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CANADIAN CENTRE
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de POLITIQUES ALTERNATIVES

AFB2008

TECHNICAL PAPER THREE March 2007

Federal Budget 2008 Analysis

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Budget 2008 is entitled *Responsible Leadership*, but for those Canadians who think federal government leadership means taking action on the big issues of our day — like climate change, poverty and homelessness, child care, or preparing for a downturn in the economy — most can only see reckless pilfering of the surplus.

The budget's Table 1.1 shows the priorities of this minority government: Tax cuts and debt reduction, in good times and in bad.

The government walked into this round of budget-making armed with $17.8 billion in surplus revenues from 2007–08. Most of this had already been earmarked for tax cuts and debt reduction in last October's Economic and Fiscal Update (EFU), but a surprisingly robust economy in the next few months led to still more "surprise surplus". Budget 2008 shows how this government thinks enormous windfalls should be used. To use up the 2007–08 surplus, they allocated $2.7 billion to new spending, gave away $4.8 billion in tax cuts, and put down $10.2 billion on debt reduction.

Over the three year time frame of 2007–08 to 2009–10, this government's new measures (combining October's EFU and Budget 2008) amount to $23.9 billion in tax cuts and $13.8 billion in debt reduction. Compare this with only $5.4 billion in new spending measures over the next three years.

To put the new spending in context, this *is* a pre-election budget (initially speculated as the event that would trigger the election) so the government clearly needed to spend *something*. But Budget 2008 and its sister document, the EFU, makes the Conservative position on what a federal government should be doing extremely clear. It takes unprecedented surpluses and makes them disappear, allocating about seven dollars in tax cuts and debt reduction for every dollar in new spending.

This is a government committed to delivering small government. But even with their backs against the wall, staring at a potential economic downturn and possible return to deficit budgets, this government found a way to remember its friends, with tax breaks to encourage saving (a great bonus for wealthy Canadians) and virtually nothing for the majority of working families struggling to get by. Smaller government, tougher government and rewarding the already affluent. That's what this budget, and this government, stands for.

Token Measures for the Vulnerable

The budget provides $406 million for "supporting the vulnerable". The definition of vulnerable includes survivors of war veterans ($282 million in supports), those suffering from mental illness ($110 million for pilot projects on how to help them) and children with life threatening allergies to medication ($3 million to ensure they all get medic alert bracelets). Meanwhile, there is not one penny set aside to reduce child or adult poverty, nothing to help exploited foreign workers, no word on increasing the (federal) minimum wage

The working poor lost out when the government failed to deliver on a widely expected increase to the working income tax benefit. The appalling state of living conditions on Aboriginal reserves and the shortage of economic opportunities for our First Nations has largely been shuffled aside to more negotiating with "partners" — the provinces, territories and private sector groups — on how to allocate money that was almost completely announced in Budget 2006. Helping Canada's most vulnerable are simply not federal priorities.

A Budget for the Rich — Not the Rest of Us

In the end, Budget 2008 is a budget for the rich — not the rest of us. It is a budget that does nothing to avoid or prepare for the personal tragedies many working families may experience in the event of an economic downturn. In fact, the most this government offers in Budget 2008 to address the economic fragility that has been the focus of the media in the past weeks is encouragement for Canadians to save their money. This ignores the reality that most Canadians are having trouble saving. In fact, Canadians' personal savings rate (savings as a percent of disposable income) fell from 10% in 1990 to about 1% today (Vanier Institute 2008). Real average incomes have been stagnant for 30 long years, so it is no surprise that the average total debt load per Canadian household grew by a stunning 54% between 1990 and today (Vanier Institute 2008). What Budget 2008 ignores is polling data that shows half of Canadians worry they are one or two paycheques away from being poor (Environics Research 2006). Canadian families are working, on average, 200 hours more a year than just a decade ago yet 80% of families raising children under 18 are taking home a smaller share of the economy they helped grow. That's why many eyes were on Budget 2008 for solutions to help families avoid the worst in the event of an economic downturn, and to address stubborn poverty rates that persist in Canada. Not only did Canadians get a small budget that misses the big picture; they got a government who squandered a major opportunity to invest in this, and future generations.

