.2%	25.9%	31%	n/a
Fees (\$)	2,632	4,530	5,932	5,590	2,167	5,643	3,276	5,015	5,361	5,040	4,724

SOURCES Row 1 and 2: CAUT Almanac 2008; Row 3: Statistics Canada, The Daily, October 9, 2008



debted than any other in Canadian history — all during a time when median incomes are stagnant.

In 2009, the beleaguered Millennium Scholarship Foundation will be replaced with the nation's first national system of grants. This is a decision supported by students, but assistance levels leave much to be desired. The most generous grants are only \$2,000 per year — less than half the value of tuition fees in most provinces. Increasing the value of grants will reduce borrowing and student debt.

The Alternative Federal Budget will re-allocate funds from federal education tax credits and use the funding to increase the value of the Canada Student Grants to \$6,000. Based on calculations made by the Canadian Federation of Students, over \$1.5 billion annually is wasted on education tax credits and tuition tax credits for mostly middle- and high-income recipients.³ This initiative will be revenue neutral.

University research

Released in 2007, the federal government's Science and Technology Strategy attempts to further entrench a culture of privatization and

commercialisation in Canadian universities. Recent federal budgets have aided this deterioration of public interest research by targeting all new funding to a very narrow range of research disciplines, rather than allowing granting agencies to award funding based on broader criteria of merit. University research will play a role as a long-term investment in innovation that will help propel Canada out of the current economic slump. However, no government can predict how research innovation will unfold, and the federal government trend of directed research funding is unhelpful and unwanted.

The AFB recognises the importance of peerreviewed independent research and will increase the granting councils' base budgets by \$230 million in 2009–10 and \$200 million in 2010–11. (The grant increase is also included in the AFB Stimulus Plan.)

The federal government has attempted to interfere with university research priorities by creating, and then reinforcing, an imbalanced research agenda. Over the past two decades, federal funding for arts, humanities, and social science university researchers has lagged behind Research Council funding for engineering and sciences.

The AFB will gradually close the gap in research funding by allocating at least 50% of the new research funding to the Social Sciences and Humanities Research Council.

The AFB also devotes significant funding to Aboriginal post-secondary education through the removal of the INAC 2% cap and the Kelowna Accord. Those investment initiatives are elaborated on in the Aboriginal chapter.

Notes

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Seniors and Retirement Security

Last year, the 2008 AFB said the federal government had two broad policy choices for addressing the retirement security of current and future seniors. Would it help Canadians "move forward together" through enhanced public pensions, due attention to the needs of vulnerable seniors, and a national pension insurance system to deal with turbulent economic periods like the one we face today? Or, conversely, would the federal government confirm a "fend for yourself" future for most seniors, given declining workplace pension coverage, limited public pensions, insecure "do-it-yourself" pensions, and minimal (if any) private savings?

Canadians got their answer with the 2008 Federal Budget, which has been confirmed once again in the November 27, 2008 Federal Economic and Fiscal Statement. Although some positive reforms were proposed, the key announcement involved a new species in "do-it-yourself" pensions: a \$5,000-per-year Tax-Free Savings Account.¹

The message to Canadians without decent pensions could not have been clearer: if you want retirement security, you're on your own.

"Do it yourself" pensions have failed

The federal government is poised to offer between \$10 to \$12 billion in tax subsidies in 2009 for yearly RRSP contributions and investment income.² Finance Canada projects tax subsidies for TFSAS will rise sharply from the \$50 million for 2009–10 to \$3 billion in the next two decades.³

"Do-it-yourself" pensions now comprise a huge outlay of federal government expenditure, more than a third of what's currently spent on public pensions (about \$34.5 billion). But, as research has consistently verified, this policy choice has not created adequate pension income, and should not be the linchpin of government thinking on retirement security. This is so for three reasons.

First, "do-it-yourself" pensions tend to help those who have (or will have) decent pension income. By 2001, as the National Advisory Council on Aging notes, "private retirement savings were concentrated in a small percentage of Canadian families: 25% of families hold 84% of these assets," a trend that remains true today. Currently, the richest 20% of Canadians still hold the vast majority of RRSP wealth, while one-third of working Canadians have no retirement savings at all. As Michael Mendelson explains, the

distribution of investment income in Canada is even more concentrated, when (in 2005) "the 4% of tax filers with incomes of over \$100,000 had 67% of total taxable gains."

Secondly, despite trumped-up projections from Bay Street marketers, RRSPs have not generated adequate pension income, and one can assume the same will be true for TFSAs, given similar design flaws. By 2006, the median RRSP was \$30,000, an amount capable of generating about \$185 in monthly pension income based on conservative projections.⁷

A major reason for this low average is the soaring fees typically charged by mutual fund managers who attract RRSP investment. Keith Ambachtscheer, a pension industry expert, estimates RRSP holders took a \$25 billion dollar "pension haircut" in 2007, thanks to the high fees and commissions from Canada's mutual fund industry.8

Another reason for low RRSP amounts is the stagnant position of real wages, which research suggests leads Canadians to treat RRSPs as savings accounts (to be regularly used for large purchases), not retirement accounts. There is also evidence that many of those lucky enough to have RRSP savings dip into them when times are tough to provide themselves with needed financial support.

Thirdly, "do-it-yourself" pensions have been most vulnerable to the turbulence caused recently as the "free flow of capital" led to the "free flow of catastrophe." All forms of retirement savings suffered as global capital markets lost almost 40% of their value, but RRSPS were particularly hard-hit, given how closely-tied they are to market outcomes. RRSPS lost \$100 billion in equity markets from March to November 2008. 11

The federal government's support for "do-it-yourself" pensions makes little sense. It's time to embrace a different model for retirement security, one capable of delivering good pension income, and resilient enough to weather the booms and busts of global capitalism. Canadi-

Seniors and Retirement Security

GENDER

Senior poverty is deepening, and senior women are feeling most of the brunt. Nearly 38% of unattached senior women have incomes that fall below the poverty line, compared to 29% of unattached men.¹⁵

Women overwhelmingly experience income disparity and unpaid work responsibilities prior to old age. This leads to limited access to suitable pensions and an inability to save for retirement through employee pension plans or retirement savings plans.

ABORIGINAL PEOPLES

The plight of senior citizens in Aboriginal communities reflects the generations of neglect and disrespect shown to Aboriginal people in Canada. Pensions are virtually non-existent for this demographic cohort, as they were excluded from employment by openly racist policies.

ans need policies that help them move forward together in retirement.

With that objective in mind, the 2009 AFB will initiate the following policy measures:

Increase benefits for public pensions

Canada's public pension system, the OAS, and the Guaranteed Income Supplement (a sub-program of OAS which targets low-income seniors) offer 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 the rising costs of living.

But benefit levels remain inadequate, despite the fact that many seniors depend on public pensions as their main source of retirement income. As of December 2008, the maximum OAS monthly pension was \$516.96, and the maximum monthly Guaranteed Income Supplement (GIS) for single seniors was an additional \$652.51 (or \$430.90 per person for couples).¹²

Public pensions have delivered significant anti-poverty results in recent decades, but low benefit levels have still created communities of vulnerable seniors. Those particularly at risk 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 (7.0% compared with 3.4%). Most alarmingly, 16.1% of older women living alone live with low incomes. Over the past decade, the low-income rate of these women has varied between 16% and 24%, with no evident downward trend.¹³

The 2005 and 2006 federal budgets increased GIS benefits by 7%, but this amounted to just \$39 per month for individuals and \$58 per month for couples. The 2008 Federal Budget allowed GIS recipients to earn more in paid employment without penalizing their public pension earnings, and increased the value of disability pensions. These were positive steps, but far more must be done — particularly for single individuals.

As the GIS is targeted to low-income individuals, in this case seniors, it makes an ideal tool to stimulate the economy as the 2009 recession approaches. As part of the AFB Stimulus Plan, GIS benefits will be increased by 15%, worth \$1.2 billion.

Expand the Canada Pension Plan

As several researchers have noted, an important way 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 are 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 and will remain sound until long after the "baby boom" retirement ends (in 2085).

The problem with the CPP (like the OAS and GIS) is its modest benefits. From its inception in 1966, the CPP was targeted to replace no more than 25% of the average industrial wage. In 2008, the maximum monthly benefit for individuals at age 65 was \$884.58, though many don't qualify for this amount.¹⁴

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 because of their 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 1997, any benefit level changes require proposals to fund them in advance.

The AFB will launch an ambitious expansion of the CPP. We support the policy goal of doubling CPP benefits through one (or all) of the following methods:

- increasing the yearly maximum pensionable earnings (YMPE) for CPP contributions (currently \$44,900);
- increasing the replacement rate for CPP retirement pensions from 25% to 50% of the average industrial wage; and
- raising CPP premiums for employers who do not offer workplace pensions.

The Afb opposes any effort to create a socalled "defined contribution" or "money purchase" tier of the CPP. Such a reform could lead to the slow and stealthy privatization of the CPP itself, with investment risk borne by CPP holders.

The Afb will also set an elder care or caregiving drop-out period for CPP benefit calculations. This measure will assist those caring for family members with disabilities or older relatives.

Notes

- 1 On a positive note, the federal government has allowed low-income seniors to earn more in paid work (\$3500) before accruing penalties to their public pensions. The value of the Canada Pension Plan's disability benefit was also increased For the government's explanation of TFSAS, see: "Tax-Free Savings Account (TFSA)", www.fin.gc.ca. For a critical assessment, see: Michael Mendelson, "Flaherty's Tax-saving Plan: CON", *The Toronto Star* (March 2, 2008).
- 2 Department of Finance Canada, Tax Expenditures and Evaluations, 2009.
- **3** See remarks from Finance Minister Jim Flaherty: "Flaherty fires back", *Globe and Mail* (February 27, 2008).
- 4 National Advisory Council on Aging, Seniors on the Margins: Aging and Poverty in Canada (2005).
- **5** Statistics Canada, "Survey of Financial Security", *The Daily* (December 7, 2006).
- 6 Mendelson, "Flaherty's Tax-saving Plan: CON".

- 7 Projections compiled by Brent Sutton Vice-President of Phillips, Hager and North — for the Canadian Conference of Operating Engineers (August 23, 2006)
- **8** Keith Ambachtscheer and Rob Bauer, "Losing Ground: Do Canadian Mutual Funds Produce Fair Value for Their Customers?", *Canadian Investment Review* (Spring 2007).
- 9 NUPGE, "Nearly One in Four Canadians make early RRSP withdrawals", (January 10, 2007), www.nupge.ca.
- 10 For an elaboration on this framing of the current financial crisis, see: John Bellamy Foster, "Postscript to the Financialization of Capital and the Crisis", *Monthly Review* (October 24, 2008), http://www.monthlyreview.org/mrzine.
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Protecting our Climate, Nature, and Water: Integrating Environmental and Economic Strategies

"We cannot separate environmental and economic policy."

"We need to take action, we owe it to future generations."²

- Prime Minister Stephen Harper

Canada is long overdue in taking real action on the pre-eminent challenge of this century: addressing climate change and integrating economic and environmental strategies to protect our quality of life in the face of unprecedented environmental challenges.

Implementing such integrated strategies is the best means of establishing a dynamic green economy, thereby creating enduring quality employment. Furthermore, such strategies could simultaneously achieve important progress in preventing dangerous climate change, in conserving Canada's biodiversity nation-wide, and in ensuring the health of Canadians. Even Prime Minister Harper has said that "climate change is perhaps the biggest threat to confront the future of humanity today."

The global economic and financial crisis has now taken centre-stage, but this doesn't mean it

is time to delay action on the environment and climate change. On the contrary, now is the best time to take positive action.

We are in the middle of a global economic crisis, with little end in sight, because we created a highly unbalanced economy, one too dependent on unregulated financial speculation and resource exploitation fuelled by unsustainable levels of household debt. We—and our planet—can't afford to continue to generate massive amounts of household debt and waste through hyper-activated individual private overconsumption. Canada's productivity has actually declined since 2006, showing that our economy has become less efficient and more wasteful.

Instead, we need the public and private sectors to make investments that increase the productivity and efficiency of the real economy and improve our overall quality of life. Paradoxically, the economic crisis could have some environmental benefits: major tar sands projects are being shelved and less economic activity could also mean less pollution. But this economic crisis will come at the cost of much human suffering. It is the poor and vulnerable around the world who

will suffer the most from the economic crisis, as they will from climate change.

The infrastructure investments we make now are going to last for many decades. We have a great opportunity now to rebuild our economy on a more efficient and sustainable basis. The new Obama administration in the United States is taking ambitious steps to create a clean energy economy and to create millions of green jobs. Canada cannot afford to be left behind. We, too, can and must make these types of positive changes.

Delaying action further will create real costs for Canadians - in missed business opportunities, in increased financial and economic costs for future environmental protection, and in greater risks to our collective health and climate. Sir Nicholas Stern has shown that the costs to the global economy of not taking action on climate change could reach \$7 trillion annually.4

The recent global financial and economic uncertainty has clearly demonstrated the costs of narrow thinking and, more importantly, the benefits of establishing a solid framework of institutions and policies to protect us from future global crises. Just as we need more effective regulation of the financial industry, we also need comprehensive action now to protect our treasured biodiversity, to safeguard our water, and to join the world in action against dangerous climate change.

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

Greening Canada's economy requires increased use of policies to 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 could be implemented through a mix of market-based instruments, such as taxes, fees, rebates, credits, tradable permits, and subsidy removal.

Such 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,⁵ 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.

However, such market-based economic instruments cannot do the job on their own. The financial crisis should have clearly demonstrated the great dangers of relying on the "magic of the market."

To be more effective, economic instruments need to be combined with government leadership, strong regulations, education and R&D, pro-active industrial policies, and significant public investments in many areas. The type of change needed will also lead to very significant changes in our economy, with many jobs lost in some sectors and gained in others. Full-cost pricing to protect our climate and other resources will impose proportionately greater costs on lower-income families, who also have less ability to make changes. Polluter-pay and user-pay

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policies must be balanced with the ability-topay principle.

As the Pembina Institute has stated:

"Ability to pay," when applied to industry, requires that policies are designed to take into account sectors' varying situations regarding international competition and profitability. "Ability to pay" must also be applied to individuals: governments must design policies that protect people with low incomes from cost increases caused by the carbon tax. Similarly, governments must

design transition policies to assist affected workers.⁶

The environment, water, other natural resources, and the global climate are our ultimate public goods. They are all precious resources that we need to share among ourselves and with future generations. Quality public services —including parks, community facilities, libraries, schools, health care, clean water, and clean energy — allow us to share our resources and common wealth more equitably and with less waste for our own and future generations.

Climate Change, Energy 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 in low-impact renewable energy and energy efficiency. Canada needs to make positive changes to build a green economy through its infrastructure investments and industrial strategy (as outlined in the *Cities and Communities* and *Sectoral Development* chapters). These measures will help to create hundreds of thousands of new green jobs.

