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Alternative Federal Budget 2011

Canada's 45-Minute Budget

A post-budget analysis

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EVENTS AROUND THIS year's budget unfolded rapidly after its release at 4 p.m. March 22nd.

By approximately 4:45 p.m., the leader of the NDP and the leader of the Bloc had both decided to vote against it. The Liberals had already made that conclusion earlier.

So why analyze a budget that was a live option for all of 45 minutes? Budgets reveal government priorities — and this budget could have ramifications for Canadians for many years to come.

While the 45-minute budget was sprinkled with little goodies apparently meant to tempt voters, the temptations amount to appetizers rather than a satisfying main course.

The budget also contains a time-release poison pill with the promise of future spending cuts that have not been spelled out — meaning Canadians could go to the election polls not knowing exactly where the Conservative minority government plans to deliver shocks to the system in the coming years.

Our general conclusion: The 45-minute budget offers bread to Prime Minister Stephen Harper's pet priorities — such as fighter jets, prisons and corporate tax cuts — while offering crumbs for Canadians' main priorities. This analysis shows why Harper's 45-minute budget wasn't worth supporting.

As with any important political document, what gets left out of a federal budget is just as important as what gets put in.

Much of the controversial issues that have fuelled election spring fever were glaringly absent in this year's bud-

get. Within a week of parliamentary contempt findings, the issue of lack of transparency that has so concerned the opposition parties is also evident in the budget itself: key Harper Conservative spending priorities are nowhere to be found in the budget. Prisons aren't mentioned once and updated figures on the cost of corporate tax cuts are absent.

In fact, for every dollar explicitly allocated in the budget on firefighter tax credits and Grey Cup parties, \$7.50 is devoted to uncoded, unreported Harper priorities such as new jails and corporate tax cuts.

While the budget offers a sampling menu of small ideas, there is certainly no shortage of big problems facing Canada that should have been addressed in the budget. For starters, 1.4 million Canadians remain jobless as the unemployment rate hovers near 8%.

Full-time jobs that were lost during the great recession and still have not been regained threaten to erode Canada's middle class (which is riddled with household debt) and plunge the poor into desperation.

Meanwhile, municipalities don't have the capacity to keep up with aging infrastructure that our parents' generation built.

These problems are not going to solve themselves; they are calling out for a strong and urgent national response.

These are the issues facing the country now, and there are bigger issues on the horizon.

It may be instructive to examine the government priorities through the Alternative Federal Budget lens, as laid out in the AFB's Ten Solutions for the Federal Budget

(<http://www.policyalternatives.ca/afb2011>). We contextualize the budget allocations within our 10 priorities below.

Poverty Reduction

LAST YEAR, CANADA'S Parliamentary Committee on Human Resources and Skills Development (HUMA) endorsed the need for a federal poverty reduction plan.

Despite the reality that 3.3 million Canadians had fallen below the poverty line before the recession hit, this budget was silent on a national poverty reduction plan.

If past recessions serve as a guide, between 750,000 and 1.8 million more Canadians will have fallen below the poverty line as a result of this recession.

The fastest growth in poverty between 2007 and 2008 was among seniors (over 65) — an 18% increase. The federal government's response in this budget, due to NDP pressure: \$300 million for really poor seniors through GIS enhancements giving qualifying seniors a maximum additional amount of \$600 a year, \$840 for couples.

That's it for Canada's poor. Nothing for housing. Nothing for child care. Nothing for improved access to pharmaceuticals or dental care or home care. Nothing to improve access to jobless benefits if there's another downturn. Nothing to enhance access to education and training for the many young Canadians sidelined from the recession. Nothing to help college and university students tackle their debts (except if you are a doctor or a nurse practitioner working in rural and remote locations — which means you already likely get a premium for practicing in underserved regions).

Tax Fairness

GIVEN THE GROWING opposition to continued corporate tax cuts Canadians can ill afford to subsidize, there was a faint hope the budget would reverse last year's promise to keep up this costly giveaway.

The Harper government did no such thing. The gift to corporate Canada continues.

Similarly, the budget was silent on taxes for Canada's richest. A third of the income gains from Canada's economic growth in the past decade has gone to the richest one per cent of Canadians — those millionaires who are enjoying the same rate of taxes as millionaires did in the 1920s.

The budget does promise to close some tax loopholes, which will raise \$240 million this year, rising to \$1 billion by 2013–14. To put this token, minimal measure

in context: about \$120 billion will be collected through Personal Income Taxes this year — \$203 billion in total tax revenues (not including EI premiums).

Make Employment Insurance Work

THE MOST COMPELLING immediate issue facing the federal government remains the fallout from recession.

The duration of unemployment in Canada has doubled since the recession hit.

In February 2011, more than one out of five unemployed Canadians (21%) had been unemployed for more than six months. By contrast, in January 2008, before the recession, about one of 10 (11.9%) was unemployed for more than six months.

