A BUDGET FOR THE REST OF US

Alternative Federal Budget 2012

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

ISBN 978-1-77125-001-6

This report is available free of charge at www.policyalternatives.ca. Printed copies may be ordered through the CCPA National Office for a $10 fee.

PLEASE MAKE A DONATION...

Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research — and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the publishers or funders of this report.

CAW 567 OTTAWA

Introduction

THE FIRST MAJORITY Harper Conservative government is about to bring down a watershed budget.

The government has signaled it will be a fiscal austerity budget, claiming that cuts to public sector jobs, services, and social programs are necessary to pave the way for jobs and growth — the government's alleged top priority.

This budget will reveal in greater detail what Prime Minister Harper has called a plan for transformative change for a generation.

In 17 years of producing the *Alternative Federal Budget (AFB)*, never has the contrast been so stark. Never have the values, priorities and visions that underlie the AFB and the choices that flow from them, been so at odds with those of a government in power.

The logic of "expansionary austerity" is that a cuts-led deficit reduction will restore business and consumer confidence to invest and spend, a pre-condition for growth and job creation. The trouble is, it doesn't work.

Its failure is clearly demonstrated in the recent experience of many European countries — including the U.K., Spain, Italy and others — whose austerity programs have tipped the EU back into recession, fueled unemployment, and increased their debt and deficit burdens.

While Prime Minister Harper was at Davos signaling major cuts to Old Age Security in the forthcoming budget, the leaders of 11 international organizations — including the International Monetary Fund, the World Bank and the World Trade Organization — issued a joint statement warning about the economic and social risks of austerity programs.[1]

Their statement urged countries to "manage fiscal consolidation to promote rather than reduce prospects for growth and employment. It should be applied in a socially responsible manner." To combat rising inequality, it called for, "heightened consideration of more inclusive models of growth."

International Monetary Fund researchers, in an exhaustive study of government austerity programs in 17 countries over the last 30 years, concluded that there was a clear tendency for austerity programs to weaken the economy. In other words, hard times are the inescapable consequence of government austerity.[2]

The IMF has singled out Canada as a country with fiscal room — relatively low deficit and debt — to pursue expansionary policies.

It appears that the Prime Minister is turning a blind eye to the evidence and a deaf ear to the advice of these world leaders.

Despite government claims, the performance of the Canadian economy has been mediocre, and is becoming more so. The recovery, which was expected to gather strength in 2011, has faltered. The economy has slowed in the final quarter of 2011. Official unemployment has shot back up to 7.6%, and 50,000 net full-time jobs have disappeared since September. Few of the hundreds of thousands of discouraged workers who left the workforce when jobs disappeared during the recession have returned.[3]

Most Canadians believe we are still in a recession, though it officially ended 18 months ago.[4] This is hardly surprising in an environment where high unemployment and falling incomes are the new normal, where the gap between the rich and the rest continues to widen, where obscene levels of CEO pay escalate, where corporations and governments demand wage rollbacks from their workers, and where the middle class continues to shrink even as they incur ever larger debt trying to stave off decline.

Finance Minister Flaherty claims that austerity is fiscally prudent. But this government has drained the federal treasury of tens of billions of dollars per year in unnecessary tax cuts that disproportionately benefit the most affluent Canadians and wealthy corporations — all the while increasing spending on a National Security Establishment that now costs $12 billion more a year than it did in 2001. These expenditures have diverted much-needed money from health care, education, pensions, and other public services on which Canadians rely.

This year's Alternative Federal Budget is *A Budget for the Rest of Us*. It is a prudent, economically responsible, and socially just plan, for now and for the future.

A Budget for the Rest of Us recognizes and confronts the two inconvenient truths of our time: the looming disaster of climate change, and the scourge of deep and widening inequality and poverty in Canada and around the world.

A Budget for the Rest of Us addresses the structural weaknesses in our economy and puts in place the building blocks to assure our long-term shared prosperity.

A Budget for the Rest of Us is a blueprint to help Canada avoid a lost decade of high unemployment, depressed incomes, chronic insecurity, and shattered dreams for a generation of youth.

A Budget for the Rest of Us decisively injects demand into the economy with a major public investment initiative focused on infrastructure, R&D, health, education, child care, public transit, housing, building retrofits, and renewable energy.

The AFB is a carefully targeted plan that will yield high returns, boosting productivity, stimulating private investment, and creating high value-added jobs in activities that improve living standards and reduce inequality.

We offer it to Canadians as an alternative to the direction the government wants to take the country. We believe our approach responds to the deepest concerns and aspirations of the vast majority of Canadians. If adopted, we believe it would begin to restore Canadians' trust in the power of government to improve their lives — a trust which has been profoundly shaken over the last three decades.

Notes

1 Cited in Elliott, Larry: "IMF warns of threat to global economies posed by austerity drives," *The Guardian*, January 20, 2012. http://www.guardian.co.uk/business/2012/jan/20/austerity-warning-international-monetary-fund

2 Guajardo, J. et. al. (2011). "Expansionary Austerity: New International Evidence," IMF Working Paper, International Monetary Fund.

3 Stanford, Jim. (2012). "Canada's Incomplete, Mediocre Recovery," Alternative Federal Budget Technical Paper. Ottawa: CCPA.

4 CTV News, Canadians still think country is in recession: poll, http://www.ctv.ca/CTVNews/Canada/20110304/recession-poll-110304/

Macroeconomic and Fiscal Framework

Implementing a Structural Change

The Year in Review

Worldwide economic stagnation is now entering its fourth year. The potential for imminent bank collapse has been replaced by the potential for sovereign debt default by the same governments that bailed out the banks.

The risk of Greek default is now so high that long-term interest rates have peaked over a prohibitive 20%. European banks are negotiating to take 70% or more "haircuts" on their Greek bonds by trading their current bonds for new ones worth half or less.

In order to roll over debt, Greece is relying on the European Financial Stability Facility, a fund guaranteed by Germany and France in order to obtain sustainable long-term interest rates. The *quid pro quo* is that Greece must make massive cuts to government expenditures by slashing social programs and laying off public workers or drastically reducing their pay to balance the books. Germany and France are forcing Greece into an austerity recession. It is unclear how long Greeks will suffer soaring unemployment and the prospect of years of recession.

Even without a repeat of the 2008 financial crisis, coordinated austerity across the EU in an attempt to shrink large deficits will continue to drive down economic growth and, paradoxically, prolong the debt crisis. Given the lack of individual currencies and central banks in each of these countries and the unwillingness of the European Central Bank to dramatically expand its balance sheet, or of the core EU countries to stimulate growth through income transfer programs to periphery countries, it is likely that the European debt crisis will drag on through 2012.

In Canada the order of the day for 2011 was high unemployment. Mid-year gains almost managed to bring unemployment below 7%. However, the gains were short-lived as full-time employment fell back and the unemployment rate by December 2011 remained unchanged at 7.6% compared to December 2010 at 7.6%. All the while, the real median hourly wage dropped throughout 2011. The average worker in Canada is seeing an almost identical unemployment rate as a year earlier but with shrunken hourly pay.

Real GDP growth for its part remained well below historical norms, ringing in at 2.5% by year's end. Negative real GDP growth reared its head in the second quarter again, revealing the fragility of the Canadian economy.

Canadian consumers, the mainstay of economic growth, continued to rack up record debt hitting 150% of disposable income in 2011. The vast majority of that debt remains mortgage debt as housing prices continue to rise in almost all of Canada's metropolitan centres. While the rate of increase in the debt ratio seems to be slowing, it has yet to reverse course. There is no doubt that this dangerous overleveraging standing in for lacklustre wage growth will remain a significant impediment to growth if and when mortgage rates begin to rise.

2012: On a Path For Canada's Lost Decade

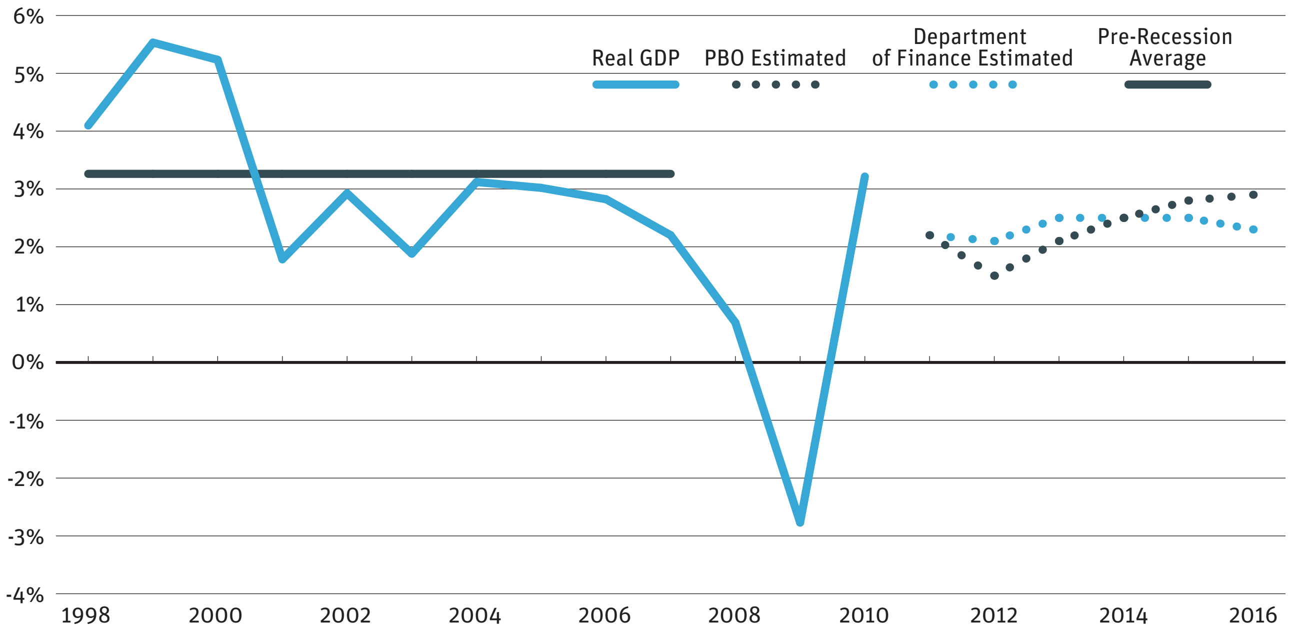
Four years after the 2008 financial meltdown, with government projections reaching forward to 2016, Finance Canada's own numbers now reveal that Canada is on a path to its own lost decade of significantly constrained real GDP growth.

Between 1998 and 2007, before the financial crisis, real GDP growth averaged 3.3%. For the next five years (2012–16), the projection horizons of both Finance Canada and the Parliamentary Budget Officer (PBO) reveal GDP growth will be either 2.3% or 2.4% respectively. The PBO has a more pessimistic view in the short run, with growth dropping to 1.5% in 2012 but recovering to 2.9% by 2016. Finance Canada has the opposite view, with stronger growth in the short term but growth slumping to 2.3% by 2016.

Whether the PBO or Finance Canada is more prescient, the result is the same. The next five years will see a full percentage point kicked off of GDP growth compared to the pre-financial crisis average of 3.3%. For the AFB, this dramatic fall in real GDP over the foreseeable future is a serious problem.

In fact, Finance Canada and PBO projections show the average real GDP growth over the 10-year period 2008–17 to be a dismal 1.7%. By contrast the

FIGURE 1 Canadian Real GDP Growth



Source Statistics Canada, Finance Canada and the Parliamentary Budget Office

10 years prior showed average real GDP growth to be 3.3%. By the government's own projections Canada is a third of the way through a lost decade of stagnant growth.

On the unemployment side, Finance Canada and the PBO diverge significantly. The PBO sees significantly higher unemployment of 8% in 2012 and 2013 falling to 7% over the five-year horizon. At the opposite end of the spectrum, Finance Canada sees a rapid reduction to 7.2% in 2012 falling each year to only 6.4% in 2016. These significant divergences persist despite almost identical average real GDP growth over the same period.

When it comes to unemployment quality matters and on several key measures, there has been little to no recovery in job quality since the initial drop in 2008.

The unemployment rate by itself can be misleading. As jobs start to disappear, unemployed Canadians settle for a part-time job or simply stop looking. In either case, they are no longer counted in the official unemployment rate. For a better measure of quality, the percentage of working-age Canadians with a full-time job should be examined.

From the perspective of full-time employment, very little has changed since the recession hit in late 2008. The percentage of Canadians with full-

FIGURE 2 Finance Canada Base Case

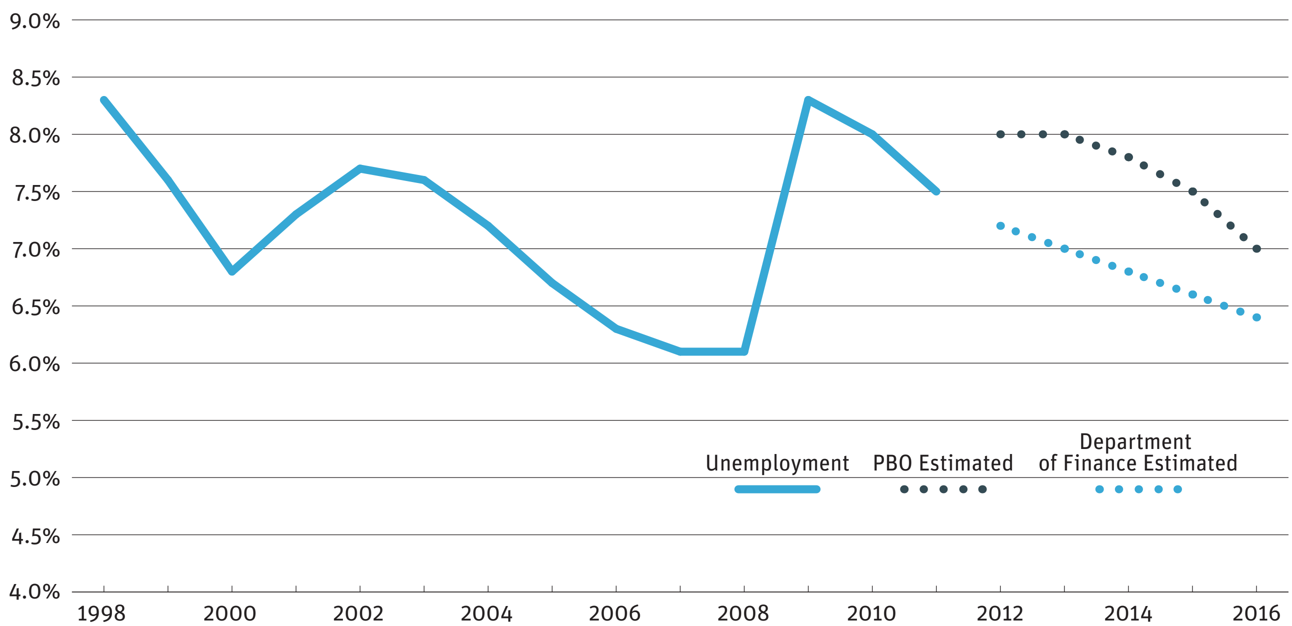
Macroeconomic Indicators	2011	2012	2013	2014
Nominal GDP ($Mil)	1,691,000	1,751,000	1,841,000	1,935,000
Nominal GDP Growth	5.3%	3.5%	5.1%	5.1%
Real GDP Growth	2.2%	2.1%	2.5%	2.5%
Employment Rate (As % of Working Age Population)	62.2%	62.3%	62.4%	62.5%
Unemployment Rate	7.5%	7.2%	7.0%	6.8%
Unemployed (000S)	1,386	1,347	1,327	1,308
Budgetary Transactions ($Mil)	**2011–12**	**2012–13**	**2013–14**	**2014–15**
Revenues	243,500	251,800	268,800	285,100
Program Spending	243,000	247,400	252,500	257,600
Debt Service	31,500	31,900	33,300	35,000
Budget Balance	(31,000)	(27,500)	(17,000)	(7,500)
Closing Debt (Accumulated Deficit)	585,200	612,700	629,700	637,200
Budgetary Indicators As Percentage of GDP	**2011–12**	**2012–13**	**2013–14**	**2014–15**
Revenue/GDP	14.4%	14.4%	14.6%	14.7%
Expenditures/GDP	14.4%	14.1%	13.7%	13.3%
Budgetary Balance/GDP	-1.8%	-1.6%	-0.9%	-0.4%
Debt/GDP	34.6%	35.0%	34.2%	32.9%
Effective Interest Rate		**5.5%**	**5.4%**	**5.6%**

Source Update of Economic and Fiscal Projections, November 2011

time jobs has fallen below 50% and hasn't managed to stay above that level since 2008. However, *Figure 4* shows the effect of that stalled full-time job recovery broken down by sex. The clear impact is on male adults, 65% of whom retained a full-time job for all of the 2000s. However, following the 2008–09 recession, adult men lost those full-time jobs in a dramatic fashion with 63% or fewer now retaining full-time jobs.

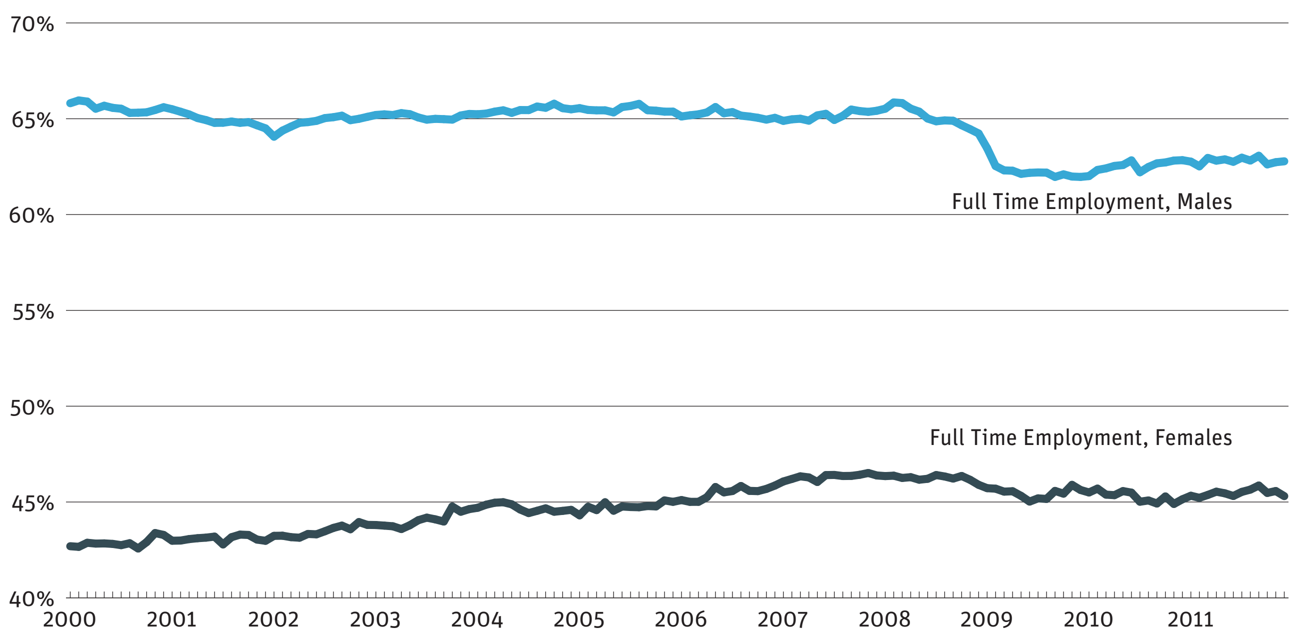
The impact on adult women is more muted. There is certainly a decline in women with full-time jobs after the 2008–09 recession, but it isn't nearly as drastic. So while the unemployment rate may have come down slightly it is largely due to unemployed men either dropping out of the workforce or settling with part-time jobs when they'd prefer to work full-time.

FIGURE 3 Unemployment Rate Projections



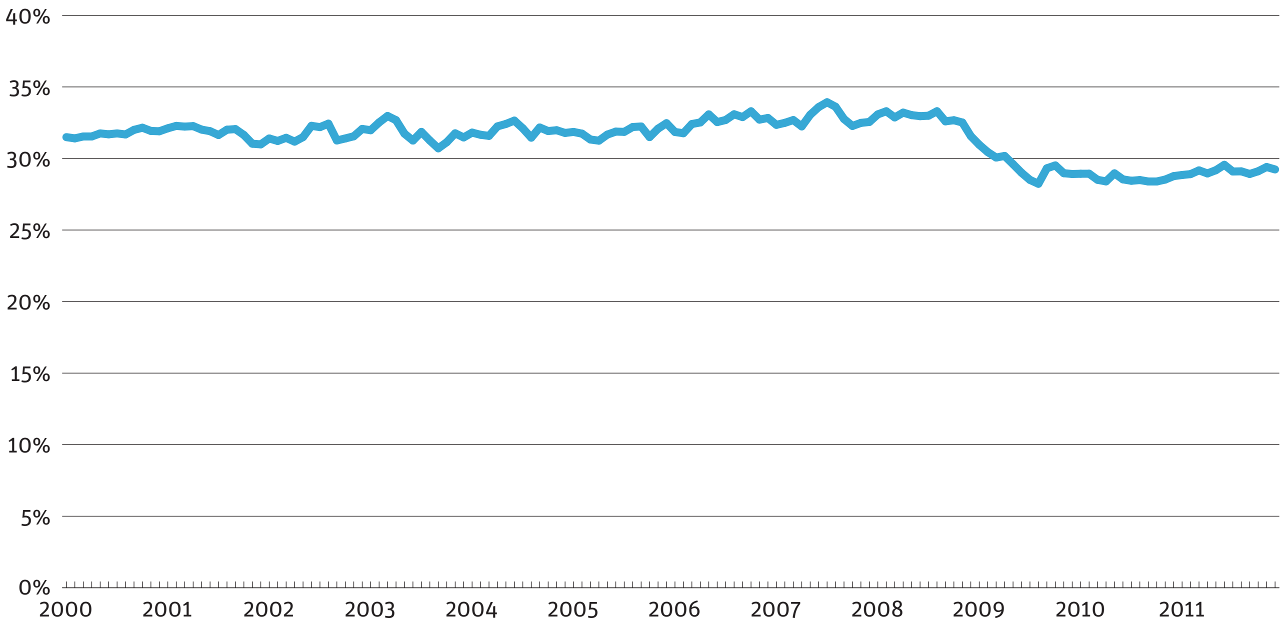
Source Labour Force Survey, Finance Canada and the Parliamentary Budget Office

FIGURE 4 Working Age Adults With a Full-Time Job



Source Labour Force Survey (25 and over)

FIGURE 5 Youth Full-Time Employment Rate



Source Labour Force Survey

Speaking of Canada's underemployed, fully 27% of part-time workers in Canada would prefer to work full-time but for economic reasons can't find a full-time job. This is up from 22% of part-time workers in 2008. Including both unemployed and discouraged workers, Canada's real unemployment rate sits at 10.6% in December.[1] In total, just under two million Canadians are either unemployed or underemployed.

The situation has been particularly bad for Canadian youth between 15 and 24 years of age. Unemployment in this category remains over 14%, where it has been since the start of 2009. Young Canadians have not even been part of the "fragile recovery." For them, gaining employment will likely remain a significant challenge. The lack of gainful employment in the first several years of a career can have life-long earning impacts.

The full-time employment rate for youth continues to deteriorate. Prior to the 1990 recession, 40% of working-age youth had a full-time job. The 2008–09 recession drove the ratio below 30% for the first time in a decade as shown in *Figure 5*. There is no sign of recovery above that 30% mark.

The status quo heading into 2012 has left Canada in an unacceptable situation. Without alteration, the economy is projected to continue to limp along a full percentage point below the rate of growth in the 2000s. At the same time two million Canadians are either unemployed or underemployed. The wasted potential of two million Canadians is a national tragedy that needs to be addressed.

A Path Out of Stagnation

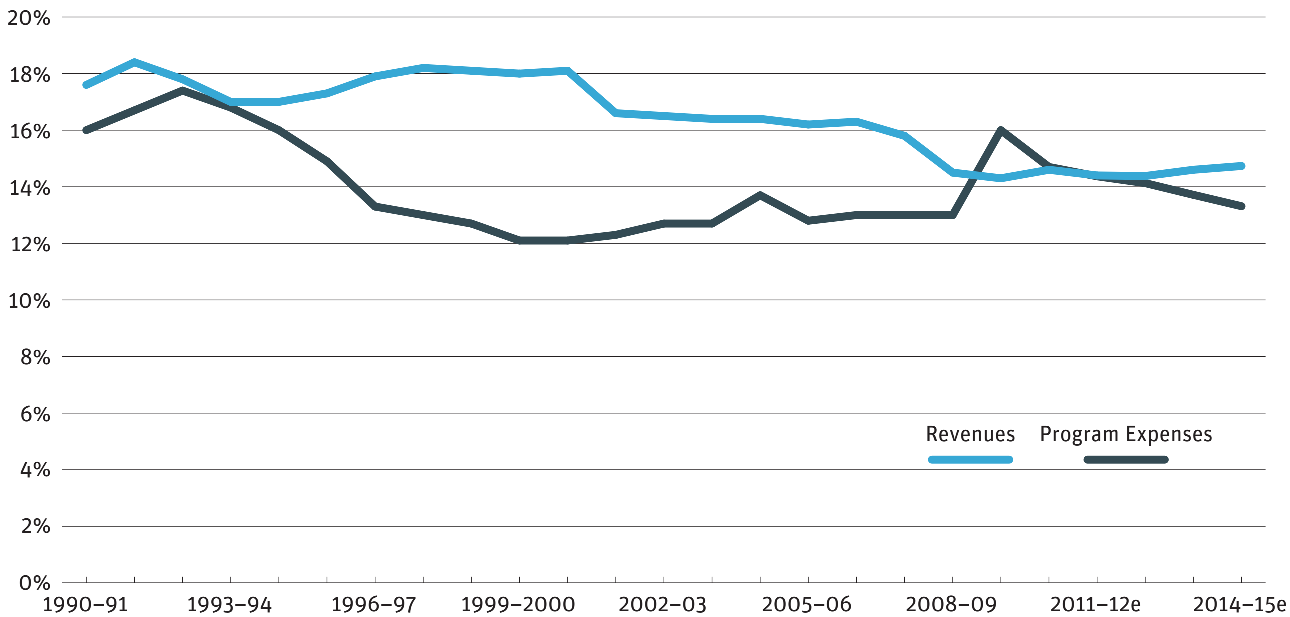
The present situation of slow growth, inadequate demand and weak wage growth has been developing for some time. Successive tax cuts, particularly on the corporate side, have steadily eroded the federal government's ability to intervene in the Canadian economy and assure more widespread gains from economic growth. Continued tax loopholes on the personal side continue to fuel after-tax income inequality.

Federal revenues have been repeatedly eroded from their high in the past two decades of just over 18% to their present level of just over 14% of GDP. That level is not projected to change meaningfully over the next five years. This 4% of GDP drop in federal revenues driven by a halving of the corporate tax rate and a reduction in the GST has turned the government's surplus into a perpetual deficit. That said, deficits remain well below nominal GDP growth, meaning that the more important debt-to-GDP ratio continues to fall in Finance Canada's base case.

At the same time, expenditures have never meaningfully recovered from the Liberal cutbacks of the 1990s. There was a small blip upwards in 2009–10 as stimulus spending was introduced to combat the recession. However, Finance Canada's base case projects expenditures moving back to 13.3% by 2014–15 from their high of over 17% in the early 1990s. For both revenues and expenditures, the federal government has reduced its involvement in the economy by 4% of GDP.

The challenge of a lost decade due to stagnant growth, fewer full time jobs and stagnating real wages was not created by federal deficits. In fact, it is in part the result of a structural shift away from the stabilizing influence of the federal government in the Canadian economy. As revenue was cut too deeply and expenditures fell to follow suit, the stabilizing influence of government aggregate demand was significantly reduced. While this is not as serious a problem when economic growth is strong and unemployment low, it becomes much more significant when counter-cyclical spending is needed. When confidence falls among consumers and businesses, economic growth can be impaired without continued government support of the economy.

FIGURE 6 Federal Revenues and Expenditures



Source Fiscal Reference Tables

The corporate tax cut agenda has been a key demand of corporate Canada for some time. That campaign has been very successful in reducing the federal corporate statutory rates from 28% in 2000 to 15% in 2012. Canada now has the lowest corporate tax rate of any country in the G7. The two major international corporate tax comparisons performed by KPMG[2] and PriceWaterhouseCoopers[3] confirm this fact. In fact, Canada could easily raise its federal corporate rate by several percentage points and remain the lowest on the list of G7 countries.

However, reducing the corporate rate is not a goal in and of itself. Corporate Canada promised that if the most profitable among them received massive corporate tax breaks the additional money would be invested in new equipment to boost productivity. The federal government has lived up to its side of the bargain. But corporate Canada has failed to reinvest the additional after-tax profit. Recent research on the topic suggests there is absolutely no correlation between business investment and corporate tax rates in Canada.[4] Waves of corporate tax cuts have not led to additional business investment. Instead they have led to corporate cash hoarding.

As of the third quarter of 2011, Canadian non-financial corporations held over half-a-trillion dollars in cash, up from only $167 million in 2001.[5]

It makes sense for companies to hoard cash when the future is uncertain. The problem for the Canadian economy is the destructive effects of this procyclical behaviour.

In his December speech to the Empire Club of Canada, Mark Carney reiterated the strong position that corporations are in and the weak position of Canadian households.[6] "Today," he said, "our demographics have turned, our productivity growth has slowed and the world is undergoing a competitive deleveraging. We might appear to prosper for a while by consuming beyond our means.

Markets may let us do so for longer than we should. But if we yield to this temptation, eventually we, too, will face painful adjustments." In essence the medium-term growth picture is very mixed for Canada.

While Carney exhorts corporations to spend their cash to boost growth, the AFB proposes a different approach, with the federal government playing a more direct role in economy-wide investments. Instead of hoping that corporate Canada will create jobs or that the economy will be driven by already-high and increasing consumer debt levels, the AFB consciously targets new investments to drive GDP growth, job growth and reduced inequality.

The AFB this year will target 6% unemployment for the forecast horizon of three years. It does so by abandoning the failed corporate tax experiment in favour of direct job creation in high multiplier areas like infrastructure, health care and education. This requires a wholesale rebalancing of priorities relying less on corporations and more on providing services that Canadians value while driving wage growth for regular people.

In creating the AFB base case, economic, government revenue and job multipliers are used and were provided by Informetrica Ltd. In the case of each multiplier, the effects are net over all changes proposed in the AFB. For instance, infrastructure spending increases job creation but tax increases decrease job creation. *Figure 7* shows the cumulative effects of AFB measures on GDP, federal government revenues, expenditures, deficit and debt.

The Finance base case as represented in *Figure 2* is the foundation for the AFB case. As such, both scenarios are directly comparable. No GDP, revenue or expenditure base assumptions are changed in the AFB case. All AFB changes are separated out to show their effect of expenditures and revenues.

Compared to the Finance base case, the AFB case moves growth forward to 2012–13. The AFB fills in for particularly lacklustre growth projected for 2012–13. The final two projected years see GDP growth under the AFB case somewhat lower than that for Finance Canada.

FIGURE 7 AFB Case

	2011–12	2012–13	2013–14	2014–15
Nominal GDP ($Mil)	1,691,000	1,792,850	1,870,066	1,955,507
Nominal GDP Growth	5.3%	6.0%	4.3%	4.6%
Revenues ($Mil)				
Base Case	243,500	251,800	268,800	285,100
Net AFB Revenue Measures		25,235	47,503	54,973
Multiplier Effect		4,808	4,666	4,876
Total	243,500	281,843	320,969	344,950
Expenditures ($Mil)				
Base Case	243,000	247,400	252,500	257,600
Net AFB Program Measures		46,124	58,327	59,703
Total	243,000	293,524	310,827	317,303
Debt Service	31,100	33,121	34,913	36,644
Budget Balance (Deficit)	(30,600)	(44,802)	(24,771)	(8,998)
Closing Debt (Accumulated Deficit)	585,200	630,002	654,773	663,770
Budgetary Indicators as Percentage of GDP				
Revenue/GDP	14.4%	15.7%	17.2%	17.6%
Expenditures/GDP	14.4%	16.4%	16.6%	16.2%
Budgetary Balance/GDP	-1.8%	-2.5%	-1.3%	-0.5%
Debt/GDP	34.6%	35.1%	35.0%	33.9%

The main change in the AFB case is the significant increase in both federal government expenditures and revenues. Revenues as a proportion of GDP in the AFB case increase from 14.4% to 17.6%. A portion of the revenue increase is a direct result of more employment caused by the AFB measures. More Canadians working means more Canadians paying tax to the federal government. At the same time, expenditures as a proportion of GDP increase from 14.4% to 16.2%. In the Finance base case, expenditures to GDP actually decline from the 2011–12 base and revenues to GDP remain essentially unchanged.

The current obsession with budget deficits is misplaced given the federal government's low debt burden. Economic growth alone will drive down the debt-to-GDP ratio over time. The AFB case increases the deficit, particularly in year 2012–13. However, by the third year even the AFB case has the deficit at

FIGURE 8 AFB Employment Impact

	2011	2012	2013	2014
AFB Jobs Created (000s)		329	320	247
Unemployed (000s)	1,386	1,129	1,120	1,147
Unemployment Rate	7.5%	6.0%	5.9%	5.9%

less than 1% of GDP. The AFB finishes with a debt-to-GDP ratio of 34% with the Finance base case projecting an only slightly smaller ratio of 33%. With debt-to-GDP ratios this small and falling, there is essentially no danger of a debt crisis in Canada. The major change in this year's AFB is not increasing the deficit, but rather increasing the federal government's involvement in the economy.

The upside of stronger federal government involvement is much lower unemployment and stronger job growth. In each of the three years of the AFB, unemployment remains at or below 6%. The effect of the shift in spending and taxation is to put between 247,000 to 329,000 Canadians to work providing services that Canadians desperately need.

The AFB proposes changes in federal government policy across 21 areas. The largest job creators are major investments in universal child care, a massive municipal infrastructure fund, and major investments in housing and poverty reduction. Each of these new investments creates jobs but also provides services that Canadians want and will use regularly. A complete list of the AFB interventions in the economy is provided in *Figure 9*.

Notes

1 Using R8 unemployment from the Labour Force Survey on a one-year rolling average to compensate for seasonality.

2 KPMG, Competitive Alternatives, 2010.

3 PriceWaterhouseCoopers, *Paying Taxes*, 2010 (http://www.pwc.com/gx/en/paying-taxes/data-tables.jhtml)

4 Stanford, Jim. *Having Their Cake and Eating It*, Ottawa: Canadian Centre for Policy Alternatives.

5 Statistics Canada, National Economic Accounts, 2011, (http://cansim2.statcan.gc.ca/cgi-win/cnsmcgi.exe?Lang=E&Accessible=1&ArrayId=T1680&ResultTemplate=CII%5CSNA___&RootDir=CII/&Interactive=1&OutFmt=HTML2D&Array_Retr=1&Dim=-#HERE)

6 Marc Carney, "Growth in the Age of Deleveraging", December 12, 2011, Empire Club of Canada

FIGURE 9 Complete List of AFB Programs ($Mil)

Program Name	2012–13	2013–14	2014–15
Aboriginal Peoples			
First Nations Education	800	800	800
First Nations Housing	1,000	1,000	1,000
First Nations Safe Drinking Water	1,600	1,250	1,250
NIHB Program	376	107	107
National Strategic Framework to End Violence Against Aboriginal Women	10	10	10
Early Childhood Education and Care			
Build Early Childhood Education and Care System	2,349	2,965	3,681
Cancel the Universal Child Tax Benefit	-2,698	-2,730	-2,762
Cities and Communities			
ReBuild Canada Fund	9,000	9,000	9,000
Index the Gas Tax Transfer	62	122	185
Community Empowerment Fund	100	100	100
Community Economic Development Roundtable	0.5	0.5	0.5
Neighbourhood Revitalization Program	50	50	50
Culture & Arts			
Development of Markets at Home and Abroad	40	40	40
Canada Council for the Arts	30	60	90
Income Averaging for Artists	5	5	5
Training and Internship/Mentorship Opportunities	1	1	1
Digital Environment Fund	5	5	5
Cultural Statistics	1	1	1
Communications			
Modernize Rural Broadband	400	500	600
National Public Access Program	40	40	40
Defence & International Development			
Spending Back to Pre-9/11 Levels	-1,280	-2,600	-4,000
Stopping Growth of National Security Establishment	-547	-1,094	-1,641
ODA to Increase to 0.7% of GNI	1,129	2,364	2,740
Employment Insurance			
Universal Entrance of 360 hours	1,100	1,100	1,100
Continued Support for Long Tenured Employees	250	250	250
Extended Training Benefits	500	500	500
Additional 5 Weeks of Benefits	500	400	0

Program Name	2012–13	2013–14	2014–15
Environment			
Global Climate Fund Contribution	400	400	400
Species At Risk	25	25	25
Freshwater Resources	55	55	55
Energy Efficiency in Homes	350	350	350
Health Care			
Community Health Care	1,734	1,769	1,804
Dental Health for Children	50	100	200
National Pharmacare	3,390	3,830	4,590
Housing			
New Affordable Housing Supply	2,000	2,000	2,000
Immigration			
Restore Funding to Immigrant Settlement Agencies	53	53	53
Equity Seeking Group internships	50	50	50
Incentives for Employment Equity	50	50	5
Continue Foreign Credential Recognition Program	25	50	50
Court Challenges Program	3	3	3
Reform the Temporary Foreign Worker program	100	100	100
Extend Wage Earner Protection Program	40	30	30
Post Secondary Education			
Post-Secondary Provincial Transfer to Provinces	637	637	637
Deferred College and University Maintenance	1,000	1,000	1,000
Reduce Tuition to 1992 levels	1,300	1,300	1,300
Create New Income Tested Grants	1,529	1,570	1,609
Cancel Textbook Tax Credit	-41	-41	-41
Cancel Scholarship Tax Credit	-43	-43	-43
Cancel Tuition Fee and Education Tax Credit	-490	-490	-490
Cancel RESP	-185	-185	-185
Cancel Canada Education Savings Grant	-770	-811	-850
Increase Canada Graduate Scholarships to 3000	25	25	25
Poverty Reduction			
Poverty Reduction Transfer to Provinces	2,000	2,000	2,000
Increase CCTB to $5,400/Child	5,562	5,562	5,562
Double Refundable GST Credit	3,865	3,919	3,974

Program Name	2012–13	2013–14	2014–15
Sectoral Development			
Sectoral Development Councils	50	50	50
Automotive Recycling Program	300	300	300
Green Skills Development Program	100	100	100
Green Car Levy	-300	-300	-300
Green Energy Manufacturing Tax Credit	50	50	50
Sustainable Forestry and Skills	300	300	300
Sustainable Farm income supports	650	650	650
Eliminate Biofuel Crop Subsidies	-200	-200	-200
Seniors			
Increase Singles GIS Benefits by 15%	1,009	1,047	1,084
Limit RRSP Contributions to $20,000/year	-386	-386	-386
Tax Chapter			
Carbon Tax	0	-14,140	-17,245
New Income Tax Above $250,000 (35%)	-3,500	-3,756	-4,030
Reinstate 2007 Corporate Tax Rates	-5,250	-10,500	-13,566
Reinstate 28% rate on Oil and Gas & Financial Industries	-2,000	-3,000	-3,000
Eliminate Stock Options Deduction	-725	-798	-877
Eliminate Meals and Entertainment Deduction	-275	-275	-275
Fully Tax Capital Gains	-6,000	-6,600	-7,260
Financial Activities Tax	-4,000	-4,200	-4,410
Inheritance Tax on $5 mil+ Estates	-750	-1,500	-1,575
Provincial Harmonization	0	7,070	8,623
National Green Tax Refund	1,875	7,500	7,500
Cut Fossil Fuel Subsidies	-1,345	-1,345	-1,345
Water			
Hydraulic Fracturing Assessment	2	0	0
National Standards for Municipal Sewage treatment	1,000	1,000	1,000
Water Operator Training	50	50	50
Study Climate Change Effect on Water Supplies	5	0	0
Labelling Program for Water Efficient Fixtures/Appliances	5	5	5
Water Quality & Monitoring Framework	1,000	1,000	1,000
Great Lakes Action Plan	500	0	0
Clean Up Priority Waterways	950	950	950
Map Canada’s Water Sources and Uses	3	0	0
Study Trade Deal Effects on Water Exports	1	0	0

Program Name	2012–13	2013–14	2014–15
Reverse Environment Canada Cuts	67	73	73
Environmental Assessment of Energy and Mining Projects	25	25	0
Study Water Effect of Tar Sands	30	0	0
Public Input Into Federal Reviews on Fracking	2	0	0
Woman's Equality			
Create Pay Equity Commission and Tribunal	10	0	0
Stopping Violence Against Women	70	70	70
Properly Fund Status of Women	30	30	30
Total AFB Expenditure Changes	**46,124**	**58,327**	**59,703**
Total AFB Revenue Changes	**-25,235**	**-47,503**	**-54,973**

Fair and Progressive Taxation

Background

The federal government is enacting deep cuts to public programs, ostensibly to reduce the deficit, while also cutting tax rates for highly profitable corporations. There's a better way.

