

AFB 2009

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ALTERNATIVE FEDERAL BUDGET 2009

Federal Budget 2009

CCPA Analysis

The weight of 100,000 (and growing) newly unemployed Canadians was on the shoulders of our federal minority government as it unveiled its budget response to Canada's recession.

Core to the challenge: Given a massive wave of unemployment hitting Canada, and the fact that 60% of Canadians don't get Employment Insurance (EI), would our government do the right thing and make our troubled EI system recession-ready?

The answer is a cold hard no. Canada's federal budget leaves hundreds of thousands of vulnerable Canadians hanging on a very short rope and won't provide the immediate stimulus our economy needs.

The budget's core stimulus focus — infrastructure spending — requires provinces and municipalities to match funding, a condition that will stall many projects just when Canada needs shovels to break ground.

Its other stimulus feature is tax cuts — a Conservative favourite — and they do little to stimulate an ailing economy, let alone help Canadians vulnerable to the worst economic downturn Canada has faced in possibly 75 years.

Budget 2009 is not equal to the challenges facing Canada, nor does it live up to the rhetoric of the Throne Speech delivered only 26 hours before which claimed to protect the vulnerable.

Missing the point on Employment Insurance (EI) and help for the vulnerable

The biggest single failure of the budget is in Employment Insurance (EI).

Canada is facing a potentially massive wave of economic dislocation, as out of work Canadians turn to an EI system that is not recession-proof.

- Budget 2009 allocates over \$2.6 billion in spending each year on additional EI and retraining programs in 2009 but does nothing to ease qualification restrictions.
- Most of the focus on unemployment is around retraining rather than income support. This includes \$1 billion over 2

years through the EI program, another \$500 million over 2 years for those who do not qualify for EI training, and another \$200 million over 2 years for smattering of other programs.

- An extra five weeks of eligibility will be added to all claims, taking the maximum outside very high unemployment regions to 50 weeks. But only for the next two years, at a cost of just over \$500 million per year (or one fifth the amount spent on personal income tax cuts).
- Nothing is done to equalize entry to the system across Canada or to make more of the unemployed eligible for benefits.
- For the next two years, work-sharing agreements can run for another 14 weeks to a new maximum of 52 weeks. This may bring about a reduction in benefits.
- The duration for receiving benefits has been increased from 45 to 50 weeks, for a period of two years but there is no increase in benefit rates.

Budget 2009 did not pass the test of ensuring that resources are directed so as to include women, workers from racialized communities, persons with disabilities, and Aboriginal Canadians. Investments in public services are major job creators for women, and equality-seeking groups can be included in more traditional infrastructure investments through training and other measures. Improved access to EI would have especially benefited women and recent immigrants.

The budget failed to invest in child care and early learning, and in care for the elderly, passing up a major opportunity to create jobs, especially for women, by promoting social investment along with infrastructure investment.

The budget includes an almost doubling of the Working Income Tax Benefit, close to what was called for by the CCPA at a cost of \$580 million per year. This leads to a maximum benefit of \$925 for individuals that would apply for incomes in the \$6,000 to \$10,500 range (\$1,680 for single parents and couples). The value of the increase is estimated at \$415 for a single individual earning \$10,000, rising to \$636 if a single parent at the same income level.

The budget also increased the phase-out amounts for the Canada Child Tax Benefit and its low-income supplement, the National Child Benefit at a cost of \$230 million in 2009–10, rising to \$310 million in 2010–11. The trouble with the phase out is that it only affects those making over \$25,000 a year. Those making less than that gain nothing from this change

But is it stimulus?

Budget 2009 was widely expected to be a stimulus budget yet it falls far short of what it needs to do.

The government claims it will be spending \$29 billion in fiscal stimulus in the first year. But nearly \$10 billion of that is to be spent by provincial and local governments as a condition of receiving federal money.

That means the budget's actual stimulus amounts to about 1.1% of our GDP—clearly in the bottom ranks among major industrial nations' response to the recession and barely two-thirds of the 2% advocated by the International Monetary Fund as an appropriate fiscal response and far less than what many other nations are investing to stop the global recession.

Because of this, our economy will take longer to recover and Canadians will go through tougher times than was necessary while other countries will come out of the recession more quickly and with the advantage of having made substantially larger investments in their economic future.

The federal government could have easily afforded to invest in a major stimulus package. Unlike in previous recessions, the cost of government borrowing is now very low—less than 3% today for 10-year Government of Canada Bonds. Federal government debt has shrunk very rapidly as a share of the economy, from a high of 70% a decade ago, to just 30% in 2007–08.

The budget does take some specific actions to save and create jobs, in terms of infrastructure investment and providing access to credit but overall it will do very little to halt the expected sharp rise in unemployment.

Broad-based tax cuts: The wrong kind of stimulus

Practically everyone—from across the political spectrum—has stressed that broad-based tax cuts don't make sense in a recession.

