Alternative Federal Budget 2003:

The cure for the common budget

Canadian Centre for Policy Alternatives

Introduction

The Federal Government: Balanced Budget, Social Debt

This month's federal budget will be both the first John Manley budget and the last under Prime Minister Jean Chrétien.

Manley's predecessor, Paul Martin, famously promised to balance the budget "come hell or high water," and then did just that. The federal deficit was eliminated between 1993 and 1998, mainly by cutting services and transfers to people, families, and communities. There were deep cuts to the EI program, and Ottawa reduced the transfers that the provinces use to pay for health care, education and social assistance. By the time the dust had settled, income gaps between Canadians had grown and poverty had increased.[1]

Employment levels and incomes have been rising for four consecutive years. Yet this job growth has had much less impact on child and family poverty than many people realize. Average after-tax family incomes have just barely reached their 1980-level.[2] The market incomes of the more affluent have grown much faster than those of middle- and low-income families. Most recent statistics show that almost one in five children in Canada still live in poverty.[3]

So has the government simply failed to ensure that the benefits of a strong economy and the "fiscal dividend" that resulted from a balanced budget are equitably distributed? This is true, but it is only part of the story. Middle-income families—even those who have seen their market incomes and job prospects improve—have also seen the quality of the public services that support and enhance their standard of living fall.

The Liberal government's priorities have been narrowly financial (eliminating the deficit, reducing the debt), and electoral (cutting taxes to steal ground from their conservative opposition), all at the expense of real and growing social needs. This is the equivalent of a family deciding to make accelerated mortgage payments — possibly a responsible move, but not if doing so means they can't afford to fix the leaky roof or buy winter clothes for the kids.

Picking up the Finance portfolio after Paul Martin must feel a bit like being given an expensive sports car with most of the payments still owing on it. Aside from a balanced budget, Manley inherited something else from his predecessor: a huge social debt that must be repaid. This debt is owed to Canadians, who sacrificed many valued social programs and supports to allow Martin to reach his goal. The demands for repayment are growing louder all the time. Jean Chrétien, meanwhile, appears to be quite justifiably concerned about his legacy as Prime Minister.

Add to these considerations the fact that the Canadian economy is surprisingly strong, and one might expect this year's federal budget to begin the massive task of rebuilding the social programs that were devastated by the cuts of the 1990s. Indeed, last fall's Speech from the Throne made a number of broad gestures in the direction of social reinvestment, and a real optimist might conclude that the 2003-2004 budget will deliver on those assurances by allocating new spending as part of a renewed, activist agenda.

Aside from a balanced budget, Manley inherited something else from his predecessor: a huge social debt that must be repaid.

In reality, however, the chances of the federal government doing any such thing are extremely remote.

To the extent that Canadians supported the spending cuts of the 1990s, they did so to allow the budget to come into balance; all evidence shows that Canadians do not support program cuts for the sake of program cuts. Therefore, for the federal government a balanced budget represented both a major political victory and a huge potential problem. With the deficit gone, how could it continue to shield itself from public demands for more spending?

The government's "solution" to this dilemma contained two key elements, both of which are exposed in more detail in the macroeconomic and fiscal parameters section of this document. The first was a package of deep tax cuts introduced in 2000; the second is the government's continuing use of budgetary sleight-of-hand to seriously misrepresent the fiscal room it has in which to move.

Each year since 1995, the Alternative Federal Budget has rejected the federal government's massive cuts to programs, its obsession with balancing the budget, and its dubious accounting methods.

In fact, many of the ideas contained in previous AFBs – which have always reflected the views of a broad spectrum of Canadian civil society – are now back on the public policy radar screen. While the Chrétien government allowed medicare to fall into a crisis caused largely by underfunding and lack of accountability over how provinces spend federal transfers, the AFB has proposed higher levels of health funding and a better, more transparent delivery system than the CHST each year since our project began. As for the National Health Council proposed in the Romanow Commission report—and agreed to early this month at the First Ministers' meeting on health care—the establishment of such a body was first suggested by the AFB in 1997.

The AFB: Walking the Walk

This year the AFB shows what could be done by a federal government genuinely committed to repaying the social debt that was built up through the 1990s. Our plan is based on the basic assumption that the federal budget and government policy decisions in general are tools to help build the kind of country we want. In contrast, the government has chosen, year after year, to back away from its social responsibilities.

What kind of country do we want? Our priorities are reflected throughout this document. The AFB would work to build a strong, sustainable economy, with the government playing a lead role in protecting and strengthening public health care, reducing inequality, developing new social programs such as child care, and building social housing.[4]

The AFB includes a forward-looking and comprehensive Kyoto Implementation Fund. Created out of the 2003-2004 surplus and intended to be drawn down over seven years, this fund puts real resources into Kyoto implementation, allowing Canada to be effective in meeting our targets, while not harming the economy. In fact, the Fund's investments in green technologies would help make Canada a world leader in cutting-edge, sustainable industries.

We begin by setting out our program goals, and then raise the revenues required to meet them. (Precisely the opposite of a "tax and spend" budget, this is a needs-driven budget.)

We end the federal government's fiscal trickery, including the practice of using the EI surplus to fund anything other than training and benefits for unemployed workers.

At a time when the most recent round of corporate accounting scandals is still fresh in our minds, the AFB stands out even more: in a narrow sense, because it is based on clear and accurate economic assessments; and more broadly, because our budget recognizes and begins to re-pay the social debt that now hangs over the country.

Notes

1 *Whatever Happened to Social Development? Submission to the House of Commons Standing Committee on Finance* by the Canadian Council on Social Development. May 21, 2002

2 *Social Watch Canada 2003 Report*. CCPA and North-South Institute.

3 *Putting Promises into Action: Brief to the Standing Committee on Finance* Sept 2002, by Laurel Rothman, Campaign 2000

4 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.