Federal revenues as a share of the economy are 3% (or $48 billion) lower than they were a decade ago. Much of this is due to lower corporate taxes and lower taxes on higher incomes.

Even business-friendly organizations have finally come to the realization that our tax system needs to be fairer and more progressive.

This can be achieved with a few immediate changes:

- Increase tax rates on top incomes.
- Reverse the race to the bottom with corporate tax cuts.
- Eliminate unfair tax preferences, close tax loopholes and access to tax havens.
- Apply financial activities or transactions taxes.
- Introduce an inheritance tax on large estates.
- Start to introduce smart — and progressive — green taxes.

The Alternative Federal Budget has proposed these types of tax reforms for many years, but we're no longer alone. Tax cuts and loopholes, particularly for business and high incomes, have eroded the federal government's revenues and resulted in a much larger deficit. This is now being used as a rationale to cut public spending and services for Canadians.

Billionaire investor Warren Buffett told his government to "stop coddling the super-rich"[1] and called for higher tax rates and the elimination of loopholes that allow the wealthiest to pay lower rates of tax. He's not alone. An organization of patriotic millionaires[2] in the U.S. and some of the wealthiest people in France, Germany and other nations have urged their governments to increase taxes on the rich. Canada's tax system provides similar benefits that allow the rich to pay low rates of tax and must be reformed.

It's not just a question of fairness. The International Monetary Fund (IMF),[3] Conference Board of Canada,[4] and the Organization for Economic Cooperation and Development (OECD)[5] have also recently warned that rising levels of inequality are damaging economic growth. The IMF has called on countries to close loopholes, eliminate tax breaks for fossil fuel companies and increase taxes on the finance sector. The OECD recently suggested[6] Canada should make its tax system more progressive and increase taxes on high incomes.

Cuts in tax rates for the rich have coincided with growing inequality and an escalation in the income share of the top 1% while incomes for the majority of workers have been stagnant. Periods of steeply increasing inequality have also preceded devastating economic and financial crises.

This is a significant reversal from the tax cut policies they've been advocating — and often forcing on countries — for the past three decades. Now even Conservative MPs are feeling the pressure: their members on the House of Commons Standing Committee on Finance recommended the federal government set up an expert panel to review and propose changes to the tax system.[7]

Current Issues and AFB Actions

A number of the changes we need are straightforward.

1. Introduce a new federal tax bracket of 35% on individual incomes above $250,000

Canada's richest 1% has taken the lion's share of income growth in the past decade,[8] but pays a lower rate of overall tax than all other income groups — including the poorest 10%.[9]

Canada used to have a much more progressive personal income tax system before top rates were eliminated by a succession of Liberal and Conservative governments in the 1980s. In 1981, Canada's top federal tax rate was 43% for individual incomes over $118,980 (equal to about $290,000 in current dollars); and was 39% for incomes above $77,337 ($191,000 in current dollars). Now Canada's highest federal tax rate is 29%, whether your income is $130,000 or $130 million.

Canada's top rate of federal tax is far below the top U.S. federal tax rate of 35%, applying to *family* incomes over $380,000.[10] Canada's combined federal-provincial rate is also below the optimal tax rate of 48% to 76% for the top 1% recently calculated by Nobel prize-winning economist Peter Diamond and Emmanuel Saez.[11]

Introducing a new federal tax rate of 35% for incomes above $250,000 would increase federal tax revenues by $3.5 billion in 2012. This new rate would apply only to incomes over $250,000 for the less than 1% of Canadians who have individual incomes above that amount.

Revenue: $3.5 billion in 2012–13.

2. Reverse corporate tax cuts

The federal government has slashed corporate tax rates over the past decade cutting the corporate income tax rate from 29.12% in 2000 down to 15% while also eliminating capital gains taxes. In the past three decades, Canada's federal corporate income tax rate has been cut by more than 60% — from 37.8% in 1981 down to 15% in 2012.

These cuts to more "competitive" tax rates were supposed to stimulate more business investment, but instead the opposite has happened. Corporate profits have escalated along with CEO and executive compensation, but business investment as a share of the economy has declined and productivity — along with average real wages — has been stagnant. Instead of putting extra profits into productive investments, corporations have stockpiled over $500 billion into cash and speculative financial investments, which contributed to the financial crisis and recession.

This year's federal corporate tax cut will provide another $2.8 billion windfall for corporations — while the federal government is slashing public spending and laying off workers, supposedly to reduce its deficit. The Harper government has also put strong pressure — and paid billions to provinces — to introduce harmonized sales taxes and reduce their business tax rates, further reducing the taxes paid by business.

Canada's corporate income tax rate is now lower than all other G7 countries and our effective corporate tax rate is also lower than virtually all other high-income OECD countries. International tax comparisons by KPMG show that Canada's effective rate was lower than U.S. rates and only higher than Mexico among the jurisdictions they studied in 2010.

Ireland and Iceland led the race to the bottom with corporate tax cuts in the 1990s and early 2000s, with ultimately calamitous consequences. Now Canada is leading the race to the bottom that other countries are pressured to match — and exceed. If they also cut rates, businesses will pressure Canada to cut tax rates here even further. The downward cycle of trying to poach investments from other countries with lower tax rates will continue: only the corporations and CEOs will (temporarily) benefit.

Corporate income tax rates significantly lower than personal income tax rates also lead to wasteful tax avoidance activities. Those with the opportunity and money to spend on tax accountants can accumulate more money by channelling and retaining income through corporations taxed at a lower rate.

Corporate income tax cuts are also a very poor way to stimulate the economy. Economic "multipliers" from Finance Canada and elsewhere show that every dollar in corporate tax cuts creates only *a fifth* of the jobs and economic activity that public sector spending and investment does.[12] This means that cutting public spending to reduce the deficit while also cutting corporate tax rates will lead to a *net loss of jobs and lower* economic growth. For instance, public spending cuts of $2.5 billion to pay for a similar reduction in corporate taxes this year will lead to a net loss of 30,000 jobs and a 0.2% decline in economic growth, further reducing revenues. This is a downward spiral we can't afford. In summary, lower corporate taxes make no sense for fiscal, economic, fairness or tax policy reasons.

The Alternative Federal Budget would restore the general corporate income tax rate to 21% by January 1, 2013. This is the same rate that applied in 2007 but without the 1.12% surtax that was in effect until that year.

The oil and gas and finance sectors are the most highly profitable industries in Canada, yet they both benefit from large direct and indirect subsidies, including tax preferences, low royalty rates, and tax exemptions. The AFB would raise the income tax rate on the oil and gas sector to 28% to compensate for these other exemptions and increase taxes on the finance sector through other mechanisms (see below). Higher tax rates on these industries could help to stabilize the economy by moderating the boom-bust episodes that have been fuelled by these sectors. (See the Sectoral Development chapter for costing and more details.)

Revenue: $10.5 billion in 2013–14.

3. Simplify Canada's tax system and broaden the tax base by closing regressive and ineffective tax loopholes and restricting access to tax havens

Harper has riddled Canada's tax systems with an array of ineffective and expensive tax preferences and loopholes.

Instead of providing funding directly for public transit, or for arts, sports or educational programs, they've created specialized tax preferences and credits in these and many other areas. While some tax credits and deductions are effective and progressive, others are a costly and ineffective way of achieving their objectives. Many tax preferences also provide much greater benefits to the affluent and higher income groups who can make greater use of them.

These include:

- **Stock option deductions:** The stock option deduction allows Canada's highest paid executives to pay tax at half the rate that ordinary Canadians pay on their employment income. It is not only the most regressive and inequitable of our tax loopholes, it also helped fuel the kind of reckless speculation and stock manipulation that led to the financial crisis. It cost the federal government an average of $1 billion a year prior to the financial crisis. Over 95% of the value of this loophole went to the 2% of tax-filers with incomes over $150,000, with about 90% of its value going to the less than 1% with incomes over $250,000. **Revenue:** *$725 million annually.*
- **Meals and entertainment tax deduction:** This deduction provides businesses with generous tax deductions for the cost of food, alcohol and entertainment, including private boxes at sporting events, hospitality suites, entertainment at private clubs and cruises. Eliminating this corporate tax deduction would save the federal government close to $300 million a year. A more limited deduction for meals and entertainment from personal income tax, including for long-distance truckers, would be maintained. **Revenue:** *$275 million annually.*
- **Capital gains deduction:** Income from investments and speculation is taxed at half the rate of employment income for both individuals and corporations. The value of this loophole was doubled in 2000 when the inclusion rate was reduced from 75% to 50%, ostensibly to boost investment and productivity. Instead it has had the opposite effect and appears to have encouraged real estate, financial specu-

lation and mergers and acquisitions instead of productive investment. A rationale for a lower rate is that corporations already pay tax on their profits — but capital gains can be realized whether they pay tax or not. Another rationale is that a portion of the capital gains reflects inflationary increases over the period. Accordingly, the AFB would tax capital gains at the full amount after adjusting for inflation. This means that investments and assets that are held for many years, including stocks, properties, or family cottages, would be subject to a considerably lower rate of tax. **Revenue:** *$6 billion annually.*

- **Research and Development Tax Credit:** Canada has some of the most generous R&D tax credits in the world, but they've failed to result in significant increases in research and development. Despite tax credits that cost the federal government more than $3 billion a year, Canadian businesses lag considerably behind other industrialized countries in their investment on research and development. As was recommended by the recent Expert Panel on Federal Support to Research and Development, chaired by the former CEO of Open Text, the AFB would tighten up the rules for this tax credit and redeploy the funds to increase direct grant support.[13] **Revenue:** *$1 billion annually (however re-invested into grants).*
- **Fossil Fuel Subsidies:** Canada continues to provide very generous tax subsidies to very profitable oil, gas and mining companies including the Canadian Exploration Expense and the Canadian Development Expense. These include accelerated federal corporate tax provisions that allow companies to deduct their exploration, development and processing expenses at an accelerated rate instead of normal rates that businesses in other sectors pay. The federal government has agreed to phase out these tax preferences for the oil sands, but they remain for other fossil fuel producers.[14] **Revenue:** *$1.3 billion annually.*

4. Financial activities or transactions tax

The International Monetary Fund has proposed countries introduce a *Financial Activities Tax* to compensate for the exemption of financial services from value-added taxes. The European Commission (EC) with major nations is planning to introduce broader-based *Financial Transactions Taxes*. This proposal is also supported by more than a thousand economists worldwide (including a number of Nobel award-winners) as a way to reduce speculation and economic instability.

The EC estimates it could generate $85 billion in Europe alone — in addition to the revenue that many countries already raise through existing financial transactions taxes. Even the United States Securities and Exchange Commission has a small levy it charges on stock transactions.

- A Financial Activities Tax at a rate of 5% on financial sector profits and compensation would generate approximately $5 billion annually.
- A levy of just 0.5% on equity transactions through the TSX — at the same rate as the U.K.'s Stamp Duty Reserve Tax — would generate close to $4 billion a year, assuming a 50% reduction in volume.[15]

5. Introduce a tax on large estates of inherited wealth

Unlike the United States and most European countries, Canada has no wealth, inheritance or estate tax. This means those who are lucky enough to be born into a privileged family can benefit from enormous inheritances without paying any tax. Capital gains taxes may be levied on some portion of inheritances, but they don't apply to the base amounts and are often avoided.

The AFB proposes a minimum inheritance tax of 45% on large estates that are passed on to the heirs of wealthy families on amounts in excess of $5 million. It would apply in a similar way as the Estate Tax in the United States, prior to and integrated with capital gains taxes, and at similar rates that have applied there.[16]

Estate and Gift Taxes have generated between $20 billion and $30 billion in revenue annually[17] in the United States. It is reasonable to assume that a similarly designed estate tax in Canada would generate approximately $1.5 billion a year in revenues.

This inheritance tax would only apply to amounts in excess of $5 million (e.g., after a $5 million deduction). Capital gains taxes would continue to apply for inheritances below $5 million, but at the full rate and indexed for inflation. This means for inheritances of cottages or other property that have been held in the family for decades, the tax may be lower than under the existing system.

Revenue: approximately $1.5 billion in 2013–14.

6. Start to introduce smart — and progressive — green taxes, including a national carbon tax

Following Canada's official withdrawal in December, the Kyoto accord on climate change is now for all practical purposes dead. A successor agreement won't be in effect until 2020 at the earliest. It is intended to also cover the emissions of large developing nations, but given the political and practical failure of the Kyoto agreement, it is hard to believe that a similar type of agreement would achieve any more success — especially with a larger and more unwieldy constellation of countries.

It's time to move forward with a different approach. We can't waste more decades trying to reach a binding and enforceable international agreement on emission reductions involving hundreds of diverse countries. Instead, Canada should move forward with a national carbon tax with border tax adjustments.

Carbon taxes are more efficient, transparent and less corruptible mechanisms for putting a price on carbon than cap-and-trade quantity quotas. Carbon taxes also provide a clear price signal for business, organizations and consumers, and avoid the speculation, uncertainty and unfair windfall gains associated with cap-and-trade systems.

Imports from countries that don't have similar measures will be taxed at an appropriate rate to reflect the emissions associated with their production, processing and transport, exempting imports from highly impoverished nations. Exports to countries without similar climate change measures would be exempted. This would put pressure on other countries to enact climate change measures and ensure that Canada's exporters are not placed at a competitive disadvantage.

Canada's national carbon tax would be integrated with existing provincial carbon taxes, such as in British Columbia. The federal tax would apply where provincial carbon taxes are not in effect or are at a lower rate. It would be increased as necessary to meet Canada's greenhouse gas reduction targets.

As with all forms of carbon pricing, carbon taxes are regressive. They most hurt those on low incomes, who also have the least ability to adapt and invest in more efficient measures. They also have a limited impact unless they are combined with complementary educational investments, support and regulations to reduce emissions. A large share of the revenues raised would be devoted to a progressive green tax refund. This would provide a majority of Canadians with a larger annual credit than they pay out in carbon taxes.

Additional credits would be provided for those living in northern and rural communities where fuel and energy use is generally higher. The rest of the revenues would be used to support energy efficiency, renewable energy and to help industry, communities and workers adapt to climate change.

A national carbon tax at a rate of $30/tonne would be introduced on July 1, 2013 and raise approximately $10 billion a year from the 350 megatonnes emitted from transportation, heating and other relatively small sources. It would generate another $7.5 billion annually from the approximately 500 large industrial facilities responsible for 250 megatonnes, or more than a third of Canada's total green house gas emissions. Border tax adjustments (compensating taxes on selected imports and exemptions for exports) would result in total annual tax revenues of approximately $15 billion annually. The tax would be monitored and increased as necessary to meet Canada's greenhouse gas reduction targets.

A green tax refund would be introduced earlier on January 1, 2013, at an approximate cost of $7.5 billion annually, with cheques sent out for $300 per person and amounts phased out for family incomes above $100,000. This annual amount is higher than the quarterly GST credit payments and would be available for family income levels at twice the maximum GST income threshold. The credit would be increased together with increases in the carbon tax at a rate of $10 per $1/tonne increase in the carbon tax. This would ensure that a majority of Canadian households would always be better off. Other revenues from the carbon tax would be recycled back into the economy through environmentally friendly investments or additional tax reductions and credits as determined by individual provinces.

Revenue: $17 billion in 2014–15, less cost of green tax refund.

Notes

1 http://www.nytimes.com/2011/08/15/opinion/stop-coddling-the-super-rich.html

2 http://patrioticmillionaires.org/

3 http://www.imf.org/external/pubs/ft/fandd/2011/09/index.htm

4 http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx

5 http://www.oecd.org/document/40/0,3746,en_21571361_44315115_49166760_1_1_1_1,00.html

6 http://www.oecd.org/dataoecd/50/52/49177689.pdf

7 www.parl.gc.ca/Content/HOC/Committee/411/FINA/Reports/RP5322386/411_FINA_Rpt05_PDF/411_FINA_Rpt05-e.pdf

8 http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20 Office/2010/12/Richest%201%20Percent.pdf

9 http://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_ Pubs/2007/Eroding_Tax_Fairness_web.pdf

10 http://www.irs.gov/pub/irs-pdf/p17.pdf

11 http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.4.165

12 Finance Canada claims that while corporate income cuts have a limited impact on aggregate demand in the short run they "have among the highest multipliers in the long run…because… they increase the incentive to invest and accumulate capital." (Budget 2009, Table A1.1, page 240). http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf Multipliers showing strong impacts from corporate tax cuts come from what are called "computable general equilibrium models" that have little relevance to reality, as they assume no unemployment, etc. It's clear that corporate tax cuts haven't done much to increase the incentive to invest so far — and aren't likely to as long as we're in a "prolonged period of deficient demand." http://www.bankofcanada.ca/2011/12/speeches/growth-in-the-age-of-deleveraging/

13 http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/$FILE/ R-D_InnovationCanada_Final-eng.pdf

14 See Green Budget Coalition, *Recommendations for Budget 2012*, Ottawa: November 2011. http://www.greenbudget.ca/pdf/Green%20Budget%20Coalition's%20Recommendations%20 for%20Budget%202012%20(November%202011)%20(2).pdf

15 Sanger, T., (2011). *Fair Shares: How Banks, Brokers and the Financial Industry Can Pay Fairer Taxes.* Ottawa: Canadian Centre for Policy Alternatives.

16 The U.S. Estate Tax was at a 55% rate for estates above $675,000 in 2001, but has been reduced since then. It was gradually reduced to a 45% rate that applied from 2007 to 2009, but has been temporarily re-introduced at a 35% rate for estates over $5 million for 2011 and 2012.

17 http://www.cbo.gov/ftpdocs/108xx/doc10841/Estate_GiftTax_Brief.shtml

Section 1

Securing Our Common Wealth

Aboriginal Peoples

Background

Strategic investments in First Nations and their citizens make sense. First Nations citizens continue to lag significantly behind the rest of Canada on all socio-economic indicators. According to the Community Well-Being Index, only one First Nations community ranked among Canada's top 100 communities, while the bottom 100 was populated by 96 First Nation communities.[1] The social and economic costs of continuing the current way of doing business under the Indian Act — of managing poverty, maintaining ineffective processes, and drawing out settlement and implementation of claims — are high.

It is clear that change needs to happen in Canada's approach to First Nations. As the Auditor General concluded in the June 2011 Status Report, there were limited improvements in programming for First Nations on reserve, and, in many cases, the situation has worsened. Substantial improvement will only occur through structural change and significant investments, particularly in the following areas:

1. Transforming the Fiscal Relationship
2. First Nations Education
3. Infrastructure and Health Services to Support Safe, Healthy Communities

1. Transforming the Fiscal Relationship

Acting now and making strategic investments constitutes a prudent and effective policy choice and is ultimately the most fiscally responsible course of action. Maintaining the status quo and the legislative framework of the *Indian Act*, which perpetuates the widening gap between First Nations and non-

First Nations people in Canada, is not an option. A fundamental transformation of the fiscal relationship between First Nations and Canada is required.

Current financial transfers to First Nations governments are:

- **Too conditional**: Current transfers are not flexible enough to provide decision-making power for First Nations governments.
- **Insufficient**: Funding provided to First Nations governments is too low to meet the growing needs of their citizens. In 2010, First Nations citizens received less than half of the per capita amount spent in local programs and services on Canadian citizens ($8,750 compared to $18,724).
- **Unpredictable:** Funding is too short-term and treated as "discretionary" without legal protections, resulting in unpredictable funding, instability, and the inability to engage in any long-term planning.
- **Not based on the true service population:** For many First Nations, the true service population includes all citizens of the First Nation, not just status Indians living on-reserve. In some cases, the current approach excludes 50% or more of the actual membership.

As a result, First Nations citizens have not enjoyed services comparable to those provided to Canadians. While Canadians receive services from all levels of government, through direct federal transfers to provinces and territories, and at an average annual growth rate of 6% per year, Finance Canada has maintained an arbitrary 2% cap on spending increases on First Nations core services since 1996. Yet, First Nations governments provide a huge range of programs and services to their citizens. As such, a new funding relationship is required. It must reflect the spirit and intent of Treaties and inherent jurisdiction, be a mechanism to ensure parity with provincial funding rates, reflect the real costs of delivering services, and provide incentive for leveraging additional resources and maximizing performance standards.

2. Investing in First Nations Education

Strategic investment in education is critical to building healthy, prosperous, and safe communities. Education is widely recognized as the most powerful method for bringing about improvements in all social and economic domains. A considerable gap exists between educational achievement and inputs with respect to First Nations education. Funding for First Nations education has been capped at 2% since 1996, despite a steady growth in both inflation and First Nations population, which should have resulted in an average annual increase of 6.3% over the same time period.

This discriminatory double standard in the provision of comparable inputs has been allowed to exist despite: i) numerous pledges by the federal government to address the education attainment gap; ii) the fact that the First Nations population is growing at twice the rate of the mainstream Canadian population; and iii) that by 2020 over 50% of the First Nations population will be under the age of 25.

Significant long-term economic returns for the Government of Canada can be derived from improved educational outcomes for First Nations citizens. Improved educational outcomes will reduce spending on social assistance and other remedial programs related to sub-par levels of social well-being. The ongoing cost to Canadians in lost productivity and increased support for First Nations may now be over $12 billion per annum. The combined fiscal savings and increased tax revenues to the Canadian government, through comparable educational attainment for First Nations, could be as much as $11.9 billion by 2026, with the cumulative financial benefit of Aboriginal education and social well-being reaching $115 billion for the period 2006–26.

3. Investing in Infrastructure and Health Services to Support Safe, Healthy Communities

Economic potential and physical security are intimately linked and prosperity must be supported through safe, secure community infrastructure. First Nations infrastructure, especially related to water, housing, education and emergency services, require significant investment. It is estimated that to fill the gap for First Nations education facilities, 40 new schools need to be built at an average cost of $12.5 million each. This figure does not account for the gap in operations and maintenance funding or needed renovations to existing schools. According to a 2010 analysis, Aboriginal Affairs and Northern Development Canada's planned capital expenditures over the next three years are insufficient by $169 million to $189 million annually, while operations and maintenance expenditures will be underfunded by $11 million annually.

First Nations water quality continues to be a national concern. The National Engineering Assessment released by the federal government on July 14, 2011 concludes that 73% of First Nations water systems are at risk, which is particularly disconcerting given that the 2003 National Engineering Assessment identified 29% of First Nations systems to be at risk. Among First Nations communities, 118 remain on boil-water advisories. Access to clean drinking water is a universal human right, recently affirmed by the United Nations. Canada has a responsibility to ensure clean drinking water in First Nations communities.

First Nations housing requires attention. A February 2011 evaluation of on-reserve housing highlights the ongoing need, concluding: "despite ongoing construction of new housing on-reserve, the shortfall still exists and appears to be growing rather than diminishing" and that "population growth and the demand for housing is outstripping the speed with which new housing units can be produced and existing ones repaired." Substandard housing conditions have also been exacerbated by current environmental challenges, such as floods and forest fires. Furthermore, the Government must commit to providing additional resources to accompany any legislation that will have an impact on the demands on housing and infrastructure.

Another emerging consideration is the impact of climate change, especially on our northern and remote communities. This has been experienced through rampant forest fires, flooding and the early closure of winter roads, which have profound impacts on the health and safety of communities and highlight the critical need for inter-governmental protocols and robust emergency services.

Current Issues

The proposed structural changes and investments outlined below will have a significant impact on future generations of First Nations citizens. The social and economic costs of the status quo are simply too high. In particular, we need to see fundamental changes in the following three priority areas:

1. Transforming the Fiscal Relationship
2. First Nations Education
3. Infrastructure and Health Services to Support Safe, Healthy Communities

1. Transforming the Fiscal Relationship

A new funding relationship is required. It must reflect the spirit and intent of Treaties and inherent jurisdiction, be a mechanism to ensure parity with provincial funding rates, reflect the real costs of delivering services, and provide incentive for leveraging additional resources and maximizing performance standards.

2. First Nations Education

According to First Nations studies, the total shortfall in the area of First Nations education is an estimated $3 billion. For instance, to equitably fund First Nations post-secondary education, a 149% (or $481 million) increase in federal support is required. Also, $126 million is needed for First Nations language instruction in schools in order to be comparable with provincial funding.

3. Infrastructure and Health Services to Support Safe, Healthy Communities

In order to address the infrastructure crisis in First Nations communities, significant investments are required. The National Engineering Assessment released by the federal government on July 14, 2011 identifies the need for $6.6 billion in the area of water treatment. Currently there is a demand for an estimated 85,000 new housing units to alleviate overcrowding and backlogs. Approximately 44% of the existing housing stock needs major repair and another 15% requires outright replacement. Coupled with this is the requirement to provide lot servicing for every new housing unit. A conservative estimate to build a house is around $150,000 and for lot servicing about $25,000 per service connection.

There is also an urgent need for immediate, new and sufficient investments in the Non-Insured Health Benefits (NIHB) Program. The absence of such investments will mean a shortfall of approximately $376 million next year and $805 million overall in five years. A large driver in this increase will be the addition of new beneficiaries to the NIHB Program. The Federal Budget will need to consider estimates for approximately 45,000 newly registered individuals as a result of *Indian Act* amendments to respond to the McIvor Case, and another 27,000 individuals of the Qalipu Mi'kmaq First Nation from Newfoundland, who were recently recognized under the *Indian Act*. This amounts to a 9.7% increase in the eligible population covered by the NIHB Program—of which approximately 200,000 are children under the age of nine. In addition, the Assembly of First Nations has estimated that increases of 6.3% to 9.3% are required in various benefit areas when growth of the existing client population, inflation, changes in health service utilization and health status, and effects of technological change are examined. Without a resolution to this funding crisis, First Nations children, adults, and elders will face an uphill battle for accessing basic health care needs.

AFB Actions

The reforms and investments outlined above will not only help the Government of Canada meet its financial and fiduciary obligations, but will also lead to a stronger and more prosperous Canada through the strengthening of healthy, safe and prosperous First Nations. Through strategic investments combined with structural changes, the Government of Canada can maximize outcomes and create the foundation for our collective well-being by:

- Transforming the fiscal relationship by creating stable and fair funding transfer mechanisms for First Nation services, confirming guaranteed funding escalators that reflect the actual costs of population and inflation growth. *The AFB will implement stable, equitable, and long-term funding transfer mechanisms for First Nation services.*
- Resolving the growing deficit in spending on First Nations education through a statutorily guaranteed fiscal framework that supports First Nations systems in delivering excellence in education within a culturally and linguistically appropriate approach to dramatically improve graduation rates and opportunity. *The AFB will invest $800 million a year in First Nations education systems. This will slowly bridge the $3 billion gap built up since 1996.*
- Investing in infrastructure for community safety and health, including: 40 new schools; 85,000 new housing units; prioritizing the needs of 118 First Nations currently on boil-water advisories; advancing a full investment plan responding to the National Engineering Assessment report; strengthening networks to ensure emergency services and response, and all-weather access roads; ensuring the sustainability of the NIHB Program by addressing the expected shortfall. *The AFB will invest $6.6 billion over five years in First Nations water treatment systems, $1 billion annually to address the housing crisis, as well as $376 million in the NIHB Program next year and $805 million overall in five years.*

Notes

1 Based on preliminary results from a presentation entitled "The Community Well-Being Index (CWB)," on behalf of Indian and Northern Affairs Canada, presented by Erin O'Sullivan at the 2009 Aboriginal Policy and Research Conference, Ottawa, March 9, 2009.

Aboriginal Women

Background

While the circumstances under which many Aboriginal[1] people live are unacceptable even by Third World standards (unemployment, inadequate housing, lack of clean water and proper sanitation are too common), there are disproportionately more Aboriginal women and children living in poverty and facing food insecurity. Something must be done immediately if this dire situation is to change.

It is in the context of ongoing persecution of Aboriginal nations, communities, and families that we must understand the current marginalization of Aboriginal women and girls. Although billions of dollars are allocated each year for Aboriginal programs and support services these funding priorities have failed to acknowledge, much less address, the unique needs of Aboriginal women.

Current Issues

Ending Violence

As part of the overall process of colonization, the systematic destruction of Aboriginal cultures, languages, families and communities has led to many social ills, including widespread domestic violence, family dysfunction, and ever-increasing mental health concerns. The effects of colonial policies and practices are still felt today as Aboriginal communities struggle to heal their families and repair their communities.[2] According to the 2010 report on the Sisters in Spirit initiative produced by the Native Women's Association of Canada, which documents the disproportionately high number of missing and murdered Aboriginal women in Canada, Aboriginal women continue to be the most "at risk" of violence, particularly in urban settings. Aboriginal women are more likely than non-Aboriginal women to be assaulted and killed by a total stranger, and less likely to receive justice.[3]

Nationally, Aboriginal women experience violence from either a current or former partner at three times the rate experienced by non-Aboriginal women. Aboriginal women are eight times more likely to be abused, and more likely to suffer severe forms abuse: 87% were physically injured and 57% had been sexually abused. Regional studies indicate even higher incidences, reporting rates of 75%, 80%, or as high as 90% in some Aboriginal communities in northern Ontario.[4] Tragically, as an overwhelming majority of these women are mothers, Aboriginal children are often witness to, and victims of, domestic violence. Without appropriate counselling and supports the generational cycles of violence are reproduced.

While it is widely known that poverty, unemployment, and low levels of educational attainment put women at increased risk of violence, the lack of safe, affordable housing has often meant a lack of opportunity for Aboriginal women fleeing violence, and an increased risk of homelessness. The situation for Aboriginal single mothers is particularly troubling as more than 40% of female-led Aboriginal single-parent families were in core housing need.[5] Although much of the research tends to focus on younger female populations who are more likely to report being the victims of violence, we must acknowledge the unique needs of elderly Aboriginal women. Given their comparative financial insecurity, the high rates of physical disability among the senior Aboriginal population, and a lack of appropriate housing in many communities, many Aboriginal women are struggling to survive on fixed incomes in substandard homes. Clearly, substantive investments must be made to provide all Aboriginal women basic human dignity and the opportunity to choose a life free of violence.

Education

Despite the legacy of the residential school experience, most Aboriginal people view education as a primary means of initiating the social, economic, and political changes necessary to provide a better future for our children. As it is a primary vehicle for social advancement, the persistent lack of educational attainment translates into a lack of opportunity for Aboriginal peoples.[6] Formal education is absolutely critical for the provision of the skills and credentials necessary for success in contemporary society.[7]

While Aboriginal women are increasingly achieving better educational outcomes than Aboriginal men, such advances do not necessarily reflect an equality of opportunity. In fact, one might suggest the increase in educational attainment among Aboriginal women is the result of a distinct lack of equality of opportunity. An Aboriginal dropout lives an economically marginalized life, but the Aboriginal male dropout still earns approximately three times that of the Aboriginal woman who fails to complete high school. However, income differences based on race and gender lessen with increases in education: women not only earn more individually, they begin to catch up with men, and Aboriginals begin to catch up with non-Aboriginals.[8] Shockingly, with a university degree Aboriginal women have higher median incomes than non-Aboriginal women possessing the same level of education.[9]

However, with anything less than a university degree, Aboriginal peoples as a group continue to earn much less than non-Aboriginals with equivalent education[10] and Aboriginal women continue to earn less than Aboriginal men. Clearly, the potential benefits of educational achievement have greater significance for Aboriginal women as they have much more at stake. Moreover, it is widely accepted that increased levels of education for mothers result in a corresponding increase in educational attainment levels for their children and therefore a larger return for every dollar spent educating an Aboriginal woman generally, and Aboriginal mothers specifically.

Child Care

Given the numerous barriers to Aboriginal women obtaining university credentials, and the high number of Aboriginal women who are the sole support for their families, and even though Aboriginal women outnumber Aboriginal men in post-secondary institutions, targeted, sustained funding is needed to allow these women to reach a level where equality is even a possibility. Although desire to provide a better life for their children is a primary motivator, after increased costs for housing and food are taken into account, Aboriginal women who pursue higher education while also managing family responsibilities often cite lack of affordable child care as one of the biggest barriers to educational success. The concern is common to many women in Canada. The child care system in Canada was ranked last among developed countries in terms of availability of early learning and child care spaces.[11]

While lack of access to affordable, quality child care is a barrier to employment and education for many women in Canada, and low-income women specifically, according to the Urban Aboriginal Task Force (2007),[12] it is an absolute necessity for Aboriginal women living in urban settings if they are to obtain education, training, and ultimately employment. Moreover, *quality* child care programs with proper early learning environments and educators have been shown to benefit children by encouraging early literacy skills, school readiness, and long-term educational performance. However, for women with more than one child, those with less income, or those without a husband to share the financial burden, the exorbitant cost of daycare throws into question the economic feasibility of working or studying as child care bills surpass university tuition fees. (There are no registered savings plans for daycare, and tax credits only benefit those who have the financial wherewithal to wait for annual returns.) Regardless of the eventual financial payoffs, and the increased potential for long-term economic security, the short-term costs are often insurmountable.

Investment

Given the disproportionate number of Aboriginal women facing extreme poverty, hunger, homelessness, violence, and other socio-economic stresses, targeted funding is needed to provide Aboriginal women with sufficient personal safety and social supports to obtain the skills needed to provide for their families and improve their circumstances. Such funding is not only an investment in individual women, but will be felt in larger communities and eventually in our nations as a whole. Increased opportunity for Aboriginal women and girls will generate stronger healthier families, improved circumstances for future generations of Aboriginal children and grandchildren, and ultimately stronger healthier Aboriginal communities.

AFB Actions

- The AFB will direct 3% of new child care and early learning funding to Aboriginal-specific programs to be developed, designed, and implemented by local Aboriginal communities, utilizing leading examples from across the country while acknowledging the unique needs of First Nations, Métis, and Inuit populations. These programs will be designed to foster strong cultural identities, promote language preservation and/or revitalization, and the early learning/literacy skills necessary for future educational success. (See the Child Care chapter for a full costing.)

- The AFB will also invest $800 million a year into alternative schools and learning programs and gender-specific supports so that we can provide the kind of holistic, flexible, culture-based, supportive learning environments necessary to allow First Nations, Métis, and Inuit students to succeed. These schools will foster academic achievement for those students who are simultaneously coping with the pressures of pregnancy, parenting, full- and part-time employment, and/or addictions, mental health issues or treatment programs. (See the First Nations chapter for a full costing.)
- The AFB will direct 3% of the $1 billion in a supportive First Nations housing program specifically for vulnerable Aboriginal women, prioritizing senior Aboriginal women, and those who are homeless, and/or fleeing violence, to be designed, implemented, and controlled by Aboriginal community organizations, who are in the best position to understand the unique needs of First Nations, Métis, and Inuit families in both urban and rural environments. (See the First Nations chapter for a full costing.)
- The AFB will invest $10 million annually in the development and initiation of a National Strategic Framework to End Violence Against Aboriginal Women. The framework will advance an integrated comprehensive approach based on the principle that all people affected by violence against Aboriginal women (including the victim, abuser, the families impacted and the witnesses of the violence) need specific and appropriate supports. The capacity of Aboriginal communities and governments to respond to violent crimes committed against Aboriginal women must be strengthened. Adoption and implementation of the framework will involve changes in research, legislation, policy, programs, education, community development, leadership, and accountability. Gender-based analysis must underlie all work involved with this strategy.

Notes

1 For the purposes of this document Aboriginal is to be understood as referring to the First Nations, Métis, and Inuit peoples.

2 Brant Castellano, M., Archibald, L., & DeGagne, M. (2008). *From truth to reconciliation: Transforming the legacy of residential schools*. Ottawa, ON: Aboriginal Healing Foundation.

3 Native Women's Association of Canada (NWAC). (2010). *What their stories tell us: Research Findings from the Sisters in Spirit Initiative*. Ottawa: NWAC.

4 Ontario Native Women's Association & Ontario Federation of Indian Friendship Centers (ONWA & OFIFC). (2007). *Strategic Framework to End Violence Against Aboriginal Women*. Toronto: OFIFC.

5 Native Women's Association of Canada (NWAC). (2010). *What their stories tell us: Research Findings from the Sisters in Spirit Initiative*. Ottawa: NWAC.

6 Brade, C., Duncan, K., & Sokal, L. (2003). The path to education in a Canadian Aboriginal context [Electronic version]. *Canadian Journal of Native Education, 27*, 235–248.

7 Brayboy, B. (2004). Hiding in the ivy: American Indian students and visibility in elite educational settings [electronic version]. *Harvard Educational Review, 74*, 125–152.

8 Ashenfelter, O., & Rouse, C. (2000). Schooling, Intelligence, and Income in America, in Kenneth Arrow, *et. al* (Eds): *Meritocracy and Economic Inequality.* Princeton, NJ: Princeton University Press.

9 Wilson, D., & Macdonald, D. (2010). *The income gap between Aboriginal peoples and the rest of Canada*. Ottawa: Canadian Centre for Policy Alternatives. Retrieved May 1, 2010, from http://www.policyalternatives.ca/sites/default/files/uploads/publications/reports/docs/Aboriginal%20Income%20Gap.pdf.

10 Ibid.

11 Due to a severe shortage of regulated child care spaces available, less than 20% of the children under six with working parents could be accommodated (as compared to 60% in the UK, 69% in France and 78% in Denmark). Interestingly, within Canada, Quebec has the highest number of available daycare spaces and all such spaces are subsidized, and therefore as expected, Quebec also has the highest percentage of women participating in post secondary education and the workforce as compared to all other provinces and territories (OECD, 2005).

12 Urban Aboriginal Task Force. (2007). *Urban Aboriginal Task Force: Final Report* (available from www.ofifc.org). Toronto, ON: Ontario Federation of Indian Friendship Centres, Ontario Native Women's Association, and Ontario Metis and Aboriginal Association.

Cities and Communities

Background

Canada is an urban nation. Over 80% of us now live in cities, which serve as centres of job creation, immigration and innovation critical to sustaining our quality of life. But urban communities large and small have been hit hard by recent changes. Lost jobs, worries about loss of immigration status, declines in manufacturing, disappearing pensions — all have taken their toll. Many citizens feel the acute need for additional social services, including job retraining, immigrant support and settlement services, child care, and relief from rising energy and water bills. The health of urban communities is of national concern and federal government investment is crucial to ensuring cities continue to play their vital role.

The hype over Canada's so-called economic recovery in 2010 increased the federal government's momentum to scale back infrastructure stimulus spending in 2011. This was a mistake. While infrastructure spending must be monitored and spent effectively, stable, long-term funding for communities remains necessary to address our infrastructure deficit. Cuts in transfers to municipalities in the 1990s and the downloading of responsibilities have led to a municipal infrastructure deficit of over $120 billion and pushed property tax rates in some provinces to among the highest in the world. Social service cuts make it difficult for cities to meet the needs of the most vulnerable, including single mothers, the working poor, immigrants and social assistance recipients. Adding insult to injury, property taxes are regressive: lower-income households pay a much higher share of their income in property taxes — or property taxes through rent — than do higher-income households.

Unlike cities in other countries, Canadian cities are severely restricted in how they can raise revenues to fund operations. They cannot levy income or sales taxes, and rely mostly on property taxes and user fees to provide over 75% of their revenues. In contrast, most major U.S. cities levy income and/or sales taxes, and many European cities also rely heavily on income taxes. Municipalities in other countries also obtain a larger share of their revenues through transfers from upper levels of government.

Transfers from federal and provincial governments in Canada provided approximately 26% of the revenues of local governments in the early 1990s. After 1995, these transfers were severely cut by the federal government, but, more significantly, by provincial governments that had their own transfers from the federal government slashed. By the year 2000, federal and provincial transfers provided only 16% of local government revenues. As a result:

- Local governments across Canada, especially in Ontario, ended up hiking property taxes, increasing user fees and service charges, reducing public services, and delaying their investments in, and maintenance of, public infrastructure.

- Transfers to local governments continued to be squeezed even while federal and provincial governments ran surpluses and cut tax rates on higher incomes and businesses.

- Property taxes, especially in Ontario, increased significantly while the municipal infrastructure deficit grew larger and larger, rising to $123 billion by 2006.

After much pressure — and the collapse of a few bridges — federal and provincial governments increased transfers to local governments through the Gas Tax Fund, infrastructure funding, and, more recently, stimulus funding. However, the proportion of local government revenue that transfers provide still falls far short of pre-1996 levels. Furthermore, federal government infrastructure funding and transfers to municipalities began to decline in 2011.

Local governments with rising populations and increased responsibilities need access to different and growing sources of revenue. Likewise, cities suffering economic and population declines need help reinvesting in the infrastructure necessary for urban revitalization. But from where and how should the revenue come?