At the same time, well-designed regulations will force Canadian industries to be more innovative and competitive. Economic instruments that put a cost on pollution — such as auctioned emission permits and a carbon tax — will play a critical role in shifting economic behaviour to be more in harmony with environmental and human health. A Just Transition strategy and other measures are necessary to help workers, households, and communities affected by these changes.

The most critical budgetary measure will be to put a substantive price on carbon.⁷ Canada should establish a price for greenhouse gas (GHG) emissions of at least \$30/tonne carbon

dioxide equivalent (CO₂e), to take effect within two years and rising to least \$75/tonne by 2020.

Putting an adequate price on carbon⁸ will be necessary for Canada to meet the conditions of the next global climate agreement, which is scheduled to wrap up in Copenhagen in December 2009. The carbon price should be applied broadly, through both a cap-and-trade system and a tax. The revenues raised should be directed toward investments in further actions to reduce GHG emissions, protecting low-income Canadians from related cost increases, and other tax reductions.⁹

This year's AFB plans to implement a broadbased carbon price by the start of 2011. This will allow time to develop an effective continent-wide system in collaboration with the new Obama administration, and provide enough lead-time for industry and households to adjust while not endangering the economic recovery.

Putting a price on carbon

The AFB will put a price on carbon emissions in order to integrate environmental values into market prices, to reduce emissions from both industrial and individual sources, and to provide leadership in crucial international negotiations.

The AFB will implement a greenhouse gas (GHG) emissions cap and trade system for heavy industry, utilities, and other large emitters. This system will move rapidly to full auctioning of all emission 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 will induce emitters to maximize emission reduction opportunities and minimize economic costs, while generating revenues to dedicate to additional GHG emission reductions. Auctioning of permits will raise a minimum of \$1 billion initially, rising to well over \$10 billion a year when all permits are auctioned. The revenues raised will be directed to energy efficiency, green infrastructure, renewable energy, industry adjustment, and other measures designed to assist in the adjustment to a greener economy.

The AFB will also introduce a modest but effective carbon tax as an important first step towards integrating environmental values into market prices for consumers and small businesses, as described in more detail below. This carbon tax will cover most transportation, residential, commercial, and institutional uses of fossil fuel, which account for almost half of Canada's CO₂ 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 CO₂ emission factors.

Fuel use for airlines and international marine transport will not be covered at this stage, since discussion is under way 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 CO₂ emissions will mean a tax of about 7 cents a litre for gasoline, 8 cents a litre for diesel and fuel oil, and 6 cents a cubic metre for natural gas. A

carbon tax at a rate of \$30 per tonne will raise about \$7 billion a year initially. A rising tax rate will send a strong price signal to households, businesses, and organizations making investments for future years.

Green Energy Tax Refund

A majority of the revenues raised will be funnelled back to households through a *Green Energy Tax Refund*. This refundable tax credit, costing about \$5 billion a year, will ensure that most Canadians are fully compensated for all the additional direct costs that they bear from a carbon tax. In addition, it will more than compensate lower- and lower-middle-income families for all the additional indirect costs they will bear from the carbon tax and the cap and trade system.

In the first year, this refund will provide every adult with a refundable tax credit of \$300 per year, and \$150 for every child, phased out progressively for family incomes above \$70,000. As the carbon price is increased, the value of this rebate will be increased to ensure that middle-and lower-income households are not adversely affected. This refund will be much more progressive than the revenue recycling measures adopted by the British Columbia government as part of its carbon tax.¹⁰

Other revenues will be directed to public programs and investments to help households, businesses organizations, and workers reduce their emissions and make the transition to a greener economy. These will include renewable energy and energy efficiency investments, including retrofits of homes and commercial and public buildings, and a Just Transition Strategy to assist adversely affected workers.

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.

Renewable energy and energy efficiency

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

The AFB will make renewable energy and energy efficiency the cornerstones of a national energy plan that addresses the long-term challenges of climate change and securing access to clean, low-impact energy. Public utilities, in particular, must show leadership in investing in renewable energy, and public support will be directed to this end. Significant change will not take place if renewable energy remains a private luxury, affordable by only a few but underwritten by heavy subsidies to private operators. Renewable and clean energy should be available to all, generated and distributed by public-owned utilities.

As part of the AFB Stimulus Plan, \$150 million in 2009–10 and \$75 in 2010–11 will be devoted to housing retrofits for lower-income households. This is a fledgling first step to an expanded energy efficiency program once the carbon tax/cap and trade has come into full effect.

Just Transition Strategy

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

Climate Change, Energy and Carbon Pricing

GENDER

A clean environment is of benefit to everyone.

Energy programs must be accessible to low-income individuals. No penalties should be imposed on individuals or families who, due to cost restrictions, are limited in their choices for sources of energy.

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.

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

Notes

- 1 AFP. http://www.canada.com/topics/technology/science/story.html?id=beae4406-b427-4197-9c6f-27c1c915a3d7 31 October 2008: "Canada to seek continent-wide approach to climate change".
- **2** Speech by Prime Minister Stephen Harper in Sydney, Australia, on September 7, 2007.
- 3 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.
- **4** "\$7-trillion warning on global warming" (Globe and Mail, October 30, 2006). Available from http://www.theglobe-andmail.com/servlet/story/RTGAM.20061030.wenvironment30/BNStory/Front/.
- 5 The government defined "polluter pays" in *Budget* 2005 as meaning that "the polluter should bear the costs of activities that directly or indirectly damage the environment. This cost, in turn, is then factored into market prices." [http://www.fin.gc.ca/budgeto5/bp/bpa4e.htm] On May 29, 2007, as Environment Minister, the Hon. John Baird re-affirmed the government's commitment to this principle by telling the Standing Committee on the Environment and Sustainable Development that the government "believes that the polluter should pay." The "polluter pays principle" was previously defined in the 1972 OECD Guiding Principles on the International Economic Aspects of Environmental Policies, as cited in OECD (2001): Environmentally Related Taxes in OECD Countries: Issues and Strategies, Paris, p.16.

- **6** Matthew Bramley and Clare Demerse, 2008. *The Pembina Institute's Perspective on Carbon Pricing in Canada*. http://pubs.pembina.org/reports/carbon-pricing-Canada.pdf
- 7 In this chapter, the word "carbon" is a shorthand expression that includes all six of the greenhouse gases covered by the Kyoto Protocol (of which carbon dioxide is the largest component). The abbreviation "CO₂e" refers to "carbon dioxide equivalent," a standard measure which incorporates all six of these gases.
- **8** In this document, the word "carbon" is a shorthand expression that includes all six of the greenhouse gases covered by the Kyoto Protocol (of which carbon dioxide is the largest component). The abbreviation "CO₂e" refers to "carbon dioxide equivalent," a standard measure which incorporates all six of these gases.
- **9** The Green Budget Coalition developed a more detailed recommendation with advice on other key policy design questions too, such as federal/provincial interactions, sectoral implications and competitiveness concerns, and complementary policies. See http://www.greenbudget.ca/pdf/GBC_2009.pdf, p. 7-18.
- 10 See Marc Lee and Toby Sanger (2008) for an analysis of the distributional impact of BC's carbon tax. *Is BC's Carbon Tax Fair?* Canadian Centre for Policy Alternatives, 2008. http://www.policyalternatives.ca/documents/BC_Office_Pubs/bc_2008/ccpa_bc_carbontaxfairness.pdf

Conserving Nature, Safeguarding Water, Protecting Human Health

Conserving Canada's treasured oceans and lands

The long-term health of human societies, including the economy, depends on the long-term health of natural ecosystems. In the face of unprecedented pressure from climate change and other environmental stresses, Canada needs to act decisively to safeguard our marine and terrestrial ecosystems. This requires protecting much more of our lands and waters, and better protecting areas that already have conservation designations. It means working in partnership with many sectors of society. Over the past two years, the federal government has taken steps toward establishing a network of protected areas, particularly in the North West Territories. Building on this work, the AFB will invest \$174 million a year in:

 establishing Canada's national system of marine protected areas by 2012, implementing integrated oceans management plans, and completing regional environmental assessments in each of Canada's oceans;

- continuing work to complete Canada's terrestrial systems of national parks, national wildlife areas and migratory bird sanctuaries, ensuring their long-term protection; and
- improving incentives under the federal Agricultural Policy Framework for protecting ecological goods and services on agricultural lands.

Such bold actions, along with federal leadership to coordinate complementary work by all levels of government nationwide, are essential to secure the ongoing health of our lands, waters, and wildlife, which in turn support the longterm health of our economy and human society.

Safeguarding Canada's waters and watersheds (Starting in the Great Lakes-St. Lawrence Basin)

The AFB will deliver Canada's promised federal water strategy¹ by building upon the progressive actions in *Budget 2007 and 2008* with a plan to effectively restore, protect, and enhance the environment of the Great Lakes-St. Lawrence

basin that will cost \$1.8 billion over five years, or \$360 million/year. Priority areas for investments will be:

1. Water Governance

- a. developing a shared basin-wide vision among the governments and residents of the Great Lakes-St. Lawrence basin, to foster more effective coordination and more efficient use of public funds.
- 2. Water Quantity and Quality
 - a. improving water quality by updating water and wastewater infrastructure, integrating conservation measures to ensure sustainability of water resources; and
 - b.ensuring the clean-up and delisting of existing Great Lakes Areas of Concern (AoCs) and delivery of Ecological Rehabilitation Action Plans in St. Lawrence Zones d'intervention prioritaire (ZIPS).

- 3. Freshwater Ecosystems
 - a. enhancing biodiversity, protecting wetlands, and preserving habitat and near-shore areas; and
 - b. providing protection from invasive species.

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 In the 2007 Speech from the Throne, Canada's government committed to a "new water strategy". Steps have been taken toward fulfilling this commitment under the *Government of Canada's Action Plan for Clean Water*.

Agriculture and Food Security

As with other sectors of the economy, those employed in agriculture will have to brace themselves for the current economic crisis and its depressing effects on demand and prices. But 2007 and most of 2008 were a welcome reprieve for many farmers as prices for wheat and other grains reached record levels and total net incomes on Canadian farms reached levels unseen in years.

However, with the onset of the financial crisis, values tumbled. Canola went from \$525/ton in September 2008 to \$366 three months later, while feed barley lost a quarter of its value during this time. The situation for cattle farmers is more dire; largely due to concentration in the packing and retailing industries and a lack of regulation, many smaller farmers are currently being forced out of the industry. This represents much more than lost incomes and livelihoods for the future of Canadian agriculture and food security.

Although the current economic crisis is a recent development, many argue that agriculture in Canada has been in a state of crisis for the last 30 years. Between 1974 and 2001, gross incomes on Canadian farms increased threefold, while net incomes have actually fallen as farmers were squeezed between input suppliers

and output buyers who continually consolidate and grow.² This has forced a constant exodus of farmers from the land.

The policies presented in this Alternative Federal Budget will aim to make farming in Canada a viable and sustainable option. We cannot continue to watch the stewards of our valuable yet fragile agricultural lands face two choices: 1) give up, or 2) keep going with the use of increasingly expensive and harmful inputs. While the situation is not the fault of Canadian farmers, it seems clear that the only option is to create the capacity for farmer-led initiatives. Rather than persistently losing their shared expertise, it must be harnessed in order for a new direction to be carved out in the midst of powerful multinationals on one side, and on the other a government that seems bent on eliminating any alternatives to the mastery of these "free markets" over the producers of our food.

Program payments and research and inspection make up the largest expenditures by the federal Department of Agriculture and Agri-Food, at about 50% and 24% of total spending, respectively. The alternative policy options offered here do not require an entire reorientation of the de-

partment from these two areas, but rather point to more progressive and equitable directions within these categories.

Program payments

The brand new *Growing Forward Agreement* (*GFA*) reached between the federal and provincial governments ushers in a new set of support program options with a stated focus on risk management, and sets the policy directions for the agricultural sector for the next few years. It is too early to tell whether these changes will improve on the often unresponsive and unfair funding arrangement previously in place.

While paying lip-service to sustainability and the environment, the *GFA* takes an export-oriented approach without any consideration of developing local food systems in the face of looming energy and environmental calamities. In fact, while the wto *Agreement on Agriculture* (*AoA*) continues to tie the hands of government by restricting any expenditure that might expand production or fetter markets in any way, the *GFA* further restricts funding that may offer one region of Canada an advantage over another.

Though the *AoA* is restrictive, it does allow the government to address an ecological crisis under the "green box" category of subsidies. The number of farm families — those who carry the valuable knowledge gained, often over generations, of caring for and producing from our diverse ecological systems — has declined by 7% between the last two censuses. Meanwhile, the intensification of industrial animal farming has proceeded, with one example being that the number of pigs per farm in the hog industry has increased 260% between 1990 and 2000.³ These trends hardly coincide with the governments' stated intent of mitigating risk, economic or ecological.

The Alternative Federal Budget will use direct funding to mitigate the current agricultural crisis in a few ways. First, money and credit must

find its way to cattle farmers until some solution can be found to the problems facing that sector, primarily the collapse of prices farmers are receiving for their cattle due to extreme concentration and vertical integration in the cattle processing industry, along with an overdependence on volatile export markets.⁴ As the National Farmers Union (NFU) has proposed, this money must be targeted and capped to ensure that it is not captured by packers and the largest producers, as has been the case under past programs based on revenue.⁵

Funding will also be directed to assisting the adoption of more sustainable farming techniques where demand exists. This will take the form of partially funding the adaptation of flexible technology resulting from farmer-led research (to be discussed further in the next section), subsidizing the adoption of organic agricultural practices and funding infrastructure geared toward local food systems.

While the number of farms operating in Canada fell significantly between 2001 and 2006, the number of certified organic farms increased by about 60%, with many more reporting the use of organic practices without certification.⁶ Organics make up only about 1% of total grocery store sales, but 60% of organics are sold outside of the mainstream retail system, ⁷ which is evidence of some vitality in alternative and local marketing options.

The recent trend toward increasing production chain tracking and more stringent health and safety regulations has been borne disproportionately by small farmers, and this is also the case with organic certification. Beginning in December of 2008, farmers marketing their products outside of their province had to be certified by an organization accredited by the Canadian Food Inspection Agency at a cost of \$1,000 and up, and accompanied by considerable paperwork. The AFB will subsidize certification for farms under a certain income threshold. And, to ensure that farmers are getting the most bang for

their buck, a national awareness campaign will advertise the practices behind organic certification and the impact consumers can be making with their purchases.

Funding will also be provided for developing local food systems. As mentioned, the *GFA* does not consider local food networks as a strategy in dealing with fossil-fuel dependency and the social consequences of the loss of smaller farms, and is in fact quite adversarial to this approach. Grants and infrastructure procurement will be allotted for the purpose of connecting local farmers to buyers who would like to ensure the maintenance of the aesthetic, cultural, and ecological value of rural Canada.