AFB Highlights

Macroeconomic and Fiscal Approach

- The surplus is much bigger than the federal government admits. Using very conservative assumptions, we identify considerable room to move in upcoming budget years.
- Nevertheless, the federal government's ability to respond to the social debt which is the legacy of the 1990s is constrained by the major tax cuts it announced in 2000. In retrospect, those tax cuts were a huge mistake.
- We would roll back the 2000 personal income tax rate cuts as necessary over three years to allow program spending that would meet the urgent needs of Canadians.
- We would maintain a balanced budget in all years, in the absence of a recession.
- The AFB would rebuild program spending as a share of GDP from 11.6% to 13.2% by 2005-06. Debt continues to fall as a share of GDP, to less than 40% by 2005-06.

Health Care

- Annual increases of $5.5, $6.5, and $7.5 billion in health spending over the next three budget years. These figures are over and above the funds promised in the September 2000 Accord, and by the third year the federal contribution to total provincial-territorial health spending would reach 23%.
- Achieve greater accountability in health financing by: replacing the CHST with national Health Investment Fund; attaching conditions to federal transfers to ensure national standards are met; and requiring provincial governments to document and report publicly on how transfers were used.
- Bring all home care and palliative care services under the CHA. Establish a national drug agency, and begin to develop a national prescription drug plan.
- Pay attention to the broader determinants of health, and implement budgetary measures to reduce poverty and inequality, improve housing, provide early childhood development programming, and protect the environment. These would all contribute to improving the health of Canadians and in the long term reduce health care costs.

Employment Insurance

- Balance the EI Fund, spending all of its revenue to provide income support to unemployed workers. Improvements to increase support for family leave, training, and improved benefits.

Children and Families

- Increase the Canada Child Tax Benefit by $1,195 per child in 2004. The supplement for young children would increase to $425 per month up from $237, and the increase per child for three or more children will increase from $83 to $150. These changes would take effect immediately; the benefits would continue to rise in future years.

- A major new investment totaling $9 billion over three years in early childhood care and education. Within three years federal funding will have reached $5 billion per year; within five years a universal program could be established.

- Balancing the Employment Insurance Fund will allow for improvements to EI benefits covering pregnancy and parental leave for all new and adoptive parents with compensation rates of 80%; the goal is to allow all households the choice to provide parental care to infants up to age one.

The Environment

- A Kyoto Implementation Fund would provide $1.25 billion per year over the next seven years to provide training and benefits for displaced workers, assist individuals in adjusting to Kyoto targets, invest in new green technologies, and make Canada a world leader in sustainable industries.

- New money to clean up abandoned mines and contaminated areas and to establish new national parks and protected areas.

Housing

- $2 billion over three years for new housing, including a flexible grants program to assist provinces and municipalities in working with community-based housing organizations.

Tax Fairness

- Implement a tax on intergenerational transfers of more than $1 million. Reverse the changes to the capital gains tax made since 2000.

Post-Secondary Education

- New national system of needs-based grants funded at $750 million a year over the next three years.

Macroeconomic Outlook and Fiscal Parameters

The Economy: Cautious Optimism

The federal fiscal situation has benefited in recent years from the relatively robust performance of Canada's economy. Canada's economy has mostly shrugged off worldwide concerns about financial instability and war in the Middle East, and has continued to expand at a moderately strong rate. Canada's GDP growth was the highest among the G7 economies in both 2001 and 2002, and is expected to maintain that status over the next two years. The divergence in economic performance between Canada and the U.S. has been especially striking – most visibly in terms of labour market outcomes. Canada's economy generated 560,000 new jobs during 2002, compared to a net loss of over 100,000 jobs in the U.S. labour market; the proportion of working-age Canadians employed (the employment rate) now exceeds the U.S. level for the first time in two decades.

This reasonably strong economic performance has translated into a better fiscal situation for Canada's federal government than most other industrialized countries. OECD forecasts suggest that Canada will be the only G7 economy to post a fiscal surplus in the 2002-03 fiscal year, compared to deficits which average over 2 percent of GDP in other leading developed countries.

As reported in the federal government's *Economic and Fiscal Update* (October 2002), private-sector forecasters believe real GDP expanded in Canada by 3.4 percent in 2002, and they expect real growth of 3.5 percent in 2003 and 3.0 percent in subsequent years. The Alternative Federal Budget adopts identical macroeconomic assumptions (including private-sector consensus forecasts of nominal price levels and federal interest rates) to underpin its own fiscal projections, as summarized in Table 1.

This modestly optimistic macroeconomic outlook must be tempered by caution on a number of fronts. A U.S.-led attack against Iraq, which could spark a broader conflict, would have immense repercussions on the global economy through a number of channels: price shocks in world energy markets, a severe impact on the perceptions and attitudes of consumers and companies, and a fiscal drain on governments participating in the conflict. Even without a war, recent weakness in consumer confidence in both the U.S. and Canada, combined with continued turbulence in financial markets, may undermine aggregate demand conditions over

Table 1
Macroeconomic Assumptions

Fiscal Years	2001-02 (actual)	2002-03	2003-04	2004-05 & subsequent
Real GDP Growth[1]	1.4%	3.4%	3.5%	3.0%
GDP Inflation[1]	-0.2%	1.1%	2.3%	1.9%
Revenue as Share GDP2	15.8%	15.2%	15.2%	15.2%
"Status-Quo" Program Expenditures[3]	$126.7 b	$134.3 b	$140.7 b	$146.6 b[5]
Avg. Effective Interest Rate on Federal Debt	7.0%	6.6%	6.8%	6.9%
Underlying "Status-Quo" Budget Balance[4]	$8.9 b	$6.7 b	$10.2 b	$13.8 b[5]

Shaded areas indicate assumptions that are identical to Finance Canada estimate in October 2002 *Fiscal and Economic Update*.
1. Calendar year forecast.
2. Status-quo base federal revenues only, excluding the phased-in tax increases implemented in the AFB.
3. Program spending indicated in Finance Canada projections, excluding potential new spending programs.
4. Expected balance in absence of tax or spending policy changes.
5. 2004-05.

the next couple of years. And a deterioration in the average quality of the new jobs being created in Canada (with a rising proportion of part-time work, and generally weak growth in average earnings) means that the welcome expansion in total employment over the past year has not been matched by a proportional increase in family incomes – not to mention in government revenues.