Econometric models uniformly show that the stimulus provided by tax cuts is negligible when compared to the stimulus provided by infrastructure spending.

To make matters worse, tax cuts permanently reduce fiscal capacity, setting the stage for structural deficits or spending cuts down the road. We are already paying the price for the two-point cut to the GST in terms of reduced room to shift fiscal resources to where they will have the most impact on growth and jobs.

Nonetheless, the Harper government is charging ahead with broad-based personal income tax cuts that will cost about \$2 billion a year and provide the greatest benefit to those with the highest incomes.

By contrast, well-chosen public investments boost growth and jobs today, and set the stage for higher productivity and a stronger economy and society tomorrow. Public investment has a much bigger impact on job creation and the economy than broad brush corporate tax cuts, and income supports targeted to those most in need are much more effective than across-the-board personal income tax cuts.

Broad-based personal income tax cuts are a poor job creator because some of the tax cuts will be saved—especially when there is widespread fear of job loss—and because a high proportion of consumer spending goes to imports.

\$1 billion of personal tax cuts increases GDP by just \$720 million and creates just 6,000 jobs, while \$1 billion spent on public infrastructure increases GDP by \$1.8 billion and creates 16,000 jobs, as modeled by Informetrica Ltd.

While those who recently lost their jobs get no support, the tax cuts announced in the budget are a windfall for the wealthy.

The average Canadian household can expect to receive a little over \$300 next year.

However, Canadian's making over \$150,000 will get \$900.

The most important personal tax measures are not directly targeted to low-income families.

A temporary but big-ticket item is the home renovation tax credit, a \$3 billion tax expenditure (\$2.5 billion in 2009–10). This tax credit will only be beneficial to homeowners who have sufficient income to take advantage of it and be in a position to launch a reno project.

The maximum savings from the credit is \$1,350 per family (not individual), and that would be if more than \$10,000 is spent on the renovation. It does not apply for the first \$1,000, so small renovations are not eligible. And it is non-refundable, so only those who earn enough to pay income taxes will be able to benefit from the deduction.

Only 4% of today's budget is actually devoted to tax measures to help vulnerable low income Canadians. Low-income Canadians receive a maximum of only \$33 from the broad based tax cuts.

On the small business side there is similar increase in the threshold for tax paid at the federal small business rate, from \$400,000 to \$500,000. The cost of this item is relatively small, at \$45 million in 2009–10, rising to \$80 million in 2010–11. Worth more is the accelerated Capital Cost Allowance for new

computers, at \$340 million in 2009–10. Corporate tax cuts are a poor way to create jobs and help troubled industries because they are of no use to companies who are losing money, and have little or no impact on real investment (which was very slow in recent years outside the energy sector, despite deep cuts to corporate tax cuts). Businesses will invest only when they see the economy recovering, or if new investment is directly supported by governments.

Infrastructure: The right kind of stimulus, but plagued with problems

The government has announced significant investments in infrastructure. But even here, the fine print threatens to turn those investments into nothing more than repeatable news releases.

Ignoring the financial realities facing provincial and local governments, the federal government has yet again refused to put up “first dollar” funding for infrastructure making it dependent on cash-strapped provinces and local governments for its delivery.

In total, the budget invests \$7 billion in infrastructure spending over 2 years. This includes a \$4 billion Infrastructure Stimulus Fund to be spent over the next two years (cost shared 50% by the federal government and 50% by the provinces and municipalities). This is a small amount in the context of urgent needs, and will be hard for cities to access.

The government claims as part of its stimulus package an offer to lend \$2 billion to cities. There is a \$2 billion fund to support repairs and maintenance and accelerated construction at colleges and universities across Canada.

The budget also includes \$2 billion over 2 years to build new public housing and renovate existing units. About \$1 billion over 2 years will fund renovations of current public housing leaving \$600 million over 2 years to build more on-reserve Aboriginal homes, \$400 million over 2 years for extra seniors housing and \$75 million over 2 years for additional residences for persons with disabilities.

The infrastructure investment overall is very modest in size and falls well short of what the cities and environmental organizations were looking for.

The budget does not remove or limit the current costly and time-wasting mandatory requirement to actively consider P3s to access the Building Canada Fund, and the launch of the P3

Fund combined with required city support for new projects will likely give yet another boost to P3s moving forward.

The environment and green stimulus

The budget fails to consider the long-term consequences to the environment and is literally a short-term program only which expires at the end of 2010 and does not provide continuing funding to the cities and to major environmental investments.