Research

Last year's Conservative Federal Budget outlined significant spending on studying the relationship between health and industrial contaminants and the harmfulness of biofuel emissions. Increasing our understanding in these areas is important, but enough people agree that alternative technologies, strategies and techniques are needed in order to avoid the inexorable ramping-up of expensive and harmful inputs into agriculture. Rates of return on publicly-funded research and development have been found to be very high, indicating room for further investment with significant benefits.⁸

One of the major themes of the *GFA* is a focus on "risk-mitigation" in the agriculture industry. However, the continued inclination toward an export-oriented strategy, with greater concentration and industrialization centred on the use of fossil fuels and their derivatives, bears tremendous risks. The AFB will fund the creation of "bio-regional" research centres. These will be nodes of research and idea exchange between academics and farmers in a certain ecological region, created with the strong belief that unique technologies and strategies are required across the country because of its environmental

Agriculture and Food Security

GENDER

Women benefit from improved food security and fairer agricultural policies that allow for more locally grown and/or organic foods to be made available to the Canadian market.

Many farm women must do supplementary work off farm to increase household income. Increased investment in farming lessens the financial burden of these women.

ABORIGINAL PEOPLES

Food security in Aboriginal communities has already had a significant impact on health, as witnessed by the disproportionate rates of diabetes and the rise of minimata disease, for example. The role of Aboriginal communities in food production requires specific program support.

diversity, and that farmers hold knowledge and experience with the land that cannot be duplicated. This bottom-up approach will be critical as farmers in various regions will be affected in very different ways, and will require different strategies to face the challenges of climate change, fossil-fuel dependence, and now an economic recession.

This year's Alternative Budget also calls for an end to the ideologically-led attacks on the Canadian Wheat Board, the Milk Marketing Board, the Canadian Grain Commission, and other institutions aimed at regulating and countering the extreme concentration of power among agricultural multinational corporations.

An example of such an attack is that waged on the Canadian Grain Commission (CGC). The CGC provides research, performs weighing and grading, and administers Grain Appeal Tribunals in the case of a dispute between grain producers and purchasers. The Conservative minority government tabled Bill C-39 in the spring of last year which went against an all-party Standing Committee on Agriculture and Agri-Food and

proposed drastic funding cuts to the CGC and an elimination of its role as an intermediary in disputes, leaving no other organization to fulfill this duty. Although Bill C-39 has faced opposition, the Conservatives have acted ahead of the bill's assent and have cut millions from the CGC budget. The AFB will restore \$65 million in stable funding to the CGC and will ensure its continued role as a mediator between the thousands of grain farmers and the few large multinationals that buy their products.

In the 2008 fall Canadian Wheat Board (CWB) election, in which farmers voted on half of the members for their 10-member board of directors, the chair of the board complained that letters had been sent to farmers by several MPs, including the Parliamentary Secretary for the CWB, urging them to vote for a certain candidate. The Wheat Board itself maintains neutrality in the elections and abides by the decisions of farmers. As well, the Minister of Agriculture and Agri-Food illegally removed the names of 16,000 farmers from the voter's list for not having delivered grain in the past 11 months, and then introduced legislation that denies small farmers the right to vote.

All such aggression against the Board should cease immediately, and full control should be handed over to farmers, the majority of whom favour the Board and believe it delivers value. This belief has been demonstrated clearly in the fall CWB election, which saw four out of the five elected board members win on a pro-CWB platform.

As the rest of the economy braces for the crisis just underway, the agricultural sector continues to face its lasting crisis, which is social, economic, and ecological in nature. Farmer-led research and initiatives must be supported in order to meet the challenges that lie behind the crisis: from the unchecked concentration and deregulation among agriculture multinationals to policies favouring industrialization and production for export. Embracing farmer-led approaches and protecting their cherished insti-

tutions will work to ensure that the knowledge, culture, and communities surrounding Canada's farmers are valued and preserved.

This Budget proposes the following funding increases:

- \$100 million in direct, targeted funding for producers in the cattle industry and the possibility of \$50 million in each of the next two years, with the aim of stemming the flow of farmers off the land while strategies aimed at stabilizing the industry are developed;
- \$60 million in additional funding for the Canadian Food Inspection Agency; this funding to be earmarked for grants to lowincome producers transitioning to certified organic production, as well as marketing the CFIA organic label to domestic consumers.
- \$75 million for the development of "bioregional" research centres across the
 country, which will be increased to \$150
 million in the following two years in order
 to offer grants for the adoption of flexible
 technology and the creation of local food
 networks;
- \$65 million for the Canadian Grain Commission in order to ensure more predictable and stable funding, thereby reducing dependence on user fees and ensuring that the CGC protects producers and continues to enhance the quality of Canadian wheat.

Notes

- 1 Prices quoted from the Vancouver and Calgary markets, respectively.
- 2 Qualman, Darrin. (2001). *The Farm Crisis and Corporate Power.* Ottawa: Canadian Centre for Policy Alternatives, p. 25.
- 3 Tilman, David et al (August 2002). "Agricultural sustainability and intensive production practices," *Nature*, 418, p. 674.

- National Farmers Union, "The farm crisis and the cattle sector," November 19, 2008, p. 109.
- Ibid., p. 33.
- Kendrick, Jenny (2008). "Organic: from niche to mainstream," *Canadian Agriculture at a Glance.* Ottawa: Statistics Canada, p. 5.
- Ibid., p. 4
- Agriculture and Agri-Food Canada, "An overview of the Canadian agriculture and agri-food system," May 2007, p. 57.
- "WB chair decries attempts to influence director elections," accessed from http://www.cwb.ca/public/en/newsroom/releases/2008/112708.jsp on December 3, 2008.

National Water Policy

Canada's economy is built on the myth of an abundance of fresh water, but only 1% of Canada's fresh water is renewable and, even during an economic slowdown, water use and consumption in Canada will remain unsustainable unless protective measures are taken.

At the federal level, legislative safeguards to protect Canada's water from bulk exports, contamination, and unsustainable commercial exploitation are weak or non-existent. Canada is one of the few industrialized countries without enforceable national drinking water standards. Canada does not recognize water as a human right and does not have a federal ban on bulk water exports. Canada is also the only industrialized country to allow mining corporations to dump toxic waste into pristine lakes and rivers.

Water is defined as an "investment" and a "service" under the North American Free Trade Agreement (NAFTA), which guards the interests of foreign corporations that invest in water or whose investments require the use, consumption, or pollution of water.

The Alternative Federal Budget's national water policy fulfills the following goals:

- 1. Water justice: Access for all citizens to safe, clean drinking water and sanitation, and to legal instruments providing recourse for communities and individuals who are denied this right.
- 2. Water security: A national water infrastructure fund to ensure adequate funding to municipalities and First Nations communities; national enforceable drinking water standards; public or local control of water infrastructure; and a comprehensive strategy to protect source water from pollution and shortages.
- 3. Water democracy: Mechanisms to strengthen the powers of local, provincial, and federal governments to protect watersheds by banning bulk water exports, excluding water from NAFTA and other trade agreements, amending the Great Lakes Compact, and recognizing the role of the International Joint Commission.
- **4. Water knowledge:** A plan to expand and improve research and capacity with regards to water, water treatment, conservation, and climate change impacts on watersheds.

1. Water justice

Recognition of water as a human right

The AFB recognizes water as a human right by enshrining it in domestic law, by recognizing the existing rights of Aboriginal communities to water, and by supporting the recognition of water in international law.

Water as a human right in Canadian law

Water must be recognized as a human right at every level of government. This will ensure that all people living in Canada, without discrimination, are legally entitled to safe, clean drinking water and water for sanitation in sufficient quantities, and that inequalities in access are addressed immediately.

According to the World Health Organization, the recognition of water as a human right will require governments to:

- respect or refrain from interfering directly or indirectly with the enjoyment of the right to water;
- protect or prevent third parties such as corporations from interfering in any way with the enjoyment of the right to water; and
- fulfill or adopt the necessary measures to achieve the full realization of the right to water.

In particular, the recognition of water as a human right will grant communities lacking access to clean drinking water a legal tool to exercise this right. It will also provide legal recourse from the destruction of source water by industrial activities.

Supporting water as a human right in international law

According to the UN, one billion people around the world lack access to safe drinking water and basic sanitation. The recognition of water as a human right in international law allows for the means and mechanisms available in the United Nations human rights system to be used to monitor the progress of states in realizing the right to water and to hold governments accountable. The Canadian government has consistently opposed the recognition of water as a human right at key UN meetings.

The AFB supports the recognition of water as a human right in international law.

Recognition of First Nations' water rights

Indigenous communities in Canada have been affected disproportionately by the water crisis. Despite repeated pledges to ensure they have access to clean drinking water, their water is still often contaminated. Last November, Health Canada reported 103 drinking water advisories in First Nations communities.³

Industrial water pollution is rampant in these communities. High cancer rates associated with exposure to tar sands production, for example, have been reported among the First Nations and Metis communities in Fort Chipewyan, Alberta.

Because industrial expansion is either directly on land to which Indigenous communities lay claim or upstream from where they live, it is crucial that the authority of Indigenous governments be respected.

The recognition of First Nations water rights requires the federal government to:

- respect Aboriginal self-determination;
- recognize and respect the authority of Indigenous governments;
- honour the right of Indigenous peoples to participate in decision-making regarding water; and
- acknowledge and incorporate Indigenous knowledge in federal decision-making with respect to water.

Declaring surface and ground water a public trust

The declaration of surface and ground water as a public trust will require the government to protect it for the public's reasonable use. Although its application varies and depends on other aspects of the legal and political context, the general idea of a public trust doctrine is that private use must be subservient to the public interest. Permission to extract groundwater under the public trust doctrine, for example, might be granted based on the ability to show public benefit for any proposed extraction.⁴ It may also lead to the creation of a hierarchy of use requiring that water use be allocated for ecosystems and basic human needs first.

2. Water security

National public water infrastructure fund

Decades of cuts in infrastructure funding, coupled with the downloading of several programs and services to municipal governments, have resulted in a "municipal infrastructure deficit," conservatively estimated at \$123 billion by the Federation of Canadian Municipalities. Water and wastewater needs alone are estimated at \$31 billion.

As part of the AFB Stimulus Plan, \$3.7 billion in 2009–10 will be invested in a National Public Water Fund. Some of the general municipal infrastructure spending will likely also be spent on rebuilding water infrastructure. Municipal water transfers will then reach their yearly target of \$3.1 billion a year in 2010–11 in order to pay down the infrastructure deficit in 10 years. The AFB devotes this spending exclusively to publicly owned and operated water infrastructure instead of through the failed P3 model.

An additional \$150 million over two years will be devoted to water operator training and certification in the public sector, along with water conservation programs.

The AFB also commits \$100 million to upgrades in Aboriginal water systems in accordance with the Kelowna Accord. (For more information see the *Aboriginal Peoples Chapter.*)

National enforceable drinking water standards

Canada does not have legally enforceable drinking water standards.⁵ In February 2008, the *Canadian Medical Association Journal* reported 1,766 boil-water advisories in Canadian municipalities, not including First Nations communities.⁶ Several communities have endured drinking water advisories for years, and 90 Canadians die from water-borne disease every year.

The AFB will establish national enforceable drinking water standards that include a training program for workers and dedicated money for upgrading of infrastructure.

Strategy to address water pollution

Although regulating water pollution falls largely under provincial jurisdiction, the federal government is responsible for protecting fish-bearing waters through the Fisheries Act and controlling toxic substances under the Canadian Environmental Protection Act.

The AFB therefore introduces a plan to curb water pollution that includes:

- standards for industry and agribusiness;
- a slowdown of tar sands production;
- removal of Schedule 2 from the Fisheries Act;
- national enforceable standards for sewage treatment;
- research and funding for environmentally friendly sewage treatment methods; and
- an end to regulatory harmonization under the Security and Prosperity Partnership.

Standards for industry and agribusiness: Every level of government must commit to creating and

enforcing strict laws against industrial dumping, the use of non-essential pesticides on public and private lands, and the discharge of toxins into waterways or landfills.

Slowdown of tar sands production: The tar sands projects release four billion litres of contaminated water into Alberta's groundwater and natural ecosystems every year. Toxins connected to tar sands production have been found as far downstream as the Athabasca delta, one of the largest freshwater deltas in the world. A slowdown in production is clearly imperative.

Removal of Schedule 2 from Fisheries Act:

Lakes that would normally be protected as fish habitat by the Fisheries Act are now being re-defined as "tailing impoundment areas" in a 2002 "schedule" added to the Metal Mining Effluent Regulations of the Act. Once added to Schedule 2, healthy freshwater lakes lose all protection and become dump-sites for mining waste. Canada is the only industrialized country to allow this practice. It must stop.

National enforceable standards for sewage treatment: Canada has no national standards for municipal sewage treatment and wastewater effluent quality. As a result, 200 billion litres of raw sewage are flushed into our waterways every year. It is crucial that municipalities get the necessary financial support from higher levels of government to sanitize their sewage before discharging it into our waterways. Municipalities that continue to dump raw sewage into fish-bearing waters will be prosecuted under the Fisheries Act.

An end to regulatory harmonization through

the SPP: The Security and Prosperity Partnership which Canada entered into with the U.S. and Mexico in 2005 includes a regulatory framework agreement that permits, among other things, an increase in the levels of pesticides allowed in Canada to match the higher U.S. levels. This is one of many reasons why the SPP must be terminated.

National Water Policy

GENDER

Access to clean water and recognizing this as an essential right is a benefit to women. The Council of Canadians and the National Network on Environments and Women's Health will be releasing a study on the impacts of water privatization on women in Canada. Please visit www.canadians.org for details.

Strategy to address water shortages

Groundwater mapping and protection

A third of our communities rely on groundwater as a source of drinking water, yet Canada still has not mapped its groundwater supplies or ascertained how long they will last. The federal government has finally launched a plan to map groundwater by 2010, but the information generated must serve as the basis for a thorough groundwater protection plan that will include:

- the application of the public trust doctrine to groundwater;
- prohibiting the extraction of groundwater in quantities that exceed its recharge rate; and
- a "local-sources-first" strategy that gives first rights to local people, farmers, and communities.

Restrictions on bottled water industry

Canada is a net exporter of bottled water. And, despite growing shortages in municipal water supplies, over a quarter of bottled water consumed in Canada is actually public water repackaged.

The AFB will introduce stricter regulation of the bottled water industry that will:

- require bottled water corporations to identify their sources on labels; and
- work with provinces to demand restrictions on water-taking permits.

A climate change plan

The Conservative government has failed to plan for the impact of climate change on Canadian watersheds and water infrastructure. Provinces and municipalities will require assistance from the federal government in planning for the water shortages, floods, and droughts that may arise.

The AFB plan for climate change includes:

- research and information on impacts of climate change on watersheds and infrastructure;
- renewal and funding of the Flood Damage Reduction Program; and
- drought and flood planning and support for Indigenous communities.

The AFB allocates \$50 million over two years to conduct this research agenda.