Canada's economy obviously leaves much to be desired from the perspective of those concerned with equality, social security, and environmental sustainability. Indeed, the comprehensive set of measures proposed in the Alternative Federal Budget to address these and other problems is motivated precisely by a desire to ensure that future economic growth translates more reliably into genuine progress in human and environmental conditions. But from the perspective of the federal government's fiscal bottom-line, it is reasonable to adopt the same cautiously optimistic planning assumptions as have been incorporated into the government's own pre-budget documents.

The Federal Surplus: Still Playing Lowball

Despite the relatively resilient performance of Canada's macroeconomy, Finance Canada officials profess (in public, anyway) a continuing state of pessimism regarding the limited room in federal coffers for new fiscal initiatives. In October, Finance Minister John Manley presented the government's annual *Economic and Fiscal Update*, in which he announced the government was planning for a surplus of just $1.0 billion in the current fiscal year, followed by surpluses of barely $3 billion per year in the next two fiscal years. Following now-standard departmental practice, Manley's estimates have been made even more cautious through the inclusion of an annual $3 billion "contingency reserve," and by allowances for extra-cautious economic assumptions.

Ironically, this pessimistic prediction was made just weeks after the government announced its official results for the 2001-02 fiscal year. That year, the government booked a surplus of $8.9 billion – far in excess of official Finance Canada estimates. In 2001-02, Canada's economy teetered on the brink of a recession, the job market stalled, and consumer and investor confidence was shaky. This fiscal year, in contrast, the economy is growing strongly, more new jobs were created than in any other year in Canadian history, and the overall economic outlook is considerably more optimistic – yet the federal government wants Canadians to believe that its healthy budget surplus is poised to virtually disappear. It is obvious to anyone with a relative sense of proportion that the numbers have once again been cooked, consistent with Finance Canada's long-term strategy to dampen Canadians' fiscal expectations.

Indeed, the federal government has now exceeded its official budget balance targets for eight consecutive years, by as much as $15 billion in a year. The goal has been to understate the true strength of the government's financial situation so as to restrain expectations for new spending or tax cuts. When the final results are found to vastly exceed official budget targets, the Finance Minister invariably claims credit for "prudent fiscal management." The longer-term result of this deliberately misleading approach to fiscal planning, however, is that official Finance Canada projections (presented in economic updates and in the federal budgets themselves) no longer provide an accurate reflection of the true state of the government's financial position. For example, the cumulative federal surplus over the past three fiscal years (from 1999-2000 through 2001-02) totaled $39.7 billion, more than five times as much as official estimates (which suggested a cumulative $7.5 billion surplus over the three years).[1]

It is obvious to anyone with a relative sense of proportion that the numbers have once again been cooked.

Adopting exactly the same macroeconomic assumptions as were reported in the October *Economic and Fiscal Update*, the AFB expects that the government will book much larger surpluses (in the absence of major changes in spending programs and tax policies) than the Finance Minister admits. Our estimates allow for a significant decline in government revenues, measured as a share of nominal GDP. This ratio has already declined from a peak of 17.4 percent of GDP in 1997-98 (the year the federal government balanced its books), to

15.8 percent in 2001-02. Finance Canada expects a further decline in that ratio to 15.2 percent in the current fiscal year. This decline in federal revenues relative to GDP reflects the structural effects of federal tax cuts (including the large reductions in personal and corporate income tax rates announced in 2000); this year it also reflects additional cyclical factors, including the impact of the stock market downturn on capital gains income.

We have assumed, conservatively, that this decline in the federal revenue share will be a *permanent* one, in the absence of offsetting tax increases. In other words, we have assumed that the observed decline reflects mostly the structural impact of the Liberals' tax cuts, rather than the cyclical impact of the stock market decline, weakness in corporate profits, and other temporary factors. In reality, however, it is almost certainly the case that revenues will recover at least somewhat as a share of GDP with the rebound in economic growth, once the federal government has digested the one-time effect of tax refunds related to the stock market meltdown and other temporary outflows.

Even with this assumed decline in the aggregate tax rate, and allowing for budgeted increases in program spending (which is set to rise this fiscal year by over $7 billion), the government will still enjoy a substantial fiscal cushion – which we estimate will equal $7 billion in the current (2002-03) fiscal year (see Table 1).[2] This cushion can only grow in subsequent years, as revenues expand along with the economy, and debt service charges shrink in relative importance along with the declining debt burden (measured as a share of GDP). Our "status-quo" fiscal outlook (assuming no major changes in spending or tax policies) predicts underlying federal surpluses of $10 billion in fiscal 2003-04, rising to $14 billion in 2004-05. Over the three years as a whole (fiscal 2002-03 through fiscal 2004-05), our estimates suggest a cumulative surplus exceeding $30 billion – 4.5 times more than the official estimate. Given the relative accuracy of past estimates, however, these projections can certainly be considered more reliable than the deliberately understated Finance Canada projections.

Tax Cuts: Sober Second Thoughts

While it is true that the federal government enjoys a vastly more comfortable fiscal balance than the Finance Minister will publicly admit, it is also true that the government is facing an unprecedented set of pressing public demands for investment in crucial services and infrastructure – and that responding to these demands will press the government's current fiscal capacity to the limit.