Glaring Absence of a Poverty Reduction Strategy

The CCPA's Alternative Federal Budget called on the federal government to implement a poverty reduction strategy, with clear measures on redressing the historic injustices to Aboriginal peoples. Budget 2008 does nothing substantive on either front. Nor does it minimize the economic insecurity facing Canadian families. There are no measures in this budget that address the deep structural changes that threaten public health care, the environment, the municipal infrastructure deficit, public pensions or our cultural institutions — all things that could dramatically alleviate the effects of poverty should they function well for all Canadians. The budget is blind to the issues of poverty or homelessness. They are deaf to the struggles of Aboriginal Canadians, and Canada's working poor, and women. They have nothing to say on child care or affordable housing, both key tools for poverty reduction, and have virtually ignored the issues of soaring tuitions at the post-secondary level

To fill the void of any significant positive initiatives, the budget contains dozens of different measures, re-announcements and repackaging of existing programs. It also provides dozens of new tax breaks, with most of the breaks going to corporations and investors. Working Canadians, particularly low and middle income households, get nothing from these measures.

Only one federal party has nothing to say about poverty reduction in Canada — the governing Conservatives. And Budget 2008 did nothing to change that reality. The budget failed to improve supports targeted to lower income Canadians, though low-income senior citizens are now allowed to work more without penalty: they will now be able to earn $3,500 (up from $500) before losing the Guaranteed Income Supplement.

Who benefits from massive surpluses? Budget 2008 favours tax breaks tilted heavily towards the rich.

Tax-Free Savings… For the Rich

The surprise centrepiece of the budget is a new tax-exempt savings vehicle which begins small, but will ramp up over time to eventually remove a high and rising proportion of investment income from income tax. The design of the program means the majority of its costs will come down the road. Still, for such a "small" program, the budget estimates it will cost the public treasury almost a billion dollars ($920 million) over the next 5 years, of which only pennies will go to ordinary working families. That's because the tax advantage comes down the line, not up front. As it is, very few working families can manage to save enough to take full advantage of tax breaks offered through registered private pensions and RRSPs. These programs reduce taxes up front, which means — if you can save — you have more money in your pocket this year. The Tax-Free Savings Account delays the benefits. But if you can wait for your investment income or savings account to fatten up, the amount you'll get free of tax could be far greater than what you put in. So the tax savings are greater for those who really don't need the money right away. That's not often the case for low- or many middle-income Canadians. So how does the new plan work, and who is it for?

Starting in 2009, individuals over 18 can contribute up to $5,000 per year (and roll forward any unused room). It is important to place this amount in context. The Vanier Institute reported in February 2008 that the average amount saved by Canadians had plummeted from $7,500 a year in 1990 to about $1,000 in 2007.

Unlike registered retirement savings and pension funds, there is no upper age limit to contributing to this tax-free savings account. Amounts of investment income that could be shielded from tax can be doubled with spouses or partners. Given savings patterns, half the beneficiaries are expected to be seniors (so much for a government who is concerned about the next generation, struggling under unprecedented levels of student debt). Funds can be withdrawn at any time without paying tax on any capital gains or investment income. While it has been noted that some low-income individuals could greatly benefit from this arrangement — by getting untaxed income growth on inheritances, settlements or lottery winnings — the fact is it is not designed to help low-income citizens. It is designed to protect investment incomes, to further shield savings from the reach of the tax system.

If this program had existed for the past 20 years, the Finance Department estimates the cost to the tax system this year would have been $3 billion. Even by 2012/13 this measure will cost the Treasury $385 million per year, quite stunning when you consider this program is most valuable for "patient" capital, the returns on investments made today for tomorrow. A tiny fraction of that amount is likely accrue to low-income Canadians.

Huge Surplus Allocation Goes Toward Paying Down the Debt

This budget uses its huge 2007–08 surplus mainly to reduce the debt by $10.2 billion this year. (That amount could grow when the books are closed on the 2007–08 fiscal year.) This money should have been used to fund the major investments that are desperately needed and called for through the AFB, investments that would help offset a slowing economy and build for the future. This government has already thrown $27 billion down on debt repayment over the past two years.

The federal debt now stands at $467 billion. It would take another 46 years of debt repayment to finally "deal" with the debt, even if we pay off $10 billion a year. What do we have to show for our obsession with debt repayment? And what has this obsession cost us in lost opportunities to invest in and built up the nation and meet citizens' needs?