Alternative sources of power

The energy sector is the single largest user of water. Canada diverts more water for hydroelectricity than any other country in the world and tremendous amounts of water are consumed for tar sands development. A comprehensive water strategy must include plans to develop publicly owned alternative sources of power that put less strain on water resources.

3. Water democracy

Corporations in Canada benefit from an environmental policy gap, while trade agreements protect foreign investors against future policies that would restrict or prohibit their activities. The AFB therefore institutes the following mechanisms to enable governments to protect watersheds:

A ban on bulk water exports: The need for such a ban is pressing, given the pressure to export water to serve drought-prone areas in the United States. In the last two years we have seen detailed proposals from right-wing think tanks in

both the United States and Canada to export water from Manitoba and Quebec. These projects are tremendously costly, require vast amounts of energy, and pose great threats to watersheds.

The exclusion of water from NAFTA and all future trade agreements: Under NAFTA, water is defined as an investment and a service. This protects the right of foreign investors to consume vast and unsustainable amounts of water to extract oil from the tar sands, to bottle ancient glacier water and groundwater, and to dump their waste into lakes. If a corporation is granted permission to export water anywhere in Canada, it becomes a tradeable good under NAFTA, and other provinces will have to grant similar access to corporations seeking water export rights. Only a clear exclusion of water from NAFTA and other trade agreements will avert this threat.

Amendments to the Great Lakes Compact and recognition of the IJC: The International Joint Commission (IJC) is responsible for resolving conflicts over boundary waters between Canada and the U.S. However, it is increasingly being circumvented and its authority undermined. The Great Lakes Annex, initially created to prevent diversions from the Great Lakes-St. Lawrence River Basin, was negotiated by Ontario, Quebec, and the eight Great Lakes States without involvement by the Canadian federal government. The Great Lakes Compact, which makes the provisions of the Annex enforceable in the U.S., was signed into law by President George Bush in December 2008. These agreements empower another body with the responsibility for dispute resolution, thus making the IJC irrelevant and restricting Canada's ability to responsibly protect the future of the Great Lakes. The agreement also allows diversions through a loophole that gives bottled water corporations the right to withdraw unlimited amounts of water in containers of 20 litres or less. Key groups in Canada and the United States are now calling

for an amendment of the Compact to incorporate the public trust doctrine and remove of the bottled water exception.

The AFB will open negotiations with the U.S. to incorporate the public trust doctrine into the Great Lakes Compact Agreement and eliminate the bottled water loophole. It will also refer all boundary water matters to the IJC.

4. Water knowledge

Canada has the resources to be a leader in environmental research, but Canadian scientists are concerned that research in this area has declined significantly due to a lack of political will and severe funding cuts. To address the numerous information gaps in water quality and quantity, the 2009 Alternative Federal budget injects funds into:

- the monitoring of water quantity and quality;
- the Global Environmental Monitoring program; and
- a comprehensive study of water contamination in the tar sands.

Monitoring of water quantity and quality: This responsibility is shared between the federal and provincial governments. Inadequate funding and lack of coordination have led to gaps and inconsistencies in information.

The AFB will improve water monitoring through:

- the development of an overarching water quality and water quantity monitoring frameworks to assist provinces and communities;
- · an increase in monitoring stations; and
- · training for staff in water monitoring.

The AFB will allocate \$325 million over two years towards funding these initiatives, as well participating in the Global Environmental Monitoring

System (GEMS). This Canada-led UN program that monitors the quality of freshwater around the world is an important contribution to addressing the global water crisis. To preserve this program, the AFB will meet the actual funding requirements in the GEMS program of \$2.2 million per year.

Study on water contamination by tar sands development: This contamination has caused health and environmental problems for the residents of Fort Chipewyan and other communities on the Athabasca watershed. A thorough investigation of the tar sands' health and environmental impacts is clearly imperative.

The AFB will commit \$30 million to an indepth study of the water effects of tar sands development.

Conclusion

The myth of water abundance and the lack of legislation have created a climate in Canada where corporations have been able to exploit water resources with very little restriction compared to other industrialized countries. Canada, through better research and science, must improve its understanding of the looming freshwater crisis, set concrete targets to protect water and guarantee access to clean drinking water in all communities, while ensuring that water services remain in public hands.

Notes

- 1 2003. WHO. Right to Water. Health and human rights publications, series no. 3.
- **2** WHO: http://www.who.int/water_sanitation_health/rightowater/en/
- 3 Health Canada: http://www.hc-sc.gc.ca
- **4** January, 2007. Legislative Study Committee of Groundwater Regulation and Funding. Legislative Council State House, Vermont.

- **5** Barlow, Maude. *Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water.* (Toronto: Mclelland and Stewart, 2007) 184
- **6** 2008. Canadian Medical Association Journal. Investigative Report: 1,766 boil-water advisories now in place across Canada: http://www.cmaj.ca/cgi/content/full/178/10/1261
- **7** Barlow, Maude. *Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water.* (Toronto: Mclelland and Stewart, 2007) 184
- 8 Barlow, Maude Barlow, Maude. Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water. (Toronto: Mclelland and Stewart, 2007) p.179
- **9** Barlow, Maude. *Blue Covenant: The Global Water Crisis and the Coming Battle for the Right to Water.* (Toronto: Mclelland and Stewart, 2007)

SECTION 3

Canada and the World

Defence

Canadian military spending continues to grow dramatically as the government pursues an unprecedented military buildup of forces and equipment, and Canada enters the eighth year of its costly combat role in Afghanistan.

Planned spending and subsequent supplemental increases throughout the 2008–09 fiscal year have pushed Canada's military spending to an estimated \$19.89 billion. This is a 6% increase over 2007–08 spending (8% without adjusting for inflation).

This represents a major commitment of public dollars to the military at a time when there are many demands on the federal treasury, especially given the economic downturn. To date, the government has provided no indication that it will reduce its planned military spending on additional troops and many expensive military equipment programs — programs that provide few, if any, jobs and no measurable benefit to the Canadian economy.

Canadian military spending is at an historic high. The current level of spending is Canada's highest since the Second World War, surpassing the Cold War peak in 1952–53 by about 9% (in adjusted dollars).

Despite this, media commentators frequently mis-characterize Canadian military spending as being very small. However, the International Institute for Strategic Studies places Canada at 14th highest military spender in the world in its report, *The Military Balance 2008*. The report is an annual assessment of the military capabilities and defence economics of 170 countries worldwide and is published by the U.S. Department of Defense.

Within the 26-member NATO alliance, Canada has risen in recent years to 6th, dollar for dollar (2007 est.), according to NATO's Defence Policy and Planning Division. Canada trails only the United States, the United Kingdom, France,

Canadian military spending 2008-09

\$19.89 billion (est.)

23% increase over 2005–06 (adjusted for inflation) 9% higher than Cold War peak in 1952–53 14th highest in the world (of 170 nations) 6th highest in NATO (of 26 members)

TABLE 1 Military Spending by Country **World Ranking** Country Military Spending (billions of US\$) **United States** 711.0 China 2 121.9 Russia 70.0 3 United Kingdom 4 55.4 France 5 54.0 6 Japan 41.1 Germany 37.8 7 8 Italy 30.6 Saudi Arabia 9 29.5 South Korea 24.6 10 India 22.4 11 Australia 17.2 12 Brazil 16.2 13 Canada 15.0 14 Spain 15 14.4 Turkey 11.6 16 Israel 11.0 17 Netherlands 18 9.9 United Arab Emirates 9.5 19 Taiwan 20 7.7

SOURCE International Institute for Strategic Studies, *The Military Balance 2008*, U.S. Department of Defense

Germany, and Italy. NATO members account for about two-thirds of world military spending (the U.S. alone accounts for about half of world military spending). Canada has the 11th highest number of military personnel in the alliance.

The Harper government's Canada First Defence Strategy

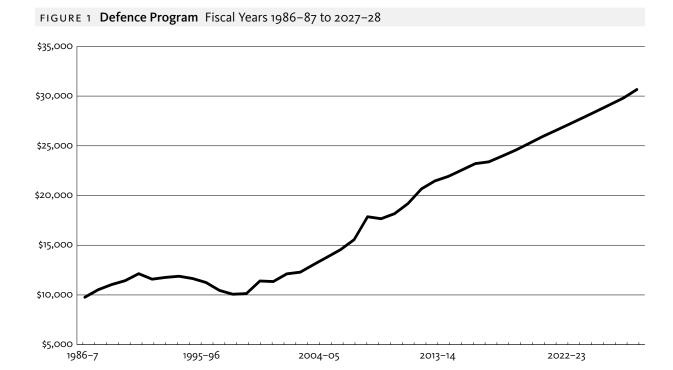
Military spending increases have been a favoured policy of Liberal and Conservative governments alike, and the Canadians Forces' spending has been moving upward since 1998–99, when the federal budget deficit was eliminated and the first surplus was posted.

The last Liberal budget in 2005 dedicated \$12.8 billion to defence increases over five years. The first Conservative budget in 2006 went even

further, adding \$5.3 billion more. Today, military spending under Stephen Harper has increased by 23% since the last Liberal budget in 2005 (or 32% without adjusting for inflation).

On May 12, 2008, in what some reporters described as a "well-orchestrated" media event, Prime Minister Harper and Defence Minister Peter MacKay announced the government's Canada First Defence Strategy. At a Halifax armoury, using military personnel and equipment as a backdrop, the government announced a \$490 billion, 20-year plan that would increase defence spending to more than \$30 billion per year by 2027–28.

"We will substantially strengthen the Canadian Forces; we will gradually increase the number of regular troops and reservists and provide them



NOTE Canada First Defence Strategy. http://www.forces.gc.ca/site/focus/first-premier/June18_0910_CFDS_english_low-res.pdf

with better equipment to make them as effective and safe as possible," Harper declared.

MacKay announced a number of equipment programs, including search and rescue aircraft, helicopters, and new fighter aircraft. "Canada is fortunate in many ways to have a defence alliance with the United States that has been nurtured for decades by governments both Conservative and Liberal," Harper added.

However, the government came under criticism for announcing the defence plan without providing reporters with an actual copy of the plan in writing. Even more serious, MacKay confused figures representing tens of billions of dollars, requiring military officials to hold a subsequent meeting with reporters to explain what the minister actually meant.

Weeks later, on June 19, 2008, the last Thursday of Parliament before the summer break, the government released its 21-page, \$490 billion, 20-year plan to the public and the media by posting

it on a website. The plan promises additional average real growth in military spending of 0.6% and average nominal growth (not adjusted for inflation) of 2.7% per year from 2007–08 to 2027–28.

The new combat equipment programs

The influx of dollars to the military, as well as the employment of a new accounting method that spreads large capital spending projects over many years, possibly decades, has allowed Defence officials to embark on a shopping spree for equipment to replace current Canadian equipment and to add new military capabilities.

For instance, in November 2008, the *Ottawa Citizen* reported that the Department of National Defence was about to put before the Cabinet a plan to purchase new armoured vehicles. Part of the plan was to buy a new fleet of "close combat vehicles" designed to be used alongside the recently acquired Leopard 2 main battle tanks. The

TABLE 3 Canada First Defence Strategy Total Defence Spending 2008-09 to 2027-28 (Accrual Numbers)

Pillar	Amount	% of total	Remarks
Personnel	\$250B	51%	70,000 Regular and 30,000 Reserve personnel by 2028; includes 25,000 civilian workforce
Equipment			
Previous Announcements	\$15B*	3%	Previously announced equipment purchases, including: • C-17 Globemasters • C-130J Hercules • Trucks • Arctic/Offshore Patrol Ships • CH-47F Chinook Helicopters
New Major Fleet Replacements	\$20B [†]	4%	 Fixed-wing Search and Rescue Aircraft Destroyers and Frigates Maritime Patrol Aircraft Land Combat Vehicles and Systems
Other Capital	\$25B	5%	Includes individual weapons, communications equipment, etc.
Infrastructure	\$40B	8%	Increased investment in rebuilding and maintenance of infrastructure of approximately \$100M/year
Readiness	\$140B	29%	Approximately \$140M/year in new spending on spare parts, maintenance and training
Total Spending over 20 Years	\$490B	100%	

SOURCE Canada First Defence Strategy. http://www.forces.gc.ca/site/focus/first-premier/June18_0910_CFDS_english_low-res.pdf

* This figure reflects only the capital component of this equipment over the 20-year period. The previously announced total of \$30B includes the capital and in-service support costs over the full life of the equipment. † This figure represents the capital costs of the new Major Fleet Replacements during the 20-year period reflected in the chart. The total capital costs of these platforms amortized over their useful life, which extend beyond this 20-year period, amount to \$45–50B.

price tag was originally reported to be \$2 billion, but an industry source later pegged the price tag at \$5 billion, though no public announcement has been made.

The purchase shows that the military is not simply updating older equipment, but also adding new combat systems to the Canadian arsenal. Each time a new capability is acquired by the Canadian Forces, a new supply chain must be created for parts, maintenance procedures, training programs, and operational support capabilities down the line from the factory to the battlefield, dramatically raising costs.

In addition, the close combat vehicles designed to accompany Canada's new fleet of Leopard 2 main battle tanks are one example of the trend toward heavier combat capabilities for the Canadian Forces.

Some analysts have questioned the wisdom of these purchases, given the economic downturn and the potential need for other investments by the government. Military leaders have suggested that these expenditures will help create jobs. But this is by no means clear, and it cannot be verified because the programs lack transparency.

While it is terribly inefficient at creating jobs in comparison with other public investments such as education or health care, defence spending can assist domestic firms if the government requires the foreign supplier to perform some percentage of the work in Canada through sub-contracts, or requires an investment in Canada equivalent to part or the entire value of the contract.

The government, however, has been purchasing mature equipment designs already built in other countries, and commitments from foreign suppliers to invest in Canada have not been made public. Canadians therefore have no assurance that they are benefiting from the billions of dollars that are being spent — mostly flowing to U.S.-based weapons manufacturers such as Boeing and Lockheed Martin.

The cost of the war in Afghanistan

In 2008, the cost of Canada's ongoing military mission in Afghanistan was exposed in two important ways. The number of military deaths incurred by the Canadian Forces surpassed 100, and the Government of Canada published its first attempt to calculate the cost of the war.

The report on the cost of the war was released on October 9, 2008, by the newly established Parliamentary Budget Office (PBO). Kevin Page, head of the PBO, admitted the figures in the report were conservative. When the costs associated with the war in Afghanistan across several departments were compiled, including the cost of foreign aid and the care required by many injured soldiers, the estimated price tag for the government came to at least \$18.1 billion by the end of the current mission in 2011.

A similar study by the Rideau Institute estimated the government cost to be more than \$20.7 billion, but this figure included billions of dollars in soldiers' salaries, which were excluded by the PBO. The PBO's estimate was therefore higher than any previous non-governmental estimate.

Going further, the Rideau Institute calculated the economic impact of so many wounded and killed soldiers, adding another \$7.6 billion to the cost of the war to Canada's government and economy. This calculation put the total price at \$28.4 billion by 2011.