This is a critical question because there is a growing mismatch between the sources of most municipal revenues — property taxes and user fees — and the services provided. Although some municipal services such as fire protection are property-based, an increasing number are better matched to income or consumption-type taxes.

The Ontario government provided the City of Toronto with broader taxation powers through the City of Toronto Act and is considering extending these powers to all communities in the province. But these powers are restricted to limited areas, cannot raise significant revenue, and have largely regressive impacts.

The Manitoba government has a better approach. Through the Building Manitoba Fund, the province provides municipalities with 4.15% of the province's personal and corporate income-tax revenues and a share of its gas and diesel tax revenues. This accounts for about 8% of local-government revenues in the province, compared to Toronto's new taxation powers, which in 2008 provided only 2% of the city's revenues.

A new funding arrangement for municipalities must be long-term and include increased transparency and accountability to prevent partisan channeling of funds. It should be linked to national strategic planning that includes local government input on key concerns such as climate-change mitigation and adaptation, national transportation infrastructure, housing and child care strategies, and social-services improvements.

Current Issues

Sustainable Communities

Over the past few years the biggest issue for cities has been sufficient funding and accountability for the money spent addressing community needs. The GST rebate, the Gas Tax Fund, the Building Canada Fund and even the stimulus funding did not come close to addressing the infrastructure needs of Canadian cities. This became clear when a 15-metre-long concrete slab dropped from the ceiling of a tunnel in the Ville-Marie expressway in the City of Montreal in August 2011. The dangers presented by deferred maintenance and lack of investment in infrastructure are clear, and are not unique to Montreal.

With the expiration of the stimulus funding in October 2011 and the Building Canada Fund fully allocated, cities are now effectively left without any new public funding for the next three years.[1] The only federal program funding now available for infrastructure projects at the municipal level is funneled through the PPP Canada Fund.

The Harper government established PPP Canada Inc. in 2008 as an independent Crown corporation to promote and assess Public-Private Partnership (P3) projects. While governments have the responsibility to fund local infrastructure such as roads, highways, sewers, bridges and recreation centres, the federal government has opened the door to the privatization of these same public services and assets.

While other federal infrastructure funding programs, including the Building Canada Plan (BCP),[2] encourage privatization, PPP Canada takes federal efforts to impose P3s on communities to a new level. PPP Canada and several provincial P3 agencies have identified municipal infrastructure as the next frontier for P3s.[3] While most of us understand a "partnership" to be a relationship based on shared interest and equality, this is not the case with P3s. P3s are multi-decade contracts for the private management, financing, ownership and/or operation of public assets and are driven by the corporate sector's need to make a profit. A real danger exists that cities and communities will be forced to consider "partnering" with the private sector to provide public services for profit as a trade-off to upgrade and construct municipal infrastructure.

This is a particular concern in cities struggling to find funding to meet new wastewater effluent regulations that come into force in early 2012. One in four municipal wastewater facilities will be required to upgrade their wastewater facilities at costs totalling more than $20 million. The private sector sees it as an opportunity to get into the "municipal water business."

Low-income residents, in particular, will experience the brunt of these agreements, which typically include higher costs (including increased user fees) and lower quality service.[4] Municipal water privatization in Hamilton demonstrated in the 1990s that local governments stand to lose significant decision-making powers in the interests of community members when services are privatized.

Cities fill the gaps in our social safety net and have become a lifeline for many, and therefore must not be provided for profit. Residents relying on homeless shelters, food banks, libraries and public transit turn to their city and local community for support.[5] Cities are also on the front line supporting new immigrants to Canada through what is generally understood to be an unjust and difficult transition to a new country. Many newcomers are low-wage earners who rely on city services.[6]

The AFB will prioritize community interests over corporate profits. We will invest in our city's physical and social public infrastructure, and will prioritize access to the priceless social spaces that are vital to our sense of wellbeing.

A Long-Term Commitment to Public Infrastructure

Department of Cities and Communities

The AFB calls for a new Department of Cities and Communities (DCC) to coordinate federal actions in cities to maximize their positive impact, develop community economic development strategies, and administer funding. All federal departments must work with municipal governments to ensure efficient and effective program delivery and execution in urban and rural communities. The DCC will have a mandate to maintain and protect public infrastructure assets and services, and will coordinate with federal, provincial and municipal departments as well as regional development agencies as they design programs and policies for Canadian communities. The DCC will also provide a focal point for tracking and publishing infrastructure funding information that is accessible to the public.

Funding now allocated to PPP Canada will be re-directed to the Department of Cities and Communities (DCC).

ReBuild Canada Program

The AFB will fund a program called ReBuild Canada to provide cities with a permanent municipal infrastructure program. All levels of government have a responsibility to meet the needs of our communities and cities must have access to a reliable source of funding to allow for smart planning.

The ReBuild Canada program will be funded from the *equivalent* of 1.5% of the GST/HST or $9 billion allocated on a per capita basis. This will be a direct transfer to cities for use in their own budget and capital infrastructure planning cycles. The Gas Tax Fund will continue and be directed specifically towards green, sustainable infrastructure that should include capital and operating expenses for projects such as transit systems. The AFB will further index this tax to keep pace with inflation and national population growth.

As a requirement for these funds, cities must prepare Community Economic Development Strategies (see Community Economic Development Approach below) in coordination with the Department of Cities and Communities to ensure that spending plans take into account the goals of social inclusion, urban/rural sustainability, and sustainable infrastructure, etc.

Our task is to achieve greater energy efficiency with existing buildings and infrastructure and to fundamentally reconsider how our communities operate in the future. City planning must adopt sustainable building practices, promote parks, clean air, clean water, energy-efficient and accessible public transportation, walkable city designs and well-organized neighbourhoods that combine living, working and business space. Future planning will require integrated community sustainability plans (ICSP), with public participation.

Support for programs including small business development, retraining, social assistance, social housing, immigrant settlement services, tenants', workers' and women's advocacy centres, and employment services have strained city budgets for many years. Lack of support for these services diminishes our cities' ability to be resilient in a volatile economic environment. Downloading and more recent funding cuts by the Harper government undermine programs essential to health and well-being. A Community Empowerment Fund will be created to provide $100 million a year for three years for community support services.

Training, retraining and workplace apprenticeships are an essential element of the ReBuild Canada program. The AFB will continue core and project funding for HRSDC Sector Council programs, which serve a valuable role in creating and implementing training and skills development programs across all sectors of the economy. Through the ReBuild Canada program the AFB aims to increase the labour force participation of marginalized and under-represented groups, including Aboriginal and immigrant workers. The need for educational opportunities and skills development is urgent when so many workers continue to experience job loss and unemployment. To complement this work the DCC will create a Web-based service that matches employers with potential apprentices.

A Community Economic Development (CED) Approach

A CED approach is a flexible, community-led process that enables citizens to participate in the planning and implementation of strategies that respond to their community's unique needs and priorities. The AFB recognizes that recovery from the economic crisis stands a better chance of success if it employs a CED approach to solving the social, economic and environmental challenges in our cities.

The AFB will develop and implement a federal CED Policy Framework within the Department of Cities and Communities. It will invest $500,000 per year over the next three years in a roundtable mandated to develop co-construction of CED policy by all three orders of government and citizens. It will incorporate national, provincial and local structures to work towards building a people-centred economy that includes the voices and interests of urban and rural citizens, practitioners, unions and civil society.

The AFB establishes a Neighbourhood Revitalization Fund of $50 million per year for five years to support the creation and ongoing operation of Neighbourhood Renewal Corporations (NRC) in urban communities. NRCs will coordinate poverty reduction and development efforts within their communities based on five-year plans that they develop with the community. The fund will also support individual community-led development initiatives consistent with the five-year plan and that employ the CED model within those communities.

A federal CED Policy Framework will encourage development of a purchasing strategy that challenges community enterprises to create significant impact opportunities for a people-centred economy. The traditional "price prevails" purchasing analysis does an injustice to the taxpayer. Greater return on investment can be achieved by governments using a blended value analysis in their purchasing that incorporates price, quality, environmental and social considerations.

The AFB will develop and implement a purchasing strategy that incorporates social and environmental value weighting in all requests for proposals and Community Benefit Agreements on contracts above $500,000. The strategy will also include a Living Wage requirement for all contractors, including their subcontractors, on all government contracts.

AFB Actions

Department of Cities and Communities

The AFB will create a new Department of Cities and Communities to coordinate federal actions in cities to maximize the positive impact, develop community economic development strategies, and administer funding. The DCC will have a mandate to protect our public infrastructure assets and services, and will coordinate with federal, provincial and municipal departments as well as regional development agencies, as they design programs and policies for Canadian communities.

ReBuild Canada Program

The AFB will fund a program called ReBuild Canada to provide cities with a permanent municipal infrastructure program.

- The ReBuild Canada program will be funded from the equivalent of 1.5% of the GST/HST or $9 billion a year allocated on a per capita basis. This will be a direct transfer to cities for use by them in their own budget and capital infrastructure planning cycles.
- The Gas Tax Fund will continue and be directed to support green, sustainable infrastructure that should include capital and operating expenses for projects such as transit systems.
- The AFB will further index the Gas Tax to keep pace with inflation and national population growth.
- The AFB will continue core and project funding for the HRSDC Sector Council Program, which serves a valuable role in creating and implementing training and skills development programs across the country, and across all sectors of the economy.
- To complement the sector councils, the DCC will create a Web-based service that matches employers with potential apprentices.
- The AFB will create a Community Empowerment Fund that will provide $100 million a year for three years to be allocated to community support services.

A Community Economic Development Approach

The AFB will develop and implement a federal CED Policy Framework within the Department of Cities and Communities. A CED approach supports flexible, community-driven solutions that consider the interconnectedness of social, economic and environmental conditions.

- It will create and invest $500,000 per year over the next three years in a roundtable mandated to develop a working relationship with all three orders of government and citizens in order to encourage the ongoing co-construction of public policy in support of CED.
- The AFB will establish a Neighbourhood Revitalization Fund as part of a federal Neighbourhood Revitalization program. This will provide $50 million per year for five years to support the creation and ongoing operation of Neighbourhood Renewal Corporations in urban communities throughout the country.

Notes

1 With the exception of the Gas Tax Fund, which became permanent in 2008.

2 The BCP encouraged privatization by requiring all infrastructure projects to be screened for eligibility as a P3. The P3 screen was put on hold to accelerate the stimulus funding approval process. It is unclear whether or not it will be brought back. However, the funds earmarked until 2014 under the Building Canada Fund (BCF) have been almost fully allocated, so even if the screening process is brought back there is no money left in the fund to be screened.

3 PPP Canada 2010–11 Annual Report. Public Private Partnerships. http://www.p3canada.ca/_files/PPP%20Canada%20Annual%20Report%202010_11_EN.pdf

4 Canadian Union of Public Employees (CUPE) & Council of Canadians. (2010). Public Water for Sale: How Canada Will Privatize Our Public Water. http://cupe.ca/ceta-toolkit/a4d471a75c69c1

5 Federation of Canadian Municipalities (FCM). (2010). Quality of Life in Canadian Communities: Mending Canada's Frayed Social Safety Net: the role of municipal governments. http://www.fcm.ca/Documents/reports/Mending_Canadas_Frayed_Social_Safety_Net_The_role_of_municipal_governments_EN.pdf http://www.fcm.ca/Documents/reports/Mending_Canadas_Frayed_Social_Safety_Net_The_role_of_municipal_governments_EN.pdf

6 Federation of Canadian Municipalities (FCM). (2011). Starting on Solid Ground: The municipal role in immigrant settlement. http://www.fcm.ca/Documents/reports/Starting_on_Solid_Ground_Municipalities_and_Immigration_EN.pdf

Communications

Background

Infrastructure for the Future: High-Speed Communications Networks Not an Option

In its May 3, 2011 announcement on broadband Internet services, the CRTC recognized the importance of Internet communications to the daily lives of Canadians and set a target for broadband Internet access services across the country. By the end of 2015, the CRTC expects all Canadians to have access to broadband speeds of at least 5 megabits per second (Mbps) for downloads and 1 Mbps for uploads.[1]

Modernizing such infrastructure is costly. At CRTC hearings in 2010 that considered basic service obligations, one telephone company estimated that it would cost $700 million annually[2] for 10 years to bring high-speed Internet to all Canadians. "It's a task that can never be achieved by market forces alone," MTS Allstream Inc. told the CRTC, in one of the first such estimates to be made for Canada. Experts agree that the market alone will not resolve Canada's communications infrastructure deficit.[3] There is little doubt that governments will have to facilitate the transition with various programs to bridge the gap.

The recommendations in this chapter are designed to return Canada's communications infrastructure to world-class standards.[4] At stake is nothing less than the future of our communities, especially those in rural and remote areas.

Current Issues

Recognize "Effective" Connectivity as an Essential Service

A study done for the U.S. Federal Communications Commission (FCC) recognized broadband "as a key enabler of economic growth that can benefit services such as telemedicine in rural areas, allow better management of transportation and energy systems and reduce infrastructure costs for businesses."[5] Rural respondents to a 2011 national survey of economic development professionals in the U.S. reported that 100–120 Mbps was the minimum needed over the next three years to impact local economies.[6] Although the CRTC has set a 1 Mbps upload and 5 Mbps download target, it must be recognized that not much can be achieved within this low minimum standard.

- In order to return Canada to a leadership role in the availability and use of new communications technologies, "effective" broadband that supports a wide range of communications applications must become a vital part of policy and programs at the federal level. The AFB believes that "effective" broadband means high-speed Internet of 100 Mbps or more.[7]

Develop a National Communications Strategy

Canada still lacks a national plan for universal access to effective broadband. This stalls our economy and negatively affects productivity. The CRTC, among others, has pointed out the need for a comprehensive national strategy to secure the nation's economic future.[8]

Digital infrastructure planning elsewhere indicates just how far Canada has fallen behind:

- Australia released its *National Broadband Strategy* in 2004;
- Great Britain released the *Digital Britain Report* in 2009;
- Germany released its *Information Society Germany 2010* plan in 2006;
- France and New Zealand announced national digital strategies in 2008;
- The FCC released its national broadband strategy for the U.S. in March, 2010.

In May 2010, Industry Canada conducted a six-week online consultation about the digital economy. Then-Industry Minister Tony Clement, speaking to an industry group in November 2010, offered an interim report with few specifics and suggested that something more definite might be ready for the spring of 2011.[9] Canadians are still waiting.

Meanwhile, in its February 2011 report on emerging and digital media, the Standing Committee on Canadian Heritage "encouraged the Government of Canada to proceed as quickly as possible with the development of a national digital economy strategy," and recommended that the strategy be reviewed every five years.[10]

The AFB agrees with the Heritage Committee and will immediately begin a national consultation on communications. The process will invite input from beyond business and academia and will be led by a panel of researchers mandated to hold citizen meetings across the country and receive written submissions. The meetings will explore a wide range of communications policy issues from copyright to the infrastructure required to operate the national network on an open-access basis.

These discussions will also seek ways to improve the environmental sustainability of the ever-growing use of information communications technology (ICT). ICT devices currently contribute 2–3% of global greenhouse emissions.[11] As the availability and use of "always on" broadband rises, this amount will likely increase. Technical solutions such as "power saving" devices — and upgraded standards for them — must be explored and supported. On the social side, incentives for telecommuting and video-collaboration to support decreased use of fossil fuels for land and air transportation should be considered.

- The AFB allocates $250,000 to fund a broad, national consultation to modernize communications policy in Canada. We will present a transparent process that can be implemented before September 2012. A comprehensive plan based on these discussions will be presented to Canadians by April 2013.

Create Jobs With Next Generation Broadband Networks

To fully exploit the potential of the new communications tools, Canada needs better broadband infrastructure. Though there are no firm estimates of the number of Canadian jobs that might be at stake, estimates from other jurisdictions can offer some guidance:

- A 2009 study by the World Bank suggests that an increase of 10% broadband penetration in high-income countries correlates with a 1.2% growth in GDP.[12]
- "Rural counties in the United States that embraced broadband adoption at the start of this decade enjoy access to more jobs than those that did not," reads a 2009 study by the U.S. Department of Agriculture. Their residents also make more money than their less-connected counterparts.[13]
- The Communications Workers of America predicts that a $5-billion stimulus for broadband infrastructure would create almost 100,000 new jobs directly in the short term and 2.5 million jobs through network effects.[14]
- A report by the Information Technology and Innovation Foundation (U.S.) suggests that a broadband subsidy of $10 billion will directly create or retain 500,000 jobs.[15]

In Canada, the only recent federal program to addresses connectivity (in 2009) allocated a scant $225 million over three years to fund the expansion of rural broadband infrastructure.[16] Broadband connectivity is defined as "access to Internet service that supports data transmission at a minimum speed of 1.5 Mbps. to a household."[17] In reality, 1.5 Mbps is not enough to support applications such as e-health or e-education or e-commerce. At this speed, Canadians in rural areas and pockets of them in urban areas will remain effectively disconnected and disabled for a long time to come.

In contrast, in April 2009 the Government of Australia announced it would build a national high-speed broadband network to deliver up to 100 Mbps to 90% of its citizens. The eight-year, AU$43-billion project will be one of the largest state-sponsored Internet infrastructure upgrades. The Australian Prime Minister has suggested the project will support up to 37,000 jobs at the peak of construction.[18]

Canada must similarly bring its communications infrastructure up to world standards. To that end, the AFB ramps up to $1 billion per year to make world-class broadband a reality for all Canadians. The decade-long infrastructure project will start in 2013–14 and will be guided by the recommendations of a National Communications Strategy. Because it is such a major commitment of public funds, Canadians will retain majority ownership of the resulting infrastructure.

- The AFB ramps up to $1 billion annually over 10 years to modernize Canada's digital communications infrastructure.

The Standing Committee on Canadian Heritage recently recommended that the Government of Canada reinvest some of the money it receives from the next spectrum auction in a digital strategy, that the Government of Canada extend the Broadband Canada: Connecting Rural Canadians program of Industry Canada, and that it continue to make efforts to ensure all Canadians have access to high-speed Internet.[19] The AFB agrees with these recommendations.

- The AFB will reinvest the proceeds from the upcoming spectrum auction to finance the modernization of our digital infrastructure.
- The AFB will immediately extend and expand Industry Canada's Connecting Rural Canadians program.

Build Capacity and Generate Demand With a National Public Access Program

National programs that provide access, education and support for effective use of ICT in communities are considered essential in countries — such as Korea — that rank high in their use of online tools. Such programs are considered investments that generate demand and build human capacity to meet that demand.[20] The question of digital literacy also came up at the CRTC hearings on basic service. Concerns were raised about the 25% of Canadians who have no Internet service — even where service is available — and other questions arose about programs that might address that gap.[21,22]

Luckily, Canada already has such a program in its national network of 3,500 community technology centres which every day help more than 100,000 people[23] incorporate new technologies into their lives. 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 diverse areas, from film editing to website-building. Along the way, thousands of youth gain valuable job experience. Both internal and external evaluators agree that this program has been successful and cost-effective for years.[24] This network must not be allowed to collapse in the current telecom policy vacuum. Support for existing centres must be expanded and a program to restart funding for new centres must be established.

- The AFB allocates $40 million to support new and existing national public access sites in the 2012–13 budget year.

This investment will boost local economies by encouraging technology use for community development and by offering collaborative tools that promote the effectiveness of the community sector. When Canadian communities suffer because of major job losses, these programs provide essential support in this economic downturn.

The AFB also agrees with the Standing Committee on Canadian Heritage which recommended that the Government of Canada work with provincial authorities to support programs that encourage the development of a digitally literate population and that the Department of Human Resources and Skills Development review its policies and programs in order to ensure that priority is given to training in digital skills. The Committee also recommended that the Government of Canada examine the proposal of the Canadian Association of Community Television Users and Stations (CACTUS) for the establishment of community-operated multimedia centres and access to its material online as a way of encouraging people to develop digital skills.[25]

- The AFB will ensure that the Department of Human Resources and Skills Development continues to support digital literacy with its CAP-YI youth initiatives program.

- The AFB will support community-oriented multimedia centres as part of a digital literacy program.

AFB Actions

- The AFB allocates $250,000 to fund a broad national consultation to modernize communications policy in Canada.

- The AFB ramps up to $1 billion annually over 10 years to modernize Canada's digital communications infrastructure.

- The AFB allocates $40 million to support new and existing national public access sites in the 2012–13 budget year.

Notes

1 Canadian Radio-television and Telecommunications Commission. "The CRTC sets speed target for broadband Internet and maintains obligation to provide basic home telephone service." News release. Ottawa-Gatineau, May 3, 2011. http://www.crtc.gc.ca/eng/com100/2011/r110503.htm

2 Marlow, Iain. (2010). "High speed internet for rural areas." *The Globe and Mail* Oct. 27. http://www.theglobeandmail.com/news/technology/high-speed-internet-for-rural-areas-pegged-at-7-billion/article1774621/

3 Van Praet, Nicolas. "Universal Internet access key to the economy: Google CFO," Financial Post, FP Tech Desk. Oct. 24, 2011. http://business.financialpost.com/2011/10/24/universal-internet-access-key-to-economy-google-cfo/

4 For current rankings see: Berkman Center for Internet and Society. (2009). *Next Generation Connectivity: A review of broadband Internet transitions and policy from around the world*. Harvard University, October (draft). p. 112. http://www.fcc.gov/stage/pdf/Berkman_Center_Broadband_Study_13Oct09.pdf

5 Nowak, Peter. (2009). "Canadian broadband blasted by Harvard study." CBC News, Oct. 15. http://www.cbc.ca/technology/story/2009/10/15/harvard-fcc-broadband-study.html

6 Settles, Craig. "After the stimulus: broadband and economic development," Fighting the Next Good Fight. Oct. 4, 2011. http://roisforyou.wordpress.com/2011/10/04/after-the-stimulus-broadband-and-economic-development/

7 As part of its broadband plan, the U.S. government is currently committed to connecting "at least 100 million American homes to 100 Mbps. service over the next 10 years." Middleton, Catherine. Canadian Federation for the Humanities and Social Sciences "Big Thinking" Lecture, Oct. 7, 2010. http://www.fedcan.ca/images/File/Middleton_BigThinking.pdf

8 Canadian Radio-television and Telecommunications Commission (CRTC). (2009) "CRTC extends exemption for new media and calls for a national digital strategy." News release, June 4. http://www.crtc.gc.ca/eng/news/RELEASES/2009/r090604.htm

9 Clement, The Hon. Tony. (2010). "An interim report on the digital economy and telecom strategies." Address to the International Institute of Communications Conference. Industry Canada, Nov. 22. http://www.ic.gc.ca/eic/site/ic1.nsf/eng/06098.html

10 Chong, Michael, Hon. (chair). *Emerging and Digital Media: Opportunities and Challenges*. Report of the Standing Committee on Canadian Heritage. 40th Parliament, 3rd Session. Canada: House of Commons. February 11, 2011. http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=4838683&Language=E&Mode=1&Parl=40&Ses=3

11 Kim, Yongsoo and Siddhartha Raja. (2010). *Building Broadband: Strategies and Policies for the Developing World*. World Bank. Chapter 4. p. 48. http://siteresources.worldbank.org/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/282822-1208273252769/Building_broadband.pdf

12 Scott, Sheridan. (2009). "Get ready, CRTC, digital economy is coming." *Globe and Mail*. Nov. 2. http://www.theglobeandmail.com/news/technology/get-ready-crtc-digital-economy-is-coming/article1347786/

13 Lasar, Matthew. (2009) "Rural broadband = more jobs, better salaries." *Ars technica* Aug. 20. http://arstechnica.com/tech-policy/news/2009/08/rural-broadband-more-jobs-better-salaries.ars

14 Communications Workers of America. (2008). "Proposals to stimulate broadband investment." Letter to the House Speaker and Senate Majority Leader. December 9 mentioned in Qiuang, Chris-

tine Zhen-Wei. (2009). "Broadband infrastructure investment in stimulus packages: relevance for developing countries." *World Bank*. http://siteresources.worldbank.org/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/282822-1208273252769/Broadband_Investment_in_Stimulus_Packages.pdf

15 Atkinson, R., D Castro and S. Elzell. (2009). *Digital Road to Recovery: A Stimulus Plan to Create Jobs, Boost Productivity and Revitalize America*. Report by the Information Technology and Innovation Foundation. January 7. http://www.itif.org mentioned in Qiuang, Christine Zhen-Wei. (2009). "Broadband infrastructure investment in stimulus packages: relevance for developing countries." *World Bank*. http://siteresources.worldbank.org/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/282822-1208273252769/Broadband_Investment_in_Stimulus_Packages.pdf

16 Office of the Prime Minister of Canada. (2009). "PM announces major improvement to broadband internet access in rural Canada." Ottawa: News release, July 30. http://pm.gc.ca/eng/media.asp?category=1&id=2702

17 Industry Canada. (2009). "Broadband Canada: Connecting Rural Canadians. Frequently Asked Questions." Last modified Sept. 22. http://www.ic.gc.ca/eic/site/719.nsf/eng/h_00004.html#BPQ3

18 Foley, Meraiah. (2009). "Australia moves to build high-speed network." *New York Times*. April 07. http://www.nytimes.com/2009/04/08/technology/internet/08broadband.html

19 Ibid. Chong, Michael, Hon. (chair). 2011.

20 Berkman Center. (2009). http://www.fcc.gov/stage/pdf/Berkman_Center_Broadband_Study_13Oct09.pdf

21 CRTC. (2010). "Transcript of proceedings on obligation to serve and other matters." Discussion on adoption rates of new technologies between Commissioner Katz and Denis Henry appearing for Bell Aliant. Timmins, Ont. Vol. 1, Oct. 26. para. 640–654. http://www.crtc.gc.ca/eng/transcripts/2010/tt1026.html

22 CBC News. "No internet in 1 out of 5 Canadian homes." May 25th, 2011. http://www.cbc.ca/news/technology/story/2011/05/25/technology-internet-use-statistics-canada.html

23 This network was built under the Industry Canada Community Access Program (CAP) and its companion Youth Initiative Program (CAP-YI). *Telecommunications Policy Review Panel. (2006) Final Report. Chapter 8. Industry Canada*. http://www.telecomreview.ca/epic/site/tprp-gecrt.nsf/en/rx00055e.html

24 See, for example: Ekos Research Associates. (2004). *Evaluation Study of the Community Access Program (CAP)*. Industry Canada. Audit and Evaluation Branch, January 16. http://www.ic.gc.ca/epic/site/ic1.nsf/en/01420e.html and Coleman, Ronald. (2002). "Economic value of CAP sites as investments in social capital" and "Impact of CAP sites on volunteerism." GPI Atlantic. http://www.gpiatlantic.org/publications/abstracts/econvalue-cap-ab.htm

25 Ibid. Chong, Michael, Hon. (chair). 2011.

Culture and the Arts

Background: The State of the Sector

Arts and culture contribute over $46 billion to the Canadian economy and employ over 640,000 people — three times as many as Canada's insurance industry and twice that of Canada's forest industry. All told, direct and indirect expenditures in the cultural sector contributed $84.6 billion to the Gross Domestic Product in 2007.[1] Creating jobs in the arts and culture sector costs less than in any other sector of the economy, with an average cost of $20,000 to $30,000 for an arts-sector job compared to $100,000 to $300,000 for a light- to heavy-industry position.[2]

Further, the cultural sector generates more bang for each government buck. It has the rare ability to put funds to work within a very short period of time, with remarkably low administrative costs. Relatively small investments in culture can increase employment levels. According to the Conference Board of Canada, for every $1 of real value-added GDP produced by Canada's cultural industries, roughly $1.84 is added to the overall real GDP. Hill Strategies notes that the performing arts alone generate $2.70 in non-governmental revenues for every $1 invested by the government.[3]

Yet, the average annual income for artists in Canada is decreasing, despite their high levels of education. Young, emerging artists are particularly affected. Artists aged 15 to 24 earn an average of $8,300 per year in Canada, 27% less than their peers in other fields.[4]

The arts and culture sector in Canada is rich and diverse, but it remains relatively fragile and dependent on public investment to thrive. Our country is blessed with a high proportion of artists, creators, cultural institutions and industries, but they are handicapped by small domestic markets and Canada's immense geography. To prosper, this important component of our economy must develop markets both domestically and abroad.

However, support for touring within Canada is very limited and for many artists, reaching international audiences has become harder because of the cancellation of federal programs that supported foreign-market development. The loss of these programs has put additional pressure on funding bodies such as the Canada Council. Québec is the only province that has taken measures to soften the blow.

A growing, dynamic cultural sector is central to the success of Canada's creative, knowledge-based economy. In recent years, the labour market for the arts and culture sector has grown increasingly complex. Rapid changes demand new investments in technological training and digital platforms for artists' works. Without programs to develop these digital skills and platforms, creative workers face increasing impediments to the distribution of their work. Such programs must also develop ways to remunerate artists and creators in the digital universe, which the new copyright act will not do.

To ensure stability and growth in Canadian arts and culture, the changing realities of the sector's labour force must be recognized. There is a generational gap between older artists who do not possess the training and skills of the younger generation. There is also a trend towards flexible labour, where creative workers support themselves primarily through multiple professional roles, often on contract or as self-employed artists, with no social benefits attached. Given that such workers represent more than a quarter of the cultural workforce (twice the national average), implementing measures that provide greater access to social benefits and security for self-employed Canadians would have positive effects on the cultural sector as a whole.

Current Issues: Why Invest in Arts and Culture?

Investment in arts and culture is good for Canada's economy, for Canadian society, and for building a strong national identity and international image. As part of a global strategy, our artists and cultural organizations can support Canadian foreign-policy and international trade objectives.

The ecology of Canada's economy is changing: the knowledge, or creative, economy is progressively replacing traditional industry. The former presents a shining opportunity to tap into the most renewable of natural resources: the rich diversity of Canada's population. As the Cultural Careers Council of Ontario notes, "Artists may be models for the way we will be working in the future — independent, entrepreneurial, and more reliant on individual networks than conventional organizations."[5]

Millions of Canadians purchase books, magazines, films, new media products, and sound recording materials, and Statistics Canada estimates that household expenditures on these cultural products continue to grow every year. This helps explain why every dollar invested in arts and culture generates a strong return.

- The AFB will increase the budget of the Canada Council by $20 million annually over a period of five years so that it reaches $300 million by Canada's 150th anniversary in 2017.

In the new creative economic environment provided by digital technologies, artists are more than ever at the forefront of innovation and entrepreneurship. A large segment of the cultural sector is comprised of small and medium-sized businesses that are continually adapting to a changing market and evolving business models. To make a living in the cultural economy, cultural workers must develop entrepreneurial skills. The cultural businesses that they start, such as art galleries, craft shops, bookstores and entertainment venues, are essential to the unique character and quality of life in urban neighborhoods.

Like other small and medium-sized business entrepreneurs, they contribute to job creation just as much, if not more than larger enterprises. According to a study published by the Observatoire de la culture du Québec, the number of cultural workers in Québec has grown by 29.3% between 1996 and 2006 and by 26.8% in the rest of Canada.[6] A recent study produced for the City of Toronto states that "Creative industries are growing faster than financial services, the medical and biotechnology industries, and the food and beverage industry; creative occupations are growing more than twice as quickly as the overall labour force. The sector currently employs more than 130,000 people, or 5% of the Toronto Census Metropolitan Area's workforce."[7]

To maintain and enhance Canada's arts and culture workers skills,

- The AFB mandates the Department of Human Resources and Skills Development (HRSDC) to expand access to EI training support for the self-employed and to dedicate $1 million per year for five years to foster the professional development of cultural workers through internships and mentorships.

The report *Culture 3.0: Impact of Emerging Technologies on Human Resources in the Cultural Sector*, from the Cultural Human Resources Council, recommends reverse internships: "Mentorships that increase peer-to-peer knowledge sharing, including cross-sub-sector mentorships and reverse mentorships where digitally-savvy junior staff mentor their senior-level peers."

Indeed a cross-generational strategy in human development would certainly be an initiative that would help the cultural sector in its role as a key driver of Canada's economy.

To encourage the development and success of young emerging artists in a digital environment and thus contribute to Canada's creative economy,

- The AFB provides for the creation of a Fund for artists and creators of works for the digital environment.

A Sound Fiscal Policy for Artists

A number of economists argue that to stimulate the economy, it is better to cut taxation to small and medium-sized businesses. Most of the cultural sector falls into this category. Over the years, recommendations have been made concerning income averaging for artists and creators whose revenue may fluctuate greatly from one year to another. It remains our conviction that rather than taxing revenue from a single, extraordinary year at maximum bracket rates, taxing income averaged over a few years creates a more stable financial environment for artists and creators, and recognizes the multi-year investment that a single creation often requires.

Taking those realities into consideration suggests that revenue derived from copyright or residual payments and from grants to individual artists and creators be exempt from taxation. For several years now, the province of Québec has exempted a certain level of copyright revenue from taxation. This regime, which applies to any artist who produces copyright material that generates income, not only corrects the tax penalty implicit in the *Income Tax Act* but also works to encourage, rather than penalize those who try to make a living from their creations. Setting a reasonable upper limit of income derived from the artistic activity would ensure that only those writers and artists with low incomes would benefit from the deduction.

Another approach would allow professional artists and creators to use the current year of revenue to establish the level of tax-free contribution to a Registered Retirement Savings Plan. This regime exists in Québec at the provincial level and it could easily be extended to all Canadian professional artists and creators at the federal level. This would allow artists to save from unfair taxation a portion of their revenue earned in a windfall year.

Investing in Market Development and Cultural Diplomacy

As mentioned above, the Canadian arts and culture sector is greatly handicapped by Canada's small internal markets and immense geography. In order to survive, markets must be developed both internally and externally for our various cultural products.

Despite several small international programs within the Canadian Heritage portfolio agencies, there is currently no coordinated strategy to promote Canadian artists and cultural works internationally. The Department of Foreign Affairs and International Trade (DFAIT) which formerly had a program devoted to developing cultural markets abroad, now only offers the *Global Opportunities for Associations* (GOA) contributions program, which supports industry-wide national trade associations.

The 2012 Alternative Federal Budget (AFB) includes a comprehensive program with an annual budget of $40 million so our cultural sector can cultivate new markets at home and abroad and fully support the foreign and trade policies of the Government.

- The AFB invests an additional $40 million per year in the development of markets at home and abroad.

Investing in the Creative Economy for All Generations

Beyond monetary investments and fiscal measures, the government can resort to other modes of intervention to ensure the health of the cultural sector in the Canadian economy. At the forefront of these tools is the government's development of a national strategy for the digital economy. We must pay attention not only to investing in physical infrastructures but also in the production of Canadian content.

A key pillar of such a strategy must be to respect intellectual property, which means that we must modernize the *Copyright Act* in such a way that artists and creators, like other intellectual workers, receive fair payment for the innovation and creativity through which they create their art. The AFB believes that the adoption of policies that take into account the remuneration of artists should be adopted.

Finally, the AFB strongly emphasizes once again that all sectors of the Canadian economy, including the arts and culture sector, and different levels of government need accurate and timely statistics to identify needs and to plan and evaluate policies and programs. Over the past 15 years, due to successive budget cuts, Canada's once internationally renowned cultural statistics have suffered considerable deterioration. The regularity of labour market data, export activity, and new forms of cultural activity are essential instruments to cultivate what is certain to become a dominant post-industrial element of the Canadian economy. It is the AFB's hope that the government will continue to support Statistics Canada and the Department of Canadian Heritage in developing a satellite account for culture as has been done for tourism, transport and the voluntary sector.

Further, to ensure that Canada's arts and cultural industries have access to reliable data to plan and measure success,

- The AFB allots an additional $1 million to the Department of Canadian Heritage (PCH) to develop and maintain a satellite account for culture at Statistics Canada, as is done for tourism and the voluntary sector.

AFB Actions

The AFB will:

- Increase the budget of the Canada Council by $20 million annually over a period of five years so that it reaches $300 million by Canada's 150th anniversary in 2017.
- Invest $40 million of new money into domestic touring and the development of foreign markets.
- Mandate the Department of Human Resources and Skills Development (HRSDC) to expand access to EI training support for the self-employed, and to dedicate $1 million per year for five years to foster the professional development of cultural workers through internships and mentorships.
- Introduce income averaging for self-employed artists.
- Allot an additional $1 million to the Department of Canadian Heritage (PCH) to develop and maintain a satellite account for culture at Statistics Canada.
- Create a fund for artists and creators of works for the digital environment worth $5 million a year for three years.

Notes

1 Valuing Culture: Measuring and Understanding Canada's Creative Economy, Conference Board of Canada, August 2008

2 Cultural Human Resources Council

3 Finances of Performing Arts Organizations, Hill Strategies, November 2008

4 2008 Statistical Profile of Artists in Canada (based on 2006 Census Data), Hill Strategies

5 Enriching our Work in Culture: Professional Development in Ontario's Cultural Sector, Cultural Careers Council Ontario, March 2008.

6 Les professions de la culture et des communications au Québec en 2006, Observatoire de la culture du Québec, septembre 2010. (http://www.stat.gouv.qc.ca/observatoire/publicat_obs/pdf/Stat_BrefNo66.pdf)

7 Creative Capital Gains: An Action Plan for Toronto (signed by James Prentice, Karen Kain, and Robert J. Foster), May 2011, p. 8

Early Childhood Education and Care

Background

Canadians have good reason to be concerned about the future of their well-established health and public education systems. For many, there is an uneasy sense that years of tax cuts have lessened our collective ability to publicly fund high-quality and equitable access for all. The evidence suggests that Canadians question the unrelenting push to bring market-oriented, often profit-making approaches to public services whose very foundations rest on values of sharing, caring, and equality.

But are concerns about the dangers of privatization real? After all, health and public education systems still exist. To answer this question, one need look no further than child care[1] — Canada's poster child for market failure and inadequate public investment in the common good. Rather than merely strengthening child care — as is necessary with our health and public education systems — we actually need to begin to *build* a system of early childhood education and care (ECEC) in Canada.

Canada's Market-Based Child Care

Child care services in Canada are marketized, having always relied on the private sector (both for-profit and non-profit) to develop, finance, and operate programs for young children, with parents paying most of the costs even for regulated child care.

The result? Child care in Canada[2] demonstrates triple market failure, with:

- **High parent fees and a shrinking pool of fee subsidies:** Data from British Columbia shows that child care is the second-highest cost to families, next to housing.[3] This is true across Canada as well: many young families pay more in child care fees than other families pay for their children's university tuition. In Ontario, parent fees are reaching new heights as instability in child care services has grown. Longitudinal data on fee subsidies shows that the pool has shrunk since 2001,[4] so fewer low-income children have access to regulated services.

- **Low staff wages:** Compensation for staff trained in early childhood education is a key indicator of the high quality that is important for child development. However, Canada's training requirements for early childhood educators fall short of the average standards across OECD countries. Furthermore, the predominantly female child care service sector remains one of the lowest-paid in Canada. More than half of Canada's trained early childhood educators do not work in child care.[5] The resulting recruitment and retention crisis across the country compromises the quality of our children's care.

- **Unmet demand:** While more than 70% of mothers of young children are in the paid labour force, there are regulated child care spaces for only about 20% of children 0–5 years old.[6] Yet in 2007 and 2008, the number of regulated child care spaces in Canada grew by only 3% annually, about one-third of the growth rate earlier in the decade.[7]

High fees, low wages, and unmet demand should be a wake-up call to governments about the fundamental inequality of their longstanding market-based approach to child care services. The evidence-based response to Canada's high rate of mothers' labour force participation and contemporary knowledge about the benefits of early childhood education should be a publicly managed and publicly funded system that blends early childhood education and child care, and prioritizes equity in both access and service provision.

The Smart Thing to Do, and the Right Thing to Do

A consistent body of evidence shows that building a public system of early childhood education and care is not just the right thing to do for parents and children, but the smart thing to do for Canada's economy.

An analysis[8] for the Child Care Human Resources Sector Council (CCHRSC) shows that:

- **Child care grows the economy:** Every dollar invested in child care programs increases GDP by $2.30 — one of the strongest levels of short-term economic stimulus of all sectors and far ahead of construction and manufacturing. As the Canadian economy continues to struggle, all of the evidence points to child care as the most effective investment Canadians can make for today, and tomorrow.

- **Child care creates jobs:** Investing $1 million in the child care sector generates almost 40 jobs — at least 40% higher than the next closest industry, and four times the number of jobs generated by investing $1 million in construction activity.
- **Child care more than pays for itself:** Even in the short term, more than 90% of the cost of hiring child care workers returns to governments as increased revenue, and the federal government gains the most. Over the long term, every public dollar invested in quality child care programs returns $2.54 in benefits to society.

Evidence from Quebec[9] provides proof positive that child care pays for itself. The province's child care program serves about half of Quebec children under the age of five. The program helped an additional 70,000 women with young children enter the labour force, a 3.8% increase in women's employment overall. The ripple effect of this increase in working mothers' employment contributed an additional $5.2 billion to the provincial economy and increased Quebec's GDP by 1.7%. Furthermore, the impact of working mothers' increased purchasing power and taxes paid, along with reduced social transfers, means that for every dollar Quebec invests in its child care system, the province currently recovers $1.05 and Ottawa recovers 44 cents — for an additional $700 million in federal revenue.

