

# AFB 2009

January 2009

ALTERNATIVE FEDERAL BUDGET 2009

## What Kind of Stimulus

### Tests for Assessing the Federal Budget

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

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

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

are now widely accepted as a vital part of the solution to the world's crumbling economy, to prevent similar fiascos in the future.

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

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

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

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

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

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

### Tests for short-term success

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

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

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

**1. Revamp Employment Insurance:** Any federal stimulus package that fails to increase Employment Insurance (EI) benefits and loosen criteria so that more out-of-work Canadians are eligible to receive these benefits should be rejected. Something is seriously wrong with the system when only 38% of Canadians are eligible for EI; in 1991, 78% were eligible. EI

benefits should also be raised from the current 55% to 60% of insured earnings, as the AFB proposes, and the period for receiving these benefits extended to 50 weeks.

**2. Help for those who need it most:** The Federal Budget should also support provincial governments that are implementing comprehensive poverty reduction strategies. This year's AFB takes leadership on poverty reduction by allocating funds for a plan to reduce poverty in Canada by 25% over the next five years. The federal government, by implementing this measure, would make Canada a global leader in poverty reduction, beginning with a major poverty transfer to the provinces to help reach this goal. A federal budget that offers no such aid for Canada's poor and unemployed should be rejected.

**3. Invest in public infrastructure:** The federal budget should include a bold program of job creating infrastructure investments. It should include both physical and social infrastructure investments. It should improve Canada's bridges, sewers, community facilities, etc., and include green infrastructure: home retrofits, water treatment facilities, community energy systems, etc. A strong stimulus plan should also contain a major social infrastructure component: health care, post-secondary education, child-care, and social housing. A broad range of infrastructure investments will ensure balanced job creation between male and female-dominated professions. The assets so created should be owned and operated by the public or non-profit sector. A Federal Budget that lacks such public infrastructure initiative should be rejected.

**4. Support and restructure key sectors:** The federal government should take decisive action to preserve key value-added sectors that are in jeopardy because of the Canadian and global economic recession. As the AFB proposes, it should also set out restructuring criteria for achieving green, valued added, diversified, and sustainable development. The systemic consequence of inaction is unthinkable. A Federal Budget that fails to take such action should be rejected.

**5. Emphasize spending over tax cuts:** Broad-based tax cuts are a poor source of job creating stimulus compared to government spending. Furthermore, the maximum benefits from tax cuts go disproportionately to the rich. In uncertain times, the tendency of most tax-cut recipients will be to save the extra money rather than spend it; and much of what is spent will be on imports rather than in bolstering local economies.

Permanent tax cuts are especially ineffective and, worse, they draw down revenues the government will need to rebuild the economy and close a structural deficit. A budget that contains such tax cuts should be rejected.

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

The Federal Budget should — as does the AFB — target tax measures at low-income Canadians who are most likely to spend the money locally. These should include increasing the seniors' Guaranteed Income Supplement, raising the average supplementary benefit received by the poorest Canadian seniors; improving the National Child Benefit Supplement and the Canadian Child Tax Benefit. It should more than double supports for the working poor through the Working Income Tax Benefit, and it should double the refundable GST credit.

### Tests for long-term success

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

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

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

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

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

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

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

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

**Rebuilding public services, reducing income inequality:** The income gap between the rich and the rest of us grew at a faster pace than ever in the past decade, in Canada and globally. The gap used to grow in times of recession and narrow during good economic times, but the past decade of record economic growth left many Canadians on the outside looking in. The richest 10% enjoyed the lion's share of economic

growth, while average real pay-cheques remained stagnant. The gap will widen further as more Canadians lose their jobs and have to cope with inadequate Employment Insurance and welfare supports. Canada has no plan to reduce income inequality, though some provinces have begun to take leadership on concrete poverty reduction strategies. AFB 2009 addresses income inequality and implements a federal goal to reduce poverty by 25% in five years.

The AFB also:

- begins to redress the fundamental disparity in living conditions on First Nations' reserves: reducing poverty, improving health, training and education, and launching the infrastructure investments necessary for sustainable development of First Nations' communities;
- initiates a genuine national child care program which is key to advancing women's equality and critical to the social and economic security of all Canadians; it promotes healthy children and families, more inclusive communities, and a more productive economy;
- begins to restore federal support for a world-class post-secondary education system, and commits to augmenting student grants;
- makes major investments in our public health care system, safeguarding it against private for-profit health care companies; it focuses on increasing the supply of health care workers, on improving health care infrastructure, strengthening primary, preventative and long-term care, and initiating a national Pharmacare program;
- rejects the do-it-yourself model of individualized pensions which is failing so many seniors, and instead adopts a model of retirement security which delivers adequate and stable public pensions for all seniors.

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

**Building a diversified high value economy:** Over the last 10 years, Canada has regressed toward a traditional resource producer role in the international economy. Government neglect and deregulated market ideology are reversing the gains of the previous 50 years, resulting in the massive foreign sell-off of Canadian companies and the decimation of the manufactur-

ing and other value-added sectors. The AFB takes a hands-on approach to high-value industrial development: setting goals, identifying strategic sectors to nurture, and marshalling policy instruments to achieve them.

The AFB also:

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

**Restoring a sense of national community:** For too long now, Canada's federal government has behaved as though it is an 11<sup>th</sup> province rather than the most senior level of government mandated to ensure all Canadians equal access to health, education, pensions, and other essential pillars of membership in a national community. Directly and indirectly, it has weakened the ability of workers to bargain collectively to gain a fair share of productivity gains. The result has been wage stagnation in the face of skyrocketing CEO salaries and record profits. Government deregulation in many sectors such as food, chemicals, drugs, transportation, financial and environment has put at risk the health, safety, and security of Canadians.

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

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

The current economic crisis is the bitter fruit of the spectacular failure of the deregulated free market model. That model has produced fabulous gains in income and wealth for a tiny minority while that of the vast majority has stagnated

or dropped. It has weakened the bargaining power of workers, shifting an unprecedented share of GDP from workers' wages to record corporate profits. It has fuelled predatory lending, debt-financed consumption, and transferred financial trouble from government-sponsored pooled risk onto individuals and families now experiencing historically high household debt levels and historically low household savings levels.

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

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

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

This is an opportunity to move in a new direction. But it is also a time when hard-line conservatives will seek to take advantage of Canadians' economic insecurity and disorientation

to further advance their free market vision. When the danger is past, they will try to continue much as before: applying further shock therapy to our social programs and our public assets, with only minor or token adjustments.

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

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

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



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