First on the list, of course, is the demand for increased federal support for public health care in the wake of the Romanow report and gathering evidence of an emerging multidimensional crisis in care. Commissioner Romanow suggested additional federal funding for targeted health programs of more than $15 billion over the next three fiscal years. Many observers of the public system, including co-sponsors of the Alternative Federal Budget, do not believe this is enough.

Meanwhile, numerous other social, environmental, and economic priorities also call out for prompt and well-resourced federal action. The Kyoto Accord has been symbolically ratified by the House of Commons. But the federal government has yet to set aside significant resources to assist with Canada's transition to a more sustainable economic footing. This must happen if Canada is to credibly commit to meeting its Kyoto targets – and to do so in a manner which is economically helpful, rather than harmful. Other big-ticket social priorities in the federal government's fiscal plan must include child care, a restoration of social housing, a contribution to the repair of Canada's crumbling physical infrastructure (starting with the public water system), and resources to address the appalling health and social conditions of Canada's Aboriginal peoples.

This symphony of urgent, legitimate, and expensive demands for federal programming is the legacy of a decade of federal government underinvestment in Canadians' basic social and economic needs. Canada's financial debt has been brought under control, and incredibly quickly: the federal debt has plunged by one-third, as a share of GDP, in just the past five years. Yet, thanks to the painful and one-sided manner in which this financial challenge was addressed, the government has opened up a huge and unsustainable social debt: an obligation that we are now compelled as a society to begin to pay off as surely as we are paying off our financial debts. The Liberal government is obviously uncomfortable in the face of so much public fear and anger regarding necessities of modern life that Canadians once took for granted – like safe drinking water and access to emergency health care. But this bed is one of their own making. The government has an obvious moral and political responsibility to lead Canadians in a massive effort to rebuild the social and environmental foundation of our society that was so damaged by their historic but one-sided war on the deficit in the 1990s.

In this context, the federal government's options have been painfully limited by the historic tax cuts which it implemented following the attainment in 1997 of a balanced budget. Instead of allocating emerging surpluses to the pressing task of repairing the social damage from the unprecedented spending cuts of earlier years, the Liberals – with an eye on their conservative opposition – instead placed their first priority on reducing taxes. Most important were the tax cuts engineered in the February 2000 budget, accelerated in the pre-election "budget update" of October that year. The government delivered deep cuts to personal and corporate income tax rates, along with a range of other measures – some sensible (like the expanded Child Tax Benefit), but most not (like the outrageous giveaway of over $2 billion through an expanded capital gains tax exemption).

The value of these tax cuts to average Canadians has been overstated: despite some effort by the Liberals to target low- and middle-income households with tax savings, the vast majority of the benefits have been captured by high-income earners. But the tax cuts have had an undeniably negative impact on the federal fiscal balance. The government's ability to respond to public demands for reinvestments in essential programs and services has been compromised by the tens of billions of dollars that are lost every year due to the 2000 tax cuts. Indeed, this was no doubt part of the strategy of the Liberal government and its supporters in the business and financial community. By making huge multi-year tax cuts the first priority after a balanced budget, the government would ratchet down its overall fiscal capacity and tie its hands against future demands for new spending. A smaller, less flexible federal government was the permanent – and deliberate – result.

In both the 1997 and 2000 federal elections, the Liberals promised to follow a "balanced approach" to dividing long-term budgetary surpluses equally between social programs, on one hand, and tax cuts and debt repayment on the other. In practice, however, the vast majority of newly available funds has been dedicated to tax cuts and debt repayment. An Alternative Federal Budget analysis of federal budgets since the 1997-98 balanced budget indicates that a full 44 percent of the "fiscal dividend" enjoyed by the federal government since that year has gone to debt reduction, with another 46 percent to tax cuts. Just 10 percent of the dividend has been allocated to genuine increases in federal program spending.[3]

By making tax cuts its first priority, the government hoped to insulate itself in the long-term against popular demands for more spending – in the same manner as it relies on fishy accounting and budgeting techniques to insulate itself against these demands in the shorter run. The government assumes that the tax cuts are so popular with Canadians, and the political tolerance for higher taxes so non-existent, that no opposition party or advocacy group would dare to suggest taxes now be raised. The historic Liberal tax cuts – by far the largest in Canadian history, and coming at a time when the government knew it would need to spend tens of billions of dollars on health care and other priorities – were an act of calculated fiscal irresponsibility. The government must now own up to this mistake, and begin to undo the damage. Although underlying federal surpluses, even with existing lower tax rates, will be much larger than the government admits in public, it is quite likely that they will not be enough to sufficiently fund the repair of Medicare and the other urgent demands which Canadians are expressing. So the government needs to be prepared to undo its tax cuts, particularly the reductions in personal and corporate income tax rates engineered in 2000, to fund the reinvestments in essential programs and services which are clearly Canadians' top priority.

Our View: Essential Services Come First

The overarching goal of the Alternative Federal Budget project is to demonstrate that the federal government can indeed marshal the resources that are needed to meet the social and environmental goals of Canadians, if they make the appropriate fiscal and political choices. Budgets are about choices. We think the government should choose, first and foremost, to allocate resources to meet the basic needs of Canadians for health care, education, economic and social security, and a clean and sustainable environment. Our budget makes those priorities our priorities. Over the next three fiscal years, the Alternative Federal Budget would free up an average of $15 billion per year in new funding for public health care, meeting Canada's Kyoto commitments, and addressing the other urgent social and economic concerns of Canadians. Where the federal government pleads poverty in the face of these demands, despite the unprecedented resources it has devoted to tax cuts and debt reduction, we show that the money is there – if we choose as a society to put it there. And we do it while maintaining a balanced budget in all years.