The Threat of Big-Box Child Care

Although the benefits of a public system are clear, and the failures of market-based ECEC are in plain sight across the country, it is disturbing to observe the for-profit child care sector growing in almost every province; for-profits now deliver close to 30% of total regulated spaces. The umbrella term "for-profit child care" includes small, individually owned centres and growing numbers of child care chains. In 2011, Edleun, Canada's first publicly listed big-box child care chain purchased more than 40 existing centres in Alberta, B.C. and Ontario, stating its intentions for substantial growth in other provinces.[10] Edleun is well-positioned for expansion, as venture capital and mainstream banking investors provide significant capital.

Countries such as Australia, the United Kingdom and the United States, which are dominated by for-profit big-box chains, provide the following lessons for Canada if it continues to ignore this threat:

- Growth in spaces will be offset by closures of small, for-profit and non-profit operators.
- Growth will be least likely to occur in less "profitable" areas and will be less likely to target "unprofitable" children (for example, in rural or isolated communities, children with disabilities, or infants and toddlers).
- Because of their high fixed costs (staff, facilities, etc.), child care chains will not be any more financially viable than existing programs.
- Governments will be lobbied to promote profitability by relaxing quality standards and/or increasing public funding.
- As for-profit chains grow and acquire real estate, the pressure to provide returns to investors will lead to even higher parent fees and lower staff wages. Once the limits of both approaches are reached, these corporations will look to government to increase public funding to grow private profits.
- Overall quality — so important for children — will decline, as the research literature shows definitively that the for-profit sector generally provides poorer quality (Childcare Resource and Research Unit, 2011).

In other words, public funds will support private profits rather than the public goals of quality, affordability, and access.

In its review of the evidence on indicators of "best practices" in early childhood education and care, UNICEF observed that:

> Some private providers are tempted to reduce less visible costs such as training, pay, and conditions of work. And staff turnover in for-profit services tends to be higher (a factor which, from the child's point of view, translates into instability of care)…poor quality early childhood education and care is not a product that can be returned, repaired, exchanged, or refunded. It may take years for the lack of quality to show its effects; the cause may never become apparent; and the consequences are likely to fall not only on the child but on society as a whole…what is offered by private providers of child care is not a consumer product but a child's once-in-a-lifetime opportunity to pass successfully through critical stages of cognitive, emotional,

and social development. As UNICEF has argued for many decades and in many contexts, the child's name is 'today'.[11]

Moving Towards More Public Early Childhood Education and Care

It has been encouraging in some ways to note the recent and growing provincial/territorial interest (among governments, families, advocates, experts, etc.) to deliver ECEC services. Most countries that have implemented effective ECEC systems have done so through education rather than social services ministries, as many have moved to integrate the traditional separation between early education programs in public schools and child care in community settings. The principles of public education systems across Canada — universal entitlement to programs provided by reasonably paid and well-trained staff, with democratic governance — are consistent with the evidence-based principles recommended for child care.

ECEC researchers Kaga, Moss and Bennett, however, note that:

> Simply moving administrative responsibility for [ECEC] into education is not enough: it is a starting point for reform. Great attention has to be paid to the subsequent process, including strong re-thinking to complement deep re-structuring.… Integration requires re-thinking of concepts and understandings and re-structuring, covering a range of areas including access, regulation, funding, and workforce.[12]

The fact that, to date, the full working-day needs of families and the ECEC needs of children age 0–12 have not been part of most provinces' policy-making illustrates the need to transfer the mandate of child care to education. In addition, there has not been an adjustment in conventional conceptions about how young children learn to ensure that "schoolification" (that is, age-inappropriate focus on more academic content and approaches to learning) of ECEC is avoided. Finally, the implications for child care services and early childhood educators of a shift towards public education are being felt as provincial policy has by-and-large focused narrowly on kindergarten-age children, to the detriment of even existing child care provision. In building a new, publicly funded, publicly managed system of education and care for young children, one would hope for a process and a solution that respects and includes those who are keen to participate in advancing a quality, universal, democratically controlled system.

The Organisation for Economic Cooperation and Development (OECD), in calling for "a strong and equal partnership" between child care and education, captured the spirit of this discussion (OECD, 2001).

The Absence of the Federal Government

A key barrier to advancing a system of early childhood education and care in Canada is the federal government's absence from the table. The current federal government has gone one step further than even previous governments by abandoning all responsibility for this file. In this instance, doing nothing is a policy decision — and a poor one. The federal government's lack of leadership on child care is limiting provincial/territorial progress today and restricting our ability to act in the future.

There is a growing awareness of problems created by over-reliance on a market-based approach that is not balanced by government intervention to achieve equitable access to quality services. Even before the recent recession, the public discourse acknowledged the need for government involvement in addressing issues like climate change. In the end, this awareness may enhance opportunities to develop a publicly funded and managed system of early childhood education and care, or it may encourage market advocates to seek new ways to make private profits from this public good.

"We would but we can't afford it" was the excuse for inaction on child care prior to 2000. Then, as federal and provincial surpluses began to mount annually — reaching a dizzying $30 billion combined in 2007[13] — a small but increasing federal commitment to child care funding finally emerged. However, at the height of Canada's economic success, the current federal government terminated Canada's sole significant national child care initiative. As a result, federal transfers in 2007–08 were reduced by 37% from 2006, and by 61% from the previous government's commitment for 2009.[14] Canada's public spending on ECEC programs is only 0.25% of GDP— about one-third the OECD average (0.7%) and far short of the international minimum benchmark of *at least* 1% of GDP for ECEC for 0–5 year olds.[15]

Having squandered the opportunity to share the economic good times with children, women, and families, Canada entered the recent recession with deep poverty and inequality, and exacerbated the problem by ignoring the opportunity to reap the social and economic benefits of stimulus spending on child care.

In the meantime, other developed countries continue to sprint down the early childhood education and care track, leaving Canada far behind.

The legacy of Canada's continued reliance on a market-based approach is reflected in international comparisons of family support in general, and early childhood education and care in particular, which consistently give Canada a shameful review. Most recently, UNICEF ranked Canada in a tie for last out of 25 developed countries in terms of meeting minimum benchmarks for early childhood education and care related to quality and access.[16]

Current Issues

Too Little Money, Too Little Policy

Public opinion research shows that three-quarters of Canadians support a national child care program and consider the lack of affordable child care to be a serious problem. An unparalleled crisis has erupted in much of the country over the past year, with budgets being cut, centres closing, exploding parent fees, and burgeoning waiting lists joining the shortages already generated by under-funding. Media stories report women unable to work, students unable to attend school, two- and three-year-long waiting lists for spaces, "serious" health and safety failures (usually in poor-quality, for-profit centres), and even an occasional death in unregulated arrangements. The collapse of child care's free market indicates how antiquated is Canada's approach.

The current issues facing child care can be summarized as "too little money, too little policy." Child care today is plagued by provincial and territorial budgets that are — at best — stagnant in constant dollars, and the expansion and contraction of services unconnected to planning or community need and shockingly unaffordable parent fees. Fee subsidies are even more inadequate than in the past; subsidy availability for eligible low-income families has shrunk relative to 2001 across Canada, although the supply of regulated spaces has grown by about 400,000 spaces since that time.

Early Childhood "Education" and "Child Care"

There has been significant provincial interest and some activity in shifting child care into education and moving to full-day kindergarten (generally only for five-year-olds). But this has not created the "strong and equal partnership" between kindergarten and child care recommended by the OECD and practiced successfully by many top-ranking countries. Families' needs for child care for children younger than kindergarten age and outside regular elementary school hours have largely been untouched while consternation about a "schoolifying" trend for four- and five-year-olds has grown among early childhood experts.

Kids Are Not for Profit

Robust evidence from research shows clearly that for-profit child care is significantly less likely to deliver the high-quality environments necessary for age-appropriate learning in the early years than does public, non-profit care. While Canada has long entertained a debate about the ethics of deriving profits from essential children's services, the current trend towards big-box profit-seeking operations is more than worrisome.

ECEC Spending and Policy

Not only is Canada's public spending on ECEC programs (0.25% of GDP) abysmal, but many features of provincial and territorial programs run counter to recommended best practices in ECEC policy, including the absence of either a comprehensive policy framework or adequate funding.

AFB Actions

Occupy the Nursery

There is compelling evidence that public investment in early childhood education and care — with its multiple benefits to multiple groups — offers among the highest benefits that nations can adopt. Studies have repeatedly shown that well-designed public spending on ECEC promotes health, advances women's equality, addresses child and family poverty, deepens social inclusion, and grows the economy.

But wishful thinking and a market-based approach won't make it happen. The federal government must move to accountability for results by beginning to build a system of high- quality, affordable, inclusive, and publicly owned early childhood education and care services across Canada, with equitable access for all children and families.

To protect and promote the public interest, the AFB provides leadership and significant funding support to provinces and territories that commit to building public systems of early childhood education and care. The goal of the AFB's early childhood education program is to reach at least 1%

of GDP, starting this year with a $1 billion investment that increases over the next 10 years.

A reallocation of current expenditures provides a starting place for realizing this funding commitment. We propose to incorporate the almost $2.5 billion annual funds currently spent through the Universal Child Care Benefit (UCCB) into federal expenditures both on the early childhood education and care program, as described, and on improvements to the Canada Child Tax Benefit (CCTB), including the National Child Benefit Supplement. We argue that there is neither evidence that the considerable public expenditures on the UCCB furthers ECEC goals of improved access and quality nor is the UCCB an effective income support program that can help lift families with children out of poverty. Thus, we suggest that these considerable public funds would be more effectively spent on ECEC and on the CCTB and should be moved into these columns (see the AFB Poverty and Inequality Chapter for more details on CCTB improvements).

The AFB will establish a policy framework to guide collaboration with provinces and territories, providing federal funds to those that are accountable for developing and maintaining:

- **Public plans** (including legislated universal entitlement, targets, and timetables) for developing comprehensive and integrated systems of ECEC services that meet the care and early education needs of both children and parents.
- **Public expansion** through publicly delivered ECEC services (including integration of existing community-based services into publicly managed systems).
- **Public funding** delivered to ECEC systems, not to individual parents, designed to create and maintain high-quality, accessible services.
- **Public monitoring** and reporting in the legislatures (federal, provincial/ territorial) on the quality of, and access to, the early childhood education and care system.

Within these broad recommendations, the AFB acknowledges the right of Canada's First Nations and Aboriginal peoples to design, deliver, and govern their own early care and learning services. It also respects Quebec's right to develop social programs. However, it is clear that additional federal funding and more focused public policy are required to further advance both quality in and equitable access to Quebec's system, so the AFB encourages the federal government to work with Quebec to achieve the province's goals for child care.

Finally, the AFB recognizes that, in addition to high-quality accessible child care, families with young children also require, and have a right to, well-paid maternity/parental leave. But many parents — mothers and fathers — cannot afford to take or are ineligible for the maternity/parental leave benefit. An improved, better-paid, more inclusive, more flexible maternity/parental leave benefit program including earmarked paternity leave should be developed in the near future.

Notes

1 This chapter incorporates excerpts from various publications of the Child Care Advocacy Association of Canada and draws extensively from the article "The Fight for a Publicly-Funded Child Care System in Canada" by J. Dallaire and L. Anderson, in the CCPA's Spring 2009 issue of *Our Schools Our Selves* "Beyond Child's Play: Caring for and Educating young children in Canada". V. 18 N.3 (#95). It also draws on various publications of the Childcare Resource and Research Unit as well as on M. Friendly and S. Prentice's book *About Canada: Childcare*, published in 2009 by Fernwood Publishing.

2 While child care fees remain modest in Quebec, access to high-quality services remains a problem as non-profit expansion has slowed and the for-profit sector has accelerated in recent years. As well, additional attention to ensure consistent quality in programming and a sufficient supply of spaces is required.

3 Richards, Tim et al. (2008). Working for a Living Wage: Making Paid Work Meet Basic Family Needs in Vancouver and Victoria. Vancouver, CCPA p.3. http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC_Office_Pubs/bc_2008/ccpa_bc_living_wage_2008_summary.pdf

4 See data from the Childcare Resource and Research Unit, in Campaign 2000's 2011 report card on child poverty. Available online at http://childcarecanada.org/documents/research-policy-practice/11/11/revisting-family-security-insecure-times

5 Child Care Human Resources Sector Council (CCHRSC). (2009). Literature review of socio-economic effects and net benefits: Understanding and addressing workforce shortages in early childhood education and care (ECEC) project. Ottawa. CCHRSC. See http://www.ccsc-cssge.ca/english/aboutus/completed.cfm#p5 for full report.

6 Beach, J., Friendly, M., Ferns., C., Prabhu, N., and Forer, B. (2009). Early childhood education and care in Canada 2008. Toronto. Childcare Resource and Research Unit Calculated from http://www.childcarecanada.org/ECEC2008/tables_long/TABLE22_ECEC08_LONG_VIEW.pdf

7 Calculated from http://www.childcarecanada.org/ECEC2008/tables_long/TABLE22_ECEC08_LONG_VIEW.pdf

8 Fairholm, R. (2009*). Understanding and addressing workforce shortages in early childhood education and care (ECEC) project*. Ottawa: Child Care Human Resources Sector Council.

9 Pierre Fortin, Luc Godbout and Suzie St-Cerny, "Economic Consequences of Quebec's Educational Childcare Policy" (Powerpoint presentation from Early Years Economics Forum, Toronto, June 22, 2011), www.mwmccain.ca/media/uploads/does-preschool-education-pay/EarlyLearningEconomicForum_Fortin.pdf

10 http://www.theglobeandmail.com/report-on-business/your-business/start/franchising/edleun-eager-to-expand-childcare-reach-outside-alberta/article1731059/

11 2008 UNICEF Innocenti Research Centre, Report Card #8, p. 18.

12 Kaga, Y., Bennett, J. and Moss, P. (2010). "Caring and Learning Together". Paris: UNESCO (United Nations Educational Scientific and Cultural Organization), p. 122.

13 Calculated from Canada. Department of Finance. (2008) Fiscal Reference Tables. Ottawa. http://www.fin.gc.ca/toc/2008/frt08_-eng.asp

14 http://www.fin.gc.ca/taxexp-depfisc/2009/taxexp0901-eng.asp#taxexpend

15 The 0.7% and 1% come from Bennett, J. (2008), "Benchmarks for Early Childhood Services in OECD Countries," Innocenti Working Paper 2008-02. Florence, UNICEF Innocenti Research Centre. Retrieved from http://www.unicef-irc.org/publications/pdf/iwp_2008_02_final.pdf, p. 38. The 0.25% of GDP is *Starting Strong II. (2006). Organisation for Economic Cooperation and Development*. Directorate for Education. Paris: Author.

16 UNICEF Innocenti Research Centre. (2008). The child care transition: A league table of early childhood education and care in economically advanced countries. UNICEF Innocenti Research Centre, Report Card 8. Florence. p. 2. http://www.unicef-irc.org/publications/pdf/rc8_eng.pdf

Health Care

Background

Canadians are less equal today than at any other time in the country's history, with the richest 1% taking a third of all growth in incomes between 1997 and 2007.[1] Growing market-driven income inequality, along with government cuts to income supports, is strongly associated with poor health.[2] Canada's universal health care system has helped mitigate income-related disparities in access to hospital and physician care, but provincial tax reductions and cuts in public services are threatening to undermine the good results we have achieved in the postwar period.

The burden on Canada's health care system is erroneously attributed to "aging baby boomers." Population aging accounted for only 0.8% out of the average annual real (adjusted for inflation) increase of 4.5% in health care expenditures between 1998 and 2008. A more significant cost driver was physician fees, which increased at an annual rate of 6.8% over the same period. Increased utilization was also a major contributor to the growth in cost; for example, the number of hip and knee replacements increased by 101% between 1996/07 and 2006/07, while the number of CT and MRI scans increased annually by 6.2% and 6.9% respectively.[3] Increased utilization is, in part, the consequence of reduced wait times, a major focus of all governments over the past decade. But utilization is also increasing because more patients are receiving higher levels of care. For example, the growing number of patients with dementia receive a broader range of therapeutic services over longer periods of time with more intense interventions. [4]

Another significant impact on the health care system is the increase in poverty and unemployment, the erosion of public services, declining access to higher education and to adequate, affordable housing — all important determinants of health. For example, studies have indicated that poor people are twice to three times more likely to develop Type 2 diabetes[5] regardless of ethnicity.[6] In addition, the poor, both working and non-working, are more likely to suffer the complications of diabetes, including heart disease, kidney failure and blindness.[7] And diabetes isn't the only problem linked to poverty: suicide rates are higher among the poor, along with cardiovascular disease and higher rates of chronic disease and disability. These facts have led many Canadian and international researchers to conclude: "Reducing inequalities in income and wealth through progressive taxation is a highly recommended policy option shown to improve health."[8]

Some right-wing think tanks have warned that public health expenditures are threatening to consume an ever-growing share of provincial budgets. But, while public health care expenditures increased at more than double the rate of provincial revenues from 1998 to 2008, so, too, did transportation, education and communications.[9] Overall public health care spending reached a peak of 8.5% of GDP in 2009 and is expected to fall to 8.1% in 2011.[10] Hospital spending as a portion of the overall economy has increased only slightly from 3% of GDP in the 1970s to 3.4% in 2009.[11] But health services are also delivered in the private sector with funding provided by both public and private payers — for example, prescription drugs, dental and vision care, home and long-term care, and services such as physiotherapy provided in the community. These "mixed goods and services" may constitute as much as 50% of the overall health bill.[12]

In May 2011, the Conference Board of Canada reported that we are 14 among 16 "peer countries" in diabetes-related mortality and infant mortality, and that more Canadians are dying from diabetes — a treatable chronic disease — now than in the past. Chronic diseases can be better prevented and managed in a multi-disciplinary community-based setting that emphasizes patient self-management, education and collaborative care.[13] This year's AFB emphasizes community- and home-based care as approaches that are both more cost-effective than facility care and more patient-centred.

But the movement of services from institutions to the community cannot continue to be a euphemism for privatization. A growing number of services are shifting from hospitals to smaller venues such as surgical clinics. In 1995–96, researchers estimated that, on average, about 70% of Canadian surgeries were performed on an outpatient basis within the hospital system.[14] By 2002, this percentage had increased and Canada had the highest rate of day surgery in the world — an average of 87% of all surgeries.[15] A number of studies indicate that, for appropriate patients, surgery provided on an outpatient or day basis is more cost-effective than inpatient surgery and that patient outcomes are similar.[16] However, a recent Canadian study found that outpatient knee surgery provided in a for-profit setting did not improve disability duration among injured workers. It found that the fee paid for expedited knee surgery in a for-profit surgical clinic was $3,222 compared to $859 for the same procedure performed in a public hospital. Despite the higher fee paid to for-profit surgical clinics there were minimal differences in wait times for the expedited surgeries and small differences in return-to-work outcomes that favoured public hospitals. [17] If Canada wants to achieve the same cost-effective, patient outcomes that have been seen in Europe, we will have to ensure that all surgical settings are non-profit and that the terms and conditions of the Canada Health Act apply.

Provinces who are in violation of the Canada Health Act are subject to both mandatory dollar-for-dollar deductions in cash transfers and discretionary penalties. However, where mandatory penalties have been imposed, they are inadequate and discretionary penalties have never been applied. In 2008–09, Health Canada reported that it had made its concerns about patient charges and queue-jumping at private surgical and diagnostic facilities "known to the provinces that allow these charges." But since 2000 only $1 million has been deducted from federal cash transfers to the provinces,[18] despite widespread violations. Much more needs to be done, and this year's AFB will continue to support the Canada Health Act Division, which is responsible for enforcement of national standards.

With the federal government negotiating a free trade agreement with Europe that would increase annual costs of prescription drugs by another $2.8 billion a year,[19] the time has come for Canadians to insist on better cost management. We can do better using a single, public system[20] that manages costs through four levers: universal public insurance, a national formulary of essential drugs, independent evidence-based drug evaluation, and bulk purchasing. A National Pharmaceutical Strategy can save more than $10.7 billion in annual costs for prescription medicines — or an estimated 43% of Canada's $25.1-billion prescription drug bill.[21]

With the economy in recession, we have to think seriously about ways to not only improve our public health care system, but how to expand it in ways that will be cost effective and sustainable. We will undertake discussions with provincial and territorial health ministers for a renewed Health Accord, with a particular emphasis on primary and community-based health care. This year's AFB also initiates talks with the provinces and territories for a national home care program, something discussed since the mid-1990s.

Current Issues

The Health Accord — which laid out the federal government's financial commitment to health care in Canada for a decade — expires in 2013–14. Normally, discussions would already have been gearing up for how to prepare for the next stage of medicare in Canada. Instead, the federal government announced a done deal strategy for health care that punted the issue down the road, to the other side of a federal election. The unilateral, non-negotiable federal game plan features an automatic, no-strings-attached 6% annual increase in federal transfers to the provinces for the purpose of health care for the next five years, and a reduction in federal funding thereafter. After 2017, transfers grow in line with nominal GDP growth, with a promise that they will not fall below a floor of 3% growth.

The AFB this year sets out the markers for success over the next five years, with a focus on using continued growth in federal supports over the next five years to address and reverse growing inequities in health outcomes, and help provinces "bend the cost curve," through measures that promote better health and better care. Greater integration of hospital and community-based care can provide cost savings and more appropriate supports. But better health is not just a result of better health care. Greater investment in the determinants of health can also produce healthier citizens, more able to contribute to their maximum potential. Other chapters of the AFB address the social determinants of health.

Improved Health, Not Just Improved Health Care

AFB 2012 puts primary health care reform in the spotlight. Better access to community-based primary health care is known to reduce reliance on the most expensive part of the health care system, our hospitals. We have known for years that the health system under-invests in measures that can prevent or manage ill health — including mental health services, home care, and dental care for children. These measures can improve health and reduce costs in the current fiscal year, but the real return on such investments comes years down the road, as community-based services become increasingly integrated into the public health system.

These and other primary health care reforms can offset the strain of population aging and growing health inequities. It's a job the Health Accord promised to tackle in 2003. We're still waiting. The health care envelope can be grown and reallocated in ways that improve health. The AFB 2012 shows how to do it, and not just in this health chapter.

Bending the Cost Curve

Savings and improved outcomes can also be achieved by better managing what we spend. Pharmacare is one such example. The development of a national formulary for a core set of commonly prescribed drugs and single-desk bulk purchasing of those pharmaceuticals could shave up to 40% off what Canadians spend on prescription drugs. A pan-Canadian human resources strategy would also avoid unnecessary cost spikes arising from labour shortages. Such a strategy could showcase best practices in team-based care and ways of deploying the entire spectrum of health workers and professionals to their full scope of practice. A focus on life-long learning, and providing opportunities to upgrade the skills of all health workers is a role the feds could play to create more rungs on the "job-ladder." Together these approaches can save money and get the right care to the right person at the right time.

AFB Actions

The guarantee of a 6% increase in federal cash funds in each of the next five years adds an accumulated $26 billion to provincial and territorial coffers over this period. The AFB dedicates the lion's share of these funds to create an opportunity for Canada's provinces and territories to invest in transformational change that supports a healthy society, and a responsive, sustainable system of health care.

In year one of the AFB, four percentage points of the escalator would be transferred as per the status quo, and two would be set aside for supporting provincial and territorial initiatives that advance primary health care reform. In each successive year an additional percentage point of the escalator would be dedicated to supporting changes to the status quo. By year five the entire 6% increase would be devoted to measures that speed the transition from delivery of urgent, acute care in hospitals to delivery of timely, appropriate primary health care in community-based settings.

Federal transfers would be conditional on full compliance with the criteria and conditions of the Canada Health Act. Negotiated targets for primary health care reform would be jointly developed by federal, provincial, and territorial governments, in consultation with health professionals, unions, academics and civil society groups. Receipt of federal funds for primary health care reform would be based on equal commitment of funds by provincial and territorial governments, much like the matched funding model of recent investments for infrastructure. Canadians need to know what kind of reforms their money is buying. In that spirit, this fund would require better data provision of how the funds are used.

Canada lags behind most industrialized nations in the degree of public funding available for health care services. Currently only 70% of health care spending is covered through the public purse. Public programs provide the greatest risk-pooling, administrative efficiencies and economies of scale, all of which can yield greater efficiencies and better health. Similarly, public expenditures can invest in upstream health interventions that emphasize health promotion and prevention of disease, elements of health care that the private sector would not undertake for the population as a whole.

Consequently, the AFB would also finance the development of a national pharmaceutical strategy, and launch a cost-shared approach for the provision of dental care services for children. These elements of the AFB budget for health care would be over and above expenditures through the 6% escalator.

Community-Based Primary Health Care

The AFB uses the 6% escalator to create a $26 billion, five-year Health Reform Initiative, designed to support and extend provincial and territorial initiatives that promote physical and mental health, and integrate health care with community-based supports and continuing care services.

Canada lags far behind other countries in creating a strong foundation of community-based primary health care. Yet studies show that health systems with a strong community-based orientation yield better health outcomes, are more cost effective and reduce pressure on hospitals and emergency rooms.[22] Similarly, the per client cost of facility care could be reduced by 40% to 75% if clients received necessary services in their homes.[23]

Integrated, coordinated home and community-based care reduces costs and improves health outcomes. Therefore, the AFB will re-establish federal transfers for community-based health and outpatient services at the 1995 levels, at a cost of $51 per capita or $1.734 billion. These funds will help improve access to home care for the elderly and people with disabilities, as well as access to long-term care and community-based allied health services.

Dental Services

Almost six out of ten Canadian children and youth have dental caries, as do a stunning 96% of adults. Yet tooth decay is a preventable disease. Research shows poor oral health is also an indicator of other health problems like diabetes and cardiovascular disease.

The AFB seeks to improve access to basic dental care by putting a strategic focus on prevention. A good place to start is through a cost-shared school-based program that provides children and youth preventative and basic curative dental care, as per historic precedent. The AFB will offer $90 per capita to any province undertaking such an initiative which, if fully implemented across Canada, would cost the federal purse $280 million.[24] The AFB allocates $50 million to start the program, and doubles that contribution in the next two years of the AFB plan.

A National Pharmaceutical Strategy

Over the next three years, the AFB will advance a strategy that will eventually replace the vast majority of private expenditures on prescription drugs.

In 2010, private insurers paid an estimated $9.4 billion of Canada's total prescription drug bill, with an additional $4.6 billion paid out of pocket.[25] About a third of the private insurance bill is paid for by governments which, collectively, are the largest employer in Canada.[26] A coordinated strategy would produce significant savings for benefit plans sponsored by public employers, savings that could and should be extended to private sector benefit plans. The AFB will allocate $2 billion plus 10% of private expenditures on public employees, or $1.39 billion, in the first year towards this strategy for a total expenditure of $3.39 billion. In Year II, the AFB would increase the allocation by 13% for a total of $3.83 billion. Year III of the phase-in would raise this amount by 20% to $4.59 billion.

The goal is to establish a basic universal program for all Canadians irrespective of their province of residence, introduce practices that achieve important economies of scale, and improve the application of "best-practice" strategies. The AFB will phase in coverage, starting with first-dollar coverage for seniors, children under 18 years and people with disabilities. The program will be expanded within clear, well-publicized timelines to eventually cover all residents. The AFB approach would also reduce the tax deductibility of pharmaceutical company marketing expenditures, and use those funds to invest in academic detailing and other disinterested expert education programs.

Notes

1 Yalnizyan, A. (2010). *The Rise of Canada's Richest 1%*. Ottawa: Canadian Centre for Policy Alternatives.

2 Bezruchka, S. (2009). The effect of economic recession on population health. CMAJ 181, 281–285. (doi:10.1503/cmaj. 090553

3 Canadian Institute for Health Information, Health Care Cost Drivers: The Facts. (Ottawa, Ont.: CIHI, 2011).

4 Op cit.

5 Dinca-Panaitescu, S., Dinca-Panaitescu, M., Bryant, T., Daiski, I., Pilkington, B., & Raphael, D. (2010). Diabetes prevalence and income: Results of the Canadian Community Health Survey. Health Policy, doi:10.1016/j.healthpol.2010.07.018

6 Riste, L., Khan, F., Cruickshank, K. (2001). High prevalence of type 2 diabetes in all ethnic groups, including Europeans, in a British inner city: relative poverty, history, inactivity, or 21st century Europe? Diabetes Care; 24(8): 1377–1383.

7 Pilkington, B. & Daiski, I., Bryant, T., Raphael, D., Dinca-Panateiscu, M. & Dinca-Panateiscu, S. (2010). The Experience of Living with Diabetes for Low-income Canadians. Canadian Journal of Diabetes Care.

8 Mikkonen J, Raphael D. (2010). The Social Determinants of Health: The Canadian Facts.

9 Canadian Institute for Health Information, Health Care Cost Drivers: The Facts. (Ottawa, Ont.: CIHI, 2011).

10 Op. cit.

11 Canadian Institute for Health Information, Hospital Cost Drivers (Ottawa, Ont.: CIHI, April 28, 2011).

12 Marchildon, G. (2005) Health System in Transition: Canada WHO on behalf of the European Observatory on Health Systems and Policies, Copenhagen

13 Bodenheimer T, Lorig K, Holman H, Grumbach K. Patient self-management of chronic disease in primary health care. JAMA 2002;288(19):2469-2475. 22.

14 De Lathouwer, C., Poullier, J.-P. (1998). Ambulatory surgery in 1994–95: The state of the art in 29 OECD countries. Ambulatory surgery 1998; 6: 43–55. There were differences between urban and rural hospitals, but the average was 70%.

15 Toftgaard, C. World Wide Day Surgery Activity (2003). The IAAS Survey on Ambulatory Surgery. London: International Association of Ambulatory Surgery (2003). Available on line at http://www.ambulatorysurgery.org/survey.pdf.

16 European Observatory Policy Brief: "Day Surgery: Making it Happen," by Carlo Castoro, Luigi Bertinato, Ugo Baccaglini, Christina A. Drace, and Martin McKee (2007). Available on-line at http://www.euro.who.int/Document/Obs/Pol_Brief_Day_Surgery.pdf

17 Koehoorn, M., McLeod, C.B., Fan, J., Mcgrail, K.M., Barer, M.L., Cote, P. and Hogg-Johnson, S. (2011). Do private clinics or expedited fees reduce disability duration for injured workers following knee surgery? Healthcare Policy. 7(1):55–70.

18 Ibid. CIHI, p. 4 (footnote).

19 Grootendorst, P. and Hollis, A., (2011). The Canada-European Union Comprehensive Economic & Trade Agreement: An Economic Impact Assessment of Proposed Pharmaceutical Intellectual Property Provisions. Toronto: Canadian Generic Pharmaceutical Association.

20 Gagnon, Marc-Andre. (2010). The Economic Case for Universal Pharmacare. Canadian Centre for Policy Alternatives (Ottawa) and the Institut de recherche et d'information (Montreal).

21 Based on 2008 expenditures of $25.1 billion, an estimated saving of 43% would apply to the $24,995,800 spent in 2009.

22 Atun, R. (2004). What are the advantages and disadvantages of restructuring a health care system to be more focused on primary health care services? Copenhagen, WHO Regional Office for Europe (Health Evidence Network report; http://www.euro.who.int/document/e82997.pdf, accessed 20 January 2004).

23 Hollander, M.J. (2001). Substudy 1: Final Report of the Study on the Comparative Cost Analysis of Home Care and Residential Care Services. Victoria: National Evaluation of the Cost-Effectiveness of Home Care. The cost reduction depends on level of client care.

24 Yalnizyan, A., Aslanyan, G. (2011). *Putting Our Money Where Our Mouth Is: The Future of Dental Care in Canada*. Ottawa: Canadian Centre for Policy Alternatives. Based on the population of 5-to-14-year-olds in Canada in 2010.

25 Canadian Institute for Health Information, Drug Expenditure in Canada, 1985 to 2010 (Ottawa, Ont.: CIHI, 2011).

26 A National Pharmacare Plan: More For Less (September 2007). Ottawa: The Canadian Health Coalition (CHC)

Housing

Background

A "Perfect Storm" Tears at Canada's National Housing System

Affordable housing in Canada is in crisis and the federal government's long-term cuts to housing investments continue to make a bad situation worse. The ongoing funding cuts and increasingly precarious housing conditions create a vicious circle in which the cuts trigger worse housing conditions, placing more pressure on austerity-obsessed governments, prompting even more funding cuts. Canada lacks the robust range of housing indicators used in countries such as Britain,[1] but the available measures all record deep and persistent concerns:

- **Unaffordable homes:** Nearly all low- and moderate-income households are among the one-third of Canadians living in private rental housing. Rising rents and falling rental vacancy rates[2] have left rental housing increasingly out of reach for households still struggling with the impact of the 2008 recession, growing income inequality, and poverty.
- **Shrinking supply:** Demolition and conversion of existing rental housing in many parts of the country has left fewer rental properties at a time of growing households and rising need. Rented condominiums and other secondary rental properties also face low vacancy rates and usually have rents that are much higher than the conventional rental market. A new rental housing supply coalition[3] is emerging to take on critical rental housing issues.
- **Substandard housing:** An estimated one million Canadian households live in substandard housing,[4] and the federal government's stimulus spending on housing repairs for two years, starting in 2009,

has assisted tens of thousands of households. In January 2011, the federal government stated: "housing investments are widely recognized as an effective means to boost economic activity and put people to work."[5] In the spending estimates for the fiscal year that started less than three months later, the government slashed national housing repair and improvement programs by 94%—from $674 million last year to $37 million this year. Hundreds of thousands of low-income households remain trapped in unhealthy, substandard homes.

- **Lack of new homes:** The lack of new affordable housing has pushed wait lists in those parts of the country with centralized lists to new records. In Ontario, the 2011 wait list stands at 152,077 households — up 7.4% from last year and 17.7% from 2009.[6] That translates to a year-long wait in virtually every Ontario municipality.

- **Deep and persistent homelessness:** While dozens of municipalities, and several provinces, have created long-term plans to prevent and end homelessness, the federal government has frozen funding for its national homelessness initiative at 1999 levels. A new national voice on homelessness — the Canadian Alliance to End Homelessness — is expected to launch in the coming days.

Canada Mortgage and Housing Corporation (CMHC) estimates that, if current trends hold, the country will need an additional 1.5 million private rental and affordable homes over the next 25 years, but the private sector isn't delivering much new rental housing and government funding for social housing continues to stagnate. The growing shortfall in new supply combined with eroding unaffordability and substandard conditions in existing housing add up to a "perfect storm" in Canada's national housing system.

The Wellesley Institute, in its *Precarious Housing in Canada* research and policy compendium, has noted: "People's ability to find, and afford, good quality housing is crucial to their overall health and well-being, and is a telling index of the state of a country's social infrastructure. Lack of access to affordable and adequate housing is a pressing problem, and precarious housing contributes to poorer health for many, which leads to pervasive but avoidable health inequalities."[7] A good home is vital to the health of individual Canadians and necessary for the overall population health of Canada. A good home is also critical to a strong and stable economy. It provides a base that allows individuals and households to fully participate in the economic life of their communities and the country. It also boosts economic activity by generating good jobs in a sound, sustainable economy. And good homes can reduce government health and other spending, providing fiscal benefits.

No National Housing Plan; Eroding Federal Housing Investments

While every other developed country in the world has a national housing plan that seeks to co-ordinate the efforts of government, non-profits and the private sector, Canada's federal government has no plan and remains committed to ongoing cuts in national housing investments that were set in place in the 1990s. In the current fiscal year, the long-term erosion of federal affordable housing investments is picking up speed as the current spending estimates record a $1.2 billion cut to national housing funding, including a cut of more than 90% in both the federal low-income housing repair program and the federal affordable housing initiative for new homes.

In its June 2011 budget, the federal government stated: "The Government recognizes the importance of a stable and well-functioning housing market to the overall economy and Canada's financial system."[8] However, federal housing investments over the past two decades have not kept pace with inflation, population growth or the growing need for healthy, affordable homes across Canada — creating a heavy burden on lower-income Canadians.

- **Eroding value of federal housing investments:** The federal government invested $1.6 billion in affordable housing in FY1998 and $2.2 billion in FY2008. Over those two decades, inflation rose by 51% and Canada's population grew by 24%, which more than outpaced the 39% increase in housing investments. Over that same period, Canada's economy grew by 232%, yet federal investments in affordable housing as a percentage of the GDP dropped sharply.

- **Sharper cuts to come:** Canada Mortgage and Housing Corporation, the federal government's housing agency, estimates that its main housing funding will be cut from a high of $3 billion in 2010 to $1.7 billion in 2015 — a drop of 43%.[9] The number of low- and moderate-income households assisted under federal housing programs will be cut by 85,500 from 626,300 in 2007 to 540,800 by 2015.[10]

FIGURE 10 Federal Affordable Housing Investments — 1999 To 2009: Total Investments Plus Percentage of Investments Relative to GDP

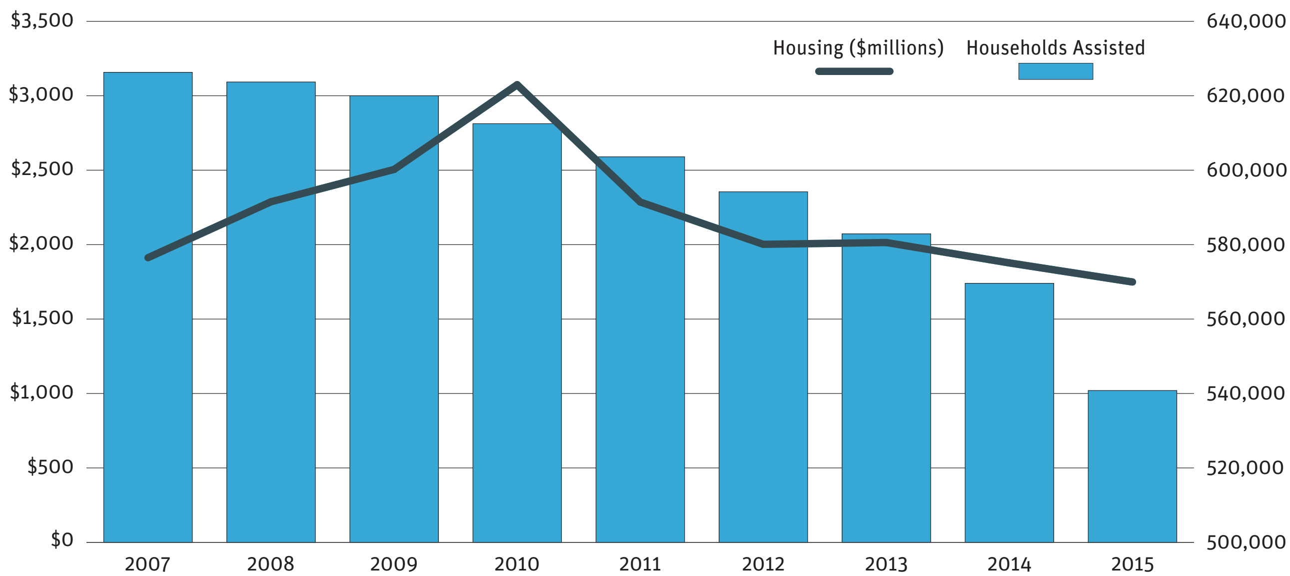
	Federal Housing Investments ($Mil)	GDP ($Mil)	Housing Investment as a % of GDP
1989	$ 1,598	$ 657,728	0.24%
1990	$ 1,702	$ 679,921	0.25%
1991	$ 1,965	$ 685,367	0.29%
1992	$ 1,904	$ 700,480	0.27%
1993	$ 1,980	$ 727,184	0.27%
1994	$ 1,945	$ 770,873	0.25%
1995	$ 1,962	$ 810,426	0.24%
1996	$ 1,940	$ 836,864	0.23%
1997	$ 1,964	$ 882,733	0.22%
1998	$ 1,862	$ 914,973	0.20%
1999	$ 1,865	$ 982,441	0.19%
2000	$ 1,928	$ 1,076,577	0.18%
2001	$ 1,885	$ 1,108,048	0.17%
2002	$ 1,910	$ 1,152,905	0.17%
2003	$ 1,979	$ 1,213,175	0.16%
2004	$ 2,092	$ 1,290,906	0.16%
2005	$ 2,072	$ 1,373,845	0.15%
2006	$ 2,119	$ 1,449,215	0.15%
2007	$ 3,502	$ 1,532,944	0.23%
2008	$ 2,155	$ 1,600,081	0.13%
2009	$ 2,220	$ 1,527,512	0.15%
Percentage Change Over Time			
1989–2009	39%	132%	-40%
1989–99	17%	49%	-22%
1999–2009	19%	55%	-23%

Source Statistics Canada

CMHC Cuts to Housing Investments and Assisted Households

- **No national housing framework:** Canada, unlike other developed countries, doesn't have a national housing framework to allow for the quick and orderly flow of capital and operating funding from governments to the affordable housing sector. When federal, provincial, and territorial housing ministers last met in September 2005,

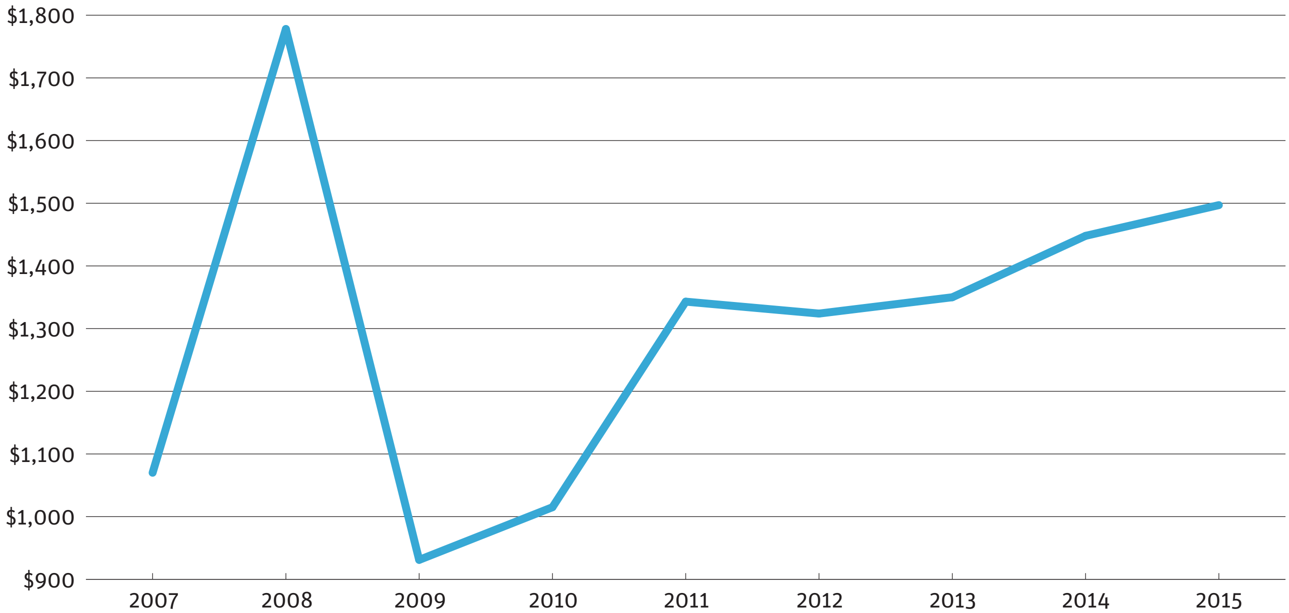
FIGURE 11 CMHC Cuts to Housing Investments and Assisted Households



they promised quick work on development of a new framework, but nothing has been achieved since then. In June 2009, in its formal response to the United Nations' Universal Periodic Review of Canada's compliance with its international human rights obligations, the federal government accepted several detailed critiques of Canada's rights failures, and stated: "Canada acknowledges that there are challenges and the Government of Canada commits to continuing to explore ways to enhance efforts to address poverty and housing issues, in collaboration with provinces and territories." The federal government finally agreed to meet with provincial and territorial housing ministers on December 4, 2009, but the final communiqué from the session offered no plan or commitment to move towards a national housing framework. The federal government has been unable to meet with provincial or territorial ministers in the last two years on critical housing issues. Several provinces are moving forward with housing and homelessness initiatives, including Alberta and Newfoundland and Labrador, but there is no support or co-ordination at the national level.