Much of this has been driven by the growth in the number of older workers searching for employment. The budget plan extends older worker training until 2013–14, but only for some older workers.

It sets \$25 million a year for the next two years for workers aged 55 and older, unemployed and living in towns of less than 250,000. The program was extended to small towns in 2009. Now big cities are cut off.

Since the recession hit, 200,000 young people have been thrown out of the job market. What was the budget's response? Become an entrepreneur! The budget provides \$20 million over two years to set up a Canadian Youth Business Foundation.

Here's another issue: Canadians running out of Employment Insurance (EI) benefits with still slim prospects for work.

Before the recession hit, only 43% of jobless Canadians received EI benefits. Some modest and temporary reforms raised that share to just over 50% at the peak of the recession, in summer 2009. But today it is back down to 46%, and dropping.

The scant measures in the budget that address the needs of Canada's unemployed are a) small, b) don't tackle this bigger issue of what happens if we head into another downturn and c) are eclipsed by a new proposal to review EI.

The budget includes a program to extend work sharing until October 2011, estimated to cost \$10 million. Officials in the budget lockup couldn't estimate how many Canadians might be covered by this, saying that the number of Canadians using this feature of the EI system have been continuously dropping throughout 2010 and 2011.

One of the biggest cost measures to EI, which is not an improvement, is the extension of a pilot program that permits people to earn some money while collecting job-less benefits.

That's because the income replacement rate of EI benefits is 55% of what you used to make. Most EI recipients can't survive without picking up the odd bit of work on the side.

In essence, the Conservatives "spend" \$420 million over the next two years by permitting people to subsidize very low income supports while they look for their next job with a small amount of paid work.

The budget introduces an EI premium holiday to small businesses who hire new people, potentially worth \$165 million in 2011.

The biggest price tag on "measures for the unemployed" is related to the decision not to increase premiums right now. Should the federal government have sought to put the EI fund into balance this year, it would have cost \$1.2 billion in new premiums. The budget announces that there will be a review of the rate-setting process, and a consultation paper will come out in a few weeks. But the discussion is only about the "how much do we pay" side of the equation, not the level of benefits or access to job-less benefits in the first place.

Should the Conservatives remain in power, expect that the discussion on EI will be on how to reduce premiums, and — in all likelihood — how to increase the cost for "frequent flyers". EI was designed as a social insurance system, based on risk pooling across all regions, but many would like to move it towards private insurance principles — premium rating, based on use. That raises the costs for those workers with the highest turnovers, often the poorest, working low-pay low-skill industries. Exactly those Canadians who can least afford higher costs.

Infrastructure

CANADA FACES A \$123 billion deficit in terms of infrastructure repair and build needs in towns and cities across the country. This budget does little to address the problem.

The budget plan guarantees a permanent \$2 billion a year fund to be transferred to municipalities through the Gas Tax. That was announced in Budget 2008, before the crisis hit. In this year's budget, the government re-announced it.

What's new: More red tape and dubious public-private partnerships (P3s).

Any capital-related project worth \$100 million or more will have to go through a P3 screen to determine whether the procuring department is required to develop a P3 proposal.

The government will provide \$148 million over three years to fix some federal bridges in Montreal and about \$30 million a year to fix federal assets elsewhere over the next five years.

The government will make up to \$72 million available over three years for repairs to storm damaged small craft harbours (fishing communities mostly), of which \$15 million is sourced from existing budgets of Fisheries and Oceans, so the government is committing up to \$55 million over three years.

And the government is contributing \$30 million a year (\$150 over 5 years) to construct an all-season road between Inuvik and Tuktoyaktuk. That's the first major highway to be built in the north, as climate change opens up the north to more economic development. Nobody in the budget lockup knew how much the project will cost overall, and how important this federal contribution was to the project.

The massive municipal infrastructure deficit that exists was, essentially, ignored.

Pharmacare

WHEN IT COMES to health care, currently the number one concern among Canadians, according to the polls, the issue isn't about what was said in the budget — the issue is about what wasn't said. While many commentators worry about the rising costs of health care, there was no mention of how to better manage the costs of health care, for example through introducing elements of pharmacare, or investing in a more preventive approach to disease. There was no promise of a national pharmacare program in this budget. There was also no mention of how the federal government will approach the now-delayed negotiations with their provincial and territorial partners for the renewal of the Health Accord, which expires in 2013–14. Nothing was offered in this budget to resolve a problem plaguing millions of Canadians — they don't have access to a family doctor. Primary health care doesn't exist for a huge number of young families, and for seniors living in smaller towns across Canada. Health care needs are addressed in emergency departments, the most expensive aspect of our health care system. And there is a shortage of doctors and nurses. No answer for Canadians' top priority in this budget.