Allocating sufficient resources to essential services and programs is the "leading edge" of our Alternative Federal Budget: it comes first, both fiscally and morally. The next step is to mobilize the resources needed to fund those programs in a responsible and sustainable manner. Our budget is not a "tax-and-spend" budget, as conservatives like to label any effort to expand the scope of public services. Rather, our budget identifies the needs of Canadians for federal programs that will enrich and protect their lives, and then seeks out the fiscal resources necessary to deliver those programs.

The task of locating those needed resources is made especially difficult this year by the impact of the Liberal tax cuts on the government's fiscal capacity, as well as by the new level of uncertainty which those tax cuts have introduced into fiscal planning. No one knows for sure if currently weak current levels of federal revenues reflect mostly the permanent legacy of the 2000 tax cuts, or are more a temporary cyclical effect of the decline in the stock market and other economic weakness. Our budget has conservatively assumed that the decline in federal revenues (as a share of GDP) is mostly permanent, and hence we are not counting on any rebound in federal revenues (measured as a share of GDP) from expected 2002-03 levels. In reality, however, federal revenues will almost certainly bounce back strongly in coming years, reflecting the rebound in the economy, the recovery in corporate profits and financial markets, and the longer-term underlying tendency for government revenues (at given tax rates) to grow slightly more quickly than GDP.[4]

This uncertainty leads the Alternative Federal Budget to adopt the following fiscal strategy. We have mapped out the medium-term spending commitments that we believe are necessary to meet the demand of Canadians for a more secure, balanced, and sustainable society. On the preceding assumption (that the recent decline in federal revenues as a share of GDP is a permanent one), these new and expanded programs and services cannot be funded from existing tax levels – even after recognizing that underlying federal surpluses will be much larger than the government admits. We have therefore developed a three-year schedule to reverse the major reductions in personal and corporate income taxes which the Liberals implemented in 2000. In essence, we restore (over three fiscal years) all personal and corporate income tax rates to the levels that existed in January 2000, before the budget and pre-election budget update that year implemented an accelerated schedule of tax rate reductions (see Table 2).[5] This reversal of the 2000 tax rate reductions will result in a $9.5 billion increase in annual federal revenues by the third year of the Alternative Federal Budget (2005-06), compared to expected federal revenues if tax rates were kept at their existing (January 2003) levels.

If it turns out that federal revenues do indeed rebound as a share of GDP, then this full reversal of the Liberals' 2000 tax rate reductions may not be necessary. In fact, if federal revenues rebound only modestly as a share of GDP (to 15.9 percent, just slightly more than the 15.8 percent share that prevailed in 2001-02), then our program of social and environmental re-investment could be fully funded *from existing tax rates*. The Alternative Federal Budget would monitor the future evolution of the federal government's revenue

Table 2
Phased-In Reversal of Income Tax Rate Reductions

	Initial (Jan.2000)	Current (Jan.2003)	2003-04	2004-05	2005-06
Rate Restoration Schedule (%)					
Personal Income Tax					
Lower	17	16	16.5	17	17
Middle	26	23	24	25	26
Upper-middle	29	26	27	28	29
High[1]	29 +5%stx	29	30	31	31
Corporate Income Tax	28	25	26	27	28
New Revenues Raised ($billions)[2]					
Personal Income Tax					
Lower			1.1	1.1	
Middle			1.2	1.2	1.2
Upper-middle			0.4	0.4	0.4
High			0.5	0.5	
Corporate Income Tax			0.5	0.5	0.5
Total					
Incremental			3.7	3.7	2.1
Cumulative			3.7	7.4	9.5

1. The former 29 percent tax rate with the 5% high-income surtax was equivalent to a 30.5% statutory tax rate.
2. Estimates of new revenue generated by reversing Finance Canada estimates of the foregone revenues lost as a result of the 2000 tax cuts, as published in the February 2000 *Budget Plan* and the October 2000 *Economic Statement and Budget Update*.

base; if and when it became clear that revenues were indeed rebounding relative to GDP (such that the current weakness in revenues was seen to be largely a cyclical phenomenon), then the schedule for reversing the Liberals' tax cuts would be frozen, and already-implemented portions of that schedule could be reversed. In any event, however, the Alternative Federal Budget would implement the first stage of the reversal of the 2000 tax rate reductions in the first fiscal year (2003-04) of our program.[6] This reversal of the tax rate reductions would affect all income tax brackets; this reflects our conviction that public services deliver essential value and security to the lives of all Canadians, and hence all Canadians should pay a fair share (through a progressive income tax system) to support those programs.

Even if all three stages of the reversal of the 2000 tax rate reductions are completed, taxes will increase as a share of GDP by just 0.7 percentage points (leaving them still some 1.5 percentage points lower than in 1997-98 when the federal budget was first balanced). Completely reversing the tax rate reductions over the three years would increase the federal government's total revenue take by 4.6 percent, compared to the level of revenues the government can expect to take in under the existing rate structure.

In addition to this schedule for reversing the Liberals' cuts to personal and corporate income tax rates, the Alternative Federal Budget would also implement a set of measures aimed at improving the fairness of Canada's tax system. These measures, in sum, are revenue-neutral, and are described fully in the last part of this document. Their effect will be to close special loopholes which currently benefit high-income, wealthy, and business taxpayers, while channeling needed financial relief to low-income households (especially those with children). So, while all of the income tax rate reductions announced by the Liberals in 2000 are reversed under the AFB's three-year schedule (including the low personal income tax rate, which is restored to 17 percent from the current 16 percent level[7]), the overall impact of the Alternative Federal Budget's tax changes will be positive for low-income families. No taxpayer with income less than Statistics Canada's Low Income Cut-Off (LICO) level will experience higher federal income taxes as a result of our measures, and many will experience a lower tax burden. Of course, since low-income households rely the most on public services (including health care, education, public housing, and public transportation) in their day-to-day lives, they will benefit disproportionately from the important expansion in public program spending which is the centrepiece of the Alternative Federal Budget.