- **Growing housing revenues:** Canada Mortgage and Housing Corporation reports growing net income. CMHC generates revenues main-

FIGURE 12 Growing CMHC Housing Net Income ($Mil)



ly from its mortgage insurance business, which took a hit following the global recession triggered by the U.S. subprime mortgage fiasco. Since 2009, CMHC net income has been on rise and is projected to reach $1.5 billion annually by 2015. The CMHC revenues generated by housing-related activities could be used to finance affordable housing investments, but the federal government has refused to do so. Growing CMHC housing net income

Current Issues

Federal Housing Cuts Now, and More Cuts On the Way

The current federal spending estimates report that overall spending by CMHC will drop to $1.9 billion this year from $3.13 billion last year — a 39% cut. The budget lines with the biggest cuts are:

- Affordable housing initiative: 97% cut from $452 million last year to $16 million this year.

- National repair program: 94% cut from $674 million last year to $37 million this year.
- On-reserve housing: 27% cut from $215 million last year to $156 million this year.
- Assisted housing: 5% cut from $1.7 billion last year to $1.6 billion this year.

The estimates report that the big cuts to the affordable housing initiative and the national repair program are due to the "scheduled termination" of what had been established as time-limited initiatives. However, the federal government, after heralding the success of these programs in boosting jobs and other economic activity, had a choice to extend the programs. It chose to end them.

A significant number of the federal housing programs that are being terminated or wound down are delivered through the provinces and territories, and include a requirement for matching funding. Therefore, a cut of $1 in federal funding actually means a loss of $2 to affordable housing developers.

The assisted housing cuts are part of a long-term erosion of federal housing investments begun 1996, when the government announced it was transferring administration of most national housing programs to the provinces and territories. As long-term operating agreements with individual non-profit and co-op housing providers expire, federal funding is cut. The programs will terminate more rapidly over the next decade, leaving low- and moderate-income households to face the likelihood of large rent increases. If the hundreds of thousands of households that are affected in the coming years cannot pay these increases, they face eviction and the downward spiral towards homelessness.

The dramatic cuts to spending in the current fiscal year foreshadow more cuts scheduled for FY2014 (the same year that the Canada Health Transfers and the Canada Social Transfers are due to be re-negotiated). The federal homelessness program — which was extended for five years starting in 2008 — will "terminate," in 2014. The latest federal-provincial-territorial housing agreement, announced in 2008 and signed in July 2011, is also set to expire in 2014.

Government-Backed Housing Bonds

In 2008, Ontario launched a $500 million affordable housing loan fund that was capitalized with government-backed bonds. Several affordable housing projects have been completed using the new provincial financing. While government bond markets in some parts of the world are precarious, Canada still enjoys relatively robust bond markets. Housing and finance experts are proposing that a new Government of Canada-backed bond (perhaps tax-exempt) could finance a national affordable housing trust fund to pay for new housing supply and repairs to existing housing. This national trust fund would take pressure off the expenditure-side of the federal budget by raising the capital for housing infrastructure through financial markets.

AFB Actions

Stem the Bleeding and Make the Investments

To counteract the growing crisis in affordable housing in Canada, the AFB would reverse the ongoing cuts to federal housing investments begun in the 1990s. In addition to maintaining federal housing investments at the 2010 level,

- The AFB will commit $2 billion annually to the affordable-housing sector. This will double the allocation for both the federal Homelessness Partnering Strategy and the Residential Rehabilitation Assistance Program and provide significant funding for new home construction. It will also support maintenance of the existing stock of affordable housing.

Notes

1 Pomeroy, S. (2011). *Are we making any difference? Measures to assess housing outcomes: Comparing the Experience in Canada and the UK*, discussion brief, October.

2 Canada Mortgage and Housing Corporation, *Rental Market Report — Canada highlights*, Spring 2011.

3 Information available on-line at http://www.metrovancouver.org/RentersSpeakUp/Site/Pages/Coalition.aspx

4 Statistics Canada, *Census of Canada*, 2006.

5 Government of Canada, *Canada's Economic Action Plan — Seventh Report to Canadians*, January 2011.

6 Ontario Non-Profit Housing Association, *Wait Lists Survey*, May 2011.

7 Wellesley Institute, *Precarious Housing in Canada 2010*.

8 Government of Canada, *Federal Budget*, June 6, 2011.

9 Canada Mortgage and Housing Corporation, *Corporate Plan 2011 to 2015*, Resource Requirements.

10 Ibid.

Immigration

Background

In Canada, families from immigrant and racialized communities are always among the first to suffer in a recession, but the economic plight of these communities has definitely become worse in recent years.

That Canada's immigrants are not faring well economically is something all Canadians need to be worried about. A declining birth rate coupled with an aging population means that immigrants will soon be the key driving force behind Canada's economic engine. By 2017, nearly all new entrants into the labour market will be immigrants.

Also by 2017, one in five Canadians will be a "visible minority," according to Statistics Canada — due largely to the continuing trend of Canada receiving more and more immigrants from Asia, Central and South America and the Caribbean than other regions in the world.

Yet by any measure — income, employment, housing conditions, health status, etc.—immigrants and members of racialized communities are falling behind their Canadian-born and/or non-racialized neighbours. The Canadian government should be developing policies and committing resources to address growing socio-economic racial inequities. Instead, the approach adopted by successive governments has been to treat this sizeable segment of the population as a mere afterthought.

Current Issues

The Growing Disparities

The 2006 Census reported one in five Canadians as foreign-born, the highest proportion in 75 years. Recent immigrants born in Asia made up the largest proportion of newcomers to Canada (58.3%). Another 10.8% were born in Central and South America and the Caribbean. Not surprisingly, 68.9% of recent immigrants lived in three metropolitan areas: Toronto, Montreal, and Vancouver.[1]

In 2006, most recent immigrants experienced higher unemployment rates and lower employment rates than their Canadian-born counterparts. The exceptions were immigrants from the Philippines and those born in Europe, who had labour market outcomes similar to the Canadian-born. Immigrants born in Africa had the most difficulties in the labour market, regardless of how long they had lived in Canada. For the very recent African-born immigrants, their unemployment rate at 20.8% was four times higher than that of the Canadian-born.[2] Higher unemployment rates are also found among younger, recent immigrants between the ages of 15 and 24, irrespective of where they were born.[3]

In case anyone is wondering whether the high unemployment rates among recent immigrants are due to their inferior educational background, statistical studies have conclusively disproved that assumption. With few exceptions, very recent immigrants who had any level of post-secondary education had employment rates that were lower than that of their Canadian-born peers. Most important to note is that this was true irrespective of where this post-secondary education was obtained. Statistics Canada reports that, in 2007, very recent immigrants aged 25 to 54 who received their highest university education in Canada were less likely to have significant Canadian work experience than their Canadian-born peers. The same study showed that almost one in five very recent immigrant university graduates were attending school in Canada in 2007, even though they already had a university degree, yet the majority of university-educated very recent immigrant students were not participating in the 2007 labour market.[4]

Gender also seems to play a role in this respect. Although immigrant women represented nearly half of university-educated very recent immigrants, their participation in the labour force was significantly lower, particularly for those born or educated in Asia.[5]

The only exceptions to this troubling pattern of employment gaps are recent and established immigrants who received their highest university education in Canada or Europe; they had comparable employment rates in 2007 to the Canadian-born. In contrast, many of those who obtained these credentials in Latin America, Asia or Africa had lower employment rates, with the one exception being immigrants who received their university degree from a Southeast Asian (mainly Filipino) educational institution.[6]

If immigrants are not getting employed at the same rates as others, they are not earning the same levels of income, either. The immigrant's birthplace — a proxy for ethnicity — turns out to have the strongest influence over the immigrant's earnings, as a Statistics Canada study has shown. This finding coincides with the repeatedly noted fact that immigrants to Canada increasingly come from "non-traditional" sources, are members of visible minorities, and are more likely to be educated than persons born in Canada. Despite an increasing number of university graduates among immigrants, the relative earnings of immigrants have not improved in recent times.[7]

Hiding behind the statistics is the disturbing trend of the ever-growing racial inequities in Canada among immigrant group members, as well as racialized individuals born in Canada. Disturbingly, the employment inequities and the resulting income inequities experienced by recent immigrants with degrees (excepting those with European or Filipino background) are shared by young visible minority men born in Canada to immigrant parents. Everything else being equal, their annual earnings are significantly lower than those of young men with native-born parents.[8] Canadian-born members of racialized communities, who have even higher levels of education than other Canadians in the same age group, are faring the worst.[9]

Refugees

With the passage of Bill C-11, the Balanced Refugee Reform Act of 2010, the Government of Canada passed regulatory changes that cut down on the amount of time permitted to submit appeals to the Refugee Appeal Division, and that treat claimants differently based on the country of origin.[10]

On June 16, 2011, the government reintroduced Bill C-4, the Preventing Human Smugglers from Abusing Canada's Immigration System Act (formerly Bill C-49). The bill effectively targets asylum seekers, not human smugglers. In fact, this is only one of many pieces of legislation and regulatory changes that the government has introduced this year, which punishes refugees and immigrants under the guise of "protecting" them.

Other Bills, Regulations

Bill C-10, the omnibus crime bill, professes to protect women from being trafficked, and proposes to give overseas visa officers the power to deny women work visas for their own good and to protect them from being trafficked. Meanwhile, the government has not implemented any of the recommendations that would truly make a difference to a woman who is trafficked, such as not tying the temporary resident permit to the requirement to testify in court, or clearly delineating a pathway to permanent residency and citizenship for those who wish to stay in Canada.

In addition, the government has proposed regulations to impose conditional permanent residence on sponsored spouses. Such regulations will trap women victims of spousal abuse in abusive relationships. While the government proposes to exempt women who are abused from this regulation, most newly arrived women do not know their rights and are often isolated within the sponsoring family. As a result, the exemption will still leave women vulnerable to spousal abuse and control.

At the same time, the government has imposed a two-year moratorium on the sponsorship of parents and grandparents. Such a measure will effectively prevent Canadian permanent residents and citizens from reuniting with their parents, many of whom are an important part of the family network and provide much-needed emotional and other support to family members in Canada. The government's promise to ease the visa requirements for parents and grandparents to visit their loved ones in Canada, even if implemented, will only benefit families who have sufficient funds to cover the frequent travel and associated medical insurance costs.

In addition, come January 2012, a five-year sponsorship ban on those convicted of a violent offence will come into effect. This is a blanket ban that will prohibit anyone convicted of such offences to sponsor family members. There is no room to look at circumstances, and the ban will effectively punish the family member who is waiting to be sponsored.

Finally, the government introduced new evidentiary (paper) proof of language proficiency on those applying for citizenship. This requirement will create new barriers to citizenship for many immigrants and refugees, especially those who are less educated and those who have no or limited access to English language programs.

Immigrant Settlement Services

Immigrant settlement services support newcomers to settle in Canada and in the process deal with systemic barriers, barriers to economic integration and more. Except in Ontario, bi-lateral agreements between the federal and provincial/territorial governments govern the provision of settlement services. The different agreements have given rise to different concerns in each province/territory. Challenges in some regions include dealing with restrictive federal eligibility criteria for services, and restrictive funding requirements that do not allow organizations to respond effectively to client service needs.

After increasing investment in immigrant settlement in 2006 by investing $1.4 billion over five years, in December 2010 the federal government cut $53 million in funding from settlement agencies and programs across Canada, excluding Quebec. Ontario bore more than $43 million of the cuts, forcing the closure of some agencies and resulting in job losses across the sector. The Ontario sector faces a further 9% cut to settlement funding in 2012. Provinces that have seen an increase in immigration numbers will receive an increase in funding, some of which can offset previous cuts.

Despite a reduction in overall numbers, Ontario continues to receive the largest number of immigrants to Canada. Yet it is the only province without a federal-provincial agreement on immigration. The cuts in Ontario come at a time when the immigrant and refugee serving sector in that province had managed to turn the corner after years of under-funding, and had established a level of stability. It also comes at a time when more complex interventions are needed to facilitate labour market participation by new Canadians and to address complicated social and health issues of refugees. Apart from the destabilizing effects of the cuts in general, there is concern about whether the current investment is sufficient to address the many systemic barriers that immigrants (especially racialized immigrants) face in the settlement process.

Temporary Foreign Workers

Employer demand for temporary foreign workers (TFWs) has continued unabated. In 2007 and 2008 more TFWs than immigrants entered Canada. In 2010, 182,276 TFWs entered Canada and 282,771 TFWs were present in Canada as of December 1, 2010.[11] Meanwhile, on April 1, 2011 changes to the TFW program came into force that, in the words of the Canadian Council for Refugees, will ensure "a revolving door of migrant workers willing to accept inferior wages and working conditions [is] available to Canadian employers." The most problematic of the changes is the provision that there be a four-year limit on the stay of a TFW and a subsequent four-year period during which the worker is not allowed to work in Canada.[12] Included with this is an additional change that prohibits an employer who violates the terms of the agreement with the worker from hiring any more TFWs for a two-year period. However, the government has not implemented a mandatory employer monitoring system to protect workers.

Live-In Caregiver Program

Research continues to show that family separation is having a significant negative impact on families that have been separated for long periods of time under this program. Findings include increasing intergenerational conflict (parent-children), a sense of alienation felt by children who were left behind and join their mother years later, and general upheaval in the family. Groups such as the Canadian Council for Refugees have urged the removal of the requirement for caregivers to live at their place of employment so as to allow them to migrate with their families as other TFWs (excluding seasonal farm workers) do.

Employment

The 2011 report by the Wellesley Institute and Canadian Centre for Policy Alternatives found racialized workers — both immigrants and Canadian-born — are falling behind in earnings. In Canada's colour-coded labour market, researchers found that earnings by male newcomers from visible minorities were just 68.7% of those who were white males.[13]

Racialized and immigrant workers are over-represented in contingent-type work and such work conditions don't allow them to qualify for EI even though they pay into the plan. The report by the Mowat Centre EI Taskforce[14] concluded that workers who have not made significant contributions to the program (over time) cannot collect benefits and new immigrants and young workers are disproportionately affected. At the same time the report found unemployment among new immigrants and young workers was higher than the Canadian average. The government has yet to implement the recommendations of the report.

Long-Form Census

The cancellation of the Long-Form Census has a disproportionate impact on equity-seeking groups, particularly racialized groups. To add injury to insult, while allowing certain questions based on gender to remain in the mandatory short-form census, the government refused to include questions regarding race and disability, making it impossible for these equity-seeking groups to collect any data that will assist in policy development.

AFB Actions

To address challenges faced by new Canadians and those within racialized communities, the AFB will:

- Ensure that funding in immigrant settlement services is predictable, flexible and is based on the level of need of all immigrant and refugee groups.
- Provide paid internships for recent graduates from equity-seeking groups.
- Provide financial incentives for employers to practice employment equity, including tax incentives to hire, train, retain and promote workers from equity-seeking groups/backgrounds and recent immigrants who have been in Canada for 10 years or less.
- Reinstate the Court Challenges Program.
- Reform the Temporary Foreign Worker's program by introducing periodic rotating workplace inspections, and/or providing funding to provinces to strengthen provincial employment standards enforcement programs and create workers' rights information materials for individuals in TFW program.
- Bring back the long-form census.
- Require all government ministries to collect, track and disclose disaggregated data for racialized groups — particularly as recommended by the Canadian Human Rights Commission in its report *Human Rights Accountability in National Security Practices* (http://www.chrc-ccdp.gc.ca/publications/srp_2011_rsp/toc_tdm-eng.aspx).

Notes

1 Statistics Canada. (2007). Immigration in Canada: A Portrait of the Foreign-born Population, 2006 Census. Ottawa, pp. 5, 19.

2 Gilmore, Janice. (2007). The Immigrant Labour Force Analysis Series, The Canadian Immigrant Labour Market in 2006: Analysis by Region or Country of Birth. Ottawa. p.6.

3 Ibid, p.7.

4 Statistics Canada. (2008). The Immigrant Labour Force Analysis Series, The Canadian Immigrant Labour Market in 2007: Analysis by Region of Postsecondary Education. Ottawa. p.6.

5 Ibid. p.6.

6 Ibid, p.7.

7 Ostrovsky, Yuri. (2008). Statistics Canada Analytical Studies Branch Research Paper Series: Earnings Inequality and Earnings Instability of Immigrants in Canada. Ottawa.

8 http://www.cbc.ca/consumer/story/2007/10/29/immigration-statscan.html

9 Leslie Cheung. October 2005. Racial Status and Employment Outcomes. Research Paper #34, Canadian Labour Congress. Ottawa: CLC.

10 Canadian Council for Refugees: http://ccrweb.ca/en/comments-c-11-regulatory-amendments.

11 Citizenship and Immigration Canada. (2010). Facts and Figures 2010 — Immigration Overview: Permanent and Temporary Residents.

12 Canadian Council for Refugees (2011). "Changes to the Temporary Foreign Worker Program Leave Workers Unprotected".

13 Block, Sheila and Grace-Edward Galabuzi, (2011). Canada's colour-coded labour market: The gap for racialized workers. Wellesley Institute. Toronto.

14 Mowat Centre (2011). Making it work: The final recommendations of the Mowat Centre EI task-force. School of Public Policy and Governance, University of Toronto. Toronto.

Post-Secondary Education

Background

Since the federal funding cuts of the mid-1990s, the financing of post-secondary education has been increasingly downloaded onto students and their families. Between 1979 and 2009, government grants as a share of university operating revenue plummeted from 84% to nearly 58%. As a direct result, the share of university operating budgets funded by tuition fees more than doubled during the same period from 12% to 35%. Tuition fees have increased at more than double the rate of inflation since the early 1990s, with the largest increases occurring in professional programs. As a result, low-income families are now half as likely to attend post-secondary education in Canada.

Average undergraduate tuition fees in Canada increased by 4.3% over the 2010–11 academic year to $5,366.[1] Combined with additional compulsory fees that most institutions charge to circumvent provincial tuition fee regulation, total average undergraduate fees climbed to over $6,419. In specialized programs such as medicine, law and dentistry, students often pay three or more times the Canadian average, driving student debt for many future health professionals into the six-figure range. Medical students saw an increase of 6.4% in their tuition fees to an average of $16,024.

As Canada entered the recession in late 2008, the federal government delivered a budget brimming with infrastructure funding, including nearly $2 billion for colleges and universities. Despite this substantial investment, the budget did not increase core funding nor did it contain any measures to reduce student debt or increase accessibility. Further, Budget 2011 contained some tweaks to the student loan system, but provided no increase to the grants system or increases to the social transfer to provinces.

Core Funding

The federal government has a long history of involvement in post-secondary education, notwithstanding provincial constitutional jurisdiction in education, beginning with the creation of the Dominion-Provincial Student Loan Program in 1939. The federal government's role in funding post-secondary education institutions stretches back to 1966 with the first transfer payments introduced through the Canada Assistance Plan. These transfers reached their apex in the 1980s, before declining throughout the 1980s and '90s. Funding has fallen from a high of 0.56% of GDP in 1981 to a low of 0.15% in 2005, roughly the same level as when the transfer was first introduced. Since then, federal transfers have increased slightly to 0.20% for 2008–09.

When the Canada Health and Social Transfer (CHST) was introduced in 1996, it removed the accountability of transfers to the provinces for post-secondary education. The CHST — renamed the Canada Social Transfer (CST) after health care funding was changed to a dedicated transfer payment — lumped all social program funding transfers from the federal government to the provinces together, providing no guarantee that federal monies intended for post-secondary education would reach students and their families. The 2007 federal budget took a step in the right direction by earmarking funds for post-secondary education, but while the earmark seemingly added some degree of transparency, provincial governments are still under no obligation to ensure that federal monies transferred to them benefit students. There is consensus in the post-secondary education community that the current design of transfer payments is insufficient to meet any objectives set out by the federal government for post-secondary education.

The federal government increased transfer payments in the 2007 federal budget. While this was a good first step, the Canadian Federation of Students estimates that the federal contribution is $1.7 billion short of 1992–93 levels when university-specific inflation and enrolment growth are factored in. Lagging federal funding for colleges and universities has resulted in higher tuition fees, as costs are passed on to students. As the value of federal transfers diminished in the 1990s, tuition fees skyrocketed from an average of roughly $1,460 in 1990 to $5,366 in 2011. Lower levels of funding also impair the ability of institutions to hire an adequate number of instructors and support staff, resulting in a reduction in the quality of Canada's universities and colleges.

A similar situation existed with federal funding for health care, until the introduction of the Canada Health Act in 1984. This act established guiding principles to maintain high standards in quality and accessibility, and made federal funding conditional on these principles being respected.

Student Financial Aid

Past government decisions at the federal and provincial levels are forcing students and their families to assume more education-related debt than any previous generation, during a time when earnings for the majority of families have been stagnant for the past 20 years. High tuition fees and an increasing reliance on loans have pushed student debt to historic highs. Monies owed to the federal government alone for student loans are set to surpass $15 billion in January 2013. This number becomes much larger when you count payments owed to provincial governments, families, and private lenders.

Student debt is one of the primary effects of policy that downloads the costs of public education onto students and their families. Student debt levels have been linked to lower degree completion rates and a reduced likelihood of continuing studies beyond a bachelor's degree or college diploma. Heavy debt loads are also a negative factor in an already weakened economy. Student loan obligations reduce the ability of new graduates to start a family, work in public service careers, invest in assets, build career-related volunteer experience, or take lower-paying work in order to get a "foot in the door."

In fall 2009, the federal government established the Canada Student Grants Program (CSGP). This new program greatly increases support for students, but, in order to meaningfully reduce student debt, a much larger investment is required. The CSGP will distribute roughly $614 million this year, while the Canada Student Loan Program expects to lend $2.3 billion. Although a substantial amount of funds is being distributed through the CSGP, it pales in comparison with the $2.81 billion the government will spend on education-related tax credits and savings schemes. Despite their large price tag, federal tax expenditures are a poor instrument to either improve access to post-secondary education or relieve student debt, since everyone who participates qualifies for tax credits regardless of financial need. The federal government is diverting vast sums of public funding where they are not necessarily required.

The non-refundable education and tuition fee tax credit alone will cost the federal government over $1.54 billion this year. Tax credits are found to disproportionately benefit wealthy families. For those students who do earn enough to claim the credits and get money back on their taxes at the end of the financial year, these rebates do little to help them afford tuition fees in the first semester.

First Nations Students

The federal government has both a moral and legal responsibility to provide for the well-being of First Nations peoples, including access to post-secondary education. The Post-Secondary Student Support Program (PSSSP) is the primary mechanism by which status First Nations students receive financial support from the federal government, however this funding is only available to status First Nations and Inuit students.

Since 1996, annual growth in funding for the PSSSP has been capped at 2%. With inflation, population growth and tuition fee increases in most jurisdictions this cap results in an annual *decrease* in per-capita funding. In fact, the number of First Nations students receiving funding from the PSSSP declined from 22,938 in 1997 to 18,729 in 2009. It is estimated that between 2001 and 2006, over 10,500 students were denied funding, with roughly 3,200 more students per year denied funding since as a result of the funding cap.

It is estimated that the additional GDP contribution of First Nations peoples, if all educational attainment gaps were closed between First Nations and non-First Nations populations, would exceed $400 billion over a 25-year period.[2]

University Research

A highly educated workforce is the foundation of a knowledge-based economy. Graduate students are instrumental in the production of basic research that lays the groundwork for future innovation and a better and broader understanding of our world.

Recent federal budgets have invested heavily in university research. However, much of the investments are geared towards producing a commercially beneficial end product, while offering comparatively little to basic research. By funding a narrow range of research disciplines — mostly in science, engineering, and business — funding decisions have led to a deterioration of a comprehensive research environment based solely on the academic merits of the work.

The federal government's science and technology strategy is geared towards producing products that can yield short-term results, with little consideration to long-term innovation. In addition, federal funding increases directed towards market-driven research programs are leading to an unhealthy private-sector dependency on universities for their research and development. This corporate subsidy contributes directly to Canada lagging behind other OECD countries in private-sector investment in in-house research and development capacity. As this trend deepens, Canada's private-sector research and development infrastructure will give way to a publicly backed university system that does not have a consistent track record of bringing innovation to the marketplace.

Current Issues

Investing in post-secondary education is a necessity that pays substantial dividends for the economy and ensures that everyone in Canada, including First Nations peoples, can benefit from higher education. With an annual investment of $2.9 billion, the federal government can create a more accessible, affordable system and halt the shift towards the privatized, user-pay model that is becoming more common in Canadian universities.

In cooperation with the provinces, the government should implement a federal post-secondary education act modelled after the principles of the Canada Health Act, accompanied by a dedicated cash transfer with funding allocated to:

- immediately restore per-capita funding to 1992 levels;
- over three years, reduce tuition fees to 1992 levels; and
- over five years, eliminate deferred maintenance at Canada's colleges and universities.

The projected costs of these objectives are as follows:

- Increase to post-secondary education transfer to address increases in full-time enrolment since 1992: $637 million.
- Address funding gap to reduce tuition fees to 1992 levels: $1.3 billion.
- Address deferred maintenance: $1 billion (funding to remain at $1 billion per year for five years).

The federal government should increase the value and number of non-repayable grants available to students by redirecting funds allocated to education-related tax credits and savings schemes to the Canada Student Grants Program. It should also permit graduate students to qualify for grants under the program.

The federal government should increase the number of Canada Graduate Scholarships by investing $25 million per year over the next three years — consistent with average growth in the program since 2003 — and distribute the grants proportionally among research councils according to enrolment figures.

AFB Actions

- The AFB will introduce a new, dedicated post-secondary education cash transfer, to be guided by federal legislation based on principles of accessibility, comprehensiveness, collegial governance, public administration, and academic freedom. This new cash transfer will return post-secondary funding to pre-1992 levels by 2014–15, allowing for the reduction of tuition fees.
- The AFB will eliminate the need for new federal student loans by increasing the value and number of up-front grants available to students. This will be funded by redirecting funds currently used for education-related tax credits and savings schemes to up-front grants through the Canada Student Grants Program.[3]
- To reduce socio-economic disparities between First Nations and non-First Nations students, the AFB will remove the cap on funding for the Post-Secondary Student Support Program and increase funding and expand eligibility to meet the needs of all First Nations post-secondary students (see the First Nations chapter).
- Recognizing the importance of funding based on an independent, peer-reviewed, and merit-based approach, the AFB increases the federal granting agencies' base budgets by 10%, with greater funds asymmetrically allocated to the social sciences and humanities. In addition, the AFB will increase the number of Canada Graduate Scholarships to 3,000 — consistent with the average growth of the program since 2003 — to be distributed proportionally among the research granting councils according to enrolment figures.

Notes

1 The Daily (2011). University Tuition Fees. Ottawa: Statistics Canada.

2 Sharpe, Arsenault, Lapointe, Cowan. (2009). "The Effect of Increasing Aboriginal Educational Attainment on the Labour Force, Output and the Fiscal Balance." Ottawa: Centre for the Study of Living Standards.

3 Canadian Federation of Students. (2010). *Post-Secondary Education Tax Credits: Billions in misdirected "financial aid"*. Ottawa: Canadian Federation of Students.

Poverty Action and Income Inequality

Background

The issue of income inequality has exploded onto the public stage with the emergence of the Occupy Movement. A new conversation has started, and with it growing pressure for governments to tackle the growing gap. Civil society groups across the country are demanding the federal government step up with a concrete strategy to reduce and ultimately eradicate poverty in Canada.

At the sub-national level, seven provinces and all the territories — Quebec, Newfoundland and Labrador, Ontario, Nova Scotia, New Brunswick, Manitoba, P.E.I., Yukon, Nunavut, and the Northwest Territories — have poverty-reduction plans in place or in development. At the federal level, all parties supported a House of Commons motion directing the federal government to "develop an immediate plan to eliminate poverty in Canada for all" in November 2009. In December 2009, a Senate report also urged the federal government to "adopt a poverty-eradication goal."[1] In November 2010, a House of Commons Committee released a report on the federal role in poverty reduction, recommending "That the federal government join with the provinces to introduce an action plan for reducing poverty in Canada."[2]

Thus far, the Harper government has ignored these calls.

While most provincial governments are taking steps, the Government of Canada has the lead responsibility for poverty rates among Aboriginal people, seniors, children, recent immigrants, and people with disabilities. It is the federal government that must also ensure Canada is abiding by the international conventions to which we are signatory, such as the International Covenant on Economic, Social and Cultural Rights.

For millions of Canadians, the economic crisis is far from over. Hundreds of thousands of the unemployed are exhausting their EI coverage and discovering a provincial social assistance system that is a shadow of what it was during the recession of the early 1990s. Real social assistance benefit rates are much lower, while new rules have made assistance much less accessible, often forcing people to liquidate their savings before help is provided.[3] Those in desperate need of income support — due to a job loss, the loss of a spouse, the loss of good health, old age, or any number of other life circumstances — find that the social safety net meant to catch them has been shredded.

Yet there is nothing inevitable about poverty in a society as wealthy as ours. Evidence from other countries demonstrates how governments that commit to bold action plans get results.[4] Canada had a similar experience when we chose to tackle poverty among the elderly in the 1960s: as a result, the lowest rate of poverty for any demographic group in Canada has been, by far, that for seniors. In short, when there is a plan to get something done, progress gets made.

Inequality

Poverty and income inequality are two distinct yet related phenomena. Without question, reducing poverty is a matter of urgency. But inequality shapes our view of that urgency. International research reveals an important link: the higher the rate of inequality among people, the higher the rate of poverty that is tolerated.[5] That could explain why high poverty levels have continued to be politically abided in Canada, even when the economy was firing on all cylinders.

Between 1997 and 2007, the Canadian economy enjoyed the most sustained period of robust growth since the 1960s, resulting in a gradual decline in the prevalence of poverty.[6] Simply put, when there are jobs, people work. But this period also witnessed unprecedented growth in income inequality. By 2009, the average after-tax income of the richest 10% of non-elderly households was 20 times that of the average incomes of the poorest 10%. That's much higher than during the depths of the recession in the 1990s, when average incomes of the richest were 15 times that of the poorest. The richest 1% enjoyed 32% of all income gains from economic growth over this period. Their share of total income rose to almost 14%, rivaling the levels of the Roaring Twenties, and the trend lines show no signs of abating.[7] And while inequality in Canada may be less extreme than in the U.S., according to a recent report by the Conference Board of Canada, it is growing at a faster rate here.[8]

Income inequality in Canada is also highly racialized. As a March 2011 CCPA report notes, "a colour code is still at work in Canada's labour market." The study found that racialized Canadian workers earned only 81.4 cents for every dollar paid to non-racialized Canadian workers.[9]

A recent UN report notes that high levels of inequality "make it difficult to reduce poverty even when economies are growing; and poor countries are generally more unequal than rich ones. Poverty and inequality are part of the same problem."[10]

In very concrete terms, in more unequal societies the rich bid up the cost of basics, such as housing, causing affordability problems for lower-income households.

The squeeze-play on household incomes (downward pressure on wages, rising costs) is being managed by higher household debt or just spending less. And so it turns out that rising inequality is bad for business too.[11]

We All Pay for Poverty and Inequality

Many Canadians don't like poverty and homelessness, but too often they accept the claim that we cannot afford to do more for the poor. In fact, the opposite is true: we cannot afford *not* to take action.

Study after study links poverty with poorer health and higher health-care costs, higher justice system costs, more demands on social and community services, more stress on family members, and diminished school success, not to mention huge costs associated with reduced productivity and foregone economic activity.

A study published by the Ontario Association of Food Banks calculated the cost of poverty in Canada to be between $72.5 billion and $86.1 billion (or about 6% of Canada's GDP).[12] A more recent report by the National Council of Welfare on the costs of poverty notes:

- "The poverty gap in Canada in 2007 — the money it would have taken to bring everyone just over the poverty line — was $12.3 billion. The total cost of poverty that year was double or more using the most cautious estimates."
- "There is a consistent pattern of studies from Canada and other countries showing that investing to eliminate poverty costs less than allowing it to persist."[13]

And just as we all pay for poverty, so too inequality itself is correlated with a host of higher societal costs. The groundbreaking work of epidemiologists Richard Wilkinson and Kate Pickett, for example, surveys industrialized countries and finds that income inequality is correlated with a great number of social ills, including more addiction and mental health problems, more teenage pregnancy, and more violence and crime. Critically, their evidence shows it is not just the poor who experience worse health in more unequal societies, but middle- and upper-income households as well.[14]

Recent academic attention has turned to the fact that greater income inequality is linked to lower generational income mobility.[15] This speaks directly to the widely held Canadian value of equality of opportunity. And in concrete terms, when inequality means lower-income children are more likely to remain poor, we are all denied their future economic contributions. Given an aging population, the economy of the future can ill afford to discount the skills and contributions of a significant and growing share of the next generation. Clearly, doing nothing is a false economy, and an increasingly unaffordable approach.

Current Issues

The Case for a Federal Plan

The recovery may be stalling, but even job and economic growth does not necessarily mean our problems are over. Employers are looking to trim costs, and increasingly expect workers to accept wage and benefit cuts in return for the privilege of working. Job growth has been most rapid in temporary positions and self-employment in the private sector and, in the public sector, has been due to health care and stimulus spending. As federal, provincial and municipal governments focus on deficit reduction, hundreds of thousands of jobs are on the line. Thus far the private sector has shown no signs it will add enough jobs to fill the breach, let alone jobs offering similar incomes or benefits. An uncertain global economic situation may trigger another recession. Even without a downturn, however, there is an increase in the number of working poor.

Historically low levels of income support and a growth in insecure, poor-paying jobs led an estimated 851,014 individuals to food banks across Canada in March 2011, an increase of 26% over the same month in 2008 (before the recession hit).[16]

Poverty rates in Canada moved upwards with the onset of the recession. The latest year for which we have income statistics is 2009. That year, the measure most commonly used to define Canada's poverty rate — Statistics Canada's after-tax low-income cut-off — was 9.6%, up from 9.2% in 2007 (the year before the recession).

In 2009, over three million Canadians — more than 600,000 of them children — lived in poverty. In First Nations families, one in four children live in poverty.

For these Canadians, the issue is not just making ends meet, but being able to plan for the future, develop skills, or participate in the social, cultural, and political life of their communities. Temporary bouts of poverty may be overcome, but evidence shows that the depth of poverty is deepening and its duration lengthening, leaving a scarring legacy on individual lives and communities across the country. Persistent poverty represents a violation of economic and social rights enshrined in international law, and a squandering of human potential.

AFB Actions

Setting Clear Targets

A meaningful poverty action plan requires clear targets, measurable benchmarks, timelines and resources. Progress reports must be frequent enough to hold a government accountable within its mandate. The AFB adopts the following indicators, targets, and timelines:

- Reduce Canada's poverty rate by 25% within five years (by 2017), and by 75% within a decade.
- Ensure the poverty rate for children and youth under 18, lone-mother households, single senior women, Aboriginal people, people with disabilities, and recent immigrants also declines by 25% in five years, and by 75% in 10 years, in recognition that poverty is concentrated within these populations.
- In two years, ensure every person in Canada has an income that reaches at least 75% of the poverty line.
- In two years, ensure there is sufficient emergency shelter that no one has to sleep outside, and within 10 years ensure there is sufficient stock of quality, appropriate, and affordable housing for all Canadians.

- Reduce the number of Canadians who report both hunger and food insecurity by half within two years.
- Reduce, every year, the share of workers earning less than two-thirds the median wage.

To achieve these targets, the AFB will take action in the following key policy areas:

1. Establish the legal framework by which the federal government will provide leadership on poverty and inequality issues.

   Embed the foregoing targets in law, and pass Bill C-233 to mandate: (1) "the establishment of a Government of Canada strategy to eliminate poverty and promote social inclusion" as a human right; and (2) "establishing the Office of the Poverty Elimination Commissioner independent of Government."

2. The AFB introduces a new federal transfer payment to the provinces, tied to helping them achieve their poverty-reduction goals (as recommended in the 2010 HUMA report).

   This innovative transfer will be worth $2 billion in both the first and second year, over and above the costs associated with the federal measures outlined below. It is specifically designed to assist provinces and territories to meet clear poverty-reduction targets. In the first year, there are no strings attached to the transfer. In subsequent years, however, only provinces that demonstrate improvement in income supports and show progress on a number of other outcome indicators will continue to receive federal support. The intent of this transfer is to ensure that the lion's share of these funds helps provinces improve social assistance and disability benefit rates and eligibility.

3. Provide adequate and accessible income supports.

- Legislate an Act to reinstate minimum national standards for provincial income assistance (to ensure that welfare is accessible and adequate).
- Immediately double the refundable GST credit.
- Increase the Canada Child Tax Benefit to a maximum of $5,400 per child.

4. Improve the earnings and working conditions of those in the low-wage workforce.

- Re-establish a federal minimum wage (set at $11 and indexed to inflation).

5. Prioritize the needs of those most likely to be living in poverty.

- The plan focuses its efforts on those groups with higher poverty rates, such as Aboriginal people; people with disabilities, addictions and mental illness; recent immigrants and refugees; single-support mothers; and single senior women.

6. Address homelessness and the lack of affordable housing.

- Pass a National Housing Strategy (*see the Housing chapter*).

- Immediately start building *new* units of social housing (not counting conversions, rental subsidies, or shelter spaces), starting with at least 20,000 units per year.