Pensions

UNLIKE MANY ISSUE areas in this budget, there was actually no mention of changes to Canada's pension plan. The government was good enough to summarize recent pension meetings that were held at the end of last year, but the main issue, extending CPP to cover 50% of earnings instead of the current 25%, was absent.

The budget did propose changes to the Guaranteed Income Supplement — a measure that hopefully survives the budget/election fallout — but GIS only supports the poorest seniors. As for those retirees or near-retirees whose question is whether or not they are adequately prepared for retirement, this budget was silent on that point.

Child care

IT SHOULDN'T BE surprising for a government that cancelled a national child care program as one of its first acts in 2006, but there was no mention of child care in this budget.

The one program that would affect children is the proposed Children's Arts Tax Credit. Parents would receive a non-refundable tax credit of up to \$500. The program essentially mirrors the Children's Fitness Tax Credit.

While there is certainly nothing wrong with supporting children's arts programs, this is an odd application. First of all, the tax credit is non-refundable which means that those that pay the least tax, that is low income Canadians, gain the least benefit.

The credit essentially amounts to a gift certificate from the government to high-income families that can afford arts lessons, not to mention that it needlessly complicating the tax code. A better approach might be to provide better arts instruction in school where everyone would benefit, not just those with the money to pay for it.

First Nations

UNFORTUNATELY, WITH THE small scale thinking of this budget, Canadians can be assured that chronic underdevelopment will continue in Aboriginal communities.

The budget proposes upgrading oil tanks on reserves, a slightly improved northern adult education program and two justice programs — one dealing with crime on reserves and the other that hired more judges in Nunavut.

None of these programs are objectionable, per se, except that they are incredibly small solutions to the massive challenges facing Aboriginals in Canada: deep poverty,

substandard housing and unsafe water, for instance. These alone would cost billions to fix.

Compounding First Nations' underinvestment is significantly lower spending on education at all levels. With such a young population, Aboriginal peoples could be the answer to Canada's aging workforce, but the budget has no provision for this.

Environment

IN AN INTERESTING turn for this budget, environmental issues scooped up almost half of the proposed new spending in 2011–12.

The largest programs were an extension of the home energy efficiency program, ecoEnergy, as well as significant new research dollars for Atomic Energy of Canada Limited — perhaps the budget documents were printed before the Fukushima disaster in Japan.

A laundry list of clean energy projects followed. Everything from fewer exemptions for oil sands producers to climate change adaptation research. There is nothing wrong with the proposed programs, merely that they pale in comparison to the challenges they are trying to address.

Canadians can take some comfort that this government now accepts that climate change is actually occurring, although it will likely be cold comfort that we are adapting to it after dramatically missing our Kyoto commitments largely due to government apathy. Canada received the dubious honour of "Fossil of the Year" for the third year running for its disruptive influence in Copenhagen, the next round of climate change talks.

Deficits

WHILE BUSINESS LEADERS increasingly care more about investments in education than deficits, the government is still keen to show that sooner or later, it will balance the books.

With this budget, the government expects to see a surplus five years from now.

A lot can happen in five years, as 2006 to 2011 aptly illustrates and projections that far out are notoriously shaky.

As an insurance policy on these shaky projections, this budget proposed a drastic and ongoing process for cutting departmental spending. A new "Targeted Strategic and Operating Review" process piles on top of the current "Strategic Review" process, adding \$11 billion in

new savings on top of the over \$6 billion already identified.

In the former, all government departments had to propose 5% worth of cuts when they were reviewed every three years. The new process would see every department propose a 5% and a 10% cut every year with special sub-committee of Cabinet deciding who gets which cut. The Prime Minister will announce the appointment of “outside experts” to join these high-ranking elected officials, to help choose who gets cut and who gets spared. This process further centralizes and politicizes funding decisions. Departments on the wrong side of the PMO will pay a high price.

The Missing Deal-Breaker

THE LATEST FEDERAL budget had, seemingly, a little something for everyone, little somethings that totaled almost \$3.7 billion over the next two years. An election might handily have been avoided, if the Conservatives wanted to avoid an election.

They could have easily given the Bloq Quebecois what they wanted, and what the Conservatives have agreed they should get: money to ease the transition to the HST,

exactly the same as received by Ontario and B.C. This would have cost \$2.2 billion, easily absorbed in the costs of the party favours distributed in this budget, if the goal was working with others.

A Budget or a Platform

WITH THIS LIKELY being the last budget before an election, what can be concluded about this government’s election plan?

It is clear that the Harper government is interested in being seen to address many of the issues that Canadians care about: climate change, low-income seniors, aboriginal challenges, the jobless and so on.

However, while they may recognize that these are Canadians’ priorities, they devote shockingly small amounts of funds to make any of these measures a game-changer in the coming years.

The budget showed each of these items gets a check mark. Unfortunately they don’t necessarily get a cheque.



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