Even the most impeccably economically orthodox sources — the International Monetary Fund and the Economist magazine — have been questioning the Liberal/Conservative obsession with paying down debt. The Economist recently wrote that "The International Monetary Fund, long a fierce advocate of budget discipline…is urging other countries to draw up their own fiscal plans in case the global outlook darkens…many countries have unusual scope to use their governments' coffers. If it comes to it, they should do so. Countries from China to Canada have the wherewithal to counter a sharp slowdown themselves. They should not rely on America to do it for them."

No Real Action on the Manufacturing and Forestry Jobs Crisis

The budget did next to nothing to address the deepening manufacturing and forestry jobs crisis, invested very small amounts in new job-creating environmental infrastructure programs, and either cut or strung along existing government programs that could support companies and workers should the economy tip into a generalized downturn.

As expected, the budget extended the two-year fast write-off for depreciation in new investment in machinery and equipment (accelerated capital cost allowance provisions) and tweaked the scientific research and experimental development tax credit. The temporary two year fast write-off for manufacturing or processing machinery and equipment was, however, fully extended for only one year, and then for another two years but on a reduced basis. This drew justified criticism from the Canadian Manufacturers and Exporters: companies struggling with a downturn may have no profits against which to write off capital investments, so the benefits of this measure would, again, only accrue to profitable companies, not vulnerable ones. It is sobering to see how much already goes to this program, which helps the strong more than the weak. In 2008–09 accelerated capital cost allowances are estimated to cost the public purse $565 million. The Budget Plan states that the extension is expected to reduce federal revenues by $155 million in 2009–10, and by about $1 billion in total over the period 2009–10 to 2012–13 . Small improvements are made to the scientific research and experimental development tax credit for smaller businesses, providing another $70 million in tax breaks over the next two years (on top of the $2 billion earned and claimed in 2007, according to the Tax Expenditures tables).

In the only nod to the current crisis, a small Automotive Innovation Fund was set up to spend just $50 million per year over 5 years to support auto sector R and D. While it does represent a symbolic acceptance of the reality of the auto crisis and the case for a sectoral strategy, this amount falls hugely short of what the CAW, the auto industry, and the Ontario government have said is needed to support major new investments to save jobs.

No major new measures were announced to assist the forest industry beyond the previously announced $1 billion Community Development Trust, money that goes to the provinces and territories but will have federal involvement in identifying initiatives. But the advertising industry gets a special nod in these troubled times: over the next two years the federal government will spend $10 million on a marketing campaign to promote Canada's forest sector internationally as an environmental model.

The Targeted Initiative for Older Workers, which was due to expire in 2008, has been extended to 2012, but offers slightly less than it once did ($30 million a year over the next three years, instead of $70 million over two years for the previous period). These amounts go to training and labour adjustment support — not income support — to laid off older workers in high unemployment single industry communities. They would not be available to everyone should a generalized economic slowdown emerge.

No improvements were made to EI benefits, or to worker training programs, despite looming labour shortages and financial storm clouds from south of the border.

Infrastructure and Environment

The existing Gas Tax transfer to municipalities is worth almost $2 billion per year. It was set to expire in 2013–14. Budget 2008 makes this a permanent transfer to the cities. This falls far short of the 1 percentage point of the GST, which would be worth $6 billion per year, called for by cities; and it is not set to grow over time (through population growth or increases in the economy).

Cities have long been calling for secure and reliable sources of growing revenue, such as a share of income or consumption taxes, as a way of keeping up with their residents' needs. The permanent extension of this $2 billion in funding for cities is a partial step, but ignores the underlying request from cities, which have had so much responsibility — but not cash — devolved down to them.

This budget announced up to $500 million in total for specific public transit projects in Toronto, Vancouver and Montreal. Within days of the budget, we learned that a huge chunk of that cash in Ontario is going to Peterborough, not the province's biggest city.

The budget announces some small environmental/climate change measures, including implementation of industrial emissions controls, $250 million for demonstration of carbon capture and storage technology, and $300 million for AECL to support for new nuclear power development. In a stunning move, the rebate for fuel-efficient cars will expire at the end of this year, having just been introduced last year. The government will save at least $50 million, since Budget 2007 put aside $63 million over the next three years for this program, and the program was not even functional till a few months ago.