7. Provide universal publicly funded child care.

- Within one year, develop a comprehensive plan and timeframe for the implementation of a high-quality, universal, publicly funded Early Learning and Child Care program. Initial phase-in should start immediately (*see the Child Care chapter*).

8. Provide support for training and education.

- Immediately increase the availability of post-secondary grants for low-income students (*see the Post-Secondary Education chapter*).

- As part of a Green infrastructure initiative, provide Green Jobs apprenticeship training to the unemployed and to economically marginalized groups (Aboriginal people, women, recent immigrants, etc.), so that they gain skills in the higher paid jobs that will be in high demand as we take action on climate change (*see the Sectoral Development chapter*).

Reducing Inequality

The AFB's comprehensive strategy to tackle the growing gap in Canada would be based on a five-point plan:

1. Halt and reverse Canada's drift towards an economy based primarily on resource extraction and a low-paid service sector by establishing an industrial policy that emphasizes the creation of value-added jobs in the primary sector of the economy and rebuilding manufacturing capacity with well-paid jobs.

2. Enhance the infrastructure and public services upon which most Canadians rely (child care, housing, transit, etc.), thereby stretching paycheques and improving the purchasing power of the broad middle class.

3. Rebalance the bargaining relationship between capital and labour. A larger share of Canada's income is going to corporate profits, at the expense of wages. This trend can be reversed by measures that support collective bargaining, enforce and enhance the employment standards of vulnerable workers, and rethink the use of temporary foreign workers. The federal government has a leadership role to play on all these fronts.

4. Prioritize improvements in the incomes of all low and middle-income households (better pensions, higher minimum wages, the widespread adoption of living wage policies, and improved income supports for the ill, unemployed, young and old).

5. Increase the progressivity of Canada's overall tax regime, with upper-income households paying higher taxes. (*See the AFB Tax chapter.*) This is needed to both offset rapid growth in market income inequality, and to raise the public revenues needed to provide better services for all Canadians and tackle poverty.

If Canada commits to a bold plan, a dramatic reduction in poverty, homelessness and inequality within a few short years is a perfectly achievable and affordable goal.

Notes

1 The Standing Senate Committee on Social Affairs, Science and Technology. (December 2009). *In from the Margins: A Call to Action on Poverty, Housing and Homelessness*. Ottawa: Report of the Subcommittee on Cities.

2 The House of Commons Standing Committee on Human Resources, Skills and Social Development, and the Status of Persons with Disabilities. (November 2010). *Federal Poverty Reduction*

Plan: Working in Partnership Towards Reducing Poverty in Canada. Ottawa: Report of the HUMA Committee. p. 249.

3 For a full review of provincial social assistance rates and eligibility rules, see: National Council of Welfare. (2010), *Welfare Incomes, 2009*. Ottawa: NCW.

4 See for example, Waldfogel, Janet (2008). "Improving Policies for the Working Poor: Lessons from the UK Experience." *Policy Options*. September.

5 Fortin, Pierre. (2010). "Quebec is Fairer", *Inroads*, Winter/Spring, Issue No. 26, pp. 58–65.

6 Statistics Canada. (2011). *Incomes in Canada 2009*¸Catalogue NO. 75-202-X

7 Yalnizyan, Armine. (2010) *The Rise of Canada's Richest 1%*. Ottawa: Canadian Centre for Policy Alternatives.

8 See: http://www.conferenceboard.ca/hcp/hot-topics/worldInequality.aspx#anchor6a

9 Block, S., and Grace-Edward, G. (2011). *Canada's colour coded labour market: the gap for racialized workers*. Ottawa: CCPA and Wellesley Institute.

10 UNRISD. (October 2010). Research and Policy Brief 10, *Combating Poverty and Inequality*.

11 See http://www.canadianbusiness.com/article/39123--inequality-is-bad-for-business

12 Laurie, Nathan. (2008). *The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario*. Toronto: Ontario Association of Food Banks.

13 National Council of Welfare. (2011). *The Dollars and Sense of Solving Poverty*. Ottawa: NWC, p. iv.

14 Wilkinson, R., and Pickett, K. (2009). *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Penguin Allen Lane.

15 Corak, M., Curtis, L., Phipps, S. (2010). *Economic Mobility, Family Background, and the Well-Being of Children in the United States and Canada* http://www.iza.org/en/webcontent/publications/papers/viewAbstract?dp_id=4814

16 Food Banks Canada. (November 2011). *Hungercount 2011*. Toronto.

Seniors and Retirement Security

Background

Canada's Pension System

Canada's pension system rests on what are commonly referred to as "three pillars"—(1) Old Age Security (OAS) and the Guaranteed Income Supplement (GIS); (2) the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP); and (3) private savings vehicles, including workplace pension plans, Registered Retirement Savings Plans (RRSPs), home equity and other private savings.

Benefits from the Canada Pension Plan, established in 1966, were deliberately set at a modest level in the expectation that private pension plans would fill the gap. They have not. More than two-thirds of Canadian workers have no workplace pension plan, and only about one-third of those eligible to contribute to an RRSP actually do so. This number dropped significantly in 2010 to just 26%.

After 44 years, the social-policy success of the CPP[1] is just as clear as the failure of private-sector workplace pension plans and private-sector solutions offered to individuals by banks and insurance companies. However, this public system is not generous enough to provide decent retirement income for Canadians.

The AFB will address this by implementing CPP expansion. Each of the provincial governments must also pass enabling legislation to complete the process. The AFB would negotiate this commitment at the federal, provincial and territorial levels so that increased CPP contributions would commence in 2016.

Current Issues

Old Age Security and the Guaranteed Income Supplement

The basic building blocks of the public universal system are Old Age Security and the Guaranteed Income Supplement, which make up the "anti-poverty" part of the system.

As of November 2011, the federal government provided $39 billion in OAS/GIS benefits per year to about 5 million Canadians out of general revenues. Both OAS and GIS benefits are adjusted for inflation on a quarterly basis.[2]

Together, OAS and GIS provide a guaranteed annual income for 95% of Canadian seniors aged 65 or older and do not depend on the recipient's participation in the workforce.

In addition, an "Allowance" program provides an income-tested benefit to low-income people aged 60–64, but only if they are married to a low-income pensioner or widowed. Low-income men and women in this age group who are single, separated, married to someone who has not reached age 65 or divorced are not eligible for "Allowance" benefits.

Old Age Security

As of January 2012, pensioners with an individual net income above $69,562 are ineligible for the full OAS benefit and have parts of their monthly payments "clawed back" before issuance. The full OAS pension is eliminated when a pensioner's net income reaches $112,772.[3]

The maximum a single individual could receive from OAS in January 2012 was $540.12 per month, or $6,481.44 annually. The average OAS payable in October 2011 was only $508.35 per month, or $ 6,100.20 annually.[4]

OAS is only payable to individuals who meet certain residency requirements.

Immigrants, however, are not completely shut out from benefits. Long-term residents who don't meet the stipulated 40-year residency requirements may receive a partial OAS benefit and may qualify for an enhanced GIS benefit.

Guaranteed Income Supplement

In 1967, the Canadian government also created the Guaranteed Income Supplement as a *temporary* measure before retirement benefits through the CPP were established. The GIS is a form of social assistance, or "welfare," for the poorest of Canadian seniors.

As of January 2012, a single individual with an annual income of $16,368 or more — excluding OAS benefits and a maximum $3,500 annual earnings exemption — is not eligible to receive the GIS. Individuals are no longer required to re-apply each year to receive benefits, as long as they file an income tax return. GIS payments are not considered taxable income.[5]

Despite this low cut-off, more than 1.6 million Canadian seniors in August 2011 were so poor they were entitled to GIS benefits. That same month, the percentage of Canadian seniors who drew both OAS and GIS benefits was 33%.

The maximum annual income a single individual could receive from GIS in January 2012, was $732.36 per month, or $8,788.32 annually. The average amount payable to a single individual in October 2011 was only $491.40, or $5,896.80 annually. Different amounts are paid to spouses. Clearly, none of these amounts are enough to ensure seniors are not living in poverty, considering that — in 2008, three years ago — Statistics Canada's after-tax low-income cut-off for a single individual in a major urban area with a population of 500,000 or more was $18,373.

In June 2011 the new majority Conservative government passed Part 3 of Bill C-3, the *Supporting Vulnerable Seniors and Strengthening Canada's Economy Act*. Effective July 1, 2011 the GIS part of the OAS was amended to provide a top-up benefit of up to $50–$70 per month for GIS recipients. These top-ups will be indexed to inflation as the OAS and GIS are currently.

Despite this paltry sum, the Finance Department estimates that in 2012 about 700,000 Canadian seniors will be entitled to receive these additional GIS benefits. The top-up for single GIS recipients is recognition of the extreme poverty among single elderly women in Canada.

The AFB would further increase the GIS portion of the OAS for Canadian seniors. The AFB would ensure GIS recipients receive at least $16,000 (including OAS benefits). These measures should help to eliminate poverty among older women, recent immigrants, First Nations people, and seniors with disabilities. Since GIS payments are targeted to low-income individuals, who are more likely to spend every additional dollar provided to them, this will be a direct economic stimulus to the communities, large and small, where Canadian seniors live and spend their money.[6]

The Canada Pension Plan

The Canada Pension Plan constitutes another pillar of the public system. The CPP provides earnings-related pensions for retirees who have participated in the paid workforce or have become disabled, and benefits for the dependants of disabled or deceased contributors.

The CPP is not funded from general government revenues but the federal government administers the payments of benefits. Further, the federal government provides a tax credit for CPP contributions through the tax system. Both employers and employees make contributions to the system.

Since 1998, CPP funds have been managed by the CPP Investment Board (CPPIB), an arm's-length professional investment organization. The total operating costs for the CPPIB in 2011 were tiny, totalling just 24.0 cents for every $100 of invested assets.

In November 2010, the plan's Chief Actuary gave the CPP another clean bill of health, saying that despite the expected increase in benefits that will be paid to Canada's aging population in coming years, the CPP should to be able to meet its obligations throughout the projection period — that is, until 2075.

While this is somewhat reassuring, the problem with the CPP is that it only entitles working Canadians to a pension based on 25% of all wages received for an entire working career.

As of September 2011, the average monthly CPP payment to those who retired at age 65 was only $570.05 ($6,840.60 annually). This average is much lower than the maximum payment of $960 ($11,520 annually) and reflects the wages of the many people who work for less than the average industrial wage.

Changes to the CPP require the consent of two-thirds of the provinces with two-thirds of the population but, as indicated, do not require government funding.

Indexing to Prices Increases the Gap Between Seniors and the Rest of the Population

Benefits in the first pillar of the retirement income system — and from CPP — are indexed for inflation using the Consumer Price Index (CPI). Inflation indexing is particularly important for female seniors because, on average, they spend longer in retirement than their male counterparts. They must be protected from erosion of the real value of their benefits over time. Over the longer term, however, wages tend to increase faster than prices. As a result, seniors in the future will likely find themselves falling further and further behind the rest of the population in their standard of living.

Workplace Pension Plans

Even if the 50% replacement rate for CPP was achieved, most workers will still need workplace pension plans and private savings to achieve a 70% replacement rate of pre-retirement earnings.

Pension coverage is closely related to union membership: almost 80% of unionized workers have pension plans compared with only 27% of non-unionized workers. Coverage is also related to employer size, with smaller employers less likely to provide a workplace pension plan than larger firms. But most working Canadians have no workplace pension plan at all.

As a consequence of the recession, low interest rates, and pension-fund investment losses, workers are being asked to absorb benefit cuts, increase their contributions, or switch their defined benefit pension plans to defined contribution plans. With the latter, employees assume the investment risk, without indexing or risk-sharing with other members of a large pension plan.

Ultimately, workers are the ones who bear the brunt of broken pension promises. If a pension-plan sponsor with unfunded liabilities goes under, workers may lose their pensions or receive only a portion of what they had expected.

Seven of the ten provincial finance ministers indicated they remain in favour of an enhanced CPP: British Columbia, Manitoba, Ontario, Nova Scotia, Newfoundland and Labrador, New Brunswick and Prince Edward Island. At the most recent meeting of federal, provincial, and territorial finance ministers in Victoria in December 2011 no movement was made to expand the CPP.

Instead, the Conservatives introduced Pooled Registered Pension Plans (PRPPs). This federal legislation doesn't actually create new pension plans for workers. It simply allows provinces to introduce matching legislation and permits the creation of a further "savings scheme" to take money from workers and give it to financial institutions to "invest."

The law doesn't require employers to do anything. It doesn't require them to establish a workplace pension plan for the more than 11 million Canadians currently without one. Nor does it require employers to contribute anything to a pension plan on behalf of workers. It doesn't even offer portability between employers, as the CPP does.

FIGURE 13 The Value of a $100,000-RRSP or Defined Contribution Pension (TSX Indexed Funds)

Date of retirement	Expected pension income
May 15, 2008	$7,659.20/year (or $**638.26** per month)
February 15, 2009	$3,937.33/year (or $**312.11** per month)

PRPPS will essentially replicate the failed private-sector programs, such as RRSPS, offered to individuals by banks and insurance companies, with a faint hope that "management expense fees" will be less.

Private Savings

The empirical evidence since RRSPS were first introduced by Canada's financial services industry in 1957 makes it clear that these vehicles fail to help Canadians adequately save for retirement. Canadian banks and insurance companies charge some of the highest "management expense ratios" in the world—fees that RRSP owners pay regardless of the market performance of their investments. The average 2.5% management fee on Canadian mutual funds can easily eat up over half of the projected return over a lifetime.

In reality, RRSP ownership is shrinking. In 1997, 41% of employed tax filers participated in an RRSP; by 2010, this proportion had declined to 26%.[7] And contributors are some of the richest Canadians. For example, 86% of the top 20% of income earners in Canada purchased RRSPS. The RRSP tax breaks to the richest Canadians cost the federal government more than $12 billion in lost revenue in 2010.

For those Canadians who do own RRSPS, the median value of the RRSP was only $60,000 in 2005. However, as family after-tax incomes drop RRSP contributions fall even more quickly. In contrast, the RRSPS of families with after-tax income above $85,000 had a median value of $224,100.[8]

The value of an RRSP fluctuates greatly, according to when the plan's owner wishes to retire. For example, an individual who had $100,000 invested in an RRSP index fund would have vastly different results depending on whether they retired on May 15, 2008 or February 15, 2009, as shown in *Figure 13*.

AFB Actions

- The AFB commits the federal government to examining ways in which immigrant seniors living in poverty who do not necessarily benefit from OAS payments can be better supported.
- The AFB increases the GIS such that all beneficiaries receive at least 16,000 in the combined OAS/GIS benefit. This approximates the after-tax low-income cut-off for a single person in a small urban area. The total cost of this measure will be approximately $1 billion annually.
- The AFB will double the CPP's replacement rates from 25% to 50% of a retiree's pensionable earnings. The change will be phased in over a seven-year period. Also, the basic exemption will be doubled to offset the impact on lower-income workers.[9]
- The AFB will phase in a new regime of indexing for public pensions (OAS, GIS and CPP) based on wages instead of prices.
- The AFB will cap RRSP contributions at $20,000, a level that will affect only those making $110,000 or more, saving $386 million a year
- The AFB will withdraw the flawed PRPP legislation, and enhance the only parts of our pension system that have actually demonstrated success over successive generations — OAS/GIS and the Canada Pension Plan.

Notes

1 Empirical data demonstrates the overwhelming social policy success story of the CPP/OAS/OAS Allowance and the GIS. In 1971, the poverty rate among Canada's seniors was as high as 36.9%. By 2007, that rate had dropped to 4.9%. The rate increased significantly in 2008, to 5.8%. It is time to bolster the GIS and enhance the CPP contribution and benefit rates, the parts of Canada's pension system that have proven their worth since 1966.

2 "Backgrounder: The Retirement Income Landscape in Canada" http://www.fin.gc.ca/n11/data/11-119_1-eng.asp

3 http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.Shtml#fn2

4 http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.Shtml#fn2

5 http://www.servicecanada.gc.ca/eng/isp/pub/oas/gismain.shtml

6 The AFB's proposals for changes to the OAS and GIS are supported by the November 2010 report of the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, "Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada" http://www2.parl.gc.ca/Content/HOC/Committee/403/HUMA/Reports/RP4770921/403_HUMA_Rpt07_PDF/403_HUMA_Rpt07-e.pdf

7 "*Participation in private retirement savings plans*, 1997–2008" by Karim Moussaly of the Pension and Wealth Section Income Statistics Division, Statistics Canada: http://www.statcan.gc.ca/dailyquotidien/ 100326/dq100326a-eng.htm]

8 November 2010 Report of the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. "Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada": http://www2.parl.gc.ca/Content/HOC/Committee/403/HUMA/Reports/RP4770921/403_HUMA_Rpt07_PDF/403_HUMA_Rpt07-e.pdf; Pyper, Wendy. (2008)."RRSP investments," *Perspectives on Labour and Income*, Vol. 9, No. 2, February 2008, Statistics Canada, Catalogue No. 75-001-XIE, http://www.statcan.gc.ca/pub/75-001-x/2008102/pdf/10520-eng.pdf.

9 The proposal was originally suggested by the Canadian Labour Congress and its 3 million members in affiliates across the country. Since the proposal was launched in September 2009, many organizations, individuals, experts and academics have supported the campaign, including Canada Without Poverty, the Canadian Federation of Students, Jonathan Kesselman, and the former Chief Actuary of the CPP (1992–98), Bernard Dussault.

Women's Equality

Background

Sustainable economic growth must address the distinct roles of women and men within the economy and the distinct impact of economic crisis and recovery strategies on both women and men. To do so is good fiscal sense and good public policy. The AFB will foster sustainable economic growth by ensuring that women are able to participate fully in the economic and social life of Canada. The AFB will address the key barriers to that participation: the wage and income gap between women and men; the lack of affordable child care; and the personal, social and economic devastation caused by violence against women.

During a period of prolonged economic contraction and slow recovery, Canada cannot afford to leave such a large economic resource untapped. Closing the gap between women's and men's economic status in Canada will provide a significant engine for long-term economic growth, as well as an immediate increase in women's social and economic well-being.

Current Issues

Working Women

According to the OECD, "rising female participation has been the mainstay of per capita real income growth [for Canada] over the last decade."[1] Following the economic crisis of 2008, women were among the first to return to the post-recession labour force. Their return, however, did not lead to increased economic security for them or sustainable growth for Canada. The jobs women filled tended to be part-time or temporary, an ongoing trend in women's employment.[2] In Canada, 27% of working women work part-time, compared to 12% of working men.[3] This percentage has remained nearly unchanged over thirty years, from 26.1% in 1981 to 27% today. Closing the gap between women's and men's shares of paid work would not only increase women's economic well-being and increase their access to economic supports in times of economic contraction, it would also contribute to economic growth. A recent analysis of developed countries, estimates that closing the gap between male and female employment rates would boost GDP by at least 9%.[4]

Whether they are employed in part-time or full-time work, women's jobs tend to be concentrated in a small number of traditionally female occupational categories including health care, teaching, clerical, administrative, and sales and services jobs. They dominate the lowest-paid occupations, such as child care, retail, and food services.[5] Although more women are entering non-traditional occupations, as well as higher-paying professional work, women in Canada still earn significantly lower incomes than men, and their rates of economic insecurity are higher. On average Canadian women earn $31,100 per year, compared to $45,200 for men.[6]

Women have made gains in education. More women are pursuing higher levels of education and attaining degrees in relatively high-income professions, such as law and medicine. However, in the years following graduation, those same women earn less than their male colleagues — a gap that only increases if they enter mid-career, and one which does not close in the senior years of their careers.[7]

The Canadian gender pay gap is now the fifth-largest among twenty-two OECD countries. In Canada, women with full-time jobs earn 23% less than men. Despite protests from human rights organizations, labour unions, and women's organizations, the federal government made pay equity for federal public servants a matter for collective bargaining and subject to "market forces" in 2009.[8] This has removed pay equity from the domain of human rights in one of the few employment sectors where women have access to stable, sustainable, salaried employment. Not only is this income gap a violation of the basic principle of equality and non-discrimination, but it represents a huge loss in income tax revenue for governments at all levels. Even the most conservative estimates state that closing the gender wage gap could increase Canada's GDP by as much as 10%.[9]

Women in all social groups face economic inequalities compared to men, but there are also significant differences among women. The erosion of economic well-being is particularly pronounced among single mothers, racialized women, First Nations women, and women with disabilities. For these groups there is both a wage gap between women and men of the same group, and a significant gap between their earnings and the national average. For example, the average income for women with disabilities in Canada is 32% lower than women in Canada overall at $22,013; their income is 33% lower than the income of men with disabilities and their income is 57% lower than men in Canada overall.[10] Racialized women earn only 70.5% as much as racialized men; and First Nations women living off-reserve earn 68.5% as much as men First Nations men living off-reserve.[11] The average income for racialized women is $22,993, and for First Nations women, living off-reserve, the average income is $22,035. It is therefore unsurprising that in spite of increasing levels of education and work experience these women are disproportionately affected by the economic recession.[12]

Women's Work

The wage gap, high levels of precarious employment and the concentration of women in lower-paid sectors all contribute to working women's economic vulnerability. Discrimination in hiring and in rates of compensation are barriers to women's economic security and to their capacity to make a full contribution to economic growth. Further barriers exist to women entering the workplace and to women having an equal share of paid work. Women continue to perform at least twice the number of hours of unpaid work per day as men.[13] Economic recession and the cuts to social supports exacerbate the burden of unpaid work for women while withdrawing the economic supports for that unpaid work.[14]

Much of the unpaid work that women do is care-taking work, including care for young children. Whether or not parents of young children wish to leave paid work to care for young children, few have the economic means to do so. Two-thirds of all mothers with children under the age of six do paid work.[15] Their participation in the economy is hamstrung by the lack of affordable and accessible child care. Canada has the lowest child care access rates in the industrialized world; Canada's public spending on early-childhood education and care programs is only 0.25% of GDP — one-third of the OECD average of 0.7%. Less than 20% of existing child care spaces are regulated spaces.[16]

The economic and social benefits of a subsidized, public, child care program are well-documented.[17] An investment in child care provides parents with as much as a 13% increase in labour participation.[18] Economist Pierre Fortin, estimates that the Quebec child care program increased Quebec's GDP by 1.7%.[19] Studies of the Quebec system demonstrate that direct government investment in child care increases government revenue from the families that benefit from it, increases participation in paid work, and increases spending. Finally, investing in child care creates jobs in a female-dominated work sector. According to the Child Care Advocacy Association of Canada, for every $1 million invested in the child care sector 40 new jobs are generated, a rate of job creation that is 40% higher than the next closest industry.

Working Against Women

Personal security is a necessary prerequisite to well-being and productivity. Although there are signs that some forms of violence against women are decreasing, for many groups of women violence remains endemic. One in two women in Canada over the age of sixteen will experience violence during her lifetime.[20] Girls are also at high risk of sexual assault both within and outside of the home. According to police-reported data, over half (59%) of sexual assault victims were under the age of eighteen, and 82% of those child sexual assault victims are girls.[21]

The World Health Organization and other national health agencies, including Health Canada and the Centers for Disease Control have demonstrated that gender-based violence has a significant negative impact on the economy.[22] A new Canadian study calculates that the cost of intimate-partner violence alone is $6.9 billion per year.[23] This estimate does not include the costs of violence perpetrated against women by someone other than an intimate partner, nor does it calculate the cost for perpetrators of violence against women.

Although women from every income level experience gender-based violence, it is clear that violence against women is exacerbated by economic insecurity and is itself a cause of economic insecurity. For example, although the subjects of the 2011 study on intimate-partner violence came from diverse economic backgrounds, 22% of these women relied on food banks for up to three years after leaving the abusive setting. This is 20 times the national average for food bank use, which is 1.66%.

For low-income women, lack of access to affordable child care and affordable housing, and low levels of social assistance help sustain unacceptably high levels of violence against women. The failure to address poverty is not only a failure to deliver a basic level of well-being to all Canadians. It contributes to the vulnerability of women and children to violence, which itself impedes economic growth through lost productivity and costs to health and social services.

As women and girls in Canada continue to see their safety and well-being threatened, the organizations that provide them with an opportunity to voice their concerns have been eliminated, or silenced by new funding regulations. Between 2006 and 2008, the word "equality" was removed from the mandate of Status of Women Canada, 43% of its budget was cut, 12 out of 16 regional offices were closed and approximately 50% of staff were laid off. The criteria for funding from Status of Women was changed to preclude support for research and advocacy. The 2010 budget allocated $30.5 million to Status of Women Canada. This means a budget of just $1.78 per woman and girl in Canada in order to: "advance equality for women and to remove the barriers to women's participation in society, putting particular emphasis on increasing women's economic security and eliminating violence against women."[24]

AFB Actions

Canada cannot afford to leave women out of its recovery strategy. Nor can the budget fail to address the shameful levels of violence and poverty experienced by women and girls in Canada *because they are women and girls*.

The AFB will:

- take pro-active measures to ensure equal pay for work of equal value by repealing the Public Service Equitable Compensation Act, establishing pro-active pay equity legislation, and implementing the recommendations of the 2004 Pay Equity Task Force;
- take pro-active measures to ensure that women have a full share of paid work by eliminating inequitable tax breaks and tax policies that result in under-employment for women;
- attach common standards for social assistance to the CST to ensure that rates in all jurisdictions meet the current real costs of food, clothing, and housing;
- fund a national child care plan that increases the number of safe, affordable public and not-for-profit child care spaces across Canada to match the demand for child care and increase women's participation in the labour force; (see the Child Care chapter)

- increase spending to both the services that assist women experiencing violence and to the organizations that are working to find public policy solutions to violence against women;
- increase funding to Status of Women; and
- implement the recommendations of the 2009 Report of the Auditor General on gender-based analysis. Implementing the report's recommendations will provide an evidential base for more effective spending that provides results for both women and men.

Notes

1 Bibbee, Alexandra. (2008). "Tax Reform for Efficiency and Fairness in Canada: Economics Department Working Paper No. 631." Paris: Organisation for Economic Co-operation and Development. 22.

2 *Living With Economic Insecurity: Women in Precarious Work* (2011). International Trade Union Confederation; Elson, Diane and Devaki Jain. (2010). *Vision for a Better World: From Economic Crisis to Equality*. New York: United Nations Development Program.

3 "Full-Time and Part-Time Employment by Sex and Age Group." CANSIM table: 282-0002. Ottawa: Statistics Canada, last modified: January 24, 2011.

4 Daly, Kevin. (2007). "Gender Inequality, Growth and Global Ageing." *Global Economics Paper No: 154*. New York: Goldman Sachs Economic Research Group.

5 Ferrao, Vincent. (2010). "Paid Work." *Women in Canada: A Gender-Based Statistical Report*. Ottawa: Statistics Canada; "Full-Time and Part-Time Employment by Sex and Age Group." CANSIM table: 282-0002. Ottawa: Statistics Canada, last modified: January 24, 2011.

6 "Average Earnings by Sex and Work Pattern." CANSIM table: 202-0102, Ottawa: Statistics Canada, last modified: June 15, 2011.

7 "Table LMF1.5.A: Average Annual Earnings of Females as a Percentage of Males by Level of Educational Attainment and Age-Cohort, 2008 Or Latest Year Available." *Education at a Glance, 2010*. Organization for Economic Co-operation and Development.

8 *The Public Sector Equitable Compensation Act*. (S.C. 2009, c. 2, s. 394).

9 Oostendorp, Remco H. (2009). "Globalization and the Gender Wage Gap." *World Bank Economic Review. 23(1): 141–161.*

10 *Disability in Canada: A 2006 Profile*. (2011). Ottawa: Human Resource and Skills Development Canada.; Galarneau, Diane and Marian Radulescu. (2009). *Employment Among the Disabled*. Ottawa: Statistics Canada.

11 "Average Incomes by Racialized Census Groups and Gender." (2007). *2006 Census of Population*. Ottawa: Statistics Canada.

12 "Study: Aboriginal People and the Labour Market." *The Daily*. Statistics Canada. November 23, 2011.

13 "General Social Survey: Paid and Unpaid Work." *The Daily*, Ottawa: Statistics Canada, July 19, 2006.

14 Elson, Diane and Devaki Jain. (2010). *Vision for a Better World: From Economic Crisis to Equality*. New York: United Nations Development Program. King, Richard and Caroline Sweetman. (2010). Gender Perspectives on the Global Economic Crisis. *Gender & Development*. London: Oxfam International.

15 Statistics Canada, "Paid Work." *Women in Canada: A Gender-based Statistical Report*. Government of Canada, 2010.

16 Erika Shaker, Ed. *Beyond Child's Play: Caring For and Educating Young Children in Canada*. Canadian Centre for Policy Alternatives, 2009.

17 Erika Shaker, Ed. *Beyond Child's Play: Caring For and Educating Young Children in Canada*. Canadian Centre for Policy Alternatives, 2009.

18 Lefebvre, Pierre and Philip Merrigan. (2008). "Child-Care Policy and the Labor Supply of Mothers with Young Children: A Natural Experiment from Canada." *Journal of Labor Economics*. 26.3; see also: Baker, Michael, Jonathan Gruber, and Kevin Milligan. (2005). "Universal Childcare, Maternal Labor Supply and Family Well-Being." Working Paper no. 11832, National Bureau of Economic Research.

19 Laurie Monsebraaten. "Quebec's Child Care Pays for Itself, Economist Says." *Toronto Star*, 22 June, 2011.

20 Statistics Canada, "Women and the Criminal Justice System." *Women in Canada: A Gender-based Statistical Report*. Government of Canada, 2010; "An Overview of Women's Health." In *Canada Health Action: Building on the Legacy - Volume II - Synthesis Reports and Issues Papers*. Health Canada. http://www.hc-sc.gc.ca/hcs-sss/pubs/renewal-renouv/1997-nfoh-fnss-v2/legacy_heritage8-eng.php.

21 Statistics Canada. *Child and Youth Victims of Police-reported Violent Crime*. Government of Canada, 2010; Statistics Canada. *Sexual Assault in Canada 2004 and 2007*. Government of Canada, 2008.

22 *Preventing Intimate Partner and Sexual Violence Against Women: Taking Action and Generating Evidence*. World Health Organization, 2010.

23 Varcoe, Colleen et al. (2011). "Attributing Selected Costs to Intimate Partner Violence in a Sample of Women Who Have Left Abusive Partners: A Social Determinants of Health Approach." *Canadian Public Policy — Analyse De Politiques*. 37. 3.

24 Kathleen Lahey. "Women, Substantive Equality, and Fiscal Policy: Gender-Based Analysis of Taxes, Benefits, and Budgets." *Canadian Journal of Women and the Law*, Volume 22, Number 1, 2010. [figures updated based on 2010 Federal Budget and 2011 population estimate from Statistics Canada].

Section 2

Protecting our Climate, Nature, and Water

Environment

Background

Canada's environment is central to Canadians' prosperity and health. It provides clean air and water for daily living, natural resources that power our lives and economy, and globally envied wild spaces and species.

Delaying action further will result in missed business opportunities, increased financial and economic costs for future environmental protection, and greater risks to Canadians' health and the climate.

Two fiscal strategies are of particular importance:

Subsidy Reform for Natural-Resource Exploration and Development

Governments need to "level the playing field" for natural-resource exploration and development (including recycling and conservation options) so that the fiscal treatment of different natural resources is equitable, or so that fiscal policies favour resources whose life-cycle and human health impacts are more positive.

The first step in such reform is to end subsidies for energy sources that are non-renewable or whose development or use is significantly environmentally damaging.

Ensuring That Market Prices "Tell the Environmental Truth"

Canada's economy will be truly sustainable only when market prices for goods and services reflect the true value of the resources they consume, and the full costs to the environment and human health created by their development, production, transportation, sale, use and disposal. This approach is often called ecological fiscal reform (EFR), and the AFB will implement it using a mix of market-based instruments such as taxes, fees, rebates, credits, tradeable permits, and subsidy removal.

Such policies will reward environmental business leaders, preserve natural resources for higher-value uses, stimulate environmental innovations with global export potential, and expedite the development of economies where success leads to concurrent environmental and human health benefits. Fairness to citizens and business will be enhanced through the "polluter pays" principle,[1] forcing polluters to pay for the harm they cause.

Putting an adequate price on carbon is the most crucial step towards matching Canada's economy with a healthy environment, because it will set a price on pollution that spurs emission reductions throughout the economy. But market-based economic instruments alone cannot do the job. They must be combined with government leadership, strong regulations, education and R&D, pro-active industrial policies, and significant public investment. The necessary change will lead to job losses in some sectors, and gains in others. Full-cost pricing to protect our climate and other resources will impose proportionately greater costs on lower-income families, who are less financially able to adapt to change. Polluter-pay and user-pay policies must therefore be balanced with the ability-to-pay principle.

Current Issues

Climate Change, Carbon Pricing, and Energy

The failure of the world's political leaders to reach an effective, legally binding agreement at the UN's climate change conferences in Copenhagen and Cancun caused many Canadians to lose hope of making further progress on global warming. But such despair is unwarranted. The conferences underscored the difficulty of achieving an accord based on an international cap-and-trade system, which is the underlying framework for the Kyoto Protocol and subsequent negotiations.

This doesn't mean that Canada should stop trying to achieve an effective international agreement based on a cap-and-trade framework to reduce global emissions. Nor does it mean immediate action can't be taken using alternative methods.

The simplest and most effective alternative to cap-and-trade is a price-based carbon tax — a measure that noted economists and climate experts[2] say would be more efficient and effective than a quota-based cap-and-trade system.

A carbon tax doesn't guarantee specific emission reductions, but it does allow businesses to plan for the future. It also eliminates the speculation, windfall profits, and false savings that accompany a cap-and-trade system. Another advantage of a carbon tax is that it can be introduced almost immediately.

Because of the failure at Copenhagen, it will now take at least several more years for Canada to implement a continental cap-and-trade system with the United States. But Canada can still act.

- The 2012 AFB introduces a national Harmonized Carbon Tax (HCT), set at $30 per tonne, which will commence on July 1, 2013. (See the Tax Chapter for costing.)

Detailed analysis by Marc Jaccard, Canada's foremost climate-change economist, has shown that to meet the 2°C target to prevent significantly damaging climate change, Canada needs to introduce a carbon price of $30 a tonne immediately and raise that price to $200 a tonne by 2020.[3] If the federal government invests HCT revenues in renewable energy and tax refunds for individuals, Canada can achieve deep reductions in greenhouse gas emissions, maintain strong economic growth, and generate jobs. The HCT will be integrated with and consistent with provincial carbon taxes — such as B.C.'s tax, which is set to rise to $25 a tonne on July 1, 2012, and to $30 a tonne by 2013 — with half the revenues going to provincial governments. The HCT will apply to all non-renewable fuels based on their CO_2 emission factors.

- The AFB will transfer half of HCT revenues to the provinces to fund tax reductions — including direct payments to individuals — and further climate-change abatement measures. (See the Tax Chapter for costing.)

- In 2012, the AFB will fulfil Canada's $400 million commitment to the Global Climate Fund (agreed to at the Copenhagen conference), increase this commitment to $800 million in 2014, and by an additional $400 million per year through 2015–16.

These funds will be new, and in addition to, existing official development assistance. Canada's adaptation contribution will target the poorest and most vulnerable countries, and the government will report transparently to Parliament about these contributions. Funding for these measures will come from the carbon tax and any border carbon tariff.

Species at Risk

Canada's Species at Risk Program combines a number of scientific, legislative, partnership, and stewardship tools to prevent wildlife species from becoming extinct, to help recover those that are endangered or threatened, and to prevent other species from becoming endangered or threatened. This results in the ongoing protection of Canada's natural endowment of biological diversity for the benefit of nature and all Canadians.

A robust and effective species at risk program is essential to affording many sectors of Canada's economy the "social license" to operate in the domestic context. In addition, a renewed federal species at risk program will inform the government's stewardship of the National Conservation Plan.

The AFB will renew the federal government's commitment to Canada's Species At Risk Program by continuing to invest $25 million per year for five more years (2012–17).

Freshwater Resources

Fresh water is Canada's greatest national treasure. Yet Canada's record on protecting freshwater resources and ecosystems lags well behind leading nations. The state of water systems on First Nations reserves is shameful. Pollution in the Great Lakes and Lake Winnipeg threaten the aquatic ecosystem, human health and economic development. Climate change is increasing the frequency and severity of both floods and droughts. Strategic investments are needed to improve the quality and reliability of the fresh water that flows through Canada's communities, economy and environment.

The AFB will make investments of: $45 million per year for five years in the Great Lakes-St. Lawrence; $5 million per year for five years to restore the health of Lake Winnipeg; and $5 million per year for five years to support implementation of the Northwest Territories Water Stewardship Strategy, for a total of $55 million a year. (See the Water chapter for more water-related investments.)

Energy Efficiency

1. A National Green Homes Strategy to build on energy efficiency successes in Canadian houses. To align with ambitious initiatives in the U.S. and the U.K., Canada needs a comprehensive strategy to have 100% of our existing housing stock retrofitted by 2030. Canada can begin by aiming for 15% by 2015, and making strategic investments in residential efficiency, focusing on low-income households. As part of a Green Homes Strategy, the AFB will invest $250 million per year for five years to improve the energy efficiency of existing homes, focusing on lower-income households.

2. New financing options to attract broad private investment in low-carbon initiatives. The creation of new green bond instruments would create a pool of capital for low-interest revolving loans that would target energy efficiency and clean energy development. Improving access to capital for low carbon initiatives is a key barrier to the development of clean energy. The AFB will help to create a $5 billion fund by seeding it with $100 million per year for five years. Private investment will be targeted to build this to a $5 billion revolving fund that would generate returns for investors based on clean energy development.

AFB Actions

The AFB will take the most important first step — putting a price on greenhouse gas (GHG) emissions — by introducing:

- A national Harmonized Carbon Tax (HCT) in July 2013, combined with strategic measures to protect Canadians and vulnerable trade sectors from adverse financial impacts. More than half of HCT revenue will fund a progressive annual green tax refund of $300 per adult and $150 per child.

Eligibility for the tax refund will start on January 1, 2013, preceding implementation of the HST, to ensure that all middle- and low-income families are reimbursed with a credit equal to the direct impact of the carbon tax for an average family.

The AFB will also finance these priority environment and conservation measures:

- **Species at Risk:** $25 million a year
- **Freshwater resources:** $55 million a year
- **Energy efficiency:** $350 million a year
- **Global climate finance:** The AFB will support climate action in developing countries, as committed under the Copenhagen Accord, with funding coming from the HCT and any border carbon tariff. Canada's commitment will consist of $400 million in 2012 and rise by $400 million per year to $1.6 billion in 2014–15.[4]

To help finance the above recommendations, the AFB will save over $1.3 billion annually by ending the following counterproductive subsidies:

- **Fossil Fuel Subsidy Reform:** The AFB will honour Canada's G-20 commitment and save over $1.3 billion annually by removing three tax preferences for fossil fuels, particularly the 100% Canadian Exploration Expense and the 30% Canadian Development Expense.

Notes

1 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/budget05/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."

2 http://www.project-syndicate.org/commentary/stiglitz121/English; http://www.carbontax.org/; http://www.nytimes.com/2009/12/07/opinion/07hansen.html?_r=2

3 See Climate Leadership, Economic Prosperity, Pembina Institute and David Suzuki Foundation, October 2009. http://www.pembina.org/pub/1909

4 According to the World Bank, Canada's GDP in 2009 was $1.3 trillion. The Third World Network reports that G77 countries and China are calling for Annex 1 countries to commit at least 1.5% of GDP annually toward G77 climate-change mitigation by 2020. Others estimate that global South countries will need up to 6% of Annex 1 countries' GDP annually to adapt to the effects of climate change. Using these estimates, Canada would need to allocate between $20 billion and $80 billion for Global South Climate Financing. The UN Department of Economic and Social Affairs' 2009 UN World Economic and Social Survey estimated that $500 billion to $600 billion annually in public funds is needed for adaptation and mitigation in developing countries.

Water

Background

Canada needs a national water policy based on the principles of water as a commons, public trust and human right. The notion of the commons asserts that water is a common heritage that belongs to the Earth, other species and current and future generations. The recognition of surface and ground water as a public trust requires that the government protect it for the public's reasonable use, and to make private use subservient to the public interest. Canada also needs a water minister to coordinate the over 20 departments that set federal policies affecting water.

On July 28, 2010, 122 countries voted to pass a resolution at the UN General Assembly recognizing the human right to water and sanitation. On September 23, 2011, the UN Human Rights Council (HRC) passed a resolution (A/HRC/18/L.1) on the human right to safe drinking water and sanitation[1] and called upon governments to:

- develop comprehensive plans and strategies, including the definition of responsibilities for all water and sanitation sector actors, to achieve progressively the full realization of the right to safe drinking water and sanitation for all;
- monitor and assess the implementation of plans of action and ensure the free, effective, meaningful and non-discriminatory participation of all people and communities concerned, particularly people living in disadvantaged, marginalized and vulnerable situations;
- ensure financing to the maximum of available resources and that services are affordable for everyone; and
- provide for a framework of accountability that provides for adequate monitoring mechanisms and legal remedies.