The Alternative Federal Budget Fiscal Framework

Table 3 summarizes the main fiscal parameters of the Alternative Federal Budget over the coming three fiscal years (from 2003-04 through 2005-06). Aggregate indicators (including revenues, program spending, and the budget balance) are also illustrated as a share of GDP in Figure 1.

Table 3
2003 Alternative Federal Budget
Macroeconomic and Fiscal Parameters

	2001-02 (Actual)	2002-03 (Estimate)	2003-04 (AFB Yr.1)	2004-05 (AFB Yr.2)	2005-06 (AFB Yr.3)
Alternative Federal Budget ($billion)					
Revenues					
Base	173.3	176.6	187.5	196.7	206.4
Phased-In Increase			3.7	7.4	9.5
Total	173.3	176.6	191.2	204.1	215.9
Program Spending	126.7	134.3	154.8	167.1	178.9
Debt Service Charges	37.7	35.6	36.5	37.0	37.0
Balance	8.9	6.7	0	0	0
Memorandum Items ($billion)					
Nominal GDP	1094	1158	1230	1290	1354
Closing Debt Balance	536.4	536.4[1]	536.4	536.4	536.4
Est. Balance, EI Fund	4.3	2.8	0	0	0
GDP Shares (%)					
Revenue	15.8	15.2	15.5	15.8	15.9
Program Spending	11.6	11.6	12.6	13.0	13.2
Closing Debt Balance	49.0	46.3	43.6	41.6	39.6

1. Since the 2002-03 surplus is allocated under the AFB to an endowment fund to support Kyoto-related environmental investments in Canada, it does not result in a reduction in the federal debt.

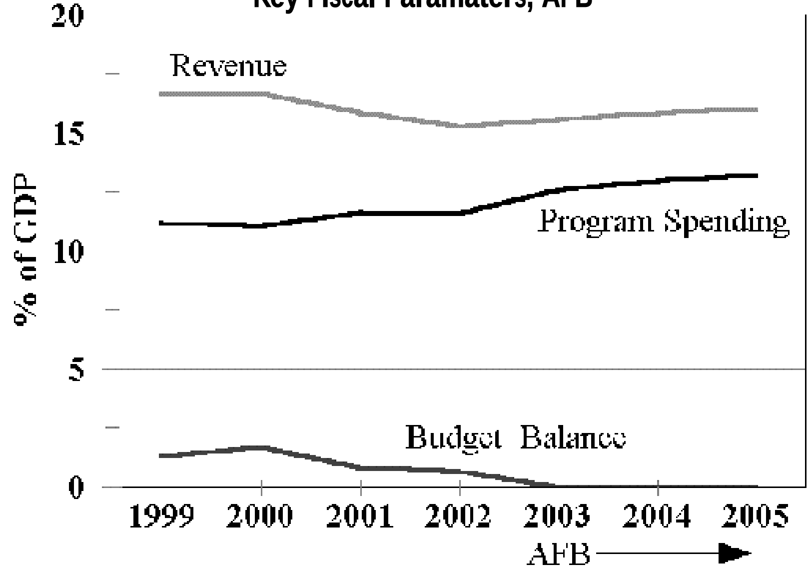
Program Spending:

Aggregate nominal program spending in the Alternative Federal Budget grows at an average annual rate of just under 10 percent over the three-year planning horizon. The spending increases are somewhat faster in the first year of the budget. As a share of GDP, program spending climbs during the three-year AFB plan from 11.6 percent of GDP in the current fiscal year to 13.2 percent of GDP by fiscal 2005-06. Despite this relatively ambitious expansion of spending, however, program spending as a share of GDP is still significantly lower in the final year of our budget than it was in 1995, and still far below the federal government's long-run post-war spending levels (which averaged more than 15 percent of GDP between 1945 and the present).

Debt Service:

The federal government's interest expenses under our budget are roughly constant, at about $36 billion per year. Since the AFB maintains the existing stock of nominal federal debt, and since average interest rates on that debt remain stable at just under 7 percent, there is little change in the total

Figure 1
Key Fiscal Paramaters, AFB



interest outflow. As a share of total federal spending, however, these interest payments decline in our program from 23 percent in 2001-02 to 19.5 percent by 2005-06, since the relative importance of the debt (and hence of interest payments on the debt) declines with ongoing economic growth and inflation.

Budget Balance:

On the expectation of continued moderate economic growth, the Alternative Federal Budget maintains a balanced budget throughout its three-year planning horizon. In the event of a major economic downturn, with a resulting negative impact on federal revenues, the AFB's budget balance would fall into a deficit position. Contrary to the near-religious fervour with which Finance Canada officials currently state their commitment to "never again" incur a deficit, this outcome is no cause for alarm and is, indeed, a prudent course of action for a government to pursue during times of recession. The AFB would tolerate a cyclical deficit as a natural and temporary consequence of an economic downturn; this deficit in itself would help to ameliorate the downturn. In contrast, trying to preserve a budgetary balance through a recession by cutting spending only makes that recession, and the pain it inflicts on millions of Canadian families, all the worse. For this reason, the AFB does not incorporate "contingency reserves" or other artificial forms of budgetary padding. We plan for a genuinely balanced budget on the basis of consensus economic forecasts. The combination of a balanced budget with ongoing expansion in nominal GDP implies a further reduction in the federal debt burden, measured as a share of GDP, from 49 percent at the end of fiscal 2001-02 to less than 40 percent by the end of the third year of the AFB (2005-06).