A Separate Employment Insurance (EI) Account: The Disappearing EI Surplus

On the unemployment front, after years of running big annual surpluses on the EI account, EI has been moved into its own account managed by a Crown corporation. If the annual surpluses had been building up in a fund since 1995, the accumulated surplus would have been worth about $59.5 billion. But since the annual surplus in the EI system is simply part of Consolidated General Revenues (the public purse), that money is now gone.

Instead of endowing the new Canada Employment Insurance Financing Board with an amount close to the shortfall in what it had taken from employers and employees over the years and failed to pay out in benefits , the government provided a $2 billion rainy-day fund. The EI fund has been self-financing without government help since 1990, and workers' and employers insurance premiums are regularly adjusted to cover off the costs required in benefit pay-outs. In the event of a downturn, Budget 2008 caps EI premium increases at 15 cents per hundred dollars of earnings. It should be noted that the EI premium rate has fallen from $3 per hundred dollars of earnings back in 1994 to $1.73 today, a time when unemployment rates are at 33 year lows. The $2 billion reserve provided by the federal government is for use only if premium increases of 15 cents on every hundred dollars don't cover the need of higher benefit payouts, i.e. in the event of a serious downturn.

The government is also separating the EI Fund from the Public Accounts starting in 2009. From 2009 forward, any surpluses will be held and invested to meet EI program costs. Past surpluses are out of reach of the fund. The Fund will be operated through a new crown corporation, the Canada Employment Insurance Financing Board. There is no detail on who will sit on the Board of the new Fund, or assurance that the government would back-stop it in the event of a serious and prolonged recession. Officials say that the Worker and Employer EI Commissioners will continue to exercise their functions other than rate-setting, and may be consulted on appointments to the new Board.

Spending Cuts

The budget funds some new initiatives from cuts to existing spending, as per the Program Review or Expenditure Review processes that have occurred regularly over much of the past decade. In this budget, they total $386 million per year when fully implemented. Almost half of the impact falls on international development (CIDA) programs, though these funds will supposedly be re-allocated to other development assistance programs — effectively taking from some of the world's most vulnerable and poor people to give to others. The promise to contribute to $450 million over 3 years to the Global Fund to fight AIDS is being kept by cutting other programs. There are significant cuts to Statistics Canada, Parks Canada, Canadian Heritage and to the Food Inspection Agency

Despite record surpluses, spending cuts is a part of "business as usual" for this government.

Total federal government program spending increases slightly over the planning horizon in Budget 2008, but as a share of GDP the rates of spending are lower than projected in last year's Budget, locked in at roughly 13% of GDP. Every percentage point in GDP means $15 billion dollars, so that even a small change like shaving the government's spending as a share of the economy by 0.1% of GDP means they will spend $1.5 billion less than they would have otherwise done. Despite the flurry of small announcements for more spending, this is a government dedicated to reducing its size.

Student Grants and Post Secondary Education

In what seems to be a modestly progressive move, the expiring Millennium Scholarship Program — worth $350 million or so a year now, and serving 425,000 students — will be replaced by a new Canada Student Grant program, starting in 2009–10. Though it will initially start at the same amount — $350 million — it will receive $430 million in funding by 2012–13 as it folds together several programs that offer financial help for Canadian students and adds some modest new funding. Grants to a maximum of $250 per month will be income-tested so as to benefit low and middle income families. The details will be worked out with the provinces.

Modest amounts are also allocated to PhD scholarships (including for foreign students) and university research. 500 Canadian and international doctoral students will receive up to $50,000 each for up to three years, totalling $28 million in supports over the next two years.

Privatization and P3s

The budget rams forward with the Harper government's privatization agenda, with the introduction of a second Crown Corporation, PPP Canada Inc., a federal office set up to privatize federal public assets and to get provinces and local governments to engage in P3s and privatize public services. It will disburse $1.3 billion set up in a trust established in last year's budget. Apparently privatization, including of provincial and local government public services, *is* a core federal responsibility.

For the Harper government, "Responsible Leadership" really means abandoning federal responsibility for the well-being of Canadians to business, free markets and, at most, lower levels of government.

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