Despite the Canadian government's continued opposition to the human right to water at key UN meetings, including abstaining in the UN General Assembly vote, the UN HRC has set out clear legal obligations to which all governments are bound. The AFB will take measures to uphold the right to clean, safe drinking water and sanitation for everyone in Canada. The AFB will also improve water quality and knowledge on water quantity, protect the Great Lakes Commons, reinstate funding to critical environmental departments and protect water sources in Canada from hydraulic fracturing, tar sands development, the Schedule 2 loophole and trade agreements.

Current Issues

National Public Water and Wastewater 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 (FCM).[2] Water and wastewater needs alone are estimated at $31 billion for deferred maintenance and deteriorating infrastructure.[3] The AFB recognizes the urgency of addressing the water and wastewater infrastructure deficit as delaying upgrades will exacerbate water leakage and increase future infrastructure costs.

The AFB will devote spending exclusively to publicly owned and operated water infrastructure instead of promoting privatization through the Public-Private Partnership (PPP) Canada Fund. Municipalities have the experience and expertise in water and wastewater management and are far more accountable to the public than private corporations. Water and wastewater projects will be excluded from PPP Canada funding criteria.

200 billion litres of raw sewage are flushed into our waterways every year. While the federal government has introduced new wastewater regulations, higher levels of government must provide funding to municipalities to implement the regulations and protect wastewater treatment as a public service. Members of the FCM calculate that the new regulations could force cities to spend up to $20 billion in upgrades over the next two decades.

Canada drew lessons from the Walkerton disaster and established provincial regulations and mandatory certification requirements for water operators. There is, however, more that should be done as Canada only has guidelines and needs to enact national legally binding drinking water standards.

Where the need exists, communities can apply for water and wastewater infrastructure funding from the ReBuild Canada Fund or the Long-Term Infrastructure Fund (see the Cities chapter).

First Nations' Water Rights

Despite repeated pledges from the federal government to ensure clean drinking water, Health Canada reported 131 drinking water advisories in First Nations communities last November.[4] The number of advisories consistently hover around 100 with some communities under advisories for over 10 years.[5] The "Safe Drinking Water for First Nations Act" was tabled in Parliament on May 2010 with the stated objective of ensuring First Nations have access to safe drinking water. This was however called into question by First Nations communities when the federal government failed to consult them, and did not make clear how these regulations would be implemented to address the lack of infrastructure, funding and training within First Nations. The National Assessment of Water and Water Systems in First Nation Communities, a two-year, government-commissioned study released in July 2011, estimated that the federal government needs to invest $4.7 billion over the next 10 years. However, the alarming and urgent conditions on reserves require that the AFB make these investments within five years.

The AFB respects Aboriginal self-determination and the authority of Indigenous governments. It incorporates Indigenous knowledge and includes Indigenous peoples in decision-making on water and wastewater, including the development of legislation of drinking water standards for First Nations reserves.

Improving Water Quality and Sustaining Quantity

The responsibility for monitoring water quantity and quality is shared among all three levels of government. Canada has the resources to be a leader in environmental research but Canadian scientists are concerned that research in this area has declined and has led to gaps and inconsistencies in information because of a lack of political will, severe funding cuts and a lack of coordination. To address the numerous information gaps in water quality and quantity the AFB will include funding for the UN Global Environmental Monitoring System/Water Programme, a global water quality database. To support a call for a junior water minister by Liberal water critic Francis

Scarpaleggia in 2007,[6] the AFB will create a water minister position to co-ordinate the over 20 departments that set federal policies affecting water.

Although Canada holds nearly 20% of the world's freshwater, only 1% of our water is renewable, or replenished by rain or snowfall every year. Last year, a Statistics Canada study showed that renewable water in southern Canada has declined 8.5% from 1971–2004.[7]

A third of Canadian 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 AFB therefore commits to implementing a thorough groundwater protection plan that will include:

- the application of the public trust doctrine to groundwater which would give priority to basic human needs and water for ecosystems;
- 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.

Canada is a top net exporter of bottled water.[8] The AFB will introduce stricter regulation that will require bottled water corporations to identify their sources on labels and work with provinces to demand restrictions on water-taking permits.

In the last several 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. The AFB bans bulk water exports as these projects would be tremendously costly, require vast amounts of energy, and pose serious threats to watersheds.

Protecting the Great Lakes Commons and Other Priority Waterways

The funding will be used towards cleaning up areas of concern and priority zones, invasive species, calculation of water in the Great Lakes and total water withdrawals, wetlands protection, and an inventory on pollutants that are not covered by the Great Lakes Water Quality Agreement and the National Pollutant Release Inventory.

The Great Lakes hold the majority of Canada's freshwater. Forty-two million people depend on the lakes for drinking water. However, the Great Lakes face significant threats including pollution, extraction, wetland loss and invasive species. The 2011–12 federal budget allocated an additional $5 million for 2011–13 on top of the $16 million for 2010–12 to "implement its action plan to protect the Great Lakes."

The AFB will open negotiations with the U.S. to incorporate the public trust doctrine into the Great Lakes Compact Agreement which will eliminate an existing loophole that gives bottled water corporations the right to withdraw unlimited amounts of water in containers of 20 litres or less. It will also refer all boundary water matters to the International Joint Commission (IJC), which is responsible for resolving conflicts over boundary waters between Canada and the U.S., and concede to the authority of the IJC.

Reinstating Environmental Assessments and Funding to Environment Canada

The government is drastically reducing funding for environmental assessments. According to the Canadian Environmental Assessment Agency's Reports on Plans and Priorities, the agency is planning a 43.1% cut in spending, dropping from $30 million in 2011–12 to $17.1 million in 2012–13.[9] This cut follows a 6.9%, or $2.2-million, drop in funding in 2010–11. Along with the budget cuts, the agency is facing a one-third reduction in full-time staff. The reduction in funding is in part due to sunset funding for Aboriginal consultations. The AFB will renew the sunset funding to ensure the free, prior and informed consent of First Nations governments as required under the United Nations Declaration on the Rights of Indigenous Peoples. The AFB funding will ensure stringent environmental assessments on energy and mining projects to protect Canada's water sources.

Environment Canada's Reports on Plans and Priorities from 2010–11 and 2011–12 revealed several alarming cuts to critical water program activities at Environment Canada. Three hundred and thirty-three jobs are to be cut from these two program activities alone from 2011–13.[10] The AFB will return spending to 2010–11 funding levels before the cuts.

Stop the Devastation of the Tar Sands

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.

First Nations and Métis in Fort Chipewyan believe high cancer rates in their communities are caused by proximity to tar sands operations. Tar sands oil is even travelling to the Great Lakes through a network of pipelines and refinery expansions. A just transition away from tar sands and all fossil fuels, given the reality of climate change, is clearly imperative.

Nationwide Ban on Hydraulic Fracturing

The AFB calls for a nationwide ban on hydraulic fracturing or fracking. Fracking is a controversial method using sand, water and chemicals to blast rock formations to extract natural gas. Fracking fluids have contaminated residents' drinking water with toxic chemicals and methane. Approximately two to nine million gallons of water are required for a single "fracking" job. The Minister of the Environment has requested that Environment Canada and the Council of Canadian Academies conduct reviews on fracking. The AFB calls for a moratorium on fracking until the reviews are complete and allocates funding to incorporate public input in the federal reviews on fracking.

Removal of Schedule 2 from Fisheries Act

The AFB will remove the Schedule 2 loophole from the Fisheries Act. Lakes that would normally be protected as fish habitat by the Fisheries Act are now being redefined 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 dumpsites for mining waste. Canada is the only industrialized country to allow this practice. By closing this loophole, the AFB will save taxpayers millions in remediation, wastewater treatment and health care costs as well as protect our watersheds for current and future generations.

A Climate Change Plan

The 2008 report by the Intergovernmental Panel on Climate Change highlighted the varied effects of climate change on water in Canada including droughts, intense precipitation and increased temperatures. The federal 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.

Virtual Water Exports

Virtual water is the amount of water used to produce or process a good or a service. The government currently does not track how much virtual water is exported from Canada. According to the report *Leaky Exports: A Portrait of the Virtual Water Trade in Canada*, Canada net exports 59.9 Bm^3 of virtual water each year, making it the second net virtual water exporter in the world.[11]

Exclude Water from NAFTA, CETA and All Other Trade Agreements

The AFB will exclude water as a good and service from all international trade agreements including the North American Free Trade Agreement (NAFTA) and the Canada-EU Comprehensive Economic and Trade Agreement (CETA). When water is considered a tradable good and service under international trade agreements water-related policy and other measures become vulnerable to investor-state challenges that involve a proprietary interest in water. This issue became urgent in 2010 when the federal government settled a NAFTA challenge brought against the Government of Newfoundland and Labrador by AbitibiBowater, one of the largest pulp and paper mills in the world, for $130 million. Part of this amount was understood by the firm to include compensation for provincial water rights it cannot legally own in Canada, setting a dangerous precedent. By excluding water in trade agreements, the AFB will avert threats to Canada's water and costly NAFTA challenges. It will also protect the rights of municipalities, provinces and territories to maintain or create new public monopolies for the delivery of water services and sanitation.

AFB Actions

The myth of water abundance, the lack of legislation and inadequate funding 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 clean drinking water in all communities, while ensuring that water services remain in public hands. The following measures will begin the too-long-delayed process of developing a policy that makes the conservation and protection of our water sources a public trust and safe and clean drinking water and sanitation a human right.

Recognizing the Human Right to Water and Sanitation

The UN recently passed a resolution setting out clear obligations for governments to progressively realize the human right to water and sanitation. Therefore, the AFB allocates:

- $4 billion to be invested in a National Public Water and Wastewater Fund. Municipal water transfers would then reach their yearly target of $3 billion in 2013–14 in order to pay down the $31 billion water and wastewater infrastructure deficit in 10 years;
- $1 billion for implementing national standards for municipal sewage treatment and wastewater effluent quality (with $1 billion per year over the next 20 years), including research and funding for environmentally friendly sewage treatment methods;
- $150 million over three years will be allocated to establishing these standards, water operator training and certification in the public sector;
- $1.6 billion to build, upgrade and maintain water and wastewater infrastructure in First Nations communities (and $1.25 billion yearly for the next four years, see the AFB Aboriginal Peoples Chapter);
- $5 million to conduct research on the impacts of climate change on watersheds and infrastructure, renewal and funding of the Flood Damage Reduction Program, drought and flood planning and support for Indigenous communities; and
- $5 million for a labeling program for water-efficient fixtures and appliances and water conservation programs.

Sustainability

Without solid information about how much water Canada has or uses, governments across the country are approving plans for bottled-water withdrawals and other industries. The AFB allocates:

- $1 billion to water quality and water quantity monitoring frameworks to assist provinces and communities, increase monitoring stations, train staff in water monitoring, contribute to the UN Global Environment Monitoring System and create a new junior water minister position;

- $500 million to implement a comprehensive action plan to protect to the Great Lakes;
- an additional $950 million to clean up priority waterways (and $950 million for each of the next four years);
- $3 million to identify and map Canada's groundwater sources and co-ordinate a strategy to prioritize water use, introduce stricter regulations on the bottled water industry and ban bulk water exports; and
- $1 million to complete a comprehensive review on virtual water exports from Canada.

Pollution

Despite a dearth of information about the effects on water of tar sands extraction as well as hydraulic fracturing, several provinces still allow the practice without adequate environmental impact oversight. The AFB allocates:

- $140 million to rectify the proposed cuts to Environment Canada, specifically to water resources and substance and waste management program activities (with $73.3 million in 2013–14);[12]
- $50 million to mandate thorough environmental assessments for all energy and mining projects;
- $30 million to monitor and complete an in-depth study of the water effects of tar sands development; and
- $2 million to incorporate public input in the federal reviews on fracking.

Notes

1 UN Human Rights Council, September 23, 2011, A/HRC/18/L.1 The human right to safe drinking water and sanitation, <http://www.ewash.org/files/library/water%20res.sep.2011%5B1%5D.pdf>.

2 Saeed Mirz, Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure, November 2007, < http://www.fcm.ca/Documents/reports/Danger_Ahead_The_coming_collapse_of_Canadas_municipal_infrastructure_EN.pdf>.

3 Ibid.

4 Health Canada, Drinking Water and Wastewater, accessed January 16, 2012, <http://www.hc-sc.gc.ca/fniah-spnia/promotion/public-publique/water-eau-eng.php#adv>

5 Health Canada, First Nations Communities with Drinking Water Advisories as of December 31, 2010, accessed January 16, 2012, < http://www.scribd.com/mobile/documents/52564707>.

6 Canwest News Service, "Liberal government would name water minister," December 5, 2007, <http://www.canada.com/topics/news/national/story.html?id=f5d0da84-1d9a-4553-949d-100a96535d2f>.

7 Statistics Canada, Study: Freshwater supply and demand in Canada, September 13, 2010, <http://www.statcan.gc.ca/daily-quotidien/100913/dq100913b-eng.htm>.

8 Agriculture and Agri-Food Canada, Agriculture, Food and Beverages Profile — Republic of Korea 2010, updated April 12, 2010, <http://www.ats.agr.gc.ca/asi/4379-eng.htm>.

9 Treasury Board of Canada Secretariat, Reports on Plans and Priorities for Canadian Environmental Assessment Agency, <http://www.tbs-sct.gc.ca/rpp/2011-2012/index-eng.asp?acr=1742>.

10 Ibid.

11 Rahman, N., Barlow, M., and Karunananthan, M. (2011). *Leaky Exports: A Portrait of the Virtual Water Trade in Canada*. Ottawa: Council of Canadians. <http://canadians.org/water/documents/virtual-water-0511.pdf>.

12 Treasury Board of Canada Secretariat, Reports on Plans and Priorities for Environment Canada, <http://www.tbs-sct.gc.ca/rpp/2011-2012/index-eng.asp?acr=1767>.

Section 3

Canada and the World

Defence and Security

Background

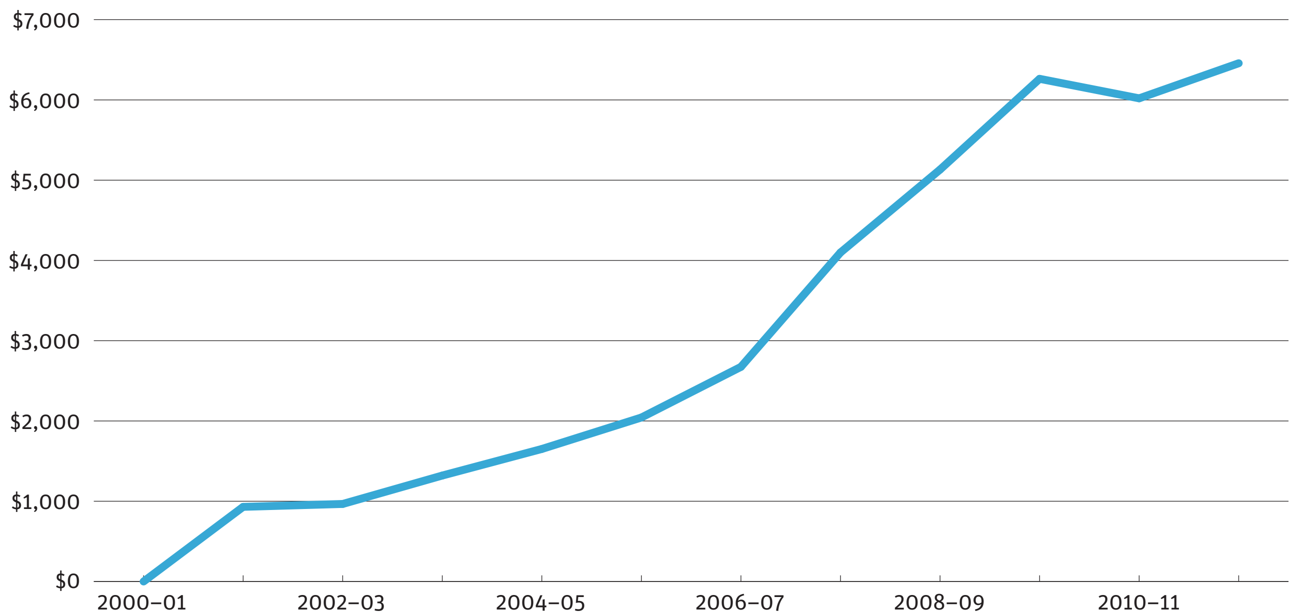
Canada is one of the 15 top military spending nations in the world, and the sixth largest military spender among the 28 members of NATO. Our military spending is now higher than it has been in more than 60 years.

According to the federal government's latest budget figures, the Department of National Defence spent $21.3 billion in FY2010–11, and it is budgeted to spend $21.7 billion this year. That level (FY2011–12) is 6% higher than it was before the beginning of the global recession, 19% higher than at the end of the Cold War, and 42% higher than immediately before the terrorist attacks of September 11, 2001. While the current build-up in spending began in 1999, it is the Canadian participation in the U.S.-led "global war on terrorism" that has been the primary driving force behind the increases.

Adjusted for inflation, Canada has devoted roughly $70 billion to total national security expenditures over and above the amount it would have spent had budgets remained in line with pre-9/11 levels, with military expenditures representing the bulk of that increase.[1] This ambitious build-up over the last decade has allowed large military equipment programs to proceed without the department adequately demonstrating their relevance to the essential security of Canadians.

On the global stage, worldwide military spending is estimated to have reached US$1.63 trillion in 2011, continuing the trend of growth for each year in the new millennium.[2] Like Canadian military expenditures, global military spending is now higher than it was during the Cold War. Within this, the 28 members of NATO collectively account for about 70% of world military. Canada is the sixth largest military spender among those 28 countries, trailing only the United States, the United Kingdom, France, Germany, and Italy, all of which have much larger populations and economies.[3]

FIGURE 14 Post-9/11 Defence Spending Increase ($Mil, 2011 Dollars)



Afghanistan

The Department of National Defence's annual *Report on Plans and Priorities* indicates that the incremental cost of Canada's military operations in Afghanistan during the 10 years from FY2001–02 to FY2011–12 has been about $10 billion.[4] However, Parliamentary Budget Officer Kevin Page's 2008 Report on the cost of the Afghanistan mission concluded that the actual incremental costs of the mission were even higher than these figures — between $5.9 billion and $7.4 billion just for the seven years from FY2001–02 to FY2007–08[5] (the *Report on Plans and Priorities* figures showed incremental costs of just $3.6 billion during this period). If the figures for FYs 2008–09 through 2011–12 were similarly underestimated, the incremental costs for the Afghanistan mission are probably closer to $16–20 billion to date.

Even that figure arguably underestimates the ultimate cost of the Afghanistan mission. Canada's presence in Afghanistan ties up not just the troops actually deployed in the country, but also many thousands of personnel preparing for deployment, recovering from deployment, or supporting the operation from Canada. If Canada had chosen not to participate in the Afghanistan mission, we could have maintained a somewhat smaller armed forces while continuing to participate in other missions, such as peacekeeping. Depending on the actual personnel level maintained, additional savings, potentially as much as several billion dollars, might have been realized over that period.

Peacekeeping

Even the most ardent supporters of Canadian participation in the Afghanistan war would agree that Canada has borne an excessively high share of the burden of that war. Beyond the cost of the Afghanistan mission in killed and injured soldiers, the cost in money, personnel available to deploy, and other military resources together comprise a large part of the explanation for Canada's currently dismal contribution to UN peacekeeping operations. Even before the Afghanistan war, however, Canada had essentially abandoned any effort to shoulder a reasonable share of the burden of UN peacekeeping operations around the world.

During the Cold War, Canada provided about 10% of all UN peacekeeping troops. The huge growth in the number, size, and scope of UN operations after the end of the Cold War made this level of support no longer possible, but Canada continued to provide about 1,000 peacekeepers (and sometimes more than 3,000) well into the 1990s. In 1997, however, Canada began to dramatically reduce its contribution to UN operations. The initial reduction can be explained in large part by the extensive Canadian contribution to the NATO-led Stabilization Force (SFOR) in Bosnia and Herzegovina. SFOR was then followed by the 1999 Kosovo war, participation in the NATO-led Kosovo Force (KFOR), and then the post-9/11 Afghanistan mission.

By 2005, only 83 Canadian military personnel were assigned to UN peacekeeping missions. Though the Canadian government promised that year that the Canadian Forces would "maintain their contributions to international organizations such as the United Nations", the decline continued unchecked. In 2008, Canada and other governments voted to shut down the UN's Multinational Standby High Readiness Brigade (SHIRBRIG), an innovative rapid-reaction peacekeeping unit that had once been championed by Canada, and the shutdown was completed in June 2009.[6] As of 2011, Canada currently contributes a total of 35 military personnel to the cause of UN peacekeeping, and 163 police members.[7]

Canada's switch from major supporter of UN peacekeeping to an almost exclusive focus on U.S.-led or NATO-led "coalitions of the willing" was not a result of the disappearance of UN missions. Notwithstanding the claim often heard in Canada that UN peacekeeping is dead, the demand for peacekeepers has actually grown in recent years. As of October 2011, there are 84,748 UN peacekeeping troops and military observers serving in 16 operations over four continents. Of the 103 military contributors to UN peacekeeping, Canadians are 64th in terms of personnel. Countries such as Peru and Nigeria, with less than a 10th of Canada's GDP, contribute more than 10 times the personnel. The only Canadian contribution that remains substantial is a non-military one: our cash contribution to the UN peacekeeping budget, currently $272 million a year. However, this payment, a legal obligation of our membership in the United Nations, comes out of the budget of Foreign Affairs and International Trade, not National Defence.[8]

The collapse in Canadian government support for peacekeeping happened parallel to the military budget undergoing a greater than 50% growth. There are not enough Canadian soldiers to both participate in Afghanistan-style missions and make a significant, ongoing contribution to peacekeeping. An even greater problem may be the strong institutional bias in the Department of National Defence and the broader Canadian "defence lobby" against UN peacekeeping and in favor of "coalition of the willing" operations.

In the meantime, the overwhelming burden of current UN peacekeeping operations has been transferred to the poorer countries of the world, whose soldiers are normally much less well-equipped, and in some cases also less well-trained. "Middle powers" such as Canada are not bearing their share of the burden of these operations, and the resulting equipment and training shortfalls threaten to undermine the effectiveness of the operations currently underway.

Concurrently with a military shift, Canadian humanitarian aid has been frozen at $5 billion a year. Lester B. Pearson famously challenged developed countries to provide foreign aid to impoverished countries at a rate of 0.7% of GNP. With a stagnant foreign aid budget, Canada continues to fall further behind this goal. By the end of 2012–13, Canada will have fallen to 0.29% of GDP.

Finally, it isn't only the military budget that has exploded in recent years; all departments under the burgeoning National Security Establishment have seen large increases. Foreign affairs has increased by 83% since 9/11 and Security and Public Safety programs are up 186%.[9] While the military makes up the lion's share of this National Security Establishment, it is not the portion that has grown the most rapidly. In fact, it is Security and Public Safety departments such as CSIS, Corrections Canada and Canada Border Security that have grown the most rapidly, almost doubling in cost since September 11, 2001. While debate may remain as to whether those expenditures were justified during the 2000s, a re-evaluation of what have become significant costs should now begin.

Current Issues

The 2010–11 fiscal year has seen a number of major events and announcements that will have a significant impact on the level and nature of defence spending in the next year and beyond. Most visible of these was the now-completed, NATO-led incursion into Libya. The transformation from a mandated intervention authorizing the protection of civilians to an active operation with the goal of regime-change was controversial in Canada, as it was among other NATO members. Canadian involvement in Operation Mobile saw the first use of aerial bombardment by the Canadian Air Force since NATO operations in Kosovo in the 1990s. It is difficult at this time, with the rebuilding efforts in Libya still in the early stages, to determine the historical legacy that this intervention will leave. The Libyan action, however, does indicate a continued Canadian emphasis on NATO operations even as the operations in Afghanistan wind down. Additionally, the Canadian government has used the experience as a springboard to call for, and to rationalize, greater military procurement, such as the purchase of the F-35 Stealth Fighter planes.

The intended Joint Strike Fighter procurement program estimates that each of the 65 individual F-35s to be purchased will cost between $75 million and $150 million. They are meant to replace CF-18 Hornets that currently serve in the Canadian Air Force, beginning in 2016, and the procurement program is part of similar plans to purchase F-35s in the U.S., Australia, Britain, and elsewhere. The JSF procurement program, however, continues to be fraught with logistical issues. The sole-source contract to be awarded to Lockheed Martin is without any competition among possible alternative aircraft. In addition to the high purchase cost of individual aircraft, the estimated operating costs of the F-35s could bring the total cost of the procurement to as much as $30 billion.[10] Beyond the concern related to the procedures and costs associated with this military equipment program is the general question, which was never fully addressed by the government, of whether such aircraft capabilities would significantly add to the security of Canadians.

In addition to the continuing developments of the F-35 purchase, this year has seen several other developments in the field of military procurement. On October 19, 2011, it was announced that two shipbuilding contracts, amounting to $33 billion, would be awarded to yards in Halifax and British Columbia. With media focus primarily on the competition for the contracts, important questions as to why the purchase of new Coastguard ships comprised only a fraction of the total procurement, or whether the money could be better spent on domestic infrastructure projects in the current economic climate, went largely unanswered. Similarly, the delay in the much-needed scrapping of Canada's submarine fleet suggests important flaws exist in the current system of monitoring procurement and maintenance.

AFB Actions

The AFB resolves to take the following actions for the 2011–12 fiscal year:

- Reduce Department of National Defence Spending, with a goal of returning to pre-September 11, 2001 levels.

The National Defence Budget must be brought in line with the changed realities that Canada faces in the world, a decade after the events of September 11, 2001. The most prominent threats facing the security of Canadian citizens are economic, rather than military, and an attitude of unlimited military spending only heightens the challenges of high unemployment and large deficits. The Canadian government cannot continue increasing defence funding year by year for another decade, particularly considering the stated goal of achieving a balanced budget. With Canadian involvement in Afghanistan winding down and our commitment to addressing the global financial crisis, an immediate reduction in the defence budget and an eventual return to pre-2001 levels are realistic goals that would set Canada on the path to fiscal responsibility in the field of expenditures. Prior to September 11, 2001, the defence budget was the equivalent of $15.3 billion in today's dollars, $6.4 billion less than this year's estimated level. In order to return to pre-2001 levels in the next five years, the AFB will undertake *an immediate reduction of $1.28 billion in the next fiscal year*. This reduction is to continue every year until FY2016–17.

- Review planned equipment spending to ensure projects still meet Canada's national defence policy priorities.

Given that a major element of defence spending consists of materiel procurement, a review of all major equipment spending programs that are currently in the works is needed to ensure a reversal of the trends of the last decade. Many of the current projects have not been subjected to the intense scrutiny faced by other departments and programs in the government. Major Crown Projects such as the F-35 purchase plan, the awarding of naval and Coast Guard contracts, and the future of Canada's submarine fleet would all be subject to this review. By comprehensively assessing whether these major capital expenses are essential to Canadian security, and whether the contract processes are producing the best value for public dollars, important fiscal adjustments can be made in line with current global realities.

- Increase oversight of Department of National Defence equipment spending by establishing a parliamentary committee or sub-committee responsible for Major Crown Projects.

The Auditor General of Canada, the Parliamentary Budget Office, and other fiscal monitoring agencies have repeatedly warned about the dangers of unchecked spending increases in the Department of National Defence, but have had little effect. The lack of transparency and democratic mechanisms affecting the current military procurement regime must be addressed through greater parliamentary oversight. Contracts that must go through a parliamentary committee or sub-committee before receiving approval are significantly more likely to guarantee job offsets, include specific costs, and generally involve a greater degree of open competition for the public dollars involved.

- Increase Overseas Development Assistance to impoverished countries to approach Lester B. Pearson's goal of 0.7% of GNP over 10 years.

- Freeze non-defence portions of the National Security Establishment including Canada Border Security, CSIS, Corrections Canada, Public Safety and related programs. Simply stopping their significant growth paths will lead to incremental savings of approximately $500 million a year.

Notes

1 David Macdonald, The Cost of 9/11, The Rideau Institute, September 2011.

2 SIPRI Yearbook 2011, http://www.sipri.org/yearbook/2011/04/04A

3 Financial and Economic Data Relating to NATO Defence, March 2011, http://www.nato.int/nato_static/assets/pdf/pdf_2011_03/20110309_PR_CP_2011_027.pdf

4 National Defence 2011–12 Report on Plans and Priorities and earlier editions. "Incremental cost" as defined by DND is the cost incurred by DND over and above what would have been spent on personnel and equipment if they had not been deployed on a mission.

5 Mathilakath, R., Rajekar, A. and Khan, S. (2008). *Fiscal Impact of the Canadian Mission in Afghanistan*. Ottawa: Office of the Parliamentary Budget Officer, Oct. 9. The Parliamentary Budget Office figures are larger because they include the estimated cost of capital depreciation due to the war. Certain other costs, such as "accelerated procurement of capital and danger pay," were not counted due to a lack of reliable data. The report notes, therefore, that "the estimates provided may understate the costs of Canada's mission in Afghanistan." In addition to DND costs, the report looked at the costs to Canada of veterans' benefits and of foreign aid to Afghanistan. However, as those costs do not fall under the military budget, they are not cited here.

6 Dorn, Walter and Langille, Peter. (2009). "Where have all the Canadian peacekeepers gone?" straight.com, August 7.

7 Monthly Summary of Contributors of Military and Police Personnel, http://www.un.org/en/peacekeeping/contributors. Accessed December 7, 2011.

8 Foreign Affairs and International Trade 2011–12 Report on Plans and Priorities, Department of Foreign Affairs and International Trade, 2011.

9 Macdonald, David. (2011). *The Cost of 9/11*. Ottawa: The Rideau Institute.

10 Staples, S. (2010). *Pilot Error: Why the F-35 Stealth Fighter Is Wrong for Canada*. Ottawa: The Canadian Centre for Policy Alternatives.

Foreign Policy

Background

The Global Economic Crisis

Reneging on commitments made at earlier G20 meetings to give priority to recovery and job creation, delegates at the Toronto G20 in June 2010 agreed to prioritize deficit elimination and debt reduction. This commitment, the result in part of urging by the Canadian government, has raised the probability of prolonged stagnation and a backslide into global recession.

Year four of the global economic crisis is unfolding with no sign of real recovery. Unable to act to prevent financial meltdown and prolonged recession, the EU is heading towards breakdown. The American political class and their business backers are locked in a nasty power struggle, paralyzing efforts to foster recovery.

Most countries are still gripped by stagnation, recession, or worse. The middle class is experiencing increasing stress and anxiety. The circle of poverty and despair is widening. Industrial world elites lack the courage and political will to collectively stabilize the world economy and bring about inclusive economic recovery.

Comprehensive Economic and Trade Agreement (CETA)

Currently being negotiated between Canada and the European Union (EU), CETA is intended to be an ambitious free-trade agreement that will affect policies well beyond international trade. It is actually more concerned with limiting governments' abilities to regulate the activities of multinational corporations than with reducing genuine trade barriers.

The Extension of Investor Rights

Provisions such as Chapter 11 of the North American Free Trade Agreement (NAFTA) allow foreign investors to bypass domestic court systems and instead use investor-state dispute tribunals. These tribunals, which lack accountability, can order governments to compensate investors allegedly harmed by public policies or regulations.

There have been 30 investor-state claims against Canada under NAFTA, targeting public policy measures at all levels of government. These include challenges to export bans on toxic waste, environmental assessments and wildlife conservation measures. While cases continue to mount, Canada has already lost or settled five claims and paid damages of $157 million, not including legal costs.

Early in the CETA negotiations, Canada put the NAFTA Chapter 11 template on the table. The EU responded by demanding even stronger investment protections than those contained in the NAFTA. It also insisted that provinces and municipalities fully comply.

The CETA threatens to expand this controversial model of investor protection before citizens understand all the implications.

Public Purchasing and Public Services:

Unconditional access to government procurement, particularly at provincial and municipal government levels, is the EU's top priority.

The proposed restrictions would severely curtail governments' ability to use their purchasing power to ensure local benefits, even when contracts are competed for openly and do not discriminate against foreign suppliers.

Canadian governments could lose a valuable policy tool for creating employment, protecting the environment, and assisting marginalized groups. The EU is already challenging the Ontario Green Energy Act under the WTO and objects to Toronto's decision to purchase subway cars from a plant in Thunder Bay.

Furthermore, many Canadian public services are provided by municipal governments. The CETA would be the first Canadian trade treaty to cover municipal-level procurement, including vital services such as waste management, public transit and drinking water.

Under the CETA, a government decision to contract out a service would trigger powerful rights for foreign multinationals to challenge any perceived bias, any local development conditions and any attempt to halt or reverse the contracting-out process.

Jobs

A study for the CCPA titled *Out of Equilibrium* found that CETA could widen an already large Canada-EU trade deficit, costing up to 150,000 Canadian jobs.

Intellectual Property Rights

The EU demands include:

- adding the extra time it takes for a drug to receive regulatory approval (up to five years) to the regular 20-year term of monopoly patent protection,
- longer terms for data protection, up from eight to ten years, including protection for non-innovative drugs, and
- new rights of appeal that would enable the brand-name drug industry to delay the approval of generic drugs.

Each of these changes would reduce the availability of cheaper, generic medicines and drive up costs for all Canadians. A recent study estimates these extra costs at $2.8 billion annually. Since drug costs are the fastest-rising component of Canadian health care costs, these provisions could deal a critical blow to the sustainability of Canada's health care system.

The AFB does not support a CETA that includes public services; investor-state arbitration; intellectual property provisions that increase drug costs; or restrictions on the use of procurement as a tool for local economic development.

Canada-U.S. Deep Integration

The Harper government has continued and accelerated (often enthusiastically) the process of policy harmonization underway since the beginning of the free trade era. It has been a one-sided harmonization — aligning Canadian policies and regulations with those of the United States — with implications for policy flexibility, sovereignty, and democracy.

Grain Policy

Dismantling the Canadian Wheat Board (CWB), and with it farmers' collective bargaining power in the market against multinational grain companies such as Cargill and ADM, fulfills a longstanding Conservative commitment to free trade in grain. It has accomplished what numerous U.S. actions against the CWB in international trade forums failed to do. This will further integrate the North American grain industry, but it will be hard on farmers, on communities, and on specific transportation networks and ports.

Telecommunications Policy

The Harper government is taking steps to open up the telecom sector to foreign investment and by extension the broadcast industry. It has signaled that it will permit telecom companies with less than a 10% share of the Canadian market to be opened up to unrestricted foreign ownership.

Fossil Fuels and Climate Change Policies

Government-encouraged investment in the tar sands and construction of transportation infrastructure has vastly increased exports of raw bitumen to refineries in the U.S. The Keystone pipeline, the most ambitious of these infrastructure projects, has been delayed (possibly indefinitely) due to pressure from environmentalists. The Harper government is using the need to have common North American policies to manage climate change as a pretext for inaction.

Security and Regulatory Policy Harmonization

The Canada-U.S. perimeter security agreement announced in December 2011 trades the promise of improvements to cross-border goods and services traffic for personal information on millions of Canadians. In the process, it also integrates Canadian security institutions more closely with those of the United States. Adopting the U.S. view of security, the Harper government has sacrificed independent Canadian security policy for a nebulous promise of action to "thin" the border — a promise that, like the previous Smart Border Accord and the Security and Prosperity Partnership, offers only the illusion of success.

The regulatory harmonization component of the agreement establishes a bilateral, closed-door, business-government Regulatory Cooperation Council charged with eliminating "red tape" purportedly costing business $16 billion a year. A longstanding business priority, eliminating small regulatory differences will likely be used as cover for aligning Canadian regulatory policy in areas such as food safety and pharmaceuticals to U.S. norms, subordinating Canadian health and safety priorities once again to the imperatives of "business competitiveness."

These policies are contrary to the AFB approach to Canada-U.S. relations. Canada should conduct its economic relations with the United States in a spirit of cooperation, as befits neighbours with interlocking interests and a history of friendly coexistence. Such agreements, where necessary, should be of limited scope and negotiated on terms that minimize the loss of essential policy flexibility. Core national interests must take precedence over arguments for market efficiency.

The AFB will continue to monitor these policies and highlight, where applicable, their adverse impact on the Canadian public interest.

Current Issues

- The AFB supports policy measures at the G20 and other international forums, directed at economic recovery, that place job creation, equitable distribution of benefits and environmental sustainability at the forefront.
- The Canada-EU free trade negotiation is moving into its final stage. The AFB does not support a CETA that includes public services; investor-state arbitration; intellectual property provisions that increase drug costs; or restrictions on the use of procurement as a tool for local economic development. By widening our existing trade deficit with Europe, CETA could cost up to 150,000 Canadian jobs.
- The Harper government is continuing to align Canadian policies and regulations with those of the United States in the name of free markets, competitiveness and jobs. Recent examples are the dismantling of the Canadian Wheat Board and the Canada-U.S. security perimeter agreement. The AFB will continue to monitor these policies and highlight, where applicable, their adverse impact on the Canadian public interest.

AFB Actions

The AFB supports the following policy measures at the G20 and other international forums:

- Implement further international recovery initiatives that place jobs at the forefront.
- Do not compromise climate-change policies while confronting the economic crisis. Instead, treat the crisis as an opportunity to address

economic stability and job creation while investing in measures to reduce greenhouse gas emissions.

- Create effective mechanisms for international policy coordination that go beyond the G20 to include more representative institutions such as the United Nations.
- Renew efforts to abolish tax havens and, more generally, tax evasion, and develop international cooperation mechanisms to avoid tax-competition wage deflation and social dumping.
- Implement a global tax on financial transactions to discourage financial speculation and serve as a source of revenue for governments.
- Encourage countries that implement controls on short-term capital inflows to prevent speculative bubbles and currency appreciation.
- Implement new regulatory measures that limit excessive leverage in financial institutions, regulate the shadow financial system, increase transparency of over-the-counter derivatives markets, regulate executive pay structures so as to discourage excessive risk-taking, and reform the credit rating system to eliminate conflict of interest.
- Give greater IMF decision-making power to emerging and developing countries, and demand that the IMF cease requiring monetary and fiscal austerity in its stabilization agreements with countries experiencing severe economic hardship.

Section 4

The Changing Nature of Work and the Economy

Strengthening Public Services

Background

Public Services

Strong, effective public services are essential to address the economic, social and environmental challenges Canadians face. Publicly owned and operated services are more efficient, less expensive, of higher quality, and more accountable than privatized services. All Canadians should benefit equally. Public services reduce inequality and promote economic, social, and environmental security. If unregulated market forces were as effective as their proponents contend, the public sector would not have been called on to manage and organize every major societal challenge of the last century from the Great Depression to Second World War mobilization, post-war reconstruction and, more recently, the public "stimulus" measures provided to mitigate the effects of the recent recession.

Attacks on Public Services Are Part of a Broader Agenda

Government actions that facilitate privatization, contracting-out and deregulation are predicated on the belief that unregulated market forces will benefit all citizens. In reality, only a very few end up better off. The increase in inequality in Canada is a direct result of this limited worldview. The attack on public services systemically limits our capacity to create equality and instead makes the rich richer at the expense of the many.

Contrary to government claims, the Federal Accountability Act has enabled the Conservatives to govern in a less accountable fashion, in particular in the area of contracts. It has made federal policymaking, once a product of rational internal departmental discussion, completely dependent on the Prime Minister's Office.

Federal spending decisions impact not only the quality of federal public services, but also provincial and municipal government services. Health care is a primary example.[1] Federal governments have a history of passing the buck to other levels of government, leading to a deterioration of services and downloading costs to individual Canadians. Boasts about lower federal taxes divert the public's attention from the increased costs they pay personally for diminished services.

Debt and Austerity

Canada's current net debt is comparatively small as a share of GDP. It is manageable, and can be addressed without aggressive cuts to public spending and public services.[2] In fact, past AFBs have shown that increases in public spending actually increase the rate at which the deficit is paid down. Instead, governments are tackling debt through cuts to public spending and the public sector, a choice driven by ideology, not economic necessity.

The Myth of Free Trade

Relatively insignificant trade barriers exist between Canada and our largest trading partners. Where they do exist, they exist because elected governments have chosen to protect the public interest. Experience shows that free trade deals have decreased foreign direct investment in our shrinking manufacturing sector and increased the export of staples (especially oil), undermining our economy as a whole.[3] Free trade deals also tend to undermine public services and open the door to increased privatization and deregulation. They stipulate limits to government decisions in the public interest. Investment provisions in the North American Free Trade Agreement (NAFTA) and new agreements such as the Comprehensive Economic and Trade Agreement (CETA) with Europe transfer decision-making authority for purchasing, economic development, public-service monopolies and environmental regulation from elected governments to unelected trade tribunals. Services that protect and distribute everything from financial, water, environmental, transportation, health, education and regional economic development services are compromised.