Tax Revenues:

Even with the maintenance of existing tax rates, expected economic growth will add an estimated $33 billion to federal revenues over the Alternative Federal Budget's three-year planning horizon. In addition, the three-year schedule for reversing the income tax rate reductions announced by the Liberals in 2000 would add, if necessary, an additional $9.5 billion to the revenue side of the budget. In total, taxes increase over the three-year horizon at an annual average nominal rate of 6.6 percent, or 1.5 percentage points per year faster than the growth of nominal GDP. By the end of the three-year AFB program, total federal revenues climb back to 15.9 percent of GDP – just slightly higher than in 2001-02, and still 1.5 percentage points lower than in 1997-98 when the federal government first balanced its budget.

Notes

1 In theory the government plans for a budget surplus equal to the amount of the contingency reserve, which was set at $3 billion in 1999-00 and 2000-01, and at $1.5 billion in 2001-02. Independent forecasters, including those working with the Alternative Federal Budget process, have provided much more accurate predictions of the government's actual bottom-line. For instance, respective AFB documents predicted federal surpluses for the three years in question equal to a cumulative total of $40 billion – within $300 million of the true three-year total. For details see *Alternative Federal Budget 2003: Economic and Fiscal Update* (Ottawa, Canadian Centre for Policy Alternatives, October 2002).

2 During the first eight months of fiscal 2002-03, the federal surplus equaled $8.2 billion.

3 Measured above and beyond the real per capita spending levels which prevailed in 1997-98 when the budget was balanced. See *A Funny Way of Sharing* (Ottawa: Canadian Centre for Policy Alternatives, February 2003) for details of the analysis.

4 Finance Canada research has indicated, for example, that personal income tax revenues tend to increase in the long-run at a rate 30 or 40 percent faster than the growth of personal income; recent measures (such as the indexing of the PIT system) have not fully eliminated that tendency, and hence we can expect revenue growth in this category to exceed the expansion of GDP. See "Understanding Personal Income Tax Revenue Fluctuations," (Ottawa: Finance Canada, Working Paper #2002-07).

5 Some of the tax measures which were implemented in those two documents are left in place in the AFB: notably, the expansion of the Child Tax Benefit (which we expand further in this Alternative Federal Budget), and the indexing of tax brackets and other parameters of the system. It is only the reductions in tax rates which are reversed as part of this three-year schedule. Some of the other 2000 tax cuts – notably the expansion of the capital gains exemption – are also reversed as part of the revenue-neutral package of tax fairness measures which is explained in the last section of this document.

6 And in any event the Alternative Federal Budget would not proceed with those relatively minor tax rate reductions which the federal government has yet to implement – in particular, the additional reductions in the corporate income tax rate from 25 percent at present to 21 percent by 2006.

7 Restoring the rate of tax collected on the bottom tax bracket from 16 to 17 percent generates an additional $2.2 billion per year in federal revenue once fully completed. It is important to note, however, that the bulk of this money is collected from middle- and high-income taxpayers who must now pay an extra 1 percent of income tax on the first $32,000 of their taxable income; the impact of this measure on low-income taxpayers is muted, and overwhelmed by the progressive tax fairness measures which are described in the last section of this report.

Alternative Federal Budget 2003-04
Program Spending
(fiscal years / $billion)

	Fed 01/02 Actual	Fed 02/03 Budget	AFB 2003-04	AFB 2004-05	AFB 2005-06
Transfers to persons and other levels of gov't					
AFB National Social Investment Funds					
Health			16.0	17.6	20.2
PSE			3.2	3.3	3.4
Income support			7.5	7.8	8.0
Child care / ECD			2.0	3.5	5.0
Housing			0.6	0.7	0.8
CHST	17.3	18.6			
Sub total	17.3	18.6	29.3	32.9	37.4
Elderly benefits / retirement income	25.4	26.6	28.5	30.5	32.6
Equalization & other fiscal arrangements (net)	9.3	10.0	10.5	11.0	11.5
Total transfers	52.0	55.2	68.3	74.4	81.4
EI Fund	13.7	15.4	18.1	18.3	19.1
Fund balance	4.3	2.8	0	0	0
Kyoto Implementation Fund					
Revenue (annual draw from sinking fund)			(1.3)	(1.3)	(1.3)
Green infrastructure			0.6	0.5	0.5
Energy efficiency funds			0.3	0.3	0.3
Just transition for energy workers			0.1	0.1	0.1
Non-hydro renewable electricity subsidy			0.3	0.4	0.5
Net Kyoto Implementation budgetary expenditure			0.0	0.0	0.0
Direct program spending					
Agriculture	1.90	1.98	2.55	3.65	3.90
Foreign Aid, Trade, Development	2.41	2.51	3.60	5.24	6.60
Environment	1.49	1.56	2.11	2.22	2.41
First Nations	4.56	4.76	5.68	6.65	7.05
Health Canada	1.62	1.69	1.75	1.81	1.88
HRDC	1.70	1.77	1.77	1.84	1.90
Industry	2.63	2.74	2.84	2.95	3.05
Veterans Affairs	1.56	1.63	1.68	1.75	1.81
Defence	10.57	11.04	11.25	11.68	12.09
Crown corps	4.08	4.26	4.51	4.78	4.95
All other departments	28.43	29.69	30.64	31.80	32.77
Total Direct Program Spending	61.0	63.7	68.4	74.4	78.4
TOTAL PROGRAM	126.7	134.3	154.8	167.1	178.9

Notes on sources and methodology

Figures for Federal 2001-02 Actual taken from the *Annual Financial Report* for fiscal year 2001-2002.

Figures at the aggregate level for Federal Budget 2002-03 taken from the *Economic and Fiscal Update,* released October 2002

National Investment Funds calculates baseline levels for Health, PSE, and Income Support by dividing adjusted base CHST payments ($15.5B) according to 1994-1996 proportions.