- The biggest financial commitments are poorly allocated, including \$300 million to support nuclear energy, \$250 million for research and development into unproven carbon capture and storage, and an inadequate \$250 million over five years for the development of more fuel-efficient vehicles.
- A mostly symbolic \$1 billion over five years for the “Green Infrastructure Fund” that has no implementation plan.
- The Home Renovation Tax Credit of \$1,350.00 per household for spending over \$1,000 and under \$10,000 does not in any way require that the spending improve the energy efficiency of the home.
- Offers \$10 million dollars for research into biofuels, a short-sighted strategy which actually produces as many GHG emissions in production as gasoline in a traditional combustion engine.
- Offers an increase in funding to VIA Rail of \$407 million to be allocated to passenger rail services including more frequent trains and a faster arrival time of 30 minutes when traveling from Montreal to Toronto. Although this contribution is welcomed, it pales in comparison to what is needed and fails to actually provide high-speed rail (trains that travel 300+km/hour).

According to the David Suzuki Foundation, budget 2009 fails to meet the test of a green stimulus budget on several fronts, including:

- No funding was committed to the government’s renewable power program (ecoEnergy for Renewable Power Program), whose existing funds have been fully allocated. A similar U.S. program, already more generous, was extended for three years on January 26, 2009. The Canadian government has also refused to join the International Renewable Energy Association, sending a clear message to the wind, solar, and

other clean-energy industries in Canada that they are not a priority. Expect renewable energy investments to flow to the U.S.

- Some spending measures in the budget will move Canada further away from the clean-energy transition that is needed and will further entrench Canada’s reliance on unsustainable and dirty sources of energy. The government is providing accelerated capital-cost allowance for investments in carbon capture and storage (CCS), on top of a substantial portion of the “Green Energy Economy” program funding that could go to CCS. Moreover, an additional \$351 million (a one-year bump) will go toward Canada’s nuclear energy program.
- The 2009 budget missed an opportunity to make progress on key issues facing our oceans and freshwater ecosystems, at a time when industries and communities that depend on these ecosystems are facing significant challenges. For example, there is no marine planning money, no increase in environmental regulation enforcement, and no commitment to increase fisheries monitoring.
- No funds are committed to restoring the “ecological integrity” of our parks. Funding for parks was provided, but these dollars are dedicated to buildings and road construction, not restoring or protecting the natural legacy of Canada’s parks.
- Billions of dollars are allocated to expanding roadways and bridges but not to expanding cycling and walking paths.
- No green strings were attached to subsidies for the auto and forestry industries.
- No money was allocated to shovel-ready wind-energy projects. This will likely result in wind-energy investments flowing to the U.S.

At A Glance

Cuts

- Controls on program spending.
- Limited growth of transfers under the Equalization program (adds up to about \$7 billion in reductions over the next two years).
- Selling off over \$10 billion in federal public assets over the next five years.

Wage controls

- Re-announced wage controls of 1.5% on federal sector workers for three years.
- Weakened pay equity for federal employees.

Manufacturing crisis

- No major support for sector renewal strategies through new targeted investments.
- Some modest measures such as a temporary extension of a two-year fast write off for new machinery investment.

Finance sector

- Significant measures to free up credit markets, including government support for new mortgage and consumer lending by financial institutions.
- Major increases (\$13 billion) in credit available from the Export Development Corporation and the Business Development Bank.
- A new “Canadian Secured Credit Facility” will be set up to purchase up to \$12 billion in asset backed security to free up lending for autos and equipment rentals.
- Further steps are to be taken to improve bank lending.
- A light touch approach to financial regulation.

Pensions

- No new action to improve public pensions or shore up employer pension plans.
- Strong hints that much greater flexibility will be given to employers to deal with plan shortfalls after consultations are concluded in 90 days, including an announcement that OSFI will be given more flexibility to smooth asset values.

Housing

- Virtually the entire \$2 billion in affordable housing investments over 2 years will have to be cost-shared with the provinces and territories following negotiations. Canada has a poor record when it comes to delivering housing dollars through complicated agreements.

- Half the \$2 billion over 2 years in new affordable housing investments will go to fix up rundown social housing units. The spending is needed, but social housing makes up only 5% of the overall housing in Canada.
- Most households who are insecurely housed live in privately-owned rental housing, and there’s nothing in federal budget 2009 for them.
- Seniors will get some housing help, and that’s good; but millions of non-senior households live in substandard, unaffordable, overcrowded housing or out on the streets also require housing help.
- The majority of Aboriginal people live away from reserves in urban, rural and remote areas and they bear among the heaviest burden of poor housing and poor health. But there is nothing for them in this budget.
- No help for the homeless: The federal government announced plans in September of 2008 to extend its national homelessness program for five years. The funding was frozen at \$135 million annually for the entire country — basically the same level as the past decade.
- Most parts of Canada didn’t get any homeless support dollars before the federal budget, and they still won’t get any money. The lucky few communities that do get some help will have to make do with frozen funding, even though the costs of the services, and the numbers of people who are homeless, are rising.

Global issues

- The budget did not increase Canadian support for international development and assisting the countries hardest hit by the crisis.

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