Privatization and Public-Private Partnerships (P3s)

Privatization can be defined very simply as "the transfer of responsibility and control from the public sector to the corporate and voluntary sectors, or to families and individuals."[4]

Governments view P3s — also known as Private Finance Initiatives, Strategic Service Delivery Partnerships and Build Operate Transfers — as the form of privatization most likely to win public support. P3s are multi-decade contracts (usually 25 to 30 years in length) that include private-sector financing, construction, management, and ownership or operation of vital public services or infrastructure. The main supporters of P3s are investment banks, law firms that organize P3 consortia, and governments that hope to be re-elected by appearing to be good fiscal managers. They are not. P3s result in higher costs, lower quality, and loss of public control.

Hidden Long-Term Debt

Governments try to hide the long-term costs of P3s by claiming they enable much-needed infrastructure to be built without incurring more debt. In fact, public-sector accounting processes create the illusion that P3s are paid for by the private sector, when the debt is only postponed to another time, another government and a future generation. Recent year-end Public Accounts published by the B.C. Finance Department demonstrate the extent of this sleight-of-hand. In 2009, B.C. government contingencies and contractual obligations to its P3 partners were calculated to be more than $50 billion.[5]

P3 consortiums borrow money from international investment banks at higher interest rates than do governments.[6] Over the average 25-to-30-year span of a P3 contract, the public pays much more than it would have had the government borrowed the money directly to finance a traditional design/build contract.[7] The long-term outcomes of such privatized, hidden debt erode government's flexibility to provide public services as more and more public money becomes tied up paying private providers, guaranteeing private profits and institutionalizing private for-profit monopolies.[8]

Because the details of private-sector contracts become the property of the contractor, the public isn't allowed to view the books of their P3 partner, even though it is ultimately responsible for the costs.

The public rightly expects governments to deliver services, regardless of whether P3 projects or their funders meet their obligations. Citizens and their governments bear the ultimate risk for the provision of public services. P3s fail regularly and must be bailed out by the public.[9] Business must make money for its shareholders and, as recent experience shows, won't hesitate to take quick action, including bankruptcy and liquidation, to protect investor interests.

Federal Government Support for P3s

Federal governments have a history of supporting P3 growth. The Harper government created PPP Canada, a Crown corporation dedicated to encouraging P3s at all levels of government, P3 funding criteria like that found in the Building Canada Fund, and the P3 Canada Fund, which subsidizes the development of P3 projects in provinces, territories, municipalities and First Nations communities. PPP Canada actively encourages federal government departments and agencies to use P3 solutions for infrastructure and service renewal.

Sell-Off of Government Assets

Federal budgets have committed to ongoing reviews of federal corporate assets, including Crown corporations, especially those that the government believes compete with the private sector. The criteria for selling these assets are arbitrary, based on an ideologically driven interpretation of "core responsibilities." For example, seven large properties that the government sold in 2007 and then leased back were sold for at least $350 million less than they will be worth at the end of their 25-year lease. Over the course of the lease the Canadian public will be liable for an estimated $165 million of extra capital and contract management costs.[10] In another example, Atomic Energy Canada Ltd. (AECL) was recently sold to a single buyer, SNC Lavalin, at fire sale prices.

Privatization By Review

All recent federal budgets have announced strategic reviews that include criteria that eliminate public capacity. The criteria for such reviews are arbitrary and secretive. There is no evidence that they are aligned with any public priority except debt reduction. Any savings tend to delay dealing with environmental, social and other problems. As a result, the federal government has made cuts to environmental enforcement, food inspection, arts and culture, and human rights-based programs. Notable recent examples include cuts to the Court Challenges program, Status of Women, Pay Equity and decisions to cut funding to respected organizations such as KAIROS, Rights and Democracy and the Canadian Council for International Cooperation. Expenditure Review is about cutting jobs and making government smaller.[11] Fewer public servants translates into fewer and less timely delivery of services for Canadians.

Privatization of Regulatory Oversight and Enforcement

Deregulation, the weakening, elimination and lack of enforcement of regulations, has the effect of privatizing the government's responsibility for keeping Canadians safe. Citizens depend on regulations to protect our water, food, health and consumer goods. They ensure the safety of the roads we drive on and the environment we live in. They suppress the predatory behaviour of financial institutions, telecom companies and other businesses. Recent budgets have included measures to increase competitiveness and reduce "red tape." As a result, federal inspectors in all sectors have seen their numbers and enforcement powers diminished.[12] Expenditure Review programs further undermine inspectors' ability to do their job. Their responsibilities have largely been transferred to individuals and businesses that sell goods and services or extract Canada's natural resources.[13]

Meanwhile, polls show that 90% of Canadians believe the Canadian government should do much more to protect the environment and public health and safety, and 83% believe that inspectors who enforce regulations should work for government agencies, not for the industries being regulated.[14]

Moreover, regulation plays an important role in ensuring that private organizations and industries meet public-interest objectives of content, security and breadth of service. For example, previous governments have held the firm position that domestic ownership of Canada's media and telecommunication industries were essential to the public interest.[15]

Contracting-Out, Marginal Jobs, and Temporary Staffing Agencies

The federal government has relied increasingly on contractors and temporary staffing agency contracts. There is no evidence that this saves money. On the contrary, growing evidence suggests that it costs the government more money and undermines federal public service staffing legislation.[16]

Workers hired under these arrangements often feel marginalized. Some may prefer temporary employment relationships, but others become disillusioned and see little opportunity for job security, career advancement or equitable wages and benefits.[17] There are clear guidelines for staffing government jobs on a temporary basis when required. The current trend lacks transparency and is wasteful.

The 2010–11 Main Estimates indicate that the government plans to spend over $12 billion for contracted-out work and services.[18] Over $8 billion is earmarked for professional and special services alone, with generous payments to multinational consulting firms such as Deloitte, CGI, and IBM, and hundreds of temporary staffing agencies and IT firms.[19]

Current Issues

The AFB recognizes the importance of strong, accountable public services in redressing the wealth imbalance between the 1% and the 99%. Unfortunately, recent federal budgets have undermined public services, increased inequality, and jeopardized the health and welfare of future generations.

The current government is squandering its capacity to provide public services by purchasing expensive military hardware such as F-35 jets and financing U.S. military satellites. It has passed expensive, unwarranted crime legislation that will further stress both federal and provincial budgets. It refuses to engage in serious discussion about taxes, while continuing to subsidize corporations through generous tax breaks.

Massive cuts to the federal public service announced in the two previous budgets have already led to increased wait times for Employment Insurance[20] as well as the disintegration of environmental stewardship[21] and regulatory enforcement.[22] Very few citizens or municipalities will escape the impact of further diminished or downsized services. The government has also promised to cut as much as $12.6 billion from current services. As many as 25,000 to 70,000 public-sector and private-sector jobs could be lost.

The Harper government is also undermining the public interest by racing to sign as many free trade deals as possible. The Comprehensive Economic and Trade Agreement with Europe (CETA) in particular is designed to ensure that investor-state provisions trump citizen rights at every level of government, making it far more difficult for governments to protect the public against the commercial interests of multinational corporations without the threat of serious financial penalty. CETA has the potential to weaken our health care system, our industrial base, and our ability to use public policy to promote a green economy.[23]

The federal government continues to provide incentives for provinces and municipalities to privatize the rebuilding of Canada's crumbling infrastructure through P3 financing and ownership under the auspices of PPP Canada.[24] At the same time, the government is encouraging more privatization in the federal sphere as part of its strategic reviews.[25] The privatization of long-term debt constrains future governments' ability to act on behalf of coming generations who face massive and costly environmental and social impacts.

AFB Actions

The budgetary process must be transparent, accountable, and democratic. The Auditor General, the Parliamentary Budget Officer, and the people of Canada must understand the relationship between the programs that are wanted and needed, and the revenues that the government receives. Full cost accrual accounting should be instituted in order to recognize all current and future government expenses and debts and their long-term economic and human impact.

Existing programs and procured services must be leveraged to achieve social and environmental outcomes for both current and future generations. Social impact "weighting" that includes a combination of price, quality, environmental and social impact criteria must be part of all decisions. Community Benefit Agreements (CBA), including employment objectives, employment equity goals, and local content requirements should be a mandatory consideration for all federal government programs and contracts above $1 million.

The AFB is committed to public service renewal and to implementing steps to ensure transparent public spending and public spending decisions.

The AFB will introduce a transparent Program Review Process to examine strategies that:

- improve poverty reduction through accessible public sector service provision, green job creation, infrastructure renewal, and public interest regulations;
- determine the economic and human costs of citizen-centred program renewal;
- recommend revenue targets and tax initiatives to intelligently support federal public service programs;

- reconcile public service staffing, training, and retention strategies with citizen-centred program goals;
- treat all federal government employees equally, and ensure temporary staffing agencies are used only for short-term unanticipated work;
- enact legislation that protects all temporary workers employed by the federal government; and
- compare the growing costs of federal government contracting-out to public delivery and reduce contracting-out where required, with a view to redirecting the anticipated savings into programs and projects in the broader public interest.

The AFB supports strong public regulatory oversight and enforcement. To that end, it will:

- review Canada's regulatory regime and ensure that the interests of Canadians are proactively protected and that adequate resources are attached to federal monitoring and enforcement obligations;
- review all current plans to open foreign investment.

The AFB believes trade deals should not be mechanisms for corporations to bypass the political will of citizens. To that end, the AFB will:

- examine the impact of international trade deals on the public interest through a rigorous cost-benefit analysis with respect to the broader public interest and through consultation with all elements of Canadian society. Results will be used to recommend changes to existing trade agreements.

The AFB will convert PPP Canada into a Public Assets Office that will:

- assist in the creation of a green economy through training and the renewal of crumbling infrastructure through environmentally sustainable practices;
- stop forcing municipalities, provinces, and territories to use P3s for their infrastructure projects;
- include a governance structure that reflects the diversity of the Canadian public and is accountable to the public through Parliament;

- work internally with departments and agencies, and externally with other levels of government, to examine infrastructure priorities, green infrastructure practices, and comprehensive investment strategies; and
- cancel immediately all planned federal P3 projects where possible.

Notes

1 See the Health Care chapter in this year's AFB.

2 Jackson, Andrew. (2010). *Big Train Coming, Does Canada Really Have a Deficit and Debt Problem?*, AFB Series, Ottawa: CCPA.

3 Stanford, Jim. (2010). "The Ins and Outs of Foreign Investment." The Progressive Economics Forum. See also: Stanford, Jim. (2010). *Out of Equilibrium: The Impact of EU-Canada Free Trade on the Real Economy.* CCPA.

4 Whitfield Dexter. (2010). *Global Auction of Public Assets*. Spokesman.

5 $1 billion of this is for the Sea to Sky Highway alone, not to mention other B.C. P3 obligations. McInnis, Craig. (2009). "P3 financing wins favour by limiting political risk," *Vancouver Sun,* Oct. 28.

6 Private corporations pay 200 basis points (2 percentage points) or more than governments pay to borrow over a 30-year term, increasing the cost of a 30-year P3 project by more than 25% compared to a traditional publicly financed project.

7 The Sea to Sky Highway would have cost taxpayers $300 million less over the life of the 25-year contract if the government had chosen the traditional contracting method as opposed to a P3. McInnis, Craig. (2009). "P3 financing wins favour by limiting political risk," *Vancouver Sun,* Oct. 28.

8 Whitfield Dexter. (2010). *Global Auction of Public Assets*. Spokesman, p.36.

9 Mehra, Natalie. (2005). *Flawed, Failed and Abandoned*. Ontario Health Coalition.

10 McCracken, Michael. (2007). Testimony to the Standing Committee on Government Operation and Estimates. Informetrica, Dec. 5.

11 Curry, Bill. (2010). "Ottawa to rely on public service attrition for lion's share of spending cuts," *The Globe and Mail,* Nov. 19.

12 The government-appointed commission made 57 recommendations following the 2008 Listeriosis outbreak. The government appears unwilling to implement many of them. At the time of the outbreak the Canadian Food Inspection Agency employed 220 inspectors to verify compliance with meat preparation safety procedures. CFIA, despite the Commission's recommendation that more inspectors were needed now estimates it only needs 150 inspectors to do the same work. Kingston, Bob. (2010). "Government Spins Food Safety," Press Release, Nov. 4.

13 For a broader discussion of the government's deregulatory actions see: Campbell, Bruce and Lee, Marc. *Putting Canadians at Risk: How Deregulation Threatens Health and Environmental Standards*. (2006). CCPA, and Lee, Marc. (2010). *Canada's Regulatory Obstacle Course: The Cabinet Directive on Streamlining Regulation and the Public Interest*. (2010). CCPA.

14 Lee, Marc. (2010). *Canada's Regulatory Obstacle Course: The Cabinet Directive on Streamlining Regulation and the Public Interest*. CCPA. See especially the Annex.

15 A broader discussion on the impacts of foreign ownership of Canada's telecommunications industry and infrastructure can be found in "Increasing foreign control of Canada's telecommunications: No Evidence. No Need. No Support." Submission by the Communications, Energy and Paperworkers Union of Canada in response to "Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform," Industry Canada's Consultation Paper, June 2010.

16 An investigative study prepared by the Public Service Commission of Canada shows that expenditures for temporary help services increased by 178% over the 10-year period ending 2009, from $108 million in 1999–2000 to $299 million in 2008–09, while overall government expenditures only increased by 35.5%. Research by David MacDonald clearly shows that personnel contracting costs rose to around $1 billion by 2011. Macdonald, David. (2011). *The Shadow Public Service: The swelling ranks of federal government outsourced workers*. Ottawa: CCPA.

17 May, Kathryn. (2009). "Ontario law rewrites rules for temp firms." *The Ottawa Citizen*, Nov. 6.

18 The government estimates that the major areas where contracting for services in the federal public service occur are found in the Professional, Special, Purchased, Repair Maintenance and Information Services line estimates of the Main Estimates. For contracting-out costs see: "Contracting for Services: An Overview," TBS Canada, April 11, 1994.

19 May, Kathryn. (2009). "Ontario law rewrites rules for temp firms," *The Ottawa Citizen*, Nov. 6.

20 Galloway, Gloria. (2011). "Government job cuts mean jobless waiting weeks for EI cheques," *The Globe and Mail* Nov. 8. (http://www.theglobeandmail.com/news/politics/government-job-cuts-mean-jobless-waiting-weeks-for-ei-cheques/article2228669/)

21 Munro, Margaret. (2011). "Ozone watch faces Tory axe, Measuring program started 45 years ago." Postmedia News, Sept. 15. Environment Canada is planning to axe a monitoring network that is key to assessing Earth's protective ozone layer, according to a report in the British scientific journal *Nature*.

22 MacDonald David. (2012). The Cuts Behind the Curtain, CCPA. For a clear example see: McDiarmid, Margo. (2011). "Environment agency says cuts will limit oversight." CBC News, Oct 21. http://www.cbc.ca/news/politics/story/2011/10/20/pol-environmental-assessment-committee.html - socialcomments The Canadian Environmental Assessment Agency (CEAA), the federal watchdog that keeps an eye on natural resources projects to prevent environmental damage, says it could soon be understaffed and overworked, limiting its ability to do its job.

23 The Council of Canadians website has a thorough discussion of the impacts of CETA on civil society. http://www.canadians.org/trade/issues/EU/index.html

24 In the provincial and municipal environment, PPP Canada committed $100 million in investments from of the P3 Canada Fund to the Maritime Radio Communications Initiative in the Atlantic, the Chief Peguis Trail Extension in Winnipeg and the Lachine Maintenance Centre in oMontreal. More applications have been received for Round 2. PPP Canada Annual Report 2010–11 http://www.p3canada.ca/_files/PPP%20Canada%20Annual%20Report%202010_11_EN.pdf

25 The "Backgrounder" to the new Shared Services Canada Department opens the door for new public-private partnerships. http://news.gc.ca/web/article-eng.do?nid=614499 This is in addition to the current federal P3 environment where PPP Canada helped deliver two federal P3 projects in 2010–11: the RCMP "E" Division Headquarters in Surrey, B.C., and the new headquarters for Communications and Security Establishment Canada in Ottawa. PPP Canada and Public Works and Government Services Canada (PWGSC) also signed a Memorandum of Understanding to implement a joint P3 working group. It worked with other federal departments and agencies to look at P3s for the Public Health Agency of Canada's Level 5 Lab project, Library and Archives Canada's consolidation project, and PWGSC's Energy Services Acquisition Program. PPP Canada Annual Report 2010–11 http://www.p3canada.ca/_files/PPP%20Canada%20Annual%20Report%202010_11_EN.pdf

Employment Insurance

Background

Employment Insurance (EI) is a fundamentally important part of Canada's social safety net. While prior AFBs have criticized key gaps in Canada's Employment Insurance program, EI and temporary enhancements in the Economic Action Plan helped hundreds of thousands of unemployed workers and many hard-hit communities to weather the worst stage of the economic crisis. The number of regular EI beneficiaries peaked at over 800,000 in mid-2009, equal to 53% of all unemployed workers. Some $17 billion in regular EI benefits were provided to unemployed workers in each of 2009–10 and 2010–11, even though the average benefit paid was well under $400 per week. Special measures to support work-sharing under EI helped prevent many layoffs, and some unemployed workers benefited from extended training benefits.

That said, even at the peak of the recession, most unemployed women and younger workers fell through the cracks, and one in three workers who were laid-off and qualified for EI exhausted their benefits before finding a new job.

Even though the jobs crisis is still a reality, special EI measures introduced as part of the Economic Action Plan in the 2009 Budget have come to an end. These included an extra five weeks of EI benefits for all regular beneficiaries to a 50-week regional maximum, and a further extension of regular benefits for some so-called long-tenure workers.

With the end of the special measures, the basic parameters of Canada's notoriously ungenerous EI system are back in place. The benefit rate is low–just 55% of earnings averaged over the previous six months, which often include weeks of very low earnings. A worker qualifies for benefits based on hours of work over the previous year, and depending upon the local unemployment rate. Fewer hours are needed to qualify in regions with high unemployment rates, and claimants in these regions receive more weeks of benefits. Benefits can last for as few as 14 weeks and as many as 50 weeks, but only in a very few high unemployment regions. The qualifying level for new entrants and re-entrants to the workforce is 910 hours or almost six months of steady full-time work.

In an average EI region with a 7% to 8% unemployment rate, a worker needs at least 630 hours — about four months of full-time work — to qualify for EI. That worker will be eligible for between 17 weeks and 40 weeks of benefits, depending upon how long they've worked over the previous year. That leaves out many workers who work part-time or in temporary jobs, or combine such precarious work with spells of self-employment.

EI is not well-suited to the realities of today's job market in which one in five jobs are part-time, and one in seven jobs are contract or seasonal jobs. A key problem with temporary and part-time employment is that, when the job ends, a worker is unlikely to qualify for EI, or may qualify for as few as 14 weeks of benefits.

Today there are still almost 1.4 million unemployed workers in Canada and the unemployment rate is forecast to rise back to about 8% though 2012, well above the pre-recession level of 6.0%.

It is troubling that the number of regular EI beneficiaries has fallen much more rapidly than the number of unemployed workers over the course of the recovery. Between June 2009 (when the recession was at its worst) and August 2011, the proportion of all unemployed workers collecting regular EI benefits fell sharply, from over one half to a low of just over 40%. This is a lower proportion than before the recession, even though the national unemployment rate is higher than in 2008.

Unemployed workers find themselves increasingly ineligible for EI benefits for two key reasons. First, many (about 30% of all claimants) run out of benefits before they can find a new job. Second, many unemployed workers are laid off from temporary and part-time jobs that don't provide sufficient hours of work to qualify, or only qualify them for very few weeks of benefits.

The situation is especially grim in Ontario. Less than one in three (31%) of unemployed Ontario workers received regular EI benefits in August 2011. This is well below the national average of 42%, even though the Ontario unemployment rate was above the national rate (7.5% compared to 7.3%).

Current Issues

Today, only about 40% of Canada's 1.4 million unemployed workers collect regular EI benefits. This is a lower proportion than before the Great Recession, even though the national unemployment rate is higher than in 2008. Our EI system fails the unemployed and fails to reflect the new realities of the job market.

Special EI measures introduced in the 2009 federal budget have expired despite the fact that the job market remains weak and is expected to worsen over the coming year. The number of regular EI beneficiaries has been falling much faster than the number of unemployed workers as long-term unemployed workers exhaust benefits, and as those being laid off from increasingly precarious jobs fail to qualify for EI.

As recently emphasized by the Organisation for Economic Co-operation and Development, there is a danger that the long-term unemployed will lose touch with the job market and current skills and become permanently unemployed. This would be deeply regrettable in both human and economic terms, given that few new workers are projected to enter Canada's workforce in the years ahead as the baby-boom generation retires.

AFB Actions

- The AFB provides an additional five weeks of benefits in all regions through at least 2012 and 2013, when the unemployment rate is expected to return to about 8%. Currently, benefits can be exhausted after just 14 weeks, and typically last for only about 26 weeks in regions with unemployment rates equal to the national average. Based on the experience of the Economic Action Plan, the AFB's extension of benefits would cost approximately $500 million in 2012–13, but would help to stimulate hard-hit communities and support the overall economy.

- The AFB provides an additional benefit extension to long-tenure displaced workers who face the most difficulties finding new jobs, and often experience large income losses due to a permanent layoff. The government's own Expert Panel on Older Workers recommended special EI measures to support this group as a permanent feature of the EI system.

- The AFB continues extended training benefits under EI for unemployed workers, and would promote work-sharing arrangements that have a training component. The Economic Action Plan provided special training benefits to 12,000 long-tenure unemployed workers under programs that have now expired. Extended income replacement is especially needed by displaced workers who lack the literacy and numeracy skills needed to enter vocational skills training programs.
- The AFB also introduces a pilot project to establish a uniform national entrance requirement of 360 hours. Only about four in ten workers now qualify for regular EI benefits due to the disproportionate growth of temporary and part-time jobs. The annual cost of a national 360-hour entrance requirement has been estimated by the Parliamentary Budget Officer to be $1.1 billion. The pilot project will allow the government to judge whether concerns about the labour-market implications of a lower entrance requirement are well-founded. The lower entrance requirement should also apply to new labour force entrants and re-entrants, who now must jump over a 910-hour hurdle.

Sector Development Policy[1]

Background

Sector development policy seeks to promote more investment, production, employment and exports in especially important sectors of the economy. The goal is to attain a more desirable sectoral mix and a greater share of output and employment in high-value or "strategic" sectors. Sector development policy has been historically important in Canada, given our ongoing challenge to become more than a resource-supplier to other countries. We need more industries that add value to our resources (rather than exporting them in raw form); that generate more high-income, high-quality jobs; that embody technology and innovation; and that contribute to greater success in world markets.

Unfortunately, our recent performance in this regard has been very disappointing. Canada's economy is suffering in quantitative terms due to a stubborn recession, lack of jobs, stagnant incomes, and more. But it is also regressing in *qualitative* terms: the structural make-up of the Canadian economy has become less balanced, more dependent on exports of unprocessed resources. That has terrible implications for a host of economic indicators — including productivity, trade performance, capacity for innovation, environmental performance, regional economic differentials, and more.

Current Issues

The following are a few indicators and consequences of Canada's accelerating structural decline:

- **Reliance on primary resource exports:** In July 2011, unprocessed and semi-processed resource exports accounted for two-thirds of Canada's total exports, the highest in decades. In contrast, higher-value finished products accounted for just a third of our exports. Compare that to 1999, when finished goods made up almost 60% of our exports. Decades of postwar progress in diversifying Canadian exports have been undone in just 10 years of this resource-led trajectory.

- **Deteriorating balance of payments:** This surge in resource exports, even with high global commodity prices, still isn't enough to pay our bills in world trade. Trying to pay for sophisticated high-tech imports by digging more resources out of the ground ever faster is a losing battle. Canada's current account balance (which considers all current international payment flows, including trade, tourism, and investment income) was $50 billion in deficit in 2011.

- **Poor productivity growth:** One major problem with resource reliance is its negative impact on productivity. Productivity tends to decline over time in resource industries, because it is increasingly costly to extract more remote or marginal deposits. Canada is putting increasing economic emphasis on industries with *declining* productivity, and that pulls down our national performance. Cumulative productivity growth in Canada's business sector from early 2006 through autumn 2011 (five and a half years) was precisely zero.

- **Lousy innovation:** Business R&D now stands at just 0.9% of GDP — a fraction of the investments in innovation being made by businesses in other countries such as Korea, Sweden, Finland, the U.S., and even China. Canada has the most generous tax subsidies for R&D in the OECD, and ultra-low general corporate taxes too. But there is a growing consensus among innovation experts that across-the-board tax cuts have very little impact on business investment in capital and technology.

- **Failure to build global companies:** The combined effect of Canada's resource dependence, our open-door policy on foreign takeovers, and our unthinking commitment to free trade agreements is a stunted domestic business community. Canadian firms are well-known in mining and petroleum, and a small number of other industries (e.g., banking). But in terms of being able to develop and sell high-value, innovative products to the world, Canadian firms are almost invisible.

- **Environmental disaster:** Perhaps the most destructive consequence of our rush back to a "staples" economy is the impact on the environment — and Canada's environmental reputation. According to a recent CCPA study,[2] the emissions associated with expanded tar sands production will account for over 100% of Canada's total expected growth in GHG pollution between 2005 and 2020; and this doesn't even count emissions caused when that production is burned for energy. By 2020, under current policies, the tar sands will account for more emissions than our entire passenger transportation sector and domestic aviation combined.[3]

All these signs of structural decline in Canada's economy are at odds with the confident predictions of free-market, free-trade advocates. They promised that "perfecting" the private sector through trade deals, deregulation, tax cuts, and privatization would usher in a new era of innovation, efficiency, and trade success. Confronted with the evident failure of their *laissez faire* recipe, these thinkers look around for more "barriers" to business that might still be dismantled; perhaps *then* will the benefits finally start to trickle down. They propose more free trade deals (Europe, India, Korea, Trans-Pacific), more foreign investment (communications), more deregulation (the Regulatory Cooperation Council with the U.S.), and more tax cuts (the latest phase of the Harper corporate tax cuts took effect January 1, 2012).

But what if markets need to be challenged, not "freed," in order to maximize investment, innovation, and exports? The successful state-led industrialization experience of several Asian and Latin American economies in recent decades, where policy was pro-active and interventionist, suggests that innovative, productivity-enhancing growth does not occur spontaneously as a result of market forces. The toolbox used by these countries is diverse and creative: targeted subsidies, strategic trade interventions, active industrial strategies in high-tech industries, domestic procurement strategies, and even public ownership of key firms. These approaches have been far more effective in promoting innovation and export success than Canada's hands-off approach.

AFB Actions

We hope for a Canadian economy in which high-value, innovative industries have a larger presence, creating higher-income jobs, and paying our national bills in international trade.

The following are the major components of the AFB's vision for sector development.

1. Establish a System of Sector Development Councils

The federal government will work with other stakeholders (including provincial governments, labour organizations, industry associations, businesses, universities and colleges) to establish a network of Sector Development Councils. These councils will be established in a range of goods- and services-producing industries that demonstrate many or all of the following characteristics: technological innovation, productivity growth, higher-than-average incomes, environmental sustainability, and export intensity. The councils will identify opportunities to: stimulate investment and employment in Canada, develop and mobilize Canadian technology, utilize technologies developed in educational institutions for industrial applications, invest in sustainable products and practices, and better penetrate export markets. In this way, the councils would constitute the first step in rebuilding Canada's broader national capacity for sector development planning. Each council will develop a medium-range plan for developing its sector, and a short-list of actionable items to help attain that plan's targets. The Sector Development Councils would be given an annual operating budget of $50 million to support their work, commission research, and perform other infrastructural tasks. (The actionable items that arise from their recommendations would be financed through other policy vehicles, including those listed below.)

2. Enhance Value-Added Production and Investment in Key Sectors

The Sector Development Councils will begin the medium-term task of developing comprehensive strategies for key tradeable sectors. In some sectors, immediate measures can be taken. These initiatives will include:

- **Green Energy Manufacturing**: Current initiatives in energy policy hold great potential to stimulate the Canadian manufacture of components for solar, wind, and other green energy systems. Federal policy can complement and support these initiatives with a 10% investment tax credit for new capital and tooling in green energy manufacturing, and support for skills development for newly hired "green collar" jobs. These initiatives would be budgeted at $50 million per year.

- **Automotive**: A comprehensive new auto industry strategy will include support for product development and tooling for alternative fuel vehicles (including electric and hybrid vehicles); skills support to assist the industry through the coming demographic transition of its skilled workforce; and trade policy measures to address the debilitating one-way imbalances in automotive trade between North America, Asia, and Europe. The auto strategy would also feature a new Extended Producer Responsibility (EPR) initiative, consisting of investments in motor vehicle recycling, end-of-life conversion, and green motor vehicle components production. This EPR program would be self-financed from a new $200-per-vehicle Green Car Levy imposed on all sales of new motor vehicles in Canada (raising a total of $300 million per year).

- **Aerospace**: The federal government has touted its proposed mega-purchase of new fighter aircraft as a great boon for Canadian aerospace producers. This claim is vastly overstated; in contrast to previous major defence purchases, there is no guarantee that Canadian aerospace producers will win anything like a proportionate share of Canadian value-added spin-offs through this contract. The first priority of a national aerospace strategy should be to maximize Canadian production of domestic civil aviation products. This will require further active partnerships with Canadian aerospace producers such as Bombardier, and Pratt & Whitney, with special emphasis on supporting new product programs to improve fuel efficiency and reduce greenhouse gas emissions. Whatever defence purchases are eventually considered appropriate (consistent with a progressive foreign policy and recognition of other budgetary priorities) must be sourced through offset agreements that ensure dollar-for-dollar Canadian content in the final purchase.

- **Primary metals**: No sector of the economy has been more damaged by foreign takeovers than primary metals; long-standing Canadian companies (Stelco, Dofasco, Algoma, Inco, Falconbridge, Alcan) no longer exist, and in every case the new owners have exacted a terrible toll on workers and communities. The new Canadian Ownership Act (described below) will ensure commitments regarding maintenance and modernization of Canadian primary metal production are negotiated with all the foreign owners who now control primary metals production.

- **Forestry**: Forestry and wood/paper products are important export industries and employers in many regions of Canada. Sadly, the industry has been hammered by the decline in the U.S. housing market, the overvalued Canadian dollar, and a vast insect infestation in Western Canada induced by global warming. Support for the industry's sustainable recovery will be provided through a $300 million per year fund to enhance the production of value-added forestry, wood, and paper products; implement energy conservation and other sustainable practices; and invest in skills required for sustainable forestry and forestry products production.
- **Agriculture:** Farm incomes in Canada have been devastated by the recession and low prices, and will be further undermined by the Harper government's attack on the Canadian Wheat Board. Farm income supports must be restructured to emphasize production that is sustainable, organic, and for local use (reducing much of the pointless trade in foodstuffs that can be produced locally). Operating income supports must be capped at $250,000 per farm, to avoid making subsidy payments to large corporate farms. To achieve these aims, the AFB proposes a $650 million annual Sustainable Farming Income Support program. Much of the cost of the program will be offset by the elimination of subsidies for biofuel crops (saving $200 million per year). The collective marketing authority of the Canadian Wheat Board will be reinstituted.

3. National Green Skills Initiative

The AFB recognizes that adjustment to a sustainable, greener economy entails significant costs and challenges, but also many benefits. To maximize the environmental upside and facilitate faster growth of green industries, the 2012 AFB proposes a $100 million per year National Green Skills Initiative to support college and on-the-job training to enhance the capacity of Canadian workers to perform high-level services in green industries.

4. Control Non-Renewable Energy Developments (Especially in the Tar Sands)

The federal government (in partnership with provincial governments, where provincial governments choose to work cooperatively in this area) should implement a sustainable framework for the development of non-renewable energy resources, in the interests of all Canadians and global environmental sustainability. To accomplish this, the federal government will reinstate corporate income tax rates on petroleum production to the former 28% rate that prevailed prior to the series of corporate tax reductions that began in 2001. This measure will raise in excess of $2 billion per year in additional revenues for the federal government (to be used to capitalize the Canadian Development Bank, as described below).

5. Replace the Investment Canada Act

Continuing foreign ownership and control is both a consequence and a cause of the structural regression in the sectoral make-up of our economy. The Investment Canada Act, with its vague and ineffective "net benefit test," will be scrapped and replaced with a new Canadian Ownership Act, which will specify the methodology for a transparent cost-benefit test. For a takeover to be approved, a foreign investor would have to make binding commitments to production and employment levels, new investments in fixed capital and technology, and an expansion of Canadian content in supply contracts and other inputs.

6. Reduce the Canada-U.S. Exchange Rate

Canada's currency has been trading at levels far above its "fair value" for most of the last several years, driven higher by speculative financial pressures and global commodities prices. This over-valuation has contributed substantially to the deterioration of all non-resource export industries in Canada, including manufacturing, tourism, and tradeable services. A true fair value for our currency, based on comparisons of purchasing power, unit production costs, and other benchmarks, would be around 80 cents (U.S.). The efforts described above to rein in the rampant, unplanned development and foreign takeover of energy extraction and export projects, and to regulate and limit foreign takeovers, would automatically lead to an immediate and substantial pullback in the Canadian currency.

FIGURE 15 2012 AFB Sector Development Measures

Policy Measure	Annual Impact ($Mil)	
	Revenue	Expense
Sector Development Councils	-	$50
Corporate Tax Increase to 28% for Petroleum Industries	$2,000	-
Environmental Reviews to Control Petroleum Development	-	-
Reduce Exchange Rate	-	-
New Model for Trade Negotiations	-	-
Canadian Ownership Act	-	-
Canadian Development Bank		
Including Social Enterprise Division		$1,000 share capital
Other Sector Initiatives		
Automotive EPR Program	$300	$300
Aerospace Canadian Content Offsets	-	-
Green Energy Manufacturing	-	$50
Green Skills Development	-	$100
Sustainable Forestry & Skills	-	$300
Sustainable Farm Income Supports	-	$650
Eliminate Biofuel Crop Subsidies	$200	-

7. A New Approach to International Trade

The federal government is pressing hard for several new free trade agreements (FTAs), including a comprehensive trade pact with the EU that poses enormous threats to Canadians in numerous areas, ranging from the liberalization of public procurement to stronger intellectual property rules (and hence higher prices) in pharmaceuticals and the general loss of jobs and markets for a wide range of manufactured products. In fact, our exports have grown more slowly with FTA partners than with other trade partners, but our imports have grown more quickly, and bilateral balances have deteriorated.[4]

Developing strategic sectors, not signing more FTAs, is the best way to improve Canada's trade performance. Instead of more FTAs, the federal government should pursue a different model of trade agreement with key partners. This model would seek to extract commitments to balanced two-way trade flows, recognize the need for and the legitimacy of government policies to promote sectoral development and economic diversity, and spread adjustment costs more evenly across all parties (both surplus and deficit nations).

8. Establish a Canadian Development Bank

To provide financing for the ambitious development programs prepared by the Sector Development Councils, the federal government will create and endow a new publicly-owned economic development bank, the Canadian Development Bank. This new public bank will have the power to create credit and allocate it to innovative projects in targeted sectors of the economy. This 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 broader criteria, including an integrated social cost-benefit analysis.

One division of the new CDB will focus on allocating capital toward social enterprise, including micro-credit, community economic development, and co-operative initiatives. This division will work to implement the recommendations of the Canadian Task Force on Social Finance, including partnering with philanthropic and foundation investors to establish tax-supported pools of finance that support "impact investing" projects in the areas of community and environmental sustainability. Through an expansion of the existing Co-operative Development Initiative, the CDB will also provide start-up financing on favourable terms for the creation of new co-operatives in the areas of production, retail, housing, and credit unions.

Notes

1 The foregoing arguments and proposals are abridged from: Stanford, Jim. (2012). *Sector Development Policy*. Ottawa: Canadian Centre for Policy Alternatives.

2 Lee, M. and Card, A. (2011). *Peddling GHGs*. Ottawa: Canadian Centre for Policy Alternatives.

3 *Canada's Emission Trends*. (2011). Ottawa: Environment Canada.

4 Stanford, Jim. (2010). *Out of Equilibrium*. Ottawa: Canadian Centre for Policy Alternatives, pp. 29–32.

Acknowledgements

FROM ITS BEGINNINGS, the fundamental premise of Alternative Federal Budget is that budgets are about choices and choices reflect the values and priorities of those who make them. 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, child development, women, disability, Aboriginal, etc.

AFB participants then proceed to collectively develop a set of fiscal policy 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 result that differs dramatically from 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 also 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.

This document was prepared thanks to the generous volunteer contributions of many people, including:

Lynell Anderson (Child Care Advocacy Association of Canada), **Kirsten Bernas** (Canadian Community Economic Development Network), **Peter Bleyer** (Professional Institute of the Public Service of Canada), **Sheila Block** (Wellesley Institute), **Anu Bose** (Option consommateurs), **Kelti Cameron** (Canadian Union of Public Employees), **Charles Campbell** (United Steelworkers), **Karen Campbell** (Assembly of First Nations), **Ryan Campbell** (Professional Institute of the Public Service of Canada), **Amy Casipullai** (Ontario Council of Agencies Serving Immigrants), **John Connolly, Eve-Lyne Couturier** (l'Institut de recherche et d'informations socio-économiques), **Graham Cox** (Canadian Federation of Students), **Anne-Marie Des Roches** (Canadian Conference of the Arts), **Roxanne Dubois** (Canadian Federation of Students), **Myles Ellis** (Canadian Teachers' Federation), **Susan Eng** (Canadian Association of Retired Persons), **Martha Friendly** (Child Care Canada), **Colleen Fuller** (PharmaWatch), **Avvy Go** (Metro Toronto Chinese & Southeast Asian Legal Clinic), **Tam Goossen** (Urban Alliance on Race Relations), **Joe Gunn** (Citizens for Public Justice), **Joel Harden** (Canadian Labour Congress), **Dawn Harvard** (Native Women's Alliance of Canada), **Guillaume Hébert** (l'Institut de recherche et d'informations socio-économiques), **Bryan Hendry** (Assembly of First Nations), **Dennis Howlett** (Canadians for Tax Fairness), **Andrew Jackson** (Canadian Labour Congress), **Jarrett Laughlin** (Assembly of First Nations), **David Lepage** (Enterprising Non-Profits), **Joshua Libben** (Rideau Institute), **Jessica Litwin** (Canadian Conference of the Arts), **Emma Lui** (Council of Canadians), **Bob McGahey** (Canadian Teachers' Federation), **Kate McInturff** (Feminist Alliance for International Action), **Leanne McMillan** (Canadian Union of Public Employees), **Dave Molenhuis** (Canadian Federation of Students), **Keith Newman** (Communications, Energy and Paperworkers Union of Can-

ada), **Andrea Pearlt** (Canadian Labour Congress), **Alain Pineau** (Canadian Conference of the Arts), **Rob Rainer** (Canada Without Poverty), **Kate Rexe, Chris Roberts** (Canadian Labour Congress), **Bill Robinson** (Rideau Institute), **Laurel Rothman** (Campaign 2000), **Toby Sanger** (Canadian Union of Public Employees), **Sylvain Schetagne** (Canadian Labour Congress), **Michael Shapcott** (Wellesley Institute), **Paul Shaker** (Centre for Community Study), **Vicky Smallman** (Canadian Labour Congress), **Sri-Guggan Sri-Skanda-Rajah** (Urban Alliance on Race Relations), **Jim Stanford** (Canadian Auto Workers), **Steven Staples** (Rideau Institute), **Simon Tremblay-Pepin** (l'Institut de recherche et d'informations socio-économiques), **Julie-Ann Tomiak** (Assembly of First Nations), **Monica Townson** (Monica Townson Associates), **Pat Van Horne** (United Steelworkers), **Andrew Van Iterson** (Green Budget Coalition), **Howie West** (Public Service Alliance of Canada), **Tony Wohlfarth** (Carleton University Academic Staff Association), **Jennifer Whiteside** (Canadian Union of Public Employees), **Megan Yarema** (Canada Without Poverty).

The dedicated staff, volunteers, and research associates at the Canadian Centre for Policy Alternatives, as always, pull the AFB project together with no deficit of enthusiasm, generosity and good humour: Melanie Allison, Bruce Campbell, Simon Enoch, Ed Finn, Kerri-Anne Finn, Anskia Gingras, Trish Hennessy, Kaley Kennedy, Seth Klein, Marc Lee, Keith Lowe, David Macdonald, Hugh Mackenzie, Shauna MacKinnon, Marita Moll, Jason Moores, Jennie Royer, Christine Saulnier, Tim Scarth, Erika Shaker, Diane Touchette, Emily Turk, and Armine Yalnizyan.

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES