Healthy Families:

First things first

Alternative Federal Budget 2000

Canadian Centre for Policy Alternatives
and CHO!CES: A Coalition for Social Justice

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The 2000 Alternative Federal Budget

Each year since 1995, the Alternative Federal Budget has outlined a better way, a strategy that would have reduced and eliminated the deficit, but also generated higher economic growth, created more jobs, and achieved greater social equality and justice. This year again, in the face of the clamour for tax cuts from the corporate sector and its political, academic and media mouthpieces, the Alternative Federal Budget sets out a clear strategy to achieve the greater good for the majority of Canadians.

The goal of the 2000 Alternative Federal Budget is **to enhance the health of Canadian families and communities**. The most advanced social research indicates that this goal can best be achieved by "creating a thriving and sustainable economy with meaningful work for all; ensuring an adequate income for all Canadians; reducing the number of families living in poverty; ensuring an equitable distribution of income; and making sure there is suitable, adequate and affordable housing."[1] The evidence also shows that federal government services and programs must play a major role in bringing about these outcomes.

Canadians expect more of their governments than just to police their streets. Most believe profoundly that governments have the responsibility of providing public goods such as health care, education, social security, public safety, and public infrastructure for the benefit of all. Every opinion survey shows clearly that Canadians deeply value public social programs such as health and education, because they rightly see them as the key to social equality and personal security.

Yet, at this crucial juncture in our country's history, public policy is being shaped amidst a chorus of proposals for income-tax cuts, and an ongoing drive to dismantle and privatize public services. The public debate is being dominated by loud voices proclaiming dogmatically that the public good will *always* be served better when wealth is spent by individuals directly, rather than by their governments. According to this ideology, the sum of individual spending decisions will always yield better outcomes than collective spending and consumption organized through our governments. The Alternative Federal Budget rejects this view.

In every case, the business lobby's proposed tax cuts—reducing or eliminating the tax on capital gains, raising the RRSP contribution limit, eliminating the high income surtax, and lowering top marginal tax rates—would disproportionately benefit the 10% of Canadians with the highest incomes. In fact they have already received a disproportionate share of the benefits of the economic recovery. Should they reap the fruits of tax cuts as well, while so many needs go unmet among the other nine-tenths of the population?

One opinion survey after another confirms that most Canadians do not regard tax cuts as a great priority. They understand that we pay taxes in exchange for a broad range of services and protections that most working people would never be able to afford if they had to purchase them privately and on their own, such as schools, hospitals, child care and development centres, roads, public transportation, parks and recreational facilities, water and sewage systems, and electrical utilities. For example, a recent Ekos poll revealed that at least twice as many Canadians want the federal government to invest in social programs such as health and education (55%) in the coming federal budget, rather than reduce the debt (24%) or cut personal income taxes (19%).

Over the past thirty years the Canadian tax and transfer system of public spending has redistributed income across social classes much more effectively than its American counterpart. However, recent cuts to federal transfers and public spending are undermining this achievement. If present trends continue, by 2000-2001 federal program spending will have fallen to 12% of gross domestic product—its lowest level in fifty years (see Figure 1). Even now, total public- sector program spending by all levels of government is 2 percentage points of GDP *below* the mid- 1970s levels. This is because public sector program spending fell so sharply between 1992 and 1998.

As governments decrease their contribution of public funds to health and education, there is a corresponding increase in the costs to individual families of these public services. This is not surprising, given that previously free or low-cost services are in many cases now supplied by a private, for-profit institution, or by a quasi-public one that has been forced to adopt a fee-for-service or cost recovery basis of operation as a condition of continued survival. This is an insidious form of privatization that denies services to some and increases inequality for all. It has slowly grown over many years, but seriously accelerated in recent years, especially since the deep cuts introduced through the CHST.

For Canadian families, this means dipping into their savings, going into debt, or doing without necessary services. Statistics Canada data (from the Survey of Consumer Finances) show that average Canadians are spending more on new fees and user charges than they are saving from the much-vaunted tax cuts.

Finance Minister Paul Martin revealed in November 1999 that his government expects to run cumulative surpluses approaching $100 billion over the next five years. This year's Alternative Federal Budget makes the case for spending the entire federal surplus to rebuild Canada's weakened public sector and tattered social programs.

If the federal government is truly serious about investing in our children, our health and our communities, there is a certain minimum that it must do. It must at the very least:

- eliminate the need for food banks by ensuring that every person in Canada has a sufficient annual income;
- in this anniversary year of the all-party resolution of the House of Commons to eradicate child poverty by the year 2000, implement the measures to reduce child poverty proposed by Campaign 2000;
- invest in a national strategy to provide decent and affordable housing for all Canadians;
- lay the foundations of a truly national child care and development *system*;
- rebuild, consolidate and enhance Canada's public services, especially health care, education, and clean water and sewage systems.

The 2000 Alternative Federal Budget presents policies that would allow us to achieve these goals.

Ottawa, Quebec and the Provinces

The Alternative Federal Budget continues to subscribe to the historic view of progressive English Canada that the federal government should play a leading role in economic, social and cultural policy, in developing national cultural institutions, enforcing standards for social programs, and building a strong national economy. However, such a strong federal role should not infringe on the expression of Quebecers' national identity and social rights. The key issue for English Canadians should not be the accommodation of Quebec's uniqueness, but the way that uniqueness is accommodated.

Until there is a resolution of the Quebec-Canada relationship, the AFB's approach to federal-provincial fiscal relations recognizes the need for special arrangements with Quebec that may not be open to the other provinces. We recognize that Quebec has primacy in its jurisdiction over social policy and the right to opt out of joint federal-provincial programs in this area; and, for the rest of Canada, we recognize joint federal-provincial responsibility, with a federal leadership role in funding social programs, as well as in setting and enforcing national standards. Common standards throughout the whole country, including Quebec, could be achieved through the negotiation of a social charter.

Macroeconomic and Fiscal Policy

Current Macroeconomic Environment

As the first federal budget of the new millennium is being prepared, Canada's macroeconomic conditions are relatively favourable. Most indications are that real GDP growth exceeded 3.5% in 1999, and will likely be as robust again this year. Job-creation, particularly during the latter months of 1999, continued at an encouraging pace. By year's end the official unemployment rate had declined to below 7%, equivalent to levels not seen since the early 1980s. Continued GDP growth will translate into further employment gains in coming months, and the unemployment rate will likely continue its gradual fall during 2000.

Interest rates are at relatively low (nominal) levels, and are likely to remain there for some time. The Bank of Canada has demonstrated a notably more tolerant attitude toward continuing job-creation than has been the case through most of the 1990s. Rising world commodity prices are strengthening the Canadian dollar in currency markets, and hence the Bank of Canada will not face as much pressure from foreign exchange markets to change its go-slow position on domestic interest rates.

Despite this apparent shift in attitude, however, the near-hysterical fear of inflation remains dominant—both within the Bank of Canada itself, and more importantly within the broader financial industry which exercises such important influence over the Bank's actions. Debate on this subject will become intense in coming months as Canada's unemployment rate continues to fall, sparking fears among financiers of a rebound in wage-led inflation. For this reason, progressive Canadians need to sustain their demands that Canada's monetary policy put the interests of job-creation and growth ahead of the desire of the financial community to suppress and ultimately eliminate inflation entirely.

Notwithstanding recent good news on the macroeconomic front, the fact remains that Canada's economy has sadly failed to live up to its true potential during the grim 1990s. Much more growth and job-creation is still required simply to offset the damage that has been done to household budgets, public services, and living standards during a decade dominated by cutbacks and belt-tightening. An easing of fiscal policy at the federal level, particularly if that easing is accomplished through a rebuilding of program spending, would go a long ways toward strengthening the current recovery in the labour market, and enhancing the standard of living of all Canadians.

Happy Arithmetic

This continued economic growth is a crucial and welcome ingredient in the federal government's improving fiscal outlook. New jobs, new incomes, and new economic activity all translate automatically into increases in federal revenues, without any increases in actual tax rates.The Alternative Federal Budget has argued since its inception that stronger economic growth, lower unemployment, and lower interest rates were the essential preconditions for a sustained improvement in public finances. Now, happily, we are finally seeing those benefits in action.

The federal budget also continues to benefit from a decline in the importance of debt service charges. This results in part from the continuing decline in the debt burden: measured as a share of GDP, the net federal debt has already declined from a peak of over 70% in 1995 to an estimated 61% by the end of the current fiscal year. The gradual filtering-through of lower interest rates into the stockpile of federal debt also helps: as older debt (some of which was initially financed in the high-interest 1980s and early 1990s) is turned over, the government benefits from the application of now lower rates. Hence even if market interest rates turn up modestly in coming months (led by possible further tightening by the U.S. Federal Reserve), the average effective interest rate paid by the federal government on its outstanding debt will continue to decline gradually in coming years. This two-fold decline in debt service charges (resulting from a shrinking debt burden and falling interest rates) is the key factor behind the improving federal fiscal balance.

Economic Assumptions

The broad fiscal parameters of the 2000 Alternative Federal Budget are determined with the help of a simple economic simulation model, which considers the various effects of economic growth, inflation, and interest rates on the various components of the federal government's budget.For the purposes of this simulation, the following key economic assumptions are utilized (see Table 1 for a summary). These assumptions are all well within the expectations of private-sector economic forecasters.

- Real GDP growth will equal 3.5% in 1999 and 2000, 3.0% 2001, and 2.5% thereafter.
- Inflation equalled 1.5% in 1999, and will equal 2.0% in 2000 and thereafter.
- The effective aggregate federal tax rate fell to 17.0% of GDP in 1999 and will remain at that level thereafter (from 17.2% in 1998 and 17.4% in 1997), reflecting already-announced federal tax reductions.
- The effective average interest rate paid by the federal government on its outstanding stockpile of net debt falls by 10 basis points per year (from 7.2% in 1998).

The federal government recently announced its final 1998 fiscal results. The government ran a final surplus of just under $3 billion (approximately equal to its $3 billion contingency fund, which is supposedly earmarked for debt repayment each year).In the absence of measures to increase program spending and / or reduce taxes, we expect that the annual federal surplus would balloon to over $12 billion in fiscal 2000, and to more than $35 billion by fiscal 2004.Most economists, and even Finance Minister Paul Martin himself, now accept that large surpluses would be generated under a "status quo" fiscal policy, and so an important public debate is now raging about what the federal government should do with the extra money.

The AFB's Fiscal Program

The Alternative Federal Budget expresses the firm opinion that the looming surplus should be reinvested in the repair and ultimate renewal of federal programs, which were damaged——critically, in many cases——by the cutbacks of the mid-1990s. The benefits of most tax cuts, and of cuts to the personal income tax system in particular, would be hugely concentrated among the high-income earners who are already the only ones to have benefitted from the lean-and-mean macroeconomy of the 1990s. The Alternative Federal Budget thus proposes a range of program initiatives of both a restorative and an innovative kind that would consume the federal surplus in the coming years.

To begin with, the Alternative Federal Budget would commit $5 billion of the expected surplus in the *1999* fiscal year to a National Priorities Capital Endowment. The money would be used for capital spending in priority social areas and for writing off the debt of poor Third World nations.

In the first year of the Alternative Federal Budget, total spending for program initiatives outside of the UI program would increase by $10 billion, over the amount that was expected to be spent in the 1999 fiscal year. Non-UI program spending would grow by between $8 and $9 billion in each of the subsequent years. The resources available for new program initiatives continue to grow with each passing year, thanks to the combined effect of increasing tax revenues (in line with economic growth) and falling debt service charges.

This program to rebuild federal programs may seem ambitious in the wake of current calls by business and financial lobbyists for continued sharp spending restraint on the part of the federal government. Relative to the continuing growth in Canada's economy, however, this approach would only gradually rebuild total federal program spending (including unemployment insurance) as a share of GDP——to approximately 14% of GDP after five full years of Alternative Budgets (see Figure 1). This would still leave federal programs significantly smaller as a share of GDP than they were in 1994, just before Paul Martin embarked on his historic cutbacks.

The Alternative Federal Budget maintains a balanced budget (in both the unemployment insurance account and in the budget as a whole) throughout its five-year planning horizon. The combination of balanced budgets with ongoing economic growth allows for a rapid decline in the federal government's debt ratio, from an estimated 61% at present to just 45% by fiscal 2005. This debt reduction is virtually as fast as that envisioned under Paul Martin's plan to set aside $3 billion per year for explicit debt repayment, indicating to us that such debt repayment is of dubious concrete economic value.

Macroeconomic Benefits of Improved Program Spending

In contrast to previous versions of the Alternative Federal Budget, positive macroeconomic spin-offs are not explicitly modeled as part of our fiscal and economic package. We expect that these spin-offs, when generated, would add significantly to GDP growth, job-creation, personal incomes, and—importantly—government revenues. For example, we propose to increase total federal program spending (including the UI program) in the first year of our budget by about 1.5% of GDP; that will create hundreds of thousands of new jobs.

We have chosen not to incorporate these spin-off effects into the present exercise explicitly, however, to demonstrate that one no longer has to "believe" in multiplier effects in order to be convinced that the federal government has ample fiscal room to fund a historic rebuilding of the important public programs and services which it can and should sponsor. Our fiscal estimates (which anticipate a balanced budget, in both the UI Fund and in the federal budget as a whole) should be seen, therefore, as rather conservative. In reality, the huge economic stimulus provided by the rebuilding of federal programs would allow the government to achieve much better budgetary outcomes even than the ones outlined in this alternative budget.

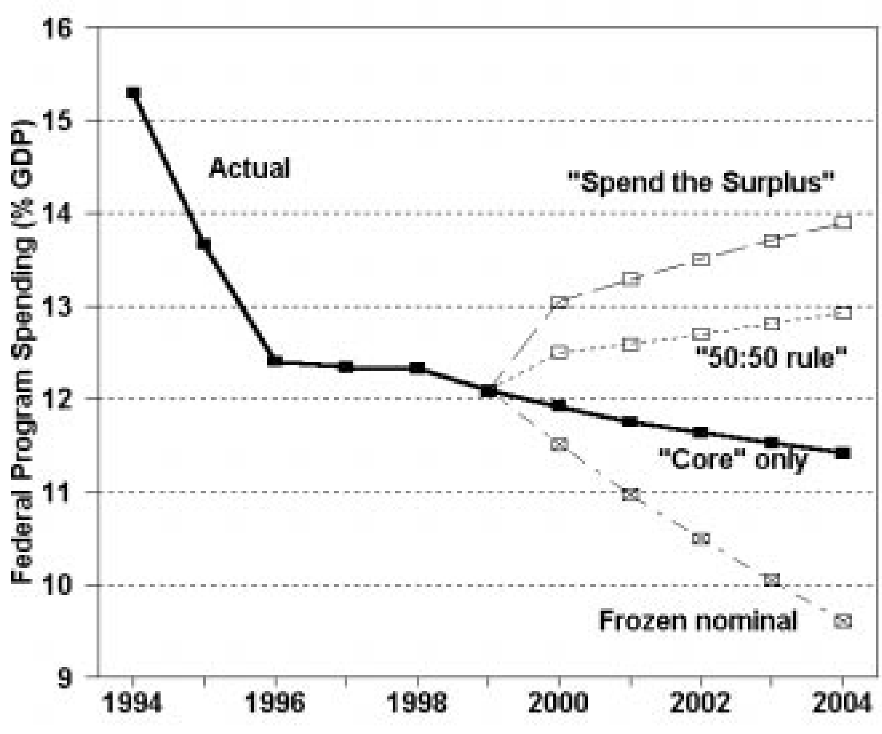
Table 1 **Economic Assumptions** *(fiscal years, percent)*					
	1998 (act.)	**1999 (proj.)**	**2000**	**2001**	**Later years**
Real GDP growth	2.9	3.5	3.5	3.0	2.5
GDP inflation	-0.4	1.5	2.0	2.0	2.0
Nominal GDP growth	2.5	5.0	5.5	5.0	4.5
Avg. effective interest rate, federal debt	7.2	7.1	7.0	6.9	6.8

Table 2 **Alternative Federal Budget, Fiscal Parameters** *(fiscal years, $ billions)*							
	1998 (act.)	**1999 (proj.)**	**2000**	**2001**	**2002**	**2003**	**2004**
Consolidated Budget							
Revenues	155.7	161.6	170.5	179.0	187.1	195.5	204.3
Program Spending	111.4	114.7	130.8	139.9	148.5	157.5	166.8
Debt Service	41.4	40.5	39.7	39.1	38.6	38.0	37.4
Balance	+2.9	+6.4	0	0	0	0	0
Non-UI Programs							
Revenues	136.3	142.8	152.2	160.1	167.9	176.0	184.3
Program Spending	99.5	102.4	112.5	121.0	129.3	138.0	146.8
Debt Service	41.4	40.5	39.7	39.1	38.6	38.0	37.4
Balance	-4.6	-0.1	0	0	0	0	0
UI Fund							
Revenues	19.4	18.8	18.3	18.9	19.2	19.5	20.0
Expenditures	11.9	12.3	18.3	18.9	19.2	19.5	20.0
Balance	7.5	6.5	0	0	0	0	0

Table 3
Fiscal Parameters as Share of GDP
(fiscal years, percent)

	1998 (act.)	1999 (proj.)	2000	2001	2002	2003	2004
Consolidated Budget							
Revenues	17.2	17.0	17.0	17.0	17.0	17.0	17.0
Program Spending	12.3	12.1	13.1	13.3	13.5	13.7	13.9
Debt Service	4.6	4.3	4.0	3.7	3.5	3.3	3.1
Balance	0.3	0.7	0	0	0	0	0
Net federal debt (% GDP)	63.8	60.7	57.5	54.8	52.4	50.2	48.0

Figure 1
Program Spending Options
Program spending (% of GDP), contrasting scenarios



Program Spending

Investing in Children and Families

A Promise Denied

In November 1989, all political parties in the House of Commons unanimously passed a resolution to seek to end child poverty by the Year 2000. That promise was ignored. Subsequent commitments made on behalf of children by the federal government, including a system of national child care, have not materialized.

In May 1999, the federal government and the provinces and territories declared in their vision for a National Children's Agenda that "*children are everyone's responsibility and everyone's future. Canadians want a society where all children grow up to be responsible, productive, healthy and caring, a society in which no child gets left behind*".

After the October 1999 Throne Speech, the Prime Minister made a commitment "*to take the action necessary as a country—so that every Canadian child can have the best possible start in life*".

For more than a decade, federal finance ministers told Canadians that future prosperity depended on "getting the economic fundamentals right." They promised that everyone would share in the benefits of sound and sustained economic growth once this target had been reached.

The fundamentals have been in place for some time now. The deficit is gone, there's a budgetary surplus, and we've had six years of economic growth. Yet the promised prosperity has not materialized for a growing number of Canadians, especially for families with children. Instead of prosperity, many, many people are experiencing economic and social hardship.

Between 1980 and 1997, the poorest 40% of Canadian families saw their market incomes fall by a fifth after inflation. Families in the middle saw their earnings drop by 8%. On the other hand, the earnings of the 20% of families with the highest market incomes increased by almost 5%.

Between 1970 and 1995, the total income pie (employment income plus transfer payments) became more unequally divided. Seventy percent of families have seen their share decline, while the richest 30% have seen theirs grow, $8 billion being transferred from the former to the latter!

Women still earn only seventy-three cents for every dollar earned by men and experience the second highest incidence of low income among industrialized countries. The incomes of Canadians with disabilities, people of colour and Aboriginal people are shockingly below the national average.

Declining wages are partly the result of structural changes in the labour market. More and more private-sector jobs are precarious, non-standard, contingent, or part-time. Self-employment has ballooned in the 1990s and it tends to polarize incomes; for the majority, it entails low-paid, insecure, and non-unionized work. Tens of thousands of better-paid, public sector jobs have been done away with by all levels of government, through downsizing, privatization, and contracting-out. The minimum wage has fallen considerably in value since the 1970s.

Recent economic growth and job creation have led to rising wages and household incomes after a decade of stagnation and decline, providing some welcome relief for working Canadians. But growth alone will not solve the problems of poverty and inequality. Active government measures are also needed to set minimum standards in the labour market, create more good jobs in the public sector, and redistribute income through taxes, transfers, and public programs.

Cuts to major social programs are the second major reason for growing inequality. The federal government transfers money to individuals and other levels of government in recognition of the fact that the market cannot provide everyone with a livelihood. Transfer payments are an important source of income for both families and individuals. Without them, over half a million families would have no income at all. Transfer payments more than double the average incomes of the poorest families; they represent 68% of the income of households making less than $15,000 per year.

Unfortunately, transfer payments have declined since 1993. Families with the lowest incomes lost $954 on average in transfer payments and families with the second lowest average incomes lost $838. The richest families lost just $289. The loss of $954 to a family living in poverty is a catastrophic loss. It could very well mean the difference between having or not having enough food to eat or money to buy snow suits for the kids. At the same time, families with the lowest incomes saw their income tax increase by 40% on average between 1993 and 1997 while it increased by just 4.7% for the wealthiest families.

Once the largest transfer payment to individuals, the Unemployment Insurance program has been drastically cut back, notably as a result of policies announced in the 1994 and 1996 federal budgets. Only about 36% of unemployed workers now qualify for benefits, down from over 70% prior to the changes.

When federal funding for social assistance was cut and the program area was included in the Canada Health and Social Transfer, the federal government understood that it was releasing provinces from the requirement to provide adequate assistance on the basis of need alone. Since then, almost all provinces have reduced eligibility for social assistance and most have implemented forced labour through workfare programs.

The major federal-provincial anti-poverty measure of the 1990s has been perverse in its effects. The federal government increased the Canada Child Tax Benefit in such a way as to exclude families whose main source of income was social assistance from receiving the increase in the new benefit. If unemployment hits a family and they are forced to receive welfare, their income drops even further because they lose the increased portion of the Child Tax Benefit.

Between 1980 and 1997, as the Canadian economy grew by 52% (24% in per capita terms), the number of people living in poverty rose by 1.3 million to a total of 5.2 million. Some four hundred thousand more children became poor, bringing the total number of children living in poverty to 1.4 million. The number of families in poverty jumped by 28.5%. The poverty rate among young families (those whose head is twenty-four years old or less) soared from twenty to 43%. The poverty rate for lone-parent mothers in Canada remains the second highest in the industrialized world at 56%.

In 1995, 44% of Aboriginal people living off-reserve were poor, compared to 20% of non-aboriginal Canadians. Close to 60% of Aboriginal children under six are poor compared to

20% of non-Aboriginal children. Canada ranks forty-eighth in the world on the United Nations Human Development Index in terms of Aboriginal poverty. Almost 36% of people of colour lived in poverty in 1995, as did 45% of their children under age six, far higher than the national rate. Canadians with disabilities also face higher rates of poverty than other Canadians.

Food bank usage has soared since 1980. The latest report from the Canadian Association of Food Banks indicates that over three quarters of a million people need food assistance every month, and that 42% of those are children. Recent surveys tell us that mothers report going without meals regularly so that their children can eat.

The crisis of homelessness in Canada's cities is a national disaster. While often blamed on psychological problems afflicting the homeless themselves, it is mainly the result of a serious lack of affordable housing. More and more families are obliged to spend more than half of their income on housing, leaving far too little to cover their other basic needs. These higher costs, compounded with cuts to UI and social assistance, as well as an inadequate labour market, have caused the need for shelter assistance to skyrocket.

Clearly, the narrow focus on "getting the fundamentals right" has resulted in the accumulation of a significant and pressing social deficit, and has meant severe hardship for children and families, and for people without jobs. The promised abolition of child poverty by the year 2000 has proven a hollow mockery.

The AFB Approach

The 2000 Alternative Budget sets the standard by which the federal government's budget must be judged.