The end of Canadian UN peacekeeping

Canadian military spending has been increasing since the mid-1990s, and Canada's costly combat role in Afghanistan has been accompanied by a move away from UN peacekeeping, a role prized by the Canadian public but rejected by its military and government.

UN peacekeeping conducted through the UN Department of Peacekeeping Operations has never been more active, but, ironically, the Canadian military contribution has never been lower.

Defence

GENDER

As defence costs have risen in the past decade, poverty in Canada persists and rises. Thorough and accountable gender- based analysis must be conducted on all government policies and programs, including the budgets, to ensure that economic, social, and cultural rights are upheld and that allocations are made to address inequalities.

Canada currently contributes 62 military personnel out of the UN total of 78,118 (0.08%): this places Canada 45th out of 107 contributors. Canada sends nearly twice as many police to UN peacekeeping missions, contributing 115 police personnel out of the UN total of 12,125 (0.95%): 30th out of 94 contributors.

When military and policy personnel are combined, Canada contributes 177 total personnel out of the UN total of 90,243 (0.20%), placing Canada 53rd out of 121 contributors, between Slovakia (199) and Malawi (172). As a comparison, Slovakia has a population 16% the size of Canada's and a GDP 5.2% the size of Canada's, while Malawi has a population 41% the size of Canada's and a GDP 0.25% the size of Canada's.

Conclusions

The impact of Canada's high level of military spending is not clearly understood by decision makers. Perceptions that Canada is a low military spender persist, when in reality Canada ranks in the top 10 of NATO spenders and the top 20 military spenders in the world.

The growing financial crisis, meanwhile, is requiring greater Canadian investment to bolster the economy and protect jobs. The growing military spending fences off badly needed resources as multi-billion-dollar contracts are signed with mostly foreign defence suppliers.

Each new military contract means billions of dollars become unavailable for use in other ways. For instance, a potential new green infrastructure program may have to be reduced in size because billions were committed to military aircraft. New investments in job-creating social programs are limited by the enormous sums being spent on battle tanks.

In Afghanistan, a war that many now acknowledging is unlikely to be won continues to cost lives and billions of dollars. The Liberals and Conservatives agreed to extend Canada's military involvement another three years, to December 2011 — a decision made without any real analysis of the cost to Canada, which the government now estimates to be at least \$18 billion.

The Alternative Federal Budget makes the following commitments:

• In light of the deteriorating situation in Afghanistan and Canada's heavy burden in both killed and injured soldiers, a military withdrawal will be initiated. The president of Afghanistan, Hamid Karzai, is calling for a negotiated solution with the Taliban. With combat operations lasting now lasting longer than World War II with no end in sight, other options must now be considered, particularly since the rapidly escalating war costs are greatly needed here in Canada as a recession looms. The total savings from result from the incremental costs of the war in additional equipment and fuel needed: \$525 million in 2009-10, \$1.1 billion in 2010-11.

· The "Canada First" program has committed the federal government to military spending levels not seen since the Second World War. Many of the military hardware purchases to be made by the federal government are not manufactured in Canada. Instead, our purchase of this equipment may create jobs in the United States and England, but very few in Canada. During this recessionary period, government spending should be targeted to where it will be most economically effective. Creating jobs in Canada should be the government's first priority. Accordingly, the AFB will postpone the purchase of military hardware until the current severe recession abates. The savings should be directed towards putting Canadians back to work and rebuilding our infrastructure for the future instead of building new weapons systems. The delays are expected to save \$100 million in 2009-10, \$262 million in 2010-11.2

Notes

- 1 \$19.489 billion plus approximately \$400 million in respendable revenue. FY2008–09 Report on Plans and Priorities; Supplementary Estimates (A), 2008–09; Supplementary Estimates (B), 2008–09.
- 2 New capital investments that could be delayed from 2009– 11 include the Arctic Ice Patrol/Breakers and the HFX Class Modernization Package

International Development

Across the planet, 50,000 people die from poverty-related causes every day. Another 800 million people go to bed hungry each night. More than 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 halve extreme poverty and hunger, and achieve specific targets for fighting illiteracy, discrimination against women, and environmental degradation by 2015.

Developed countries also committed to significantly increasing development assistance levels to help achieve the MDGs. But, after several years of increases, aid levels have actually fallen in the last two years.

Canadians like to think of themselves as a compassionate and generous people. But we are 16th out of 22 donor counties. The Netherlands, a country with less than half the population of Canada, gives almost twice as much aid in dollar terms. Five countries - Sweden, Norway, Luxembourg, the Netherlands, and Denmark - have reached or exceeded the 0.7% aid target. Another 11 countries, including the U.K., France and Germany, have timelines for doing so before 2015. Canada does not.

Canada's foreign aid level has fallen from 0.34% in 2005–06, the last year of the Liberal government, to 0.28% of national income in 2007, according to OECD DAC figures, or less than half of the UN aid target of 0.7%.

Canadian Official Development Assistance in 2008–09 is estimated to be \$4.6 billion. The 2008–09 figure includes a one-off addition of \$100 million for Afghanistan announced in the previous federal budget, on top of the planned 8% annual increases that were initiated in 2001 under the Chrétien Liberals and continued by the Harper Conservatives.

But these increases fall short of what is needed to advance Canada towards the 0.7% UN aid

International Development

GENDER

Women are hardest hit by poverty worldwide. Many international development NGOs are focusing their energies on women's equality rights to address dire poverty and to increase the standard of living for the world's poorest. Canada has a reputation of upholding women's equality in development projects by conducting rigorous gender-based analysis on its aid projects. It is incumbent upon Canada to meet assistance obligations to aid in achieving women's equality worldwide.

ABORIGINAL PEOPLES

Indigenous peoples globally, as in Canada, are the victims of conquest and colonialism. Continuing oppression results in the highest rates of impoverishment and victimization in new conflict situations: for example, the near-extermination of Indigenous groups in the Sudan. Canada's vote against the United Nations Declarations on the Rights of Indigenous Peoples is a continuing mark of shame internationally and a reflection of the Government of Canada's denial of rights to Indigenous peoples at home and abroad.

target. Canada is also in danger of falling short on the government's commitment to double aid from 2001 levels by 2010, which was reconfirmed in the 2008 federal budget.

The government must not allow the global financial crisis to affect its stated commitment of increasing Canadian aid. Canada's adjustments to recession and other impacts from the crisis should not be made on the backs of the poor, either overseas or in Canada. The UN Secretary General and the World Bank president have both warned that the impact on developing countries of both the financial crisis and potential reneging on donor promises will significantly hurt the poor and undo any recent advances in reducing global poverty.

Is the problem that, in this economic downturn, we lack resources? Remember: the U.K., the U.S. and Canada will be spending Us\$150 billion this year on wars in Afghanistan and Iraq, almost double all budgeted aid from all donors in 2006. Alone, Canada plans to spend at least \$18 billion on the Afghan military mission.

The global community has made significant progress towards achieving the Millennium Development Goals. But the negative impact of climate change on developing countries, the food price crisis, and the global economic crisis threaten to reverse the progress that has been made. This is not a time for backsliding. We need to redouble our efforts to eradicate global poverty, and Canada must do its part.

Afghanistan has been by far Canada's largest country recipient of aid over the past two years, and significant amounts of the new aid resources provided through the 8% increases since 2001 have gone there. With an additional \$650 million announced since the February 2008 budget for 2008–09, Canada has a ten-year CDN\$1.9 billion aid commitment to the country from 2001 to 2011. For fiscal year 2006–07, CIDA reports that it disbursed CDN\$179 million, with CDN\$49 million directed to aid programs in Kandahar Province where Canada has 2,500 combat troops as part of the NATO ISAF mission in Southern Afghanistan. In 2008–09, Afghan aid disbursements are expected to reach CDN\$280 million.

Meanwhile, the stated cost of Canada's military ISAF mission since 2001 is CDN\$7.5 billion, which overwhelms the aid budget for the country. For 2007–08 alone, the government's original estimate of the mission's incremental costs to the defence budget was CDN\$846 million. Latest newspaper reports suggest overspending of over CDN\$1 billion,² which means the total cost for this fiscal year will be nearly CDN\$2 billion. In March 2008, the Conservatives and Liberals joined forces in Parliament to extend the mission until 2011, with greater emphasis on train-

ing Afghan police and military, as well as development assistance.

According to DAC figures, Canada allocated more than US\$500 million in aid to Afghanistan and Iraq from 2000 to 2006 (not including debt relief grants). These two country programs (but mainly Afghanistan) account for about 20% of all the new aid resources since 2000. In addition, Canada granted US\$353 million in debt relief for Iraq, which was included in ODA for 2005.

The AFB will set a timetable to increase Canadian Official Development Assistance (ODA) over the next 10 years to reach the UN aid target

of 0.7% of Canada Gross National Income (GNI) by implementing a budgetary plan to increase Canadian ODA by at least an average of 15% a year for the next ten years, to achieve 0.35% of Canadian GNI by 2010, 0.54% by 2015, and the UN target of 0.7% by 2018. This will require \$322 million in 2009–10 and \$718 million in 2010–11.

Notes

- 1 Reality of Aid Report
- 2 "Tories don't deny Afghan mission \$1 billion over budget", Toronto Star, March 11, 2007.

International Economy

Confronting the global financial and economic crisis

The financial and economic crisis that originated in the United States has now spread globally, with GDP falling and unemployment rising in both the industrialized and developing countries.

It is the most serious crisis since the Great Depression of the 1930s. The financial meltdown — the result of the globalized, unregulated shadow banking system — is the most dramatic manifestation of three decades of neoliberal free market capitalism. It has exposed the economic and moral failings of an economic model that has produced an explosion of inequality and brought the planet to the edge of environmental disaster. How deep and how protracted the recession will be — whether it will become a depression — will depend on the effectiveness of governments' response.

The immediate challenge is to stabilize and reactivate international credit markets and move economies rapidly out of recession and on the road to recovery.

Canada should lead by example, not only in its own fiscal stimulus actions, since it is better positioned than most countries—having a low

debt burden and years of fiscal and trade surpluses — but it should also be urging concerted action in international forums.

Once recovery is underway, the international community must take steps to rethink and reform the global financial and economic architecture. These steps should include a fundamental rethinking of international trade and investment agreements; more publicly accountable systems of governance; new mechanisms to address international trade and financial imbalances; tighter regulation of global financial markets, especially hedge funds and private equity funds; more accountable central banks; new international taxation regimes such as financial transaction taxes and the ending of offshore tax havens; and new structures and institutions to combat inequality and poverty and promote environmentally sustainable development.

Canada played an important role in the creation of the post-World War II economic and financial order. Though its international reputation as a well-respected honest broker has been undermined in recent years, it is still well positioned to play a leadership role in the current crisis.

Rethinking trade agreements, renegotiating NAFTA

The AFB has long criticized NAFTA and other trade and investment agreements as fundamentally flawed. Criticism of the NAFTA model of integration extends to the incremental deepening (or NAFTA-plus) measures that have been taking place behind closed doors under the cover of the Security and Prosperity Partnership initiative (SPP) since 2005.

These agreements have greatly enhanced the power and mobility of large corporations at the expense of workers, communities, and governments. Acting in tandem with other neoliberal policies, they have constrained governments' ability to protect their citizens and the environment, to regulate and legislate in the public interest, and to manage industrial and resource development in the national interest. They have played a significant role in depressing incomes and environmental standards, in facilitating the exodus of high value-added jobs, in eroding government fiscal capacity, and in weakening public services. As part and parcel of the failed neoliberal economic model, they have contributed to and aggravated the current crisis.

The AFB commits to giving free trade agreements a fundamental rethink. The bias in favour of large corporations and deregulated markets, at the expense of citizens' priorities and the public good, will be reversed. All trade and investment agreements will be subjected to a root-and-branch review — both those already in place and those under negotiation. The FTAS with Colombia and Korea will not be concluded.

The election of Barack Obama as the new President of the United States provides an opening to begin a renegotiation of NAFTA. It is time to re-imagine economic relations on the North American continent in a whole new way — one that benefits popular majorities in all three countries.

Renegotiation priorities from a Canadian perspective will be to reclaim national public policy space:

International Economy

ABORIGINAL PEOPLES

The efforts of the Government of Canada to increase integration with the United States must not affect the unique governance rights of First Nations, nor the aspects of the Jay Treaty that guide the rights of First Nations citizens with regard to a border which divides numerous First Nations communities between the two countries.

- Eliminate NAFTA's investment chapter provisions that give corporations the right to sue governments for alleged lost profits, giving them the powers to ratchet down unwanted policies and regulations. Through this mechanism, corporations have successfully challenged federal bans on toxic gasoline additives and the export of hazardous wastes, while posing a threat to British Columbia's ban on bulk water exports, challenges against Newfoundland's local economic development policies by multinational oil giant Exxon-Mobil and against its control over its resources by Abitibi-Bowater.
- Renegotiate energy and other resource policy provisions, notably the "proportionality clause" that compels Canada to continue exporting this country's oil and natural gas resources to the United States, even if these exports result in domestic shortages here at home.
- Exclude water from NAFTA and all trade agreements, and ban bulk water exports.
- Protect workers and the environment.

 As it stands now, NAFTA functions in such a way as to foster a race to the bottom for both workers and the environment in all three countries. In the current economic crisis, these flaws in NAFTA serve to further depress wages and cause the loss

- of more good jobs, while undermining both workers' rights and environmental sustainability.
- Create more space for active industrial policies — policies that facilitate

domestic processing of resources and greater use of local procurement; and for polices that expand basic public services like Medicare and education without risk of challenge by foreign investors.

SECTION 4

The Changing Nature of Work and the Economy

Employment Insurance

Program benefits

Employment Insurance (EI) is a critically important program for Canadian workers, especially in the tough times we face today. Laid-off workers obviously need adequate benefits to support themselves and their families while they search for a new job.

Recessions mean that more workers lose their jobs, and that they find it much harder to find a new one. In the last two recessions, those of the early 1980s and early 1990s, Canada's national unemployment rate rose sharply, from about 7.5% to over 11%.

We now face another, possibly very long, recession. However, unlike previous recessions, in this one our EI program will leave many Canadians out in the cold, unable to qualify for benefits.

Back in 1996, the maximum weekly benefit (in today's dollars) was \$604. Today, after a decade-long freeze on maximum insurable earnings which only recently expired, it is only \$435. The average benefit today is much lower than the maximum, just \$335 per week. This is not enough to keep even a single adult at the poverty (LICO) line, let alone support working families through tough times.

In 2006-07, only four in 10 unemployed workers qualified for EI. While some unemployed workers not receiving benefits are new entrants or re-entrants to the workforce, low coverage of the unemployed also results from the fact that many young people, recent immigrants, parttime, temporary, and seasonal workers do not have enough hours of work to qualify, especially those in large cities. Women are especially affected. Only half of unemployed workers who were previously working part-time qualify for benefits. In the event of a recession, many working poor Canadians, especially women, will see sharp reductions in their incomes due to cuts to their hours and weeks of work, and even more of them will be pushed out of the system.

Unemployed workers who do qualify are, on average, eligible for 32 weeks of benefits, about seven months. This is much less than the theoretical maximum of 50 weeks in a handful of very-high-unemployment regions. Some unemployed workers qualify for a maximum of only 14 weeks of benefits. In a recession, the proportion of claimants exhausting benefits will rise sharply from the current level of one in four.

A decent EI program is needed in a recession, not only to cushion unemployed workers, but also to help place a floor under the wages of employed workers and prevent a downward spiral in the job market.

The AFB Stimulus Plan views EI reform as a critical step towards maintaining Canadians' incomes as they lose their jobs. All aspects of EI reform discussed below are included in the Stimulus Plan.

Program finances

Despite its inadequacies, EI is a hugely significant program that will provide an estimated \$10 billion in regular benefits in 2009 to workers who are temporarily unemployed through no fault of their own. If it were not for EI, many more of the unemployed and their families would face poverty, and insecurity and income inequality would be even more pronounced. Regular EI benefits also help sustain the economies of local communities.

In the event of a serious downturn, the cost of EI regular benefits would increase sharply. It is estimated that 83% of employees now paying into the program would qualify for benefits if they were laid off. (The proportion of unemployed workers actually collecting benefits today is lower than this figure because many of the unemployed were previously self-employed or have just joined or rejoined the workforce.)

The Chief Actuary for the program calculates that a one percentage point increase in the unemployment rate would raise total EI benefits paid out by more than \$1.5 billion per year, and even more if the proportion of the unemployed who qualify for benefits were to rise. (This is based on the data on page 9 of his 2009 report, which show that a one percentage point increase in the unemployment rate would drive up the premium rate by 0.14%, and that each .01% increase in the premium rate represents \$111 million.) An increase in the unemployment rate comparable

to the last two recessions would, then, increase the cost of benefits by about \$5 billion per year.

The EI program has accumulated a huge surplus of \$54 billion since the mid-1990s, the result of deep cuts in benefits paid to unemployed workers. That surplus could and should be made available to backstop and improve benefits as we hit a recession. Rainy day funds are, after all, supposed to be there for rainy days.

However, under both recent Liberal and Conservative governments, the EI surplus has been placed off-limits for the purpose of either improving EI benefits or stopping EI premium increases.

Under the current system, EI premiums are supposed to be set so as to exactly balance revenues and expenditures as forecast for the year ahead, meaning that a recession would force premium increases at the worst possible time (by the upper limit of 15 cents per \$100 of insured earnings). A reserve fund of \$2 billion has been set up, but it is not a real reserve to be drawn down as needed, since any draw on it has to be repaid from premium revenues in the following year. That said, the government can set the premium rate itself if it chooses to do so.

Recommendations

The Alternative Federal Budget sets a lower, uniform entrance requirement of 360 hours of work across the country so that more workers will qualify if they are laid off; longer benefit periods of up to 50 weeks so fewer unemployed workers exhaust a claim; higher weekly benefits based on the best 12 weeks of earnings before a layoff; and replacement of 60% of insured earnings. We note with concern that the government has not proposed to increase the \$2 billion per year allocated to Employment Benefit and Support Measures, even though it has forecast a rise in unemployment.

With Canada on the brink of recession, we will freeze EI premiums at the 2008 level and retrain from any increase during the economic

downturn. We will not proceed with the creation of the new EI Financing Board. This will send a clear signal to workers and employers that the EI program will be sustained when most needed, without a damaging increase in premiums.

The AFB will commit \$600 million through EI to improved worker training. A portion of this spending will be devoted to health care professionals as highlighted in the Health Care chapter. A contracting labour market provides an opportunity to target training towards those who have lost their jobs so that they may be better prepared to take advantage of future economic growth.

The AFB will increase in the level of the benefits from 55% to 60% of insured earnings. The estimated cost is \$1.8 billion.¹

The Afb will base benefits universally on the best 12 weeks, for an estimated cost of \$300 million.²

Increasing access to the program will cost less, since most new beneficiaries will receive a lower-than-average benefit. Many of the working poor tend to fall through the cracks since they combine paid (insured) hours with periods of self employment. The AFB therefore lowers entrance requirements to 360 hours, at a cost of \$504 million.³

The two-week waiting period entrance requirement will be removed, at a cost of \$765 million.⁴

The AFB will extend benefits up to 50 weeks per year in all regions, an improvement that is difficult to cost. Today, about one in four claimants exhaust benefits, and that proportion will rise in a downturn. Even in deep recessions, however, the average duration of unemployment has not gone much above six months, and the proportion of the unemployed in that position for one year or longer has not gone much above 5%.

Notes

1 Based on HRSDC testimony to the HUMA Committee, December 7, 2004 estimating \$1.5 billion at the level of un-

Employment Insurance

GENDER

Current EI eligibility requirements are not equitable to women. Women are more likely to work in part-time or precarious work and often do not meet strict minimum hours requirements. As of October 2007, 21.2% of women in Canada worked part-time, compared to 6.4% of men5. Most women do not choose to work part-time. Nearly one-quarter (23%) of female part-time workers cannot find full-time work; and more than one-third (36%) of women between 25 and 44 are caring for children. Two-thirds of women (and men) under age 25 work part-time because they are attending school. Only 28% do so out of personal preference, and most of these women (57%) are 45 years and older.6

Only one in three women making EI contributions are eligible for EI in the event of job loss.⁷

ABORIGINAL PEOPLES

According to Statistics Canada, First Nations have a rate of unemployment that is more than double the Canadian average. The impact of generations of unemployment and the lack of economic development on reserve has meant that most of these people are ineligible for employment insurance and must rely on social assistance.

employment at the time. Estimate includes combined effects of all EI changes.

- 2 Based on HRSDC testimony to the HUMA Committee, December 7, 2004 estimating \$230 million at the level of unemployment at the time. Estimate includes combined effects of all EI changes.
- 3 Based on HRSDC testimony to the HUMA Committee, December 7, 2004 estimating \$390 million at the level of unemployment at the time. Estimate includes combined effects of all EI changes.
- **4** Based on HRSDC testimony to the HUMA Committee, December 7, 2004 estimating \$600 at the level of unemployment at the time. Estimate includes combined effects of all EI changes.
- 5 The Daily, Nov. 2, 2007, Statistics Canada
- 6 Women in Canada: Work Chapter Updates, 2007

 ${f 7}$ Self-Employed Women, Employment Factsheet, ACTEW, Sept. 2007

Sectoral Development

In addition to its terrible toll on overall employment and income opportunities for Canadians, the current downturn poses tremendous challenges to the sectoral composition of Canada's economy. In fact, one of Canada's greatest vulnerabilities during this crisis stems from the negative structural shifts in our economy which became increasingly obvious during the previous so-called "boom" years. The unbalanced nature of our previous growth will impose a painful additional cost on Canadians — on top of the weakness in aggregate output, employment, and income that are features of every recession.

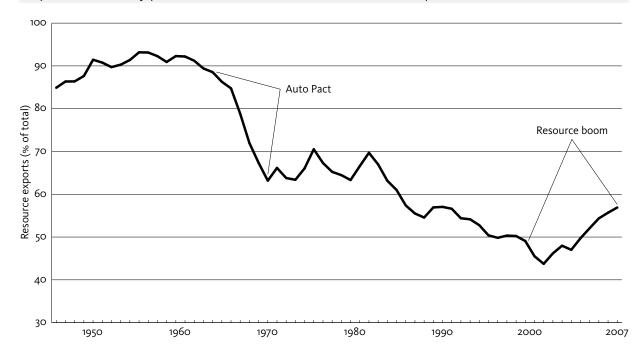
Even when Canada's economy was experiencing decent growth and relatively low overall unemployment earlier in this decade, a disproportionate (and, in retrospect, dangerous) share of that success was based on the expansion of export-oriented natural resource industries (especially energy — but also including minerals and agriculture). Global prices for many of these commodities soared to unthinkable levels. Prices were driven in part by strong world demand conditions (arising from rapid economic growth in China) and concerns over long-run security of supply (particularly for crude oil). But it was also clear

all along that powerful speculative forces arising from financial markets pushed commodity prices far higher than underlying market fundamentals could possibly justify. Lured by the prospect of massive trading returns, financial investors began to treat commodity-related derivatives (such as futures and options) as lucrative investment vehicles; this inflow of speculative cash drove prices far too high. Yet this unjustified bubble was endorsed by the laissez-faire financial and energy policies of right-wing governments like Canada's Conservatives. In their view, the right price for oil, gas, and other commodities is the one determined in "free" markets - no matter how flighty or fleeting the outcomes of those markets might be.

Artificially high commodity prices were a signal to Canadian businesses to fundamentally re-orient much of our economy, with worrisome implications for productivity, regional balance, and our environmental performance. Resource industries boomed, led by unprecedented profits. Free trade further reinforced Canada's structural regression to become, once again, a hewer of wood and drawer of water — and, now, a scraper of tar. Much of Canada's postwar progress in

FIGURE 1 Canada's Growing Resource Reliance

Unprocessed or barely-processed resources as share total merchandise exports



achieving a more balanced, diversified, and developed industrial structure (led largely by deliberate sector strategies, such as the Auto Pact, activist procurement policies, interventionist approaches in aerospace, and others) has been undone. Figure 1 provides a useful summary indicator of this regression. It summarizes the proportion of Canada's merchandise exports which consist of raw or largely unprocessed natural resources. This resource reliance shrank notably from the 1960s through the turn of the century. But the resource boom of this decade, fully endorsed by Canada's hands-off economic, trade and financial policies, has turned that historical trend around. Now, once again, we depend on resources for a clear majority of our sales to the rest of the world.

Some of the windfall resource profits arising from the commodities bubble were reinvested in new projects (especially the Alberta oil sands); and some of the benefits, undoubtedly, trickled down through booming resource communities.

Yet most of the windfall was squandered: resource companies were more interested in using temporary super-profits (supplemented by borrowing) to acquire other companies, or pay out enormous dividends to largely foreign owners. Canadian resource giants such as Alcan, Falconbridge, and Inco ended up in foreign hands. Today those companies, which overextended their debt to finance takeovers, are quickly sinking into crisis. Canada's uniquely hands-off approach to both managing resource industries and approving foreign takeovers definitely accentuated the rise of the commodities bubble. Now, with global recession, speculators have fled from commodities markets. Prices for many commodities are now clearly too low (relative to their cost of production and other real factors), resource producers are seeing super-profits melt away into large losses, and resource communities across Canada (where until recently the streets seemed paved with gold) are going to be hammered by layoffs, closures, and dislocation. It's a classic boomand-bust story: one that has played out many times before in Canadian history, but which was nevertheless fully endorsed by the blank cheque given to the commodities bubble by Canada's free-market economic policies.

In other words, the effects of the global downturn (which began with the popping of the speculative mortgage bubble in the U.S.) will be accentuated, in many parts of Canada, by the related popping of the commodities bubble. Yet just when we need other industries in Canada to pick up the economic slack, those other sectors have been badly weakened by years of neglect, and by the side-effects of the commodities boom. Canada's manufacturing sector has lost over 400,000 jobs since the onset of the commodities boom in 2002. Manufacturing has been in recession since 2006; it was an enormous mistake for Ottawa to ignore the painful shake-out in Canadian manufacturing, which proved to be the leading edge of the nation-wide recession. Particular sectors of manufacturing industry have experienced especially severe job losses, although the decline in manufacturing has been experienced very broadly, in almost every sector and in every region of Canada. The Canadian textile and clothing industry has been driven to near-extinction by import competition and the soaring loonie, losing over 70,000 jobs. The broad auto sector, considering both assembly and parts, has lost over 35,000 positions. The paper and wood products industries have been hammered, in part by the dollar, and in part by the decline in sales to the U.S., including the crisis in the American housing industry. The food and beverage, metal, electronics, and plastics industries have also lost thousands of positions.

The unfettered take-off of Canada's currency, which appreciated by as much as 65% compared to the U.S. dollar during the commodities bubble, made things far, far worse for all non-resource export industries (especially manufacturing, but also including tourism and other tradable services). The dollar's rise was spurred by resource

super-profits and the associated in-flood of financial capital to finance the wave of foreign takeovers (over \$200 billion of foreign takeovers occurred in 2006 and 2007, by far the biggest in Canada's history). Sadly this pointless, destructive flight of fancy was endorsed by the inaction of Canada's central bank and federal government, which — incredibly — endorsed the overvalued dollar as some kind of symbol of Canada's "success." Now the dollar has come plunging back down along with commodity prices and resource sector profits to more reasonable levels (according to purchasing power parity, an equilibrium value for Canada's dollar would be somewhere in the low 80 cent range U.S.).

Some of Canada's most important value-added industries have already been pushed to the brink by the effects of the global crisis. Canada's automotive industry, a crucial pillar of our manufacturing sector, has experienced particular jeopardy — in response to the unprecedented collapse of U.S. auto sales following the financial meltdown. Weakened by years of policy neglect, unbalanced globalization (North America imports over four million vehicles per year from the rest of the world, but exports virtually nothing back the other way), and a poor record of product and environmental innovation, all of the North American-based producers now face potential extinction. The resulting toll on good jobs (not just in the auto sector itself, but in the myriad of spin-off sectors which depend on "keystone" auto facilities for their own survival) would be cataclysmic. Economic studies suggest that over 600,000 Canadian jobs would disappear in short order if the North American "Big Three" producers (in a worst-case scenario) ceased operations. This immense risk has forced the U.S. and Canadian governments (partnering with Ontario) to participate in an emergency financial rescue package to help these companies survive the current crisis, and hopefully restructure for a better future.

The auto industry has captured many of the headlines in recent weeks, but there are many other key value-added sectors which have also suffered devastating losses and as a result face a very uncertain future. Canada's forest-products sector is mired in a brutal downturn, thanks both to the decline in exports to the U.S. (a consequence of the housing industry's crisis there) and mismanagement of our resource. Canada's tourism industry has suffered job losses that, proportionately, are even worse than manufacturing — for which the pointless flight of the loonie is mainly to blame. Other strategic tradable service industries (like film-making, culture, and transportation) have also been hammered. And other key high-technology manufacturing sectors (such as telecommunications equipment, machinery, and heavy trucks) are in decline with previous Bay street darlings like Nortel declaring bankruptcy. A few still-booming bright spots (such as aerospace and Blackberries) are the exceptions that prove the rule: Canada's ability to participate in global markets for high-value, income-generating products and services has been severely damaged by the resource boom and its side-effects.