In our vision of the future, the conditions of the good life include a clean environment, a living wage or income, the opportunity to participate in freely chosen, meaningful work, as well as universal, affordable, accessible and high-quality child care, education, health care and housing. For too many Canadians, these conditions are even more remote now than they were ten years ago. The 2000 Alternative Federal Budget lays the cornerstone of a multi-year plan to build a healthier, more dynamic, more prosperous and more egalitarian Canada. We shall begin by wiping out this country's massive social deficit through a bold program of public investment, investing the entire fiscal surplus to rebuild key social programs and public services, and to redistribute income through the tax system in ways that will counter the growth in income inequality.

The role of government should be to mitigate the disparities in market income. Various redistributive measures, including income replacement programs and measures in the tax system, reduced income disparity considerably. The AFB will begin rebuilding these important programs. Income, however, is only part of the story. Equality and quality of life are closely tied to the "social wage"—the vast array of public programs and services that enhance income and contribute to the common good—i.e., the provision of such public services as health care, education, clean water, opportunities for recreation, libraries, social housing, garbage collection, sewage treatment, transportation, search and rescue operations, immigration and refugee services, and effective border security, to name a few.

It is our goal to reduce the number of poor Canadians from 17.5% of the population to 9% or less over the next five years, reflecting our policy of "zero tolerance" for poverty. New measures will be inclusive and not discriminate against people receiving social assistance.

The AFB directly alleviates the most pressing needs of children and families, including housing, income support, child care, and access to post-secondary education. These measures are balanced by significant new investment in public infrastructure with a view to meeting serious environmental concerns such as climate change and water quality.

The AFB 2000 budget is a comprehensive program of public investment that sets national priorities and forms the foundation for sustainable economic growth, greater equality and social cohesion. It is a budget that will put us on a sound footing going into the twenty-first century.

Families

Central to achieving this vision is a significant reinvestment in children and their families, a real National Children's Agenda.

In the early 1970s, the government recognized the deplorable situation faced by Canada's seniors. Poverty rates were extremely high. Through a collective determination to ensure that seniors did not end their lives in abject poverty after a lifetime of contribution to the country by raising families and building the productive wealth of the nation, a public system of social security was established. Although not perfect, it was a remarkable success story. Poverty among seniors fell from over 33% in 1980 to 17% today. More remains to be done, but this demonstrates what can be accomplished.

The AFB believes that through collective will and common commitment as a nation we can achieve the same results for children. We believe there is consensus throughout the country for a serious concerted effort to reduce child and family poverty. All that is required is the political will. This budget lays the groundwork for the future development of a comprehensive national family policy.

We propose to reduce poverty for children and families through the following annual expenditure and tax initiatives:

- Reinstating funds cut from income support $2.9 billion
- Reduction in taxes on low incomes (Enhanced Child Benefit when fully implemented) $8.3 billion
- National Housing Fund $1.6 billion
- National Child Care and Early Education Services $2.0 billion
- Higher Unemployment Insurance benefits $6.0 billion
- National Drug Plan $0.5 billion
- National Advance Child Maintenance System no cost
- Increased tax benefits for people with disabilities $0.4 billion

This program will be delivered through the AFB National Social Investment Funds and the

Table 4
National Priorities Capital Endowment from 1999 Fiscal Surplus

	$ billions
Post-secondary Education	0.4
Child Care	0.5
Housing	1.6
Community and Home Care	0.5
Infrastructure	1.0
Equity Participation	0.2
Agricultural Supports	0.5
Poor Country Debt Forgiveness	0.3
TOTAL	**5.0**

National Priorities Capital Endowment. These Funds offer a real alternative to the cuts to federal spending implemented by the Canada Health and Social Transfer (CHST) by reversing federal offloading and the erosion of national standards. Our Investment Funds begin a process of reinvestment in Canada's greatest asset, its people. Our strategy will create thousands of badly-needed jobs in the public sector and stimulate job growth in the private sector, while greatly improving the economic stability of millions of Canadians.

Table 5

The 2000-2001 Alternative Federal Budget
Program Spending
$Million

	Adjusted Federal Budget 1999/2000	AFB 2000/2001
NATIONAL SOCIAL INVESTMENT FUNDS		
1. HEALTH CARE FUND	9,761	12,261
2. POST-SECONDARY EDUCATION FUND	3,108	4,108
3. INCOME SUPPORT FUND	4,325	7,200
4. CHILD CARE FUND	350	1,850
5. RETIREMENT INCOME FUND	23,500	24,800
6. HOUSING FUND	1,889	2,239
	42,933	52,458
VETERANS PENSIONS	1,970	1,840
EQUALIZATION	9,288	9,700
TRANSFERS TO TERRITORIES	1,299	1,300
VRDP-DISABILITIES	195	240
FIRST NATIONS	4,334	5,000
COMMON SECURITY	12,085	12,235
AGRICULTURE	1,976	2,526
INDUSTRY (Inc. INFRA)	3,501	4,082
ENVIRONMENT	542	1,092
TRANSPORT	912	1,412
NATURAL RESOURCES	713	850
FISHERIES	1,314	1,614
IMMIGRATION ETC	759	800
HUMAN & TRAINING (Ex VRDP, STU.LOANS)	1,046	1,245
JUSTICE	3,609	3,717
HERITAGE / CULTURE	2,652	2,827
GENERAL GOVT. SERVICES & OTHER (net)	10,272	9,562
CONTINGENCY	3,000	
TOTAL PROGRAM	102,400	112,500
UNEMPLOYMENT INSURANCE FUND	12,300	18,300
TOTAL SPENDING PROGRAM AND UI	**114,700**	**130,800**

CHST allocated among Health, P-S and Income Support in 1994-96 proportions.
1999 Budget includes $2 billion CHST Supplement from 1998 Surplus

The National Social Investment Funds

The Unemployment Insurance Fund

The objective of the Unemployment Insurance (UI) program is to protect the greatest possible number of workers from the economic impact of a break in employment due to pregnancy, parental leave, temporary sickness, training, or unemployment. However, changes introduced in 1997 stripped many Canadians of their eligibility for UI. The *minimum* number of hours required to qualify has more than doubled (from 200 to 500 hours); in the case of workers who have only recently entered the workforce, or re-entered it after a long break, the number of hours required has tripled (from 300 to 910 hours). At present, only 36% of unemployed Canadians are receiving unemployment benefits.

The changes have been harshest for part-time workers and the self-employed, who make up 40% of the workforce. As 70% of all part-time workers are women, the latter have been harder hit than men. Indeed, 66% of men *in the workforce* are eligible for UI benefits, but only 53% of women are. Moreover, only 30% of all *unemployed* women receive benefits.

Only three of every ten young people are eligible for UI. Of the 489,000 who were even eligible, only 74% received either regular or special UI benefits at some point in their period of unemployment.

The Alternative Federal Budget proposes to separate the unemployment insurance program completely from the general federal budget. The UI fund will be used solely for the purpose of providing income support during times of unemployment. Improvements to Unemployment Insurance benefits outlined below will consume the full surplus that would otherwise be accumulated next year in the UI fund. UI coverage will be improved, with special emphasis on women, youth and older workers. Maternity benefits will be available for 26 weeks, with an additional parental leave of 26 weeks.

Variable eligibility requirements will be abolished; to be eligible for coverage under any facet of the UI program in any region, a claimant will have had to have worked 300 hours *maximum* during the preceding twelve months. Eligibility criteria will be relaxed to ensure that at least 70% of workers can qualify for benefits. The latter will be raised to the equivalent of 60% of a claimant's former weekly pay. Both employer and employee premiums will be maintained at current levels.

The Income Support Fund

The Alternative Federal Budget reverses the federal government's abandonment of the poor. Our Income Support Fund will be buttressed by core national standards:

- the right to assistance based solely on need (and therefore a prohibition of the imposition of compulsory work as a condition of receiving assistance, i.e., workfare in all its forms);
- the right to assistance without being subject to residency requirements;
- assistance rates adjusted in line with the cost-of-living;
- the respect of recipients' privacy;
- the right to retain one's home and a reasonable level of assets;
- and the right to appeal decisions made by officials and tribunals.

The Income Support Fund will have two levels. Level I will provide those in need with incomes no less than 60% of Statistics Canada's Low-Income Cutoffs (LICOs), and the AFB will raise this level to 75% over the next five years. Level II of the fund will meet special needs, such as those of the disabled, for support services such as counselling, emergency funds, and relocation costs.

An Enhanced National Child Benefit

The AFB makes a strong commitment to ending child poverty. The **AFB Enhanced Child Benefit** will provide a maximum benefit of $4,200 per child. This will cost $8.3 billion, phased in over two years. As well, as part of the development of a new national family policy, the income level at which the benefit begins to decrease will be raised over the five-year period in order to increase support for families with children with modest and middle incomes. Child poverty will be significantly reduced by this initiative.

The federal government's Canada Child Tax Benefit is not an anti-poverty initiative. Rather, it must be considered part of an overall low-wage strategy. The poorest of the poor—families on social assistance—are denied the additional benefit. We regard this restriction as discriminatory.

The economic security of children living in poor families will be further improved through an Advance Maintenance System that guarantees that custodial parents will receive their maintenance support on time. Custodial parents will be paid by the government while the income tax system collects maintenance payments from non-custodial parents.

The Child Care and Early Childhood Education Investment Fund

While income measures like the Enhanced Child Benefit help to achieve a better quality of life for children, they alone do not suffice. Social services and supports such as child care are also required. Experts agree that quality child care and early childhood development services enhance healthy child development. Investing in child care is important for all children, regardless of their parents' employment status and income. Quality child care is essential to advancing the equality of men and women, since women still bear the greatest responsibility for raising children and head most single-parent households. It is central to an effective anti-poverty agenda and always a service that should support and strengthen families.

This year marks the introduction of a national child care and early childhood education services program to be phased in over five years. It will offset the fragmentation of existing funding and services, meet the needs of families, and be responsive to regional approaches.

Funding for the program will consist of $2 billion in additional funding for child care this year ($0.5 billion in capital from the National Priorities Capital Endowment), increasing by an additional $500 million in each of the next four years. By 2004, Canada will have a universal national system of child care in place. Program details will be negotiated between the federal and provincial governments, and Aboriginal Peoples. It should be noted that the Alternative Federal Budget plan is not to supplant existing progressive and comprehensive approaches to child care in some provinces, but to enhance and link them as part of a coherent system from coast to coast. Like other social policy measures in the Alternative Federal

Budget, the Child Care Fund should be read in the light of the section on "Ottawa, Quebec and the Provinces."

The Housing Investment Fund

A housing crisis has been brewing in Canada since the federal government withdrew funding for new social housing initiatives, and this housing crisis is coming to a head. The United Nations' committee that monitors compliance with the International Covenant on Economic, Social and Cultural Rights has sharply criticized the Canadian government for its reduced commitment to social housing and the concomitant increase in homelessness.

An estimated 250,000 people are homeless in Canada. Families are the fastest growing group of those in need of emergency shelter. In Toronto, they account for almost half of those using hostels. Last year, the mayors of Canada's largest cities called on the federal government to declare homelessness a national disaster and proclaim a national state of emergency.

Outright homelessness is but the tip of the iceberg. According to the Federation of Canadian Municipalities, there are 1.1 million households in core need of housing, with "core need" defined as the inability to find decent, adequate, median rent housing for less than 30% of household income. Between 1990 and 1995, the number of households paying *more than 50%* of their income on rent increased by 43% to 833,555. In larger urban centres, 96,000 households are on assisted-housing waiting lists. There are 360,735 dwelling units in need of major repair. Between 2001 and 2010, an additional 450,000 rental units will be required annually. Yet, the overall rental vacancy rate in Canada's metropolitan centres fell from 3.4% in October 1998 to 2.6% in October 1999, according to Canada Mortgage and Housing Corporation (CMHC). This is the lowest rate since October 1987. Declining wages, as well as cuts to UI and social assistance, are key factors in the crushing need of affordable housing.

In December 1999, the federal government committed $750 million over three years to initiatives designed to alleviate the crisis of homelessness. This is most welcome. But much more is needed. Firstly, the federal government must invest substantially more money. Secondly, it has a critical leadership role to play in facilitating the development of non-profit and affordable housing in partnership with the provinces. Government social housing programs are the only way to ensure that Canadians will have adequate housing in decent surroundings and at affordable prices, as recommended by the Liberal Party Task Force on Housing in 1990. The 2000 Alternative Federal Budget will spend an additional $2 billion per year for five years to meet basic housing needs in Canada.

The AFB allocates, through the Canada Mortgage and Housing Corporation, $1.4 billion this year and in each of the next four years for the construction of up to 20,000 new units per year in partnership with non-profit and co-op housing organizations. In order to make the needed repairs to the existing housing stock, $200 million is allocated with the goal of repairing 10,000 units per year.

The AFB will develop a plan with the provinces to reduce the number of tenants whose rent is more than half of their income. This will either be done by building more social housing units or through the provision of a rent supplement.

The AFB allocates $100 million for the immediate alleviation of emergency shelter needs with a view to eliminating the need for emergency shelter over the long term.

Also, a Housing Foundation will be created. The foundation will be endowed with $100 million yearly to be used to support community-based initiatives. These housing initiatives will be funded from the National Priorities Capital Endowment.

An additional $200 million will be targeted to a National Housing Retrofit Program, with priority given to funding community housing project retrofits. Funding for this will be allocated from the Atmospheric Fund and the Infrastructure Fund (described below). The program will create an estimated 3,750 jobs.

The Post-Secondary Education Fund

Across the country, deep cuts in federal payments for post-secondary education have resulted in soaring tuition fees (126% on average since 1990), a 10% decline in college and university faculty, a reduction in the range and depth of programs and research capacity, as well as reduced expenditures on crucial infrastructure vital to educational activities, such as libraries and laboratories. At the same time, resources have been diverted to ill-advised policy initiatives, such as the Millennium Scholarship Fund and the RESP program, neither of which address the fundamental problem facing the post-secondary education system—affordable access to PSE.

The AFB will increase access to post-secondary education (PSE) for students from all socioeconomic backgrounds. The PSE Fund is set at $3.1 billion for general expenditures and will grow with the national economy. This increase will total $800 million over the next five years, and should significantly reduce tuition fees across the country and improve the quality of PSE. In addition, $0.4 billion in capital spending will be financed through the National Priorities Capital Endowment.

The *National Post-Secondary Education Act* that creates this fund will guarantee all Canadians the right to a quality post-secondary education. All provinces (with the right for Quebec to opt out with compensation) will adhere to standards of public administration, full accessibility, comprehensiveness, transferability of credits, and mobility with regard to both faculty research and student grants and awards. A widely representative National Advisory Council on Post-Secondary Education and Research will ensure that community needs are met by the post-secondary education system.

Canada is one of only three industrialized nations without a *national* system of grants for post-secondary education students. The present formula of student loans, interest relief, and income tax credits has generated ever-increasing debt loads, rising from an average $8,675 in 1990 to $28,000 in 2000. The AFB will begin the process of replacing student loans with a National System of Student Grants that will be based solely on need, specifically acknowledging students with special needs. Spending on grants will total $500 million in this fiscal year and will increase by $750 million next year.

The average student summer unemployment rate has not dipped below 15% during the 1990s, and funding levels for student summer employment programs are a third of what they were in the 1980s. Post-secondary education students desperately need summer jobs to help finance their education, and need high quality jobs after schooling is completed.

The National Health Care Fund

Last year's federal budget raised health care funding by $2 to $2.5 billion per year. This welcome initiative was long overdue and the result of strong pressure on the federal government by social movements and public opinion across the country. This pressure resulted in a federal commitment to multi-year spending on health, but this reinvestment of $11.5 billion is not, in itself, sufficient to overcome the crisis conditions in health care. It only brings the federal contribution to health care to the 1995 nominal spending levels, with no adjustment for the ageing population, inflation or economic growth. Thus, it does not compensate for funding lost in the past or restore cuts in real terms. It is not guaranteed beyond 2003-2004. And it does not strengthen medicare in crucial ways that we deem to be of central importance.

The Alternative Federal Budget sets up a National Health Care Fund, through which the federal government reaffirms its commitment to a universal, accessible, comprehensive public health care system that reflects the wishes of the vast majority of Canadians. This reinvestment in public health care is crucial to maintaining the federal authority to enforce the national standards in the *Canada Health Act* and to stem the growing tide of for-profit health care in Canada. Massive cuts in federal cash transfers to the provinces for health care have resulted in hospital budgets being slashed, services being de-listed and re-insured with private insurance, responsibility for services being offloaded to municipalities, employers, and private providers, and responsibility for care being shifted into the home, all of which threaten Medicare.

Households reporting expenditures on health care spent on average 30.5% more on health care in 1997 than in 1992, with almost half of the increase occurring in 1996-1997. Canadian families are also spending more on medicinal and pharmaceutical products (51.3% more between 1992 and 1997), as well as on hospital and other health-related services. In 1992, households that reported spending on hospital and other health-related services services spent an average of $275; in 1996 the amount increased to $299, and in 1997 it grew to $353—an increase of 28.6% over the 1992-1997 period, with over half of that increase from 1996 to 1997. (Government expenditures on hospital care actually *decreased* by 0.7% from 1996 to 1997.)

The Alternative Federal Budget proposes an additional investment of $0.4 billion in 2000 and $2 billion per year over the next five years to allow provinces to expand public health services in both acute and community-based care, to provide publicly funded and publicly delivered quality home care where this is appropriate. In addition, this will begin to restore the thousands of highly-skilled, better-paid public jobs in the health care sector which will benefit women. This five-year formula requires two years' notice before funding changes can take place.

The AFB is proposing a new Community and Home Care Act, complete with principles the provinces must follow to be eligible for federal contributions, at a cost of $2 billion per year. Provinces will be required to provide home care as a public service within their health care plans, thereby greatly improving the lives of the disabled, the chronically ill, and the elderly.

Rising drug costs due to extended patent protection for brand-name drugs are placing an unsustainable burden on the health care system. The AFB will phase in a National Drug Plan as an initial step in integrating prescription drugs as a fully funded component of Medicare, at a cost of $500 million in the first year. This initiative includes centralizing drug purchasing in one agency, stricter prohibition on advertising, and the implementation of a population-based drug information system.

Funding to the National AIDS Strategy will increase by $8 million this year, and by $25 million in each of the following five years.

The recommendations dealing with health in the report of the Royal Commission on Aboriginal Peoples will be implemented by increasing funding by $50 million this year, and $20 million in 2001.

The AFB calls for an arm's length inquiry into the practices and policies of Health Canada with a special focus on the issue of genetically modified foods and the planned transfer of food safety responsibilities to the Minister of Agriculture who is also mandated to promote the food industry. This Budget will restore the scientific capability of the Health Protection Branch to ensure a regulatory process in which safety, not industry, comes first. The budget of the HPB will be increased from $237 million to $300 million.

We recognize that the federal government must protect the public interest in the development of health information technologies. Money will be allocated from the Health Transition Fund to develop Social Partner Councils made up of community groups and provider and employer organizations. There would be three councils, one in each of the following areas: 1) Clinical / patient data, 2) Outcomes / population data, 3) Employment / management data. Finally, the federal government should be active in the field of independent health research which would investigate all aspects of health. The AFB recommends increasing health research funding to 1% of total health funding, of which a significant portion should come from industry, in specific contributions fully administered at arm's length from industry.

The Retirement Fund

Poverty among seniors remains at unacceptably high levels. Female seniors are, on the whole, much worse off than male seniors. Public pensions (CPP and QPP) and seniors' benefits, the OAS and GIS, are, in themselves, inadequate. Fewer than one-half of Canadian workers are, at any time, members of an occupational pension plan—and only a fraction of that number ever accumulate a decent pension on which to retire.

RRSPs, which were supposed to fill in the gaps left by public and private benefit provision, are actually reinforcing retirement income inequities. They generate a higher tax saving for higher-income households and the take-up rate for RRSP contribution room increases as income increases.

The 2000 AFB will initiate a thorough review of the entire retirement savings system, to ensure that all Canadians are able to retire with a decent pension income, and to ensure that tax subsidies for retirement income are provided to those who need them the most. This will include a review of RRSP limits, a reconsideration of portability rules for private pensions, and consideration of the potential for converting tax-delivered retirement income subsidies from deductions to credits.

In the interim, we will take steps to address urgent problems. The GIS will be increased immediately by 10% in each of the next two years to strengthen support for the poorest seniors. The income levels at which the clawback of the OAS benefits apply will be fully indexed to the rate of inflation, as measured by the average weekly wage. The foreign-content limits on investments of RRSPs and registered pension funds will be maintained at current levels, and loopholes in existing legislation (including the use of “segregated” funds) will be closed.

Equality and Gender

Economic hardship is concentrated among women and children, who constitute 70% of Canada’s poor. Federal policies have not addressed gender inequality in Canada; on the contrary, they have worsened it. Women have lost relatively well-paying public sector jobs, and bear the burden of caring for their families as public services, social programs, and income supports are reduced.

Promises to create a national child care program have been ignored. The elimination of the Canada Assistance Plan (CAP) has caused severe deprivation. The Canadian Advisory Council on the Status of Women has been shut down, and funding for women’s organizations and research on gender issues has been slashed.

The social and economic policies in the AFB represent reinvestments in the social programs so crucial to women’s equality with men. Our job creation strategy is designed to benefit women, employing affirmative action where necessary.

To facilitate women’s access to the political process, the AFB will create a special Women In Democracy Fund (modeled on the Fair Share Funding Campaign, “A twooney for every woman and girl child in Canada”) to promote women’s participation in the democratic process. Targets will be set to increase women’s representation in all aspects of government. Funding of $50 million will be allocated to women’s centres, shelters, and services for combating violence against women, $25 million this year.

Public Infrastructure, Environmental Investment, and Green Jobs

The Investment Deficit and the Environmental Crisis

A major focus of this year's Alternative Federal Budget is new investment in public infrastructure, with a particular emphasis upon public investment in environmental infrastructure. This is twinned with measures to promote much higher levels of private investment in areas that promote environmental sustainability. Increased and re-directed investment is needed to achieve pressing environmental goals, such as major reductions of the greenhouse gas emissions that are leading to global climate change. At the same time, this change of direction will provide many new jobs in a multitude of areas, including construction, building systems management, basic public services and emerging "green industries" such as environmental services and production of environmentally friendly goods. While the shift to environmental sustainability will involve job losses as well as gains, requiring a framework of "just transition" for affected workers, the net impact is likely to be significantly positive because less energy and waste intensive processes tend to be more labour intensive.

There has been an alarming decline in the level of public spending on public infrastructure over the past twenty years. In 1997 and 1998, total government investment in fixed capital—everything from public sector buildings, to schools, to roads and highways, to public transit, to water and waste treatment facilities—was just 2.1% of GDP, down significantly from the 4.5% level of the 1960s and 1970s. This has resulted in poorer public services, major environmental problems such as poor water quality and pollution, and (as many studies have shown) a deterioration of private sector productivity growth.

Canada has accumulated an enormous public infrastructure investment deficit, particularly in basic municipal and environmental infrastructure. Under-investment is the product of budget cuts at all levels, and a reluctance (or inability) to assume new public debt. This is extremely short-sighted in that governments at all levels are not proceeding with projects that would generate high social, environmental and economic benefits.

The dominant current response to under-investment is to promote "public-private partnerships" in which governments allow private sector companies to build, own, and sometimes operate public facilities. The asset may (or may not) revert to public ownership at the end of a specified period. The "benefit" of these partnerships to governments is that facilities are built without incurring direct debt. But the costs of private borrowing are higher than government borrowing and the public pays for it in the end.

But instead of paying for facilities through taxes, citizens are hit with a host of tolls, user fees and so on. Further, a company building public facilities under a leaseback or temporary toll or user fee arrangement is able to depreciate their investment for tax purposes, resulting in a superficially lower cost to provincial or local taxpayers while the public still pays through the higher taxes needed to make up for the lost revenue. Leases are debt servicing by another name. The so-called "efficiency" gains of private operation of public facilities almost always boil down to poorer and less accessible services and losses for workers.

High consumer and environmental costs and poor services have resulted from the privatization of basic public infrastructure such as water services.

Shortfalls in public investment in environmental infrastructure and services have created growing problems and concerns, and have greatly slowed efforts to move towards a more environmentally sustainable economy. At the same time, private investment in energy efficiency and waste reduction, among other areas, has been far too low because of lack of information and the absence of sufficient regulation, and because of perverse disincentives. Much of Corporate Canada has strongly opposed efforts to deal seriously with pressing issues like global warming and pollution and resource depletion because of concern with the short-term costs, despite the manifest reality that no economy or society can exist independent of a sustainable natural environment. Major public and private investments are needed to reduce greenhouse gas emissions, to improve energy efficiency, and to reduce and eliminate the release of wastes into the environment.

This year's Alternative Federal Budget provides support for a major environmental investment program, drawing upon recent proposals advanced by the Canadian Nature Federation on behalf of 14 environmental organizations, the National Round Table on the Economy and the Environment, the Federation of Canadian Municipalities (FCM), the Canadian Union of Public Employees (CUPE), and adding to proposals put forward in previous alternative federal budgets.

Public Environmental Infrastructure

The AFB provides support for a multi-year National Environmental Infrastructure Investment Program. The major purpose is to address pressing environmental concerns, such as climate change and water quality. Increased public investment has a major role to play in meeting Canada's Kyoto commitments to reduce greenhouse gases and in preventing environmental damage, and thus will generate large social benefits. The program would have major additional benefits in terms of increased government revenues, increased private sector efficiency, and direct job creation. (Employment equity criteria should be part of such a program to ensure that those employment benefits are fairly shared.) Analysis by Informetrica Ltd. shows that $1 billion spent on public infrastructure creates approximately 15,000 full-time jobs and increases federal and provincial net revenues by 30-40% of the initial amount spent.

The National Environmental Infrastructure Investment Program would replace the successful, but now lapsed, National Infrastructure Program of 1994-98 that split costs three ways between the federal, provincial and municipal levels of government. The $2.4 billion federal contribution to infrastructure projects was matched by the provinces and municipalities to the tune of $8.3 billion. This initiative is needed to address the current huge backlog of investment in local public infrastructure recently highlighted by municipalities and the Canadian Union of Public Employees. Current investment does not even match the depreciation rate of current structures. The program will be multi-year in view of the enormous accumulated public infrastructure deficit.

Projects will be initiated at the municipal and local level, and priority will be given to projects on the basis of cost efficiency relative to environmental and social benefits. All projects would be in the public sector. For the next fiscal year, the AFB calls for a federal investment of $1 billion, funded from the National Priorities Capital Endowment to be matched by equal contributions of $1 billion each from provincial and municipal governments / local authorities. A further $0.5 billion in transportation and related infrastructure will be funded directly.

The key initial areas for Public Environmental Infrastructure Investment are:

(A) Water and Wastewater Systems: upgrading of municipal water and wastewater treatment plants to improve water quality and to achieve energy savings, improved water conservation and better effluent management.

The Canadian Waste and Wastewater Association estimates that over the next 15 years, $27 billion will be required to renew water treatment and distribution. An additional $61 billion will be needed to upgrade sewers and wastewater treatment. This represents a huge liability for municipalities struggling to fund downloaded services on a limited property tax base. The need for a large amount of capital spending on water infrastructure provides a dangerous opening for global corporations poised to gain control of municipal water services. Without a public spending program for water services, Canadians will be vulnerable to corporate takeover of this basic public service so essential to life.

The experience of water privatization in Canada and other countries provides ample cause for alarm: prices have soared, the quality of drinking water has plummeted, and service has become unreliable, while pollution and disease have increased. We need a program that provides public funding and keeps our water systems publicly owned.

(B) Waste Management: the diversion of household / commercial / industrial solid and liquid waste from landfills and from incineration facilities through comprehensive and leading edge reduction / reuse / recycle programs. Despite recent progress, the average diversion rate from households is still only about 25%, compared to 58% in Guelph where a model, centralized recycling and recovery system is now in place. Advanced systems largely cover costs through increased revenues, create jobs, and minimize environmental costs. This element of the program would also include upgrades of existing landfill sites, methane gas capture and utilization, and upgrading of incinerator technology.

(C) Development of Public Transit and Commuter Rail: the purchase and refurbishment of buses and rolling stock; fleet replacement and modernization for higher energy efficiency and lower operating costs; construction and enhancement of transit infrastructure; development of parking facilities at transit access points. (The federal government could also boost public transit use by granting tax-free treatment for employer-provided transit passes.)

(D) Public Building Retrofit: Retrofitting of municipal and local public sector buildings to much higher standards of energy efficiency and procurement of energy from alternative sources, resulting in reduced greenhouse gas emissions and lower operating costs. The Federal Buildings Initiative has shown the potential for large energy savings and high returns on investment, but only modest funds have been committed to broader public sector investment in this area.

Other areas of activity could include: clean-up of contaminated sites and their opening up to other uses, including the development of parks and recreation facilities; purchase and / or protection of ecologically sensitive lands and natural heritage (over and above the needed expansion and protection of the national parks system): development of community energy systems, realizing energy efficiencies through projects that use wastes (such as methane gas or waste biomass) to provide heating or energy for other users.

Lowering the Cost of Financing for Public Infrastructure Investment: A National Infrastructure Investment Authority

In addition to direct federal government support for public infrastructure investment as proposed above, the federal government should—outside the Budget—facilitate greater private financing for needed public investments, without promoting privatization. We propose the establishment of a National Infrastructure Investment Authority as a federal government agency (with appropriate subagencies in specific areas such as waste management, water, public transit, highways). The Authority would be fully accountable to Parliament for its operations. With an initial federal "seed" investment of $500 million, the Authority would have the technical expertise to judge which projects proposed by public agencies should be given priority and merit support. Municipalities, provinces, and broader public sector agencies would make application to the Authority to finance projects through loans. The Authority would borrow / issue bonds with a federal government guarantee and would actively solicit long-term investments from pension funds that are anxious to lock in long-term streams of payments to match future pension obligations. The Canada Pension Plan could invest with the Authority. Creating a major pool of investment capital with a federal government guarantee would lower the cost of broader public sector borrowing. (Currently, the federal government can borrow long-term at about 6%, significantly less than is paid by either lower levels of government or private firms.) Further, the federal government could inject additional capital to further lower the cost of building infrastructure via a subsidy to the interest rate changed to borrowers.

The Authority would maintain an agenda of pre-approved infrastructure projects that could be costed and pre-engineered. In the event of a future economic downturn, federal and provincial governments could then inject additional funding to speed-up public infrastructure investment, thus creating jobs.

Expansion of environmental infrastructure investment as part of a Climate Change Strategy could also be financed through the Authority. Projects supported by the Authority would be in the public sector, and public operation would be a condition of support. Fair wage rules would be established, and contractors would be required to develop and implement employment equity programs.

Direct Federal Investment in Environmental Sustainability

Within its own jurisdiction, the federal government should increase funding for the Federal Buildings Initiative by at least $5 million per year (from about $ 1 million) to make at least 50% of its own buildings highly energy efficient by 2005, and to help further develop a market for private companies operating in this area. The Initiative has already shown that the energy savings from improved space heating and cooling systems, energy management and lighting systems and changes to building shells justify the required investments even in narrow cost terms, without taking into account the environmental benefits in terms of reduced greenhouse gas emissions. Yet only 12% of the potential energy savings identified have been realized to date.

The federal government should also commit to meeting 20% of its own electricity needs from "green" sources by 2005, giving (in combination with the National Environment Infrastructure Investment Fund) a major boost to "green energy" industries through economies of scale and through demonstration impacts. (Estimated cost: $18 million over 5 years.)

The federal government should also gradually introduce a system of direct grants to consumers who purchase eco-efficient technologies and products, i.e., those which reduce material inputs and waste outputs. Examples would include very highly energy-efficient vehicles and innovative home heating systems. Initial funding of $10 million could be used to help develop a commercial market for new leading-edge products, assisting in the growth of Canadian based "green industries." A system of consumer grants would complement the funding now available to industry through the Technology Partnerships Canada program, whose environmental focus should be strengthened.

Capital Cost Allowances for private investment in highly energy-efficient buildings and machinery should be significantly increased.

Canadian Atmospheric Fund

The AFB again calls for the establishment of a $1 billion Canadian Atmospheric Fund, to be funded through $0.5 billion of new revenues raised from a new tax on greenhouse gas fuels earmarked specifically for this purpose and $0.5 billion in new spending. A combination of targeted tax changes and appropriate re-investment of the tax proceeds will help Canada to meet its Kyoto greenhouse gas reduction commitments, with minimal disruption to overall employment. The Fund will provide further support to local climate change initiatives such as building and industrial retrofits, tree planting, alternative energy and public transit development that will create new jobs. Half of the fund will support "just transition" programs for workers displaced by actions undertaken to reduce greenhouse gas emissions.

Levering Private Investment in Energy Efficiency and Sustainability

We propose the establishment of a National Energy Efficient Building Retrofit Fund on the model of the Toronto Atmospheric Fund (TAF) Better Buildings Partnership to support retrofits of commercial and industrial buildings. This City of Toronto agency has already levered $100 million of investment in retrofits of 150 buildings, creating 3000 person years of employment, reducing greenhouse gas emissions and cutting annual building operating costs by $11 million, while yielding high rates of return on the City of Toronto's initial investment in a revolving fund. The proposed National Fund, endowed at $100 million and funded from the National Priorities Capital Endowment, would provide building owners with financing for retrofits to increase energy and water efficiency, mainly in the form of providing security for loans extended by traditional sources. The loans would be repaid from realized energy and water savings.

Other Programs

Equity Participation Foundation

Strong social advocacy organizations are necessary to a healthy democracy, playing an essential role in opening public debate about important issues. The withdrawal of public funding for advocacy organizations has forced many to shut their doors or limit their activities, thus stifling debate on important social issues. This threatens the potential for obtaining redress for discrimination and equality for women, visible minorities, gays and lesbians, the disabled, and Aboriginal peoples. The AFB acknowledges the crucial role of advocacy and activism in achieving social change, and supports this work through an Equity Participation Foundation with resources of $200 million financed by the National Priorities Capital Endowment.

An End to Racism and Discrimination

The AFB will establish community-based programs to combat discrimination and racism in order to ensure that all Canadians have access to fundamental rights in a free and democratic society. Increased awareness by government and the public about the role immigrants play in the Canadian society and economy will be improved through the establishment of a Centre of Excellence for Immigration and a community-based Canadian Anti-Racism Centre. A Centre of Excellence for Gay and Lesbian Issues will be established, with start-up funding of $1 million. All federal laws and statutes that discriminate against same-sex couples will be amended to allow equal access to government benefits for gays and lesbians.

Funding for immigration and settlement services will be restored, cuts to training programs, ESL and FSL rescinded. The AFB will abolish the immigration "head tax." Increased funds ($0.5 million) will be given to the Canadian Human Rights Commission.

Aboriginal Peoples

Canada has not honourably or appropriately compensated Aboriginal Peoples for the lands and resources that were obtained from them. Aboriginal people experience very high unemployment, poor health services, and lack of access to adequate housing. The AFB recognizes that Aboriginal Peoples have never surrendered their powers of self-government. We recognize an obligation to provide Aboriginal Peoples with the opportunity to enjoy the same standard of living as non-Aboriginal people.