The current crisis, therefore, demands a dual response. Immediately, of course, dramatic actions must be taken to preserve key value-added industries that are in jeopardy because of the global and Canadian recessions. But we can't lose sight of the longer-run challenge of recreating a more balanced, diversified, and value-added economic structure. Instead of taking the sectoral mix of our economy for granted (determined, presumably, by the supposedly "optimal" forces of private investment and free trade), we need to take a more deliberate, pro-active approach. We must consciously identify the kinds of strategic sectors we want to cultivate in Canada (based on criteria such as their technology-intensity, productivity, export orientation, and spin-off job-creating potential). Then we must align our policy tools (including levers like tax, trade,

procurement, technology, and skills programs) to nurture those sectors and ensure that Canada builds a healthy share of high-value industries—rather than continuing to rely so heavily on digging out the stuff that is buried in the ground beneath our feet.

In short, the crisis should be a call to reinvigorate an activist approach to managing and nurturing the sectoral mix of our economy. In previous times this economic approach was called "industrial policy." Despite its important historical successes in Canada (evident in our disproportionate share of industries like auto, aerospace, and telecommunications equipment), this approach was largely abandoned in Canada in the 1990s — partly for fiscal reasons, partly for ideological. Instead, all the crucial decisions regarding our sectoral make-up were entrusted to the forces of private free trade (which ushered in the increasing reliance on resource commodities that is now exacerbating the current crisis). Today, this approach to policy would be more rightly termed "sector development strategy" (since many of the desirable sectors we need to promote, including tourism and culture, are in the service sector).

This process of reinvigorating activist sectoral strategizing will require a focused effort to develop the policy capacity to identify and manage opportunities, and wield the array of tools and levers required to make the most of those opportunities. As a first step, the AFB would establish a series of Sector Development Councils, which would pull together the key stakeholders in several targeted sectors to begin strengthening relationships and developing sector-wide development strategies. Sector Development Councils will be established in major resource industries, key manufacturing sectors, and strategic tradable service industries such as tourism, film and broadcasting, and business services. 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, the university and research communities, and other non-governmental stakeholders. The operation of the Councils themselves is funded with an annual \$50 million budget. Funding and other support for the strategies which they develop would subsequently be provided from the federal government's other development-oriented programs and institutions (discussed further below).

In the work of these Councils, a special emphasis will be placed on environmentally-focused initiatives 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). These environmental initiatives can also receive additional support from the targeted funds to support green manufacturing and environmental skills development described below.

It is now clear that crucial sectors in Canada's economy will require targeted extraordinary support in order to survive the recession. While change is inevitable, and we must always expect some ongoing turnover in companies and jobs in any economy, we cannot afford as a county to have entire strategic segments of our economy wiped off the map by the side-effects of the global crisis. This would impose a long-run burden on our future prosperity, freezing Canada out of key value-added sectors for decades to come.

Canada's auto industry requires emergency support to help North American producers survive the effects of the credit crunch. The Alternative Federal Budget supports these initiatives (with federal participation matched by participation from the Ontario government), in return for firm guarantees regarding proportional Canadian investment and production opportunities, and progress by the industry in improving the environmental performance of both its production facilities and its vehicles. The mechanisms

for this emergency financial support can involve loan guarantees, loans from government banks or other credit arrangements - none of which impose a current expense to the federal budget. (Indeed, very similar measures have been used by the federal government and its agencies to provide over \$100 billion in support for the Canadian banking industry since September.) At the same time, automakers of any national heritage should be pushed to maintain or establish Canadian production content, in both assembly and auto parts, broadly proportionate to their sales in Canada. That sensible principle, as enshrined in the Canada-U.S. Auto Pact - which was unfortunately overturned by the World Trade Organization in 2001, just as Canada's manufacturing industry went into decline — will be required to preserve and build on Canada's past automotive success. For companies without a Canadian production presence, this requirement can be met through new investments here, including potential joint ventures with existing automakers (such as Volkswagen's partnership with Chrysler in Windsor). The ultimate application of emergency trade restrictions (permitted under w TO rules in cases of severe industrial distress)

Other initiatives to support the survival and restructuring of the auto industry included in the AFB include:

- Expanding the Automotive Innovation Fund (to an annual capacity of \$250 million per year, up from \$100 million per year at present) to participate more substantially in major capital investments by automakers and major auto parts suppliers in Canada in the development and production of newgeneration vehicles and components, with a focus on vehicles incorporating advanced environmental and fuel-efficiency technologies.
- Open negotiations with the new U.S. government and the Mexican government on a new North American Auto Pact. This

Pact would provide major support for newgeneration investments by automakers and parts producers in environmentallyadvanced vehicles and technologies (as envisioned above), while addressing the unique trade imbalances which have so badly undermined production and employment in the continental industry. The Pact would require offshore automakers to produce automotive value-added in North America broadly equivalent to their sales in this market (through direct production, joint ventures, and/or expanded automotive exports from North America to offshore markets), and would also provide broad guidelines ensuring that each country within North America retains a share of automotive production and employment broadly proportional to its domestic market.

• Provide a time-limited "scrappage" incentive (worth up to \$3,000 per vehicle, valid only until December 31 2009) to encourage people with older on-the-road gas-guzzlers (10 years old or more) to scrap their more polluting cars and purchase a new made-in-North-America vehicle. This policy would work best if coordinated with a parallel measure in the U.S. market.

The forest products' sector is another key pillar of Canada's regional economy that has endured a catastrophic decline in output and employment — largely as a result of the collapse in the U.S. housing market (which, thanks to the sub-prime debacle, has experienced a sharp decline in new residential construction). While this sector awaits a cyclical rebound in building (an outcome which will be hastened by the Afb's major investments in social housing), investments must be made to upgrade the quality and sustainability of our forestry industries. The Afb would implement a \$200 million annual investment in reforestation and skills training in

the sector (matched by provincial government contributions, with an initial five-year term). And the work of the Sector Development Council in this sector would focus on the need to develop a higher-value-added profile for the Canadian forestry industry, maximizing the sustainable value that can be harvested from this vital resource over the long-term.

The recent commodity price boom that ended abruptly in September 2008 brought first significant expansion and then rapid contraction to mining operations in Canada. With non-ferrous metal prices dropping by two-thirds in a matter of months, the mining sector is reeling under the weight of rapid mine expansions that have now lost their markets. Flow through share tax breaks for mining companies, a hold over from the last recession, have failed to cushion the blow to mining communities. As such, the Afb would commit \$100 million to cleaning up old mine and tailing sites.

Federal support for other crucial sectors can similarly be delivered through the expansion of the operational mandate of existing federal government banks (such as Export Development Canada, the Business Development Bank, or even the Bank of Canada), as well as the creation of a new federal industrial financing institution, the Canadian Development Bank. The mandate of this bank, which would be capitalized with initial equity investment from the federal government and the Bank of Canada's existing portfolio of assets, would be to participate in the financing of key new investments by major companies in strategic, targeted industries. Its interventions would be guided, in part, by the recommendations of the Sector Development Councils. The expansion of the federal government's own lending and investment banking capacities is a logical response to the freeze-up in private investment lending. Credit to finance new business investment is created by private banks on the basis of their judgment of the future viability and profitability of funded ventures; that same principle

can apply to public banks (with the initial capitalization of those banks treated in the budget as an investment, not a current "expenditure"). The expansion of public lending capacity will reduce the extent to which key long-term economic development priorities are vulnerable to the cyclical whims of private finance. It also allows for potential projects to be evaluated and funded on the basis of a more broad set of criteria (including an integrated social cost and benefit analysis) than is utilized by private lenders.

Other sector development initiatives included in the AFB include:

 A Green Manufacturing Fund hosted at the federal government's existing ITO office, worth \$386 million in 2009–10 and \$340 million in the next year. This Fund would provide additional support (in the form of loans, grants, and investment credits) for commercializing promising green technologies.

• A National Renewable Energy Skills
Fund, with a budget of \$80 million in
2009–10 and \$60 million in the following
year. This initiative would provide
support for retraining and employment
in projects associated with renewable
energy (including new skill sets such as
wind turbine maintenance, solar panel
installation, and home re-insulation
technologies).

Privatization, P3s and Accountable Contracting

Introduction

Privatization is an essential component of a neoliberal ideology that favours smaller government, free markets, deregulation, and individualism. Canadian governments have two options. They can continue their current course of privatization, thereby reducing public space and the ability to act collectively for the benefit of all; or they can use direct public spending and investment to stimulate the economy, as Canadian governments have done in the past.

When services and infrastructure are publicly owned and operated, they are more efficient, less expensive, of higher quality, and more accountable than when they are privatized. Public control is necessary to ensure that all Canadians, regardless of their level of income, benefit equally. Public services reduce inequality, promote stability, and are the only proven way to promote economic, social, and environmental security.

The Afb soundly rejects the privatization mantra underlying the Conservatives' approach.

Privatization and P₃s

Infrastructure spending

The ideological bent of the Conservative government is manifest in the strings it has attached to federal support for infrastructure investments at provincial and municipal levels. Its policy is to use P₃s wherever possible.

While far from the only form of privatization, P₃s are the form that is seen as the easiest to sell to the public. P₃s are multi-decade contracts for private management of public services or infrastructure. They can include private financing, ownership and/or operation. P₃s result in higher costs, lower quality, and loss of public control. The long-term financial obligations inherent in P₃s are a form of debt which can easily be hidden from the public.

One of the main arguments of P₃ enthusiasts is that risk is transferred from the public to the private sector; but experience shows that governments remain accountable to deliver services regardless of the welfare of the P₃ project or its funder.

Although no new money for infrastructure was announced in their Economic and Fiscal

Statement, the Conservatives have committed to infrastructure spending through their Building Canada Fund and the Gateways and Border Crossings Fund. A new Crown Corporation was created with the 2007 Budget, called PPP Canada Inc. At the same time, they created a \$1.25 billion P3 fund to facilitate the privatization of public assets and services across all three levels of government.

The Building Canada Fund requires municipalities and provinces to "thoroughly consider" the P3 option by forcing them to use a "P3 screen" for projects seeking a federal contribution of \$50 million or more. Should they choose traditional public procurement, they must first demonstrate that there are either regulatory, legislative, or other barriers to choosing P3s. Rather than explaining why a P3 hasn't been chosen, they must demonstrate why the private sector is not interested in pursuing a P₃ option. A "Financing and Procurement Options Evaluation" must be completed in which a government requesting federal funding must consider and compare on a "case-by-case" basis not one, but seven completely different P3 funding arrangements.1

The likely result is that public infrastructure projects will either become P₃s without a careful evaluation, just to adapt to the onerous screening process, or that the government will not spend the money it promised on infrastructure because of the impenetrability of the screening process.

P3s and financial instability

One contributing factor to the current economic crisis was a systematic cover-up of losses, mispricing, and mismanagement of risk in the private sector. The Building Canada Plan for infrastructure and P₃s plunges Canada's economic recovery into the same quagmire of speculative financing.

Public spending has a stabilizing effect and should be a constant ingredient of a healthy economy. Direct public spending on infrastructure is central to economic recovery. It tends to have a more redistributive effect than P₃ spending. P₃ advocates argue that P₃ solutions are faster than a traditional public works contracting process, but there is little evidence this is true. Essential infrastructure funding is being delayed at a time when Canadians and the economy need it more than ever. There is already a \$3 billion backlog in previously committed P₃ funding,² because of bureaucratic and other delays.

Infrastructure spending as economic stimulus

Despite the importance of the small and mediumsized construction companies to the real economy and the importance of the jobs their work creates, this sector is excluded from the process inherent in the Building Canada Plan. P3s generate profits for offshore investors, but few local jobs. Instead, direct public spending should be targeted at the Canadian construction industry and Canadian job creation, resulting in a better overall economic outcome.³

Not only are smaller construction companies disadvantaged, but the foreign temporary worker program, expanded under the current Conservative government, is being misused to provide low-waged labour. For example, the foreign temporary workers employed to build the Canada Line tunnel in Vancouver — a P3 project — were paid \$14 an hour compared to the \$20-\$25 an hour that domestic workers would have been paid in a public operation. These kinds of short-cuts do very little to help unemployed or newly immigrated Canadians.⁴

Instead, the AFB promotes direct public spending targeted to Canadian businesses and Canadian workers, with infrastructure investment managed and coordinated by public service workers across each level of government. Screening criteria will be guided by principles of fair and equitable contracting, job creation, infrastructure greening, and overall community benefit, and be in accordance with the kinds

of progressive economic stimulus policies discussed elsewhere in this document.

Cost of private finance

P₃s are often financed, at least in part, by international banks. However, because of the economic crisis, their cost of borrowing has increased.⁵ As a result, the higher cost of borrowing will either be transferred to the public sector through higher payments over the life of the P₃ project, or the project quality and scope will be diminished to achieve cost savings.

Even P3 investors agree that government can finance infrastructure more cheaply than the private sector can.⁶ According to a recent industry report, the spreads for P3 financing have doubled on average compared to the previous year. The spread for short-term borrowing rates in Canada is now about 100 basis points higher than it was during the previous five years when credit was easy to obtain.⁷ On a typical project, this increased spread would increase the cost of financing by about 10% to 15%, or by upwards of \$20 million for \$100 million in financing over 30 years.

P3 proponents are now suggesting that the government should loan them the money instead.⁸ It is unclear why the government would want to loan money to international banks whose key role is to finance large public sector projects. Why would the public want to subsidize international financiers in this way?

Risk

The public always bears a high degree of risk from P₃s. There are numerous cases where P₃s have failed in Canada and where the public has been left holding the bag.

In P3 projects, a significant part of the profits flow to the investors and law firms that put the deal together, while the real risk over the life of the project — besides the ultimate risk borne by the public — is transferred to smaller sub-contractors who are forced to accept long-

term risk as a precondition of their entry into the partnership. This is highly problematic for two reasons. First, those least able to shoulder the risk have the greatest risk burden; and, secondly, it excludes large numbers of smaller contractors from participating because they realize that the risk they are being asked to assume by their private sector investor group is too great.⁹

Secrecy and accountability

Another key problem with privatizing infrastructure spending is one of diminished accountability. The details of private sector contracts with government are kept secret because they become the property of the contractor, not the public. The public isn't allowed to view the books of their P3 partner, even though the public is ultimately obligated to pay for the project in one way or another. P3 spending is not covered by Access to Information laws or reviews by the Auditor-General. The Federal Accountability Act was supposed to correct this gap in accountability, but ended up not doing so. So it is extremely difficult to estimate how much contracting-out and privatization are actually costing Canadians.

Expenditure/program review

Recent federal governments have undertaken both program and expenditure reviews which include criteria that eliminate public capacity and support privatization. For instance, the Court Challenges program was eliminated because the Conservative government decided that it did not meet the criteria of "value for money." Programs for museums and the Status of Women were cut because they were deemed not to be "efficient." 10

The Harper government recently indicated that it has reviewed \$13.6 billion in program spending for 2007, \$25 billion in 2008, and 60% more of departmental spending in 2009–10. The Speech from the Throne advised Canadians that Departments will have the funding they need

to deliver essential programs and services, and no more. This is consistent with the Conservatives' neo-liberal values that favour smaller government and tax cuts that impair the ability of public agencies to provide programs and services for the greater good. Their view of what is essential is likely to limit the capacity of federal departments and agencies to carry out their work to protect and improve the quality of life for all Canadians.