We endorse the recommendations of the Royal Commission on Aboriginal Peoples (RCAP):

- Aboriginal nations have to be reconstituted and a process established for their assumption of powers.
- There must be a fundamental reallocation of lands and resources, education and training for self-government and economic self-reliance, and an emphasis on economic development to address problems of poverty and despondency.
- Implementation of the RCAP's recommendation must be given greater priority.

In addition to restoring the cuts to services that resulted from the creation of the CHST, the AFB will provide funding for negotiating and implementing self-government with Aboriginal Peoples $600 million, in line with the recommendations of the RCAP, and increased funding for Friendship Centres and Women's Programs within Aboriginal communities. New funding for Aboriginal health is also included in the Health section of our budget. Other proposals on housing, child care, education, health, income support, and employment creation will have a positive impact on the standard of living of Aboriginal Peoples.

Environment

Recent federal budgets have neglected the need for environmental protection. Cuts to Environment Canada and the decentralization of environmental powers to the provinces reveal the federal government's lack of commitment to the nation's environment. We address the need for environmental protection with a balance of policies: regulation, ecological tax reform, green job creation, and a program of just transition for workers affected by environmental change. The base budget of Environment Canada will be increased to $550 million.

The primary environmental objective of the 2000 AFB is to begin the transition to a sustainable economy that nurtures both our society and our economy, rather than trading off one for the other. These alternative strategies include investment in public services, support for environmental clean-up and energy conservation initiatives and a shorter work-week. Full-cost accounting in the form of a Genuine Progress Indicator (GPI) will be introduced to enable us to measure more accurately the true environmental, social and economic vitality of our country.

The AFB affirms that Canada's Kyoto commitment to reduce greenhouse gas emissions can largely be achieved by simply reallocating fossil fuel subsidies to innovative programs that encourage energy-efficiency. Environment Canada, whose budget and staffing has been decimated by 40% in recent years, will be expanded and reinvigorated, and its resources diverted more towards the crucial task of environmental monitoring and protection.

As indicated earlier, we will establish a $1 billion Canadian Atmospheric Fund, partly on the strength of revenues generated by "green" tax reform. Half of this fund will be invested to support climate change projects, with the expectation that up to 15,000 jobs will be created. The remainder will be dedicated to transition funding to support workers displaced by actions to protect the climate, including the fossil fuel and chemical industries.

Other key AFB initiatives include a national program of pollution prevention to deal with pollution and waste. A pilot corporate chemical taxation scheme designed to target chemical pollutants will be put in place. The expected $1 million revenues generated will lead into the financing of this program. The prime candidate for the pilot is perclorethylene, a carcinogenic dry cleaning solvent that pollutes the water supply.

Culture

Canada's cultural community continues to suffer from massive cutbacks in federal funding, from corporate concentration in media and cultural industries and from the challenges to Canada's cultural sovereignty brought about by international trade agreements. The AFB makes a strong commitment to supporting the cultural sector, increasing federal spending by $350 million over two years. Our reinvestment will include an immediate increase of $125 million to the CBC.

We welcome the recently created Canadian Magazine Fund for the essential support it offers Canada's indigenous magazine industry, and the Alternative Federal Budget will increase its level of financing. We also eliminate the GST on magazines and books. We renew the Canadian Television Fund at its current level and introduce a film fund to support the production, distribution and exhibition of Canadian movies by established and emerging film makers to help end the dominance of foreign films in Canada. Legislation will limit media concentration and encourage worker-owned and cooperative ownership of media through our Community Economic Development Strategy. A National Universal Access Fund will be set up to allow affordable public access to new information and communication technology and to a wide range of Canadian content choice.

Human Resources and Training

The AFB would restore the federal government's central and coordinating role in labour market training and establish a system of National Training Standards. The federal government's withdrawal of support and its reduction of scope for education and training is shortsighted and damaging to Canada's long term welfare. Canada's training expenditures are among the lowest in the OECD and only 23% of the unemployed receive any training.

Unfortunately, federally sponsored training and related labour market measures are not designed to help workers develop their skills in order to move into stable, well-paying jobs. Instead they are geared to the "quick fix" of moving workers swiftly into low-wage, temporary jobs often based on workfare or wage-subsidy arrangements.

By turning training over to the provinces, the federal government has abdicated its role in ensuring Canadians an equal opportunity to acquire long-term skills for long-term jobs. While training is not a substitute for jobs, it should be a basic entitlement regardless of employment status, and it must be available to those who have historically been under-represented in the labour market: women, people with disabilities, visible minorities, and Aboriginal Peoples.

The AFB revitalizes the federal role in training, while continuing to support particular arrangements for Quebec and flexible arrangements for First Nations and other provinces.

National Training Standards would be negotiated to govern transfer of funds between labour market partners. The principles underlying them would be that training must be accredited, sequential and transferable; targeted to the four designated equity groups; reinforce respect for human rights and progressive workplace policies; provide for child care and supplementary costs and must not be linked compulsorily to workfare or wage subsidy schemes.

The federal government would initiate:

- a skills bank establishing universal entitlement to life-long learning;
- a skills renewal fund paid for through an Employer Training Levy, set at 1% of payroll up to a ceiling of 40 hours of training for every worker, and refundable to employers who provide this training in-house (similar to the program in Quebec);
- a Pan-Canadian roster of employment services, linking federal and provincial training and labour adjustment programs and services for all unemployed Canadians regardless of their unemployment insurance eligibility;
- increased funding for training for social assistance recipients; and
- strengthened infrastructure to support training for life-long employment through the Canadian Labour Force Development Board, to monitor and analyze labour market trends, promote industry sector

councils and community training agreements, and to negotiate Pan-Canadian standards.

The AFB will fund training mainly through Human Resources and Development, with income support being provided from the Unemployment Insurance program.

Canadians with Disabilities

While governments at all levels express support for the principles of equal access and inclusion, almost one-half of disabled persons are unemployed, and far too many live in severe poverty with annual incomes under $10,000. Disability supports vary greatly across the country and in some parts, people with disabilities are being reinstitutionalized. Equality for persons with disabilities demands that the government consider the needs of disabled persons in all aspects of policy and that this concern be translated into concrete action plans. Health and education programs, employment programs, taxation, and other areas of the AFB attempt to address the needs of people with disabilities.

On the labour market side, the AFB sets funding focusing on employment-related programs for disabled persons at $195 million. These funds will support activities under the federal Employment Assistance for Persons with Disabilities agreements with provincial governments. In addition, the AFB will continue the federal Opportunity Fund, supports innovative employment projects for Canadians with disabilities.

In the 2000-2001 budget year, the Opportunity Fund will be increased from its $30 million annual amount to $45 million. Also, a commitment will be made to extend the Opportunity Fund for an additional three-year period.

An essential services agreement between federal / provincial / territorial governments will be negotiated, that will set minimum national standards and equalize access to disability supports. In guaranteeing supports, this measure would also remove barriers to geographical mobility. We also allocate $30 million to improve access for people with disabilities to mainstream educational institutions. Grants will be provided for local businesses and municipalities to purchase wheelchair-accessible vehicles. Our understanding and awareness of the needs of disabled people across the country will be improved by implementing a Health and Activity Limitation Survey as part of the 2001 Census and by including disability issues in health, children and labour market surveys.

A long term review will be conducted of income support programs for persons who are disabled so as to harmonize them, reduce administrative costs and improve levels of support. Also, a process will be established for the purpose of introducing a Canadians with Disabilities Act. On the tax side, a 100% refundable Disability Tax Credit (which cannot be deducted from provincial social assistance) is established. A base refund will be available to all who apply, with additional refunds given where receipts for purchased goods and services are provided. The list of allowable items that can be deducted as expenses will be expanded. Some examples of items that will be added are certain AIDS drugs and air conditioning for people with Multiple Sclerosis. In ongoing consultations with representatives from the community of people with disabilities, we will explore the expansion of the definition of disability under Income Tax regulations.

Finally, since disability issues are horizontal, touching all departments of government and since coordination is clearly a major problem at this time, mechanisms will be put in place within government to coordinate disability policy development.

Agriculture

The Agriculture Department's budget will be targeted mainly to supporting family farming in Canada. The dramatic long term fall in real net income per farm since the mid 1970s, from $50,000 to -$2000 in 1999, threatens the very survival of small and medium size farms and of rural communities as we know them. The drastic cuts in farm subsidies, the increase in input costs and the amalgamation of farms into large corporate entities are the basis of the threat to farm life. To deal with these, we acknowledge the need for the on-going support of family farms and the promotion of sustainable environmental farming practices.

The AFB introduces a new Family Farm Support Program. This program will be needed to address the crisis that many farmers now face due to depressed commodity prices and poor weather. Beginning Family Farmer and Resettlement Programs will provide income support for new family farms, and help repopulate rural Canada. A sum of $1 billion will be provided, unconditionally and on top of last year's spending, for these purposes, $0.5 billion of this being made available from the National Priorities Capital Endowment. Inspection fees will be reduced. Rural Community Support Programs, including infrastructure development, housing, community cooperatives, and local processing and manufacturing, are part of the AFB's programs in those particular areas.

The research and inspection capacity of Agriculture Canada will be renewed and redirected, with an additional $50 million in funding. This will allow the department to support the development of organic, low chemical and sustainable farming systems. We will support community co-operatives and other small businesses, as well as local processing and manufacturing. Supply management and orderly marketing programs will be encouraged. We will launch an enquiry into prices and profits in the agrifood chain, on both the input and the output sides, to ensure that farmers and consumers are receiving fair treatment. In the interim, staple products should be labeled to show what amount of the price is received by the farmer.

Forestry

The AFB increases Natural Resources departmental spending by $70 million. Our priority is the forestry sector, where the federal government's withdrawal from forestry management has put our forests and the jobs that rely upon them in jeopardy. Due to a 50% reduction in the forestry budget since 1994, federal forest development programs, including reforestation, are now mostly defunct.

We will promote greater sustainability in forest practices through a Forest Investment Fund. This Fund will ultimately be provided with an annual budget equivalent to 1% of the forest sector's total contribution to our economy (or about $200 million). This funding level will be achieved gradually over the next four years, starting with $50 million in 2000.

The federal government can also play a role in protecting biodiversity by establishing new protected areas, especially in regions where national parks do not exist to protect the environment. To this end, we establish a $30 million Protected Area Fund. The research budget of the Canadian Forest Service will be restored to $151 million, its 1994 level, over the next two years. Forestry employment will be increased through the above measures, and through industrial policy initiatives that encourage value-added production.

Fisheries

The Fisheries Department budget will be expanded to allow for additional funding of research and conservation. Funding for the Atlantic Groundfish Strategy (TAGS) program will also be maintained and the financing needs of Pacific Coast fishers will be examined.

Long-term solutions to the ecological and human crisis facing fishing communities must be found—solutions that put the needs of people and the environment first. This may mean providing transitional funding to allow Aboriginal fishers to buy out licenses of others currently in the industry, cleaning up fish habitat and encouraging diversification away from shellfish, salmon and aquaculture. Co-management agreements with Aboriginal fishers will be explored. We will develop a National Freshwater Fisheries Strategy that would address questions of objectives, jurisdiction, knowledge base, and accountability.

Canadian Foreign Policy and Common Security

The Alternative Federal Budget is based upon a commitment to the goals of sustainable human development, and to the ethic of global citizenship and partnership.

Repeated cuts to Official Development Assistance (ODA) since the early 1990s are ethically indefensible in the light of the growing number of people living in poverty around the world. The World Bank estimates that as a result of economic instability the number of people living in absolute poverty on less than one dollar a day may have grown by 200 million to 1.5 billion in 1998 and 1999. The Alternative Federal Budget will restore a positive outlook for sustainable human development by increasing the International Assistance Envelope by $300 million this year and each year until 2005-2006, when ODA will reach 0.35% of Gross National Product from its current level of 0.27%. Equal attention will be given to renewing Canadian aid programs to target direct improvements in the conditions and rights of people living in poverty.