In another example of this "small-government" mentality, a plan was hatched as part of the Harper government's Expenditure Review process to sell government infrastructure to the private sector and lease it back. It sold seven buildings and retains tentative plans to sell 31 more. Canadian embassy buildings were also on the list to be sold.

The government still has not implemented full-cost accrual accounting for its spending and estimates process, which would bring it in line with generally accepted accounting principles. If it had, it would show the true annual cost of capital spending and debunk the false claim that savings are realized from asset sales, lease-back arrangements, and P3s. The government did realize short-term immediate profits from the sale of the seven buildings, but a rigorous analysis found that they were sold for at least \$350 million less than they will actually be worth at the end of the 25-year lease. This is in addition to the 30% of capital costs and contract management costs for which the Canadian public is still responsible, totalling about \$165 million.11

Not insignificantly, the Economic and Fiscal Statement (EFS) reconfirmed that the government was reviewing enterprise Crown corporations, real property, and other holdings to assess whether the rationale for government ownership is still relevant. "In some cases," the EFS said, "the most efficient use of taxpayers' resources may be to sell the asset to a private sector entity that is better placed to create economic value." The Conservative government

is currently aggressively marketing a further 23 projects for P3 consideration, including the Esquimalt Graving Dock.¹³

Instead of re-investing in and greening government infrastructure, the government is more intent on selling off assets and then paying the private sector to use them.¹⁴ This is actually anti-stimulus, since it removes money from the economy instead of injecting it.

The AFB believes that a different kind of Program Review process should be undertaken, with clear criteria to help determine the changes required. These criteria should be based on defending and serving the public interest, economic and environmental efficiencies and sustainability, and support for workers and communities in light of the current economic crisis.

The AFB Program Review criteria will consider whether federal government departments and agencies are staffed and resourced to provide services such as employment insurance benefits, old age benefits, and labour market information. Does the federal government currently have the staff and resources required to work with other levels of government and contractors to re-invest in crumbling infrastructure? Does the federal government employ the appropriate number of scientists, inspectors and regulators to monitor and enforce existing regulations around health, food, transportation, and financial security?

The AFB believes that a robust program review process should also examine the growing costs for federal government contracting-out that have been incrementally increasing unchecked in recent years. We estimate that in 2007–08 the government spent almost \$11 billion on contracting-out work and services.¹⁵

Regulations that protect Canadians

In the Speech from the Throne, the Harper government also committed to "follow through with legislation providing better oversight of food, drug and consumer products." Unfortunately, much of the legislation introduced to date actu-

ally weakens regulations, providing less protection for Canadians. This is clearly not what Canadians want. Canadians fully expect that their government has an obligation to protect them from the marketplace excesses and the corporate drive for profit.

The Harper government, however, while paying lip service to the need for protection, risk-manages public safety by favouring self-regulation by companies, thus undermining the precautionary principle that most Canadians prefer and support.

Food inspection

Last summer, the government unveiled a plan to transfer key food inspection functions to companies and downgrade the Canadian Food Inspection Agency to "an oversight role, which would allow industry to implement food safety control programs and manage key risks." Leading food experts say that the plan is a recipe for disaster.¹⁶

Although there are more than 1,000 meat-processing facilities, and thousands of produce, cheese, and other food production facilities, the CFIA employs only about 1,100 food inspectors.¹⁷ The numbers of food safety scientists have also been falling.¹⁸ Self-regulation has been used as an excuse to understaff the regulatory capacity at the CFIA.

Transportation safety

Recent governments have undermined the regulations that protect Canadians when they fly or take the train by proposing to transfer the monitoring and inspection powers of transportation inspectors to the same private sector transportation companies that are being regulated. In 1999, rail safety regulations were handed over to the rail companies to monitor themselves through Safety Management Systems (sms). Since then, rail accident rates have increased.¹⁹

Current changes to Canada's air safety regime are following the same pattern. In 2005, Transport Canada cancelled its air safety national au-

dit program and handed off enforcement and investigation to the airline companies. As long as airline companies have an SMS program where they record the details of their self-regulation measures, government enforcement investigations no longer take place. An Act to institutionalize this relaxed enforcement system has been working its way slowly through Parliament.²⁰

The government has used SMS as an excuse to employ fewer inspectors. The Auditor-General reported that there are not enough trained staff to properly monitor airline SMS reporting. ²¹ A recent study notes that fewer inspectors, combined with the pressure that airline companies now feel to keep costs low, is a recipe for disaster. ²²

Grain inspection

The federal government has introduced a plan to undermine the regulatory regime that protects the integrity and safety of Canada's grain production and marketing system. This is part of the Conservative plan to destroy Canada's cooperative grain single-desk marketing institution, the Canadian Wheat Board. Canadian grain products are known world wide for their consistent quality. By giving in to the pressure from international agri-business to privatize Canada's grain regulatory and marketing system, the long-term sustainability of smaller grain producers is threatened.23 Ever since his days at the National Citizen's Coalition, Stephen Harper has lobbied against the Canada Wheat Board. Since his government has come to power, he has repeatedly declared that his government will end the single-desk marketing principle that underpins the Wheat Board's success.24

Toxic substances

During the SPP conference in Montebello in 2007, the Conservative government privately signed a sub-agreement with the U.S. and Mexico on chemical regulation. The agreement weak-

ens the existing Canadian regulatory system, as well as eroding Canada's policy autonomy by harmonizing chemicals regulation in testing, research, information gathering, assessment, and risk management. The signing of this agreement was meant to ensure that Canadian regulations don't stop the import of chemicals that would ordinarily not be allowed to be sold in Canada.²⁵

Conclusion

The AFB will undertake a transparent and comprehensive Program Review process. The review will determine if the required supports are in place to support Canadians during an economic crisis. It will also examine the costs of contracting-out and compare them to the costs of public delivery. We anticipate that a review of existing contracting-out practices will result in generating significant future savings, as well as more accountable and citizen-centred public services. Those savings can then be redirected. Specifically, the AFB will:

- turn the federal P₃ office into a Public Assets office that will work directly with other levels of government to invest in public infrastructure and eliminate the Federal P₃ fund;
- 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;
- 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, and introduce full disclosure and
 accountability for government contracts
 and P3s;

Privatization, P3s and Accountable Contracting

GENDER

Privatizing services leads to increased user fees, decreased access and lower quality standards negatively affecting women and their families.

Hiring practices in the public service rely more heavily on temporary staffing and contingent work. In 2004, 14% of women worked temporarily, compared to 12% of men. Almost one-third of women age 15–24 who work are employed temporarily.²⁶

ABORIGINAL PEOPLES

As First Nations' lands are communally held and many businesses run by First Nations governments, attempts at privatization strike at the very core of the Aboriginal and Treaty rights recognized in Section 35 of Canada's Constitution. First Nations continue to oppose such efforts and implore the Government of Canada to forego ideologically driven initiatives to undermine the rightful structures of First Nations economies.

- review Canada's regulatory regime and ensure that it protects the interests of Canadians and that resources are in place to ensure pro-active and precautionary monitoring and enforcement by public officials;
- strengthen or re-establish social support, cultural and scientific programs that have been eliminated or weakened as a result of ideologically-based expenditure reviews;
- make sure that the budgetary process is transparent, accountable, and democratic, ensuring that the Auditor-General, the Parliamentary Budget Officer, and the people of Canada understand the relationship between the programs that are wanted and needed and the revenues that the Government receives; and

 implement full-cost-accrual accounting through the federal government estimates and procurement process that will reflect the value of government assets on public books and the long-term costs of leasing properties to show the actual deficit.

Notes

- 1 Interim Guidelines for Public- Private Partnership Screening Under the Building Canada Plan
- 2 The federal government has a \$3-billion backlog in unspent infrastructure money on hand in the Building Canada Fund (BCF). However, timing is everything when it comes to fighting a recession. The BCF with its need for extensive, upfront paperwork, lengthy review processes, and long waiting periods is too slow to get many new projects started in time for next year's construction season." Statement by Perrault Jean, President of the Federation of Canadian Municipalities (FCM) and Mayor of Sherbrooke, on Economic and Fiscal Statement, Nov. 27, 2008
- 3 "If you take the whole Canadian construction industry among the 1000 general contractors listed in Canada, no more than 12 can support the risk of p3 project, among those maybe 2 or 3 you will find systematically on a project.... When you look at going into a recession government spending is vital to the survival of a lot of our members and when you look at the delivery method of infrastructure being P3 methodology that will take away bread and butter work from a lot of our members. Our members are constantly pushing government not to make bigger projects but to take bigger projects and break them down into manageable pieces for our smaller members to bid." Charette Paul, Chairman, Canadian Construction Association Canadian Construction Companies and PPP November 24 2008
- 4 Sinoski Kelly, Foreign Canada Line workers win multimillion dollar human rights case, Vancouver Sun, December 3 2008
- 5 Greenwood John, Financial Post Nov 25 /08
- 6 Alban de La Selle, Dexia Credit Local SA in Greenwood John, *Funding tough for Ottawa's big build*, Financial Post, Nov 25 2008
- **7** Roth Daniel, Managing Director Infrastructure Advisory Practice, Ernst and Young. Canadian Council for Public-Private Partnerships *A Matter of Time: Will the Credit Crisis Impact Canadian P3s?* http://www.pppcouncil.ca/pdf/matteroftime.pdf

- **8** "One way to overcome the problem would be for the government to provide the financing itself. Since governments are among the few players that can get the benefit of lower borrowing costs, that advantage could be brought into play in doing P3s" For their part, the private sector partners would guarantee to repay the debt. Alban de La Selle, Dexia Credit Local SA in Greenwood John, *Funding tough for Ottawa's big build*, Financial Post, Nov 25 2008
- **9** Paul Charette, Chairman, Canadian Construction Association Canadian Construction Companies and PPP November 24, 2008
- 10 Government of Canada Expenditure Review www.expenditurereview-examendesdepenses.gc.caww
- 11 McCracken Michael, Informetrica, Testimony to the Standing Committee on Government Operation and Estimates, December 5, 2007
- 12 EFU Ch. 2
- 13 McKenzie Bonnie speaking durint *Canadian Government Projects Tested for P3 ability*, P3 2008 The 16th annual National Conference on Public Private Partnerships, Nov 24–25 2008
- 14 Former Public Works Minister Michael Fortier expressed the government's view when testifying before the Standing Committee on Government Operations and Estimates on December 10, 2007. He said "If we were starting a country and had no buildings, if we were starting with a blank page, I do not think we would immediately start buying buildings. We would find space for our public servants, as we did (referring to leases). Nearly 50% of our public servants work in buildings that do not belong to us. This is not a bad ratio, but I think that is not what we would aim for if you and I were starting over."
- 15 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. In 2007—8 this spending amounted to \$10.98 B. This amount is based on information from the Main Estimates; utilizing a formula formerly employed by the Federal Treasury Board that identifies Contracting Out costs see *Contracting for Services An Overview* TBS Canada April 11, 1994.
- 16 Schmidt Sarah, *Allowing food industry to police itself dangerous, experts say*, Ottawa Citizen July 12 2008 Michael Hanson a senior scientist with Consumers Union and publisher of Consumer Reports said that "They're moving towards the U.S. model, where the inspectors don't actually do the inspection, they just oversee and the companies actually do the inspection. That's a really dangerous thing,"

- 17 Kingston Bob, Spread too thin, Citizen Special, Ottawa Citizen Sept 18, 2008
- 18 The blueprint includes a plan to shift away from a "full-time presence" of veterinarians at abattoirs to an "oversight role, allowing industry to implement food safety control programs and to manage key risks," outlined in a November, 2007 cabinet document obtained last July by Canwest News Service. in Schmidt Sarah, *Science Union Calls for Quick Action on Food Inspection Services*, Montreal Gazette, Nov 02, 08
- 19 One indicator of rail transportation safety in Canada is the main-track accident rate. This rate increased from 2.6 accidents per million main-track train-miles in 2006 to 3.2 in 2007. Transportation Safety Board Annual Report to Parliament 2007 2008 pg 17. The March 2007 Consultation Guidance Document "Review of the Railway Safety Act" reveals that rail accident rates showed a steady decline from approximately 1,300 in1996 to 985 in 2002, as reported to the Transportation Safety Board (TSB). However, since 2002 the trend has risen; in 2006 there were 1,142 accidents. According to the TSB, derailments account for over half of all reported accidents for each year, followed by crossing accidents and collisions. The Consultation Guidance Document lists nine major rail accidents from April12, 201 through to January 7, 2007. subsequent to that period, up to May 25, 2007, and add ional eight major incidents have taken place, most involving derailments. Improving Railway Safety, Prepared by the Canada Safety Council for the Advisory Panel Reviewing the Railway Safety Act (RSA)
- **20** An Act to amend the Aeronautics Act and to make consequential amendments to other acts
- 21 "Human resources planning is particularly critical given that the number of employees has decreased by 8% in the past five years (Exhibit 3.7). Departing employees take with them the highly specialized knowledge, skills, and abilities they gained on the job. Hiring, however, has not increased. Some regions submitted estimates showing increased re-

- source requirements when small air operators and related maintenance organizations begin implementing SMS.... We noted that about 15% of inspectors and engineers had not completed the required recurrent training; moreover, we noted that another 15% had not completed their initial training. These staff, therefore, do not meet the requirements for exercising all their job responsibilities, thus contravening the Department's own training policies." Report of the Auditor General of Canada to the House of Commons, Chapter 3, Oversight of Air Transportation Safety Transport Canada, May 2008
- **22** The study has just been completed by Linda Duxbury of the Sprott School of Business at Carleton University. The survey interviewed 276 pilots working as inspectors at Transport Canada and the Transportation Safety Board of Canada. Schmidt Sarah, *Forecast shortage of inspectors puts flying public at risk*, December 1, 2008.
- **23** Kingston, Bob *CGC Bill Fundamentally Flawed*, The Western Producer July 3, 2008 The CCPA will be releasing a study that examine the impact of these regulatory changes in the January 2009
- 24 "The wheat board should be voluntary. Farmers should have a choice in how they market their grain." Stephen Harper, President, National Citizens Coalition *The Western Producer*, October 12, 2000. "After being found guilty of breaking Canadian laws three times in the last 11 months, our prime minister vowed that any opposition to his plans to destroy the Canadian Wheat Board would be 'walked over." Wells Stuart, *Harper Violates Laws to Control Wheat Board*, National Farmers Union 2008
- **25** Campbell, Bruce More than Jellybeans: The SPP Regulatory Framework Agreement and its Impact on Chemicals Regulation, September 2007
- **26** Statistics Canada, March 2006. *Women in Canada:* A Gender-based Statistical Report, 5th edition. Statistics Canada, Ottawa.

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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