While aid is important in the struggle to eliminate poverty, it is not enough. The Alternative Federal Budget will respond to calls by the Canadian Ecumenical Jubilee Initiative and the Canadian Council for International Cooperation's *in common* campaign to write off entirely the bilateral and multilateral debts of the poorest countries and to uncouple this relief from insistence on orthodox Structural Adjustment Programs.

This past March, Canada was out in front of other G7 countries when it promised 100% bilateral debt cancellation for the least developed among the Highly Indebted Poor Countries (HIPCs) and for Honduras. But only eleven of the forty-one HIPCS are both least-developed countries and bilateral debtors to Canada. In September, U.S. President Clinton proposed a 100% write-off of U.S. bilateral debt for all thirty-six of the forty-one HIPCs expected to qualify for debt remission in the future. This year's Alternative Federal Budget will provide for Canada to take the lead again by writing off 100% of the bilateral debts of the fifty poorest countries. While 90% of the cost of the write-offs can be covered by existing provisions for Paris Club debt write-offs for HIPCs, the additional 10% "top-up" and debt remission for non-HIPCs will be covered by a new Jubilee Debt Provision of $300 million funded from the National Priorities Capital Endowment. In addition, we will continue to press for replacing the flawed HIPC Initiative of the International Monetary Fund (IMF) and World Bank with a new program that provides for 100% remission of low-income countries' multilateral debts that is not contingent upon acceptance of Structural Adjustment Programs.

This budget does not contain an appropriation for the HIPC Trust Fund because the World Bank can cover its share of multilateral debt write-offs through its existing loan loss provisions (worth U.S. $3.24 billion) and the International Monetary Fund can cover its share through the revaluation of a portion of its gold holdings as already approved by Canada. However, should the costs of writing off low-income country debt begin to impair the ability of the International Development Association, the African Development Bank and the Inter-American Development Bank to make loans for genuine social and economic development projects, we would be prepared to consider appropriations for these institutions in future budgets.

Canada will join with like-minded nations to develop an alternative framework in negotiations for a Free Trade Agreement for the Americas and for the upcoming Millennium Round negotiations of the WTO. This framework will respect international conventions for human rights, workers' rights and sustainable development, and be subject to multilateral institutions already mandated to implement these agreements (for example, the International Labour Organization and other United Nations bodies). Prior to further negotiations to extend trade or investment liberalization, Canada is committed to a fundamental review of the implementation of the Uruguay Round and the operations of the World Trade Organization in terms of its impact on the environment, social conditions (in particular the reduction of poverty in developing countries), workers' rights and the promotion of democracy.

A restructured and more specialized defence force, within a strategic framework of Canada's foreign policy commitments to human security and peace-building, will allow for a reduced Defence budget over the next two years. We will allocate financial and human resources to the Mines Action Fund, in support of the Land Mines Convention of December 1997.

Tax Policy

The goal of the 2000 Alternative Federal Budget is to enhance the health of Canadian families and communities. Social research has shown that the key to improving population health is to provide an adequate income for all citizens and in particular to ensure an equitable distribution of income. Accordingly, the Alternative Federal Budget uses the tax system extensively to deliver badly needed income support to low and middle income families with children. Implementation of the Campaign 2000 program will deliver significant tax relief to millions of Canadians.

In addition, the economy is now strong enough for a first step to be taken towards more comprehensive income tax reform. Increasing basic personal amount and spousal / equivalent amounts will remove thousands of Canadians from the tax rolls. And restoring indexing of the major features of the personal income tax system will stop the compression of tax rates that has undermined the progressivity of the tax system over much of the income range.

The tax program for the 2000-2001 Alternative Budget has four major objectives:

1. To implement the Campaign 2000 program for the reduction of child poverty by proposing a substantial expansion and redesign of the child tax benefit;

2. To enhance the ability of the tax system to contribute to a more equitable distribution of income and wealth in Canada;

3. To improve equity in the tax system by eliminating costly and wasteful tax loopholes; and

4. To take a first step towards restoring the progressivity of the personal income tax in Canada by restoring indexing of all features of the tax system.

Canada's Great Divide, a study by the Centre for Social Justice published in January 2000, highlights the negative trends in income distribution in Canada over the course of the 1990s. Average incomes have fallen for every income group, but those at the bottom have fallen more rapidly, so that the distance between the upper and lower income groups has grown.

The 2000-2001 Alternative Federal Budget starts the process of redressing that imbalance. It addresses key areas of unfairness in the Federal tax system, and allocates the additional revenue entirely to tax relief targeted exclusively to low and middle-income individuals and families.

These are the components of our tax program:

1. A freeze in overall tax levels at the current share of taxes in GDP; the AFB does not increase the overall rate of taxation.

2. Significant increases in tax credits for families with children as proposed by Campaign 2000.

3. A tax fairness package of increased taxes on unearned income; higher tax rates on individuals who earn in excess of $100,000 per year; implementation of the base broadening recommendations of the Mintz Committee on Business Taxation[2]; and enhanced tax enforcement.

4. Restoring indexing of the major features of the personal income tax system.

Tax Credits—Implementing Campaign 2000's Child Poverty Measures

The most effective way to deliver tax relief to low- and middle-income families is not through across-the-board tax cuts, or through general changes in tax structure. These changes sound fair and neutral in their impact. But analysis of their impact reveals that the benefits from such changes are tilted overwhelmingly in favour of the highest income individuals in our society.

Refundable tax credits—credits that are paid out, even if the taxpayer does not owe any tax—are far more effective in delivering tax relief to those who really need it.

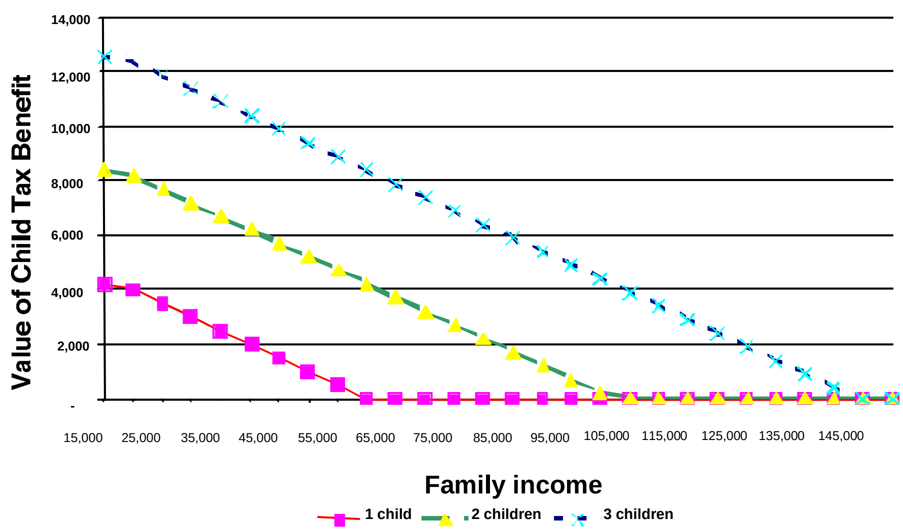
The centrepiece of the 2000-2001 Alternative Federal Budget tax package is a redesign of the child tax benefit to implement the income support measures contained in Campaign 2000's program to address child poverty.

The Child Tax Benefit would be increased as follows.

- The maximum benefit would be increased from $1,020 per child to $4,200 per child.
- The benefit would be more closely targeted on lower- and middle-income families than the current system. The new benefit would be reduced for income above $18,000 by $10 for each $100 of income above $18,000, up to $45,000. At $45,000, the benefit would be $1,500 per child. Above $45,000, the benefit would be reduced by $5 for each $100 of income.
- The reduction factors would be the same, regardless of the number of children.
- The earned income supplement portion of the current child tax benefit system would be eliminated.
- The annual value of this program when fully phased in would be approximately $8 billion per year. It would be phased in over a two-year period.
- Effective July 1, 2000, half of the improvement would be implemented.

Figure 2

Campaign 2000 Child Tax Benefit



- Effective January 1, 2001, the remainder of the improvement would take effect.

The cost would be $5.5 billion in this budget and $2.7 billion in the 2001-2 budget year.

This proposal delivers significant support for low-income families with children. However, it also meets the need to support the costs of raising children for middle-income families, and provides some recognition for those additional costs well up the income scale. Figure 2 summarizes the value of the benefit, for various numbers of children.

Targeted Tax Fairness Measures

This substantial increase in tax expenditures directed towards low-income individuals and families with children will be offset by the proceeds of a sweeping reform in the taxation of unearned income and the implementation of the recommendations of the Mintz Committee on Business Taxation to broaden the corporate tax base, tighten up the rules integrating personal and corporate income taxes and restrict capital gains exemptions.

Beginning in 2000, the Alternative Federal Budget will make substantial changes in the tax treatment of capital gains as recommended in the Mintz Committee.

The special exemptions from capital gains taxation for farms and for small businesses will be replaced by measures better targeted to their objectives.

For farming, a roll-over of capital gains will be permitted when a farming property is transferred to a family member as a going concern farming operation. In addition, a portion of the capital gain from the sale of farming assets will be eligible for a tax-free roll-over into an RRSP. This special RRSP provision will also be available to owners of small business assets.

This proposal, made in every Alternative Federal Budget to date, was largely adopted by the Mintz Committee. However, the Mintz Committee's recommended RRSP transfer limits which we believe to be excessive, permitting owners of farms and small businesses to shelter far more in RRSP contributions than would be permitted for Canadians with earned incomes. As a result, our estimate of the revenue increase from this measure is somewhat higher than that of the Mintz Committee.

The Mintz Committee estimated increased revenue of $275 million on a 1997 basis from cancelling a tax expenditure that cost Canadians $990 million that year, implying a cost of $715 million for the RRSP measure. We would design an RRSP-type measure that would limit its cost to Canadians to 50% of the value of the tax expenditure for farm assets and 25% of its value for small business assets. On this basis, we estimate that revenue would increase by $615 million in 2000-2001.

Capital gains freezes, which permit wealthy taxpayers to shield their capital gains from taxation, will be eliminated. We estimate that this measure will raise an additional $300 million.

The proceeds of employee stock options will be taxed fully as income, rather than being given special treatment as capital gains, as in the present system. Eliminating this unjustifiable tax preference, one that benefits only the highest-paid senior executives, will generate new revenue of $140 million.

Meals and entertainment and political lobbying costs will no longer be deductible as business expenses in the personal and corporate income tax systems. Salaries in excess of ten times the average industrial wage will no longer be deductible for corporate tax purposes. We estimate that revenue will increase by $425 million as a result of these measures. The exemption from the GST for brokerage fees will be eliminated, generating an additional $190 million.

We will introduce a tax on the portion of large concentrations of wealth transferred between generations. Canada, Australia and New Zealand are the only countries in the OECD that do not tax transfers of wealth. Even the United States raises a substantial amount of revenue from the taxation of wealth transfers. The tax we propose would raise revenue approximately equivalent, in relation to the size of our economy, to that raised from wealth transfer taxes in the United States. The Ontario Fair Tax Commission estimated that a 30% tax on the excess of any wealth transfer over $1,000,000 would raise revenue at approximately the same level, relative to the size of our economy, as do US wealth transfer taxes.

Alternatively, a tax design like that in the United States, which exempts many types of assets and applies to a lower threshold of wealth at a lower rate, could be adopted.

We estimate that a wealth transfer tax would raise approximately $3 billion a year.

In the area of corporate taxation, we will implement the base-broadening measures recommended by the Mintz Committee on Corporate Taxation. Although the measures recommended in this report fall short of what is warranted in many areas, most notably the tax treatment of income classified as small business income, they represent an important first step in addressing some of the most important weaknesses in the corporate tax system. We will not, however, be implementing the recommendation in the report to reduce corporate tax rates.

In its work, the Mintz Committee was constrained by a requirement from the Minister of Finance to produce recommendations which are revenue neutral. We do not believe that such a restriction is appropriate. We believe that the revenue gained from the implementation of these measures should be available to provide relief to lower- and moderate-income Canadians, not to corporations earning record levels of profit.

Specifically, the Mintz Committee recommended:

- Tightening the rules governing international corporate financing and income repatriation, to generate an additional $555 million;
- Eliminating the deduction for corporate capital taxes, $521 million;
- A new corporate income distributions tax, to ensure that the corporate tax credited in the personal dividend tax credit does in fact represent tax paid by the corporation, $486 million;
- Elimination of the lifetime capital gains exemptions for small business and farm assets, as described above;
- Tightening up of the special provisions in the corporate tax system for mining, oil and gas expenditures, $298 million;
- A restriction on special tax provisions for research and development, $278 million;
- A tightening up of depreciation allowances under the corporate income tax, $146 million;

- Restrictions in the rules governing the Atlantic Investment Tax Credit, to cut its cost approximately in half, $100 million.

The Mintz Committee also recommended an increase in the surtax on financial institutions, to raise an additional $300 million. Instead, we would create a financial institutions excess profits tax at 20% of financial institution profits in excess of a 10% rate of return (roughly the average for corporations in Canada). We estimate that such a tax would raise approximately $475 million, beginning in 2001.

We would also extend the work of the Mintz Committee in a number of areas. While we agree with the direction of the Committee's action to ensure that the dividend tax credit represents corporate taxes actually paid, we believe it is time to re-examine the effectiveness and value of the entire system for integrating personal and corporate income taxes.

This review would focus in two areas: replacing the dividend tax credit with a targeted mechanism for integrating personal and corporate income taxes up to a threshold income level of $100,000 (roughly equivalent to the US integration level of $75,000); and replacing the 25% capital gains exclusion with indexation of the capital gains base to a portion of the change in the consumer price index.

We would eliminate the dividend tax credit, beginning in the 2001 taxation year.

The capital gains tax changes would be effective in the 2002 taxation year to give time to develop an appropriate basis for indexing the capital gains base.

These changes would raise $200 million in 2000-2001 and an additional $870 million in 2001-2002.

The review would also address the cost and effectiveness of Canada's very generous system of tax preferences for small business. Serious questions are being raised about the effectiveness of these provisions as tools promoting economic development and job creation. Some of those questions are begged by eye-opening data presented for the first time in the Mintz Committee report, which cast serious doubt on the claim that small business is a major creator of good jobs in Canada. We believe that further reform in this area has significant potential for future improvements in the fairness of the tax system.

First Steps Towards Personal Income Tax Rate Reform

The changes in rate structure implemented in the mid-1980s by the Mulroney Government contributed to a flattening of the personal income tax rate structure in Canada in two ways. First, it reduced the number of tax brackets to three, with the second and top brackets only 3 percentage points apart. Second, it eliminated the automatic indexing of tax brackets and credits. This had the effect, over time, of moving a growing proportion of tax filers into the top two tax brackets and making the personal income tax into a flat tax through much of the income range.

We believe that a strongly progressive personal income tax has an important role to play in Canada in addressing income inequality and ensuring that those who benefit most from our country's economic success make a substantial contribution to the support of our public services.

Beginning in tax year 2001, all of the major features of the personal income tax would be indexed to changes in the consumer price index.

The incremental costs of these measures would be $225 million in 2000-1 and $900 million in 2001-2.

Pending a more comprehensive income-tax-rate reform, the high-income surtax would be retained in its current form.

Other Tax Changes

A Northern Heritage Fund

The 2000-1 Alternative Federal Budget would introduce a Northern Heritage Fund, to be used for the funding of infrastructure developments in Northern Canada. The Fund would be created from an earmarked contribution of 50% of Federal Government resource revenues.

Modernizing Tax Support for Cultural Products

Investments in new media development would qualify for tax assistance comparable to current assistance for investments in books, films and magazines.

Green Taxes

Elsewhere in the Alternative Federal Budget, we propose the creation of a $1 billion Atmospheric Fund to support meeting Canada's commitments under the Kyoto agreement partially supported by a $4 per tonne tax on the carbon content of fossil fuels used for the production of energy. The revenue would be recycled to the affected industries through programs to reduce greenhouse gas emissions.

We also endorse the recommendations of the Mintz Committee to re-cast Canada's energy tax system to make it function more effectively as an environmental tax regime. This would involve broadening the base of the taxes to include all energy-uses of carbon-based fuels, maintaining the exemption for industrial uses such as petrochemical, steel and cement manufacturing. We do not support the recommendation that rates be reduced to make the change revenue-neutral. Instead, we support recycling of additional revenue raised from base-broadening, on a sectoral basis, into energy saving programs.

GST on Books and Magazines

In addition to these changes, the 2000-1 Alternative Federal Budget would eliminate the GST on books and magazines, at an estimated cost of $47 million.

Tobacco Taxation

We would restore taxes on cigarettes and other tobacco products to their levels prior to 1994. It is now evident that the smuggling panic which led to the 1994 tax reductions was created deliberately by the tobacco industry in an effort to drive taxes down. We estimate that this measure would raise at least an additional $500 million.

Foreign Investment Earnings Surtax

A surtax will be levied on foreign interest earnings, as part of our initiative in support of a stronger and more independent Canadian monetary policy. As part of that policy, we would also extend Canada's support for a "Tobin Tax," applied internationally, on currency transactions.

Tax Enforcement

The Alternative Federal Budget will begin immediately to intensify the administration of our tax laws so as to draw down the unacceptably high value of unpaid taxes. The most unfair tax of all is one that is not appropriately collected when it is due, because it penalizes taxpayers who pay their taxes voluntarily and rewards those who cheat. The Auditor General estimated in 1995-6 that $6.6 billion remained uncollected in the personal income tax system alone.

While stepped-up enforcement efforts have stemmed the increase in uncollected taxes, it is unlikely that they have reduced the backlog to any significant degree. And no action has been taken on widespread theft of GST revenues by merchants who collect the tax from their customers but do not remit it to the government. We will plan to collect10% of these outstanding taxes in each year, for a revenue increase estimated at $660 million a year.

Pension Tax Expenditures

Tax subsidies for private retirement savings, through pension plans and RRSPs are by far the largest tax expenditures in the Income Tax system. Information about the distribution among Canadians of the benefits of these tax expenditures has only recently become available, as a result of the integration of RRSP contributions and pension accruals for tax purposes, beginning in the early 1990s. The information being revealed in the income tax data is not encouraging. It shows that the RRSP system actually reinforces inequities in the distribution of benefits from private pensions; and that benefits from the RRSP tax preference increase dramatically as income increases.

These data raise serious questions about the efficacy of Canada's approach to retirement income support, and raise the spectre of widespread poverty among seniors in the not-too-distant future.

All pension-related tax provisions would be included in the review of the Canadian retirement income system presented elsewhere in the 2000-1 AFB.

Education Tax Expenditures

In his 1998-9 budget, Finance Minister Paul Martin confirmed the Federal Government's withdrawal from its commitment to the funding of higher education institutions in Canada. Instead of beginning to restore cuts that have forced massive tuition increases and driven universities increasingly to tied corporate funding, the Minister announced a series of new tax measures designed to alleviate the burden of debt resulting from high tuition fees and other costs and to encourage personal saving for education among those who can afford to do so.

We believe that this new direction is dead wrong. We would re-evaluate all education tax expenditures, including both RESPs and the 1998-9 budget's measures dealing with student debt to ensure that the money goes where it is needed the most, and to ensure that accessibility problems are addressed up front, rather than addressed by half-measures after the fact.

Disability TaxCredit

At present, the disability and medical expense tax credits are non-refundable. This means that taxpayers only benefit fully from the credits if they would otherwise pay tax in excess of the value of the credit. This effectively excludes low-income Canadians with disabilities from any benefit from the credits. We would provide the disability and medical expense tax credits to all Canadians with disabilities, regardless of income, by making the credits fully refundable. The current design of the disabilcredits can be applied. We would ensure that low-income disabled Canadians receive full benefit from the credit. We estimate that this will increase the cost of the credit by 50%, for a total cost of approximately $375 million.

Table 6 summarizes the impacts of these various measures over the next three fiscal years.

Table 6

Summary of Potential Revenue from Tax Changes ($ millions)				
		2000-2001	2001-2002	Explanation
Tax Rates				
Consumption	Tobacco	495		Restores tobacco taxes to pre-tax levels (accounts for 1996 partial restoration)
	GST on Books	(47)		Eliminate GST on all books and magazines
Wealth Tax		3,104		Estimate revenue at 0.33% of GDP OECD range of 0.25% to 0.75%
Financial institutions	Excess profits tax		474	Tax on financial institution profit in excess of non-finance average rate of return
Personal income tax	Implementation of Campaign 2000 child benefit; includes elimination of earned income credit	(5,533)	(2,766)	$4,200 per child benefit, 10% of income offset from $18,000 to $45,000; 5% offset above $45,000
	50% increase in disability and medical credits	(378)		50% increase in amounts of disability and medical credits
	Restore full indexing of all tax parameters	(225)	(900)	Full indexing costs $900 million per year; first year 2002 based on CPI increase in 2001
Tax Expenditures				
Personal	Employee stock options	140		Eliminate exemption of 25% of income from stock options
	Eliminate dividend tax credit	201	604	US-style integration of PIT an Replace with d CIT
	Capital gains farm exemption	148		Eliminate $500,000 capital gains exemption for farm assets; allow roll-over of gains within family
	Capital gains small business exemption	465		Eliminate $500,000 capital gains exemption for small business assets
	Full taxation of capital gains, personal		89	Eliminate 25% exclusion of capital gains; replace with indexing of capital gains base from 2000 on
	Full taxation of capital gains, corporate		175	Eliminate 25% exclusion of capital gains; replace with indexing of capital gains base from 2000 on
	End capital gains freezes, incl. family trusts	300		Various changes to Personal Income Tax and Corporate Income Tax to eliminate capital gains loopholes
	Meals & entertainment	105		Eliminate deductibility of remaining 50% of meal and entertainment expenses
	Eliminate pension income credit	-		Partial offset for GIS increase
GST	Brokerage fees, etc.	190		Application of GST to financial fees other than bank service charges
Corporate	Implementation of Mintz report		2,384	Corporate tax base-broadening measures as recommended in Mintz report; estimate is for Mintz measures not specified elsewhere, updated to 2000-2001
	Surtax on foreign interest earnings	-		Part of capital markets regulatory package
	Meals & entertainment	220		Eliminate deductibility of remaining 50% of meal and entertainment expenses
	Lobbying	50		Eliminate deduction of lobbying expenses
	High salaries	50		Limit corporate tax deductibility of salaries to $300,000
Administration	Collect taxes owed	660		Collect 10% annually of $6.6 billion owed as estimated by Auditor General in 1994
Total		(55)	59	

Endnotes

[1] Monica Townson, *Health and Wealth: How Social and Economic Factors Affect Our Well-Being* (Ottawa: Canadian Centre for Policy Alternatives, 1999), pp. iii-iv.

[2] The *Report of the Technical Committee on Business Taxation*, chaired by economist Jack Mintz, was submitted to Finance Minister Paul Martin in December 1997

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Healthy Families: First things first
Alternative Federal Budget 2000

Each year since 1995, the Alternative Federal Budget has outlined a better way, a strategy that would have reduced and eliminated the deficit, but also generated higher economic growth, created more jobs, and achieved greater social equality and justice. This year again, in the face of the clamour for tax cuts from the corporate sector and its political, academic and media allies, the Alternative Federal Budget sets out a clear strategy to achieve the greater good for the majority of Canadians.

The goal of the 2000 Alternative Federal Budget is **to enhance the health of Canadian families and communities** through major public reinvestment in housing, early childhood education, health care, environmental protection and income security. This fiscally sound plan will benefit all Canadians, but especially those with lower and medium incomes, who bore the brunt of the harsh market conditions and regressive government policies of the 1990s.

Favourable economic conditions make such reinvestment feasible. Some would have the federal government throw away this advantage by introducing tax breaks that would mostly benefit the rich. But this is not the time to talk of tax cuts. **The federal government must put first things first and rebuild the public services that alone can ensure personal security and social equality.**

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