2000 Accord portion of CHST attributed to ECD ($0.5b) and remainder to Health.

National Investment Funds:
Getting Government Back In the Game

In the 1990s Canada experienced a complete economic cycle, from recession through recovery. The decade was punctuated at its mid-way point by major changes to the federal government's social and economic role. Most of these changes involved the government stepping back from public life, abdicating many of its responsibilities to the market, and handing power over to those provinces wealthy enough to go it alone.

Canada entered the 1990s as a country scarred by deep and abiding inequality in the distribution of personal wealth, with its citizens experiencing a profound new level of insecurity. The federal agenda through the '90s only exacerbated those problems. While employment levels are higher at present than in recent years, and the economy as a whole is growing rapidly, these favourable developments have not changed the fact that millions of Canadians are economically vulnerable.

At the same time, middle-income Canadians – even those whose income and employment prospects have improved in recent years – have not known the benefits of strong public services to complement and secure their living standards.

In other words, for many families increases in market wages (the wages they earn through paid employment) have been accompanied by a stagnating or falling social wage. The social wage includes the range of social programs and supports provided to citizens by the government. Those programs have, almost across the board, suffered from under-investment by the federal government. For all but the wealthiest families, who are able to make up the gap by purchasing many such services on the open market, this phenomenon has had a very real detrimental effect on the quality of life.

The federal government, through budgets and policy development, has actually undermined well-being and equality in this country over the past decade. And it is the federal government that must act to reverse the trend that has seen the fortunes of so many Canadian families fall.

Replacing the CHST

The introduction of the Canada Health and Social Transfer in 1995 was essentially a cost-cutting measure, a key element in Paul Martin's strategy to balance the budget largely through cuts to program spending. The two transfers it replaced, the Canada Assistance Plan and the Established Programs Financing for Health, provided substantially more in total than the CHST when it was introduced.

The CHST also allowed the federal government to back off from its social development responsibilities, as, unlike previous agreements, the CHST does not automatically cover 50% of social assistance costs incurred by provinces. While health spending by the provinces has risen somewhat since the CHST was introduced, much less has been done to make up lost transfers for post-secondary education, and nothing at all to reinstate cost-sharing on social assistance.

The loss of cost-sharing also meant the end of one of the key "automatic stabilizers" in the national economy. When the economy slows, and unemployment rises, more people are forced onto social assistance. Under the old cost-sharing arrangement, the federal contribution to social assistance would kick in and money would automatically flow to those who were suffering the brunt of rising unemployment and reduced wages. This mechanism, which provided some fiscal stimulus without requiring new legislation, or even that government recognize the problem, is now gone.

Because the CHST is a block funding mechanism, with federal funding for welfare and social services combined in a single fund with Medicare and post-secondary education, accountability was lost. The picture was further clouded by the fact that some of the federal support was paid in cash and some was deemed to have been paid through "tax transfers" that dated back to 1977. How the federal money was actually spent by the provinces and territories was anyone's guess. It is not possible to say if the funds were spent on health services delivered in the public sector or in the private sector. Nor is it possible to tell if provincial governments reduced their own spending using federal funds to cover the reduction.

In effect, the "no strings attached" funding approach of the CHST gave the provinces more leeway in how they spent the money. Some provinces used the opportunity to aggressively pursue the privatization of health care and the implementation of workfare programs. All provinces and territories put the squeeze on social assistance recipients, with the tacit support of the federal government.

The National Council of Welfare, a citizens' advisory body to the Minister of Human Resources Development Canada, called the decision to kill CAP and the switch to the CHST "the worst social policy initiative undertaken by the federal government in more than a generation."[2]

Meanwhile, for a number of reasons, fiscal disparities between provinces have increased in recent years, and here, too, the federal government has failed to step in where it was needed. Without an adequate equalization program, wealthy provinces are able to compete for skilled labour and capital by cutting taxes. Poorer provinces are forced to compete by lowering taxes, and then have to cut services and/or under-invest in the development of skilled workers. This "race to the bottom" is being played out at the present time, with Alberta's extraordinary oil and natural gas revenues allowing it to offer a certain level of services despite very low income taxes and no provincial sales tax.

The AFB: A Better Way

The Alternative Federal Budget recognized the problems with the CHST from the beginning, and has proposed better comprehensive alternatives. Again this year, the AFB replaces the CHST with a series of Social Investment Funds. The funds allocate substantially increased funding for our core social programs: Health, Income Support, Post-secondary Education, Early Childhood Development, and Housing. Through these Social Investment Funds, we strengthen the federal government's contribution to the social well-being of Canadian families and communities by reducing poverty, creating jobs, building housing, supporting education, strengthening health care. Our funds also allow for increased transparency and strong national standards.

The Health Care Investment Fund

The Alternative Federal Budget has long been at the forefront of the campaign for a stronger, better-funded, more accountable public health care system. This year, our budget includes our most far-reaching and timely health care program yet. The AFB's commitment to Medicare remains anchored in the notion of the rights of citizenship, the benefits of democracy, and the belief that a major role of government is to act for the public good. We view the provision of health care as a public good, not as a commodity to be bought and sold in the marketplace by those who can afford to purchase care.

While Canada's public health care system is one of the finest in the world, there are problems to be addressed in order to prepare and equip the public health system for the future. Key areas include:

- the trend towards shifting health services from the public to the private, for-profit sector;
- shortages of health professionals in specific areas;
- waiting times for tests and treatments that are too long;
- health services falling outside the scope of public coverage;
- skyrocketing and uncontrollable prescription drug costs;
- inadequate access to care for people in rural and northern remote areas;
- huge disparities in the health of Aboriginal peoples compared to other Canadians and disparities in their access to health services;
- the decline in the share of the federal cash contribution to health care and the lack of stability and predictability in that contribution;
- the lack of responsiveness of the system across a range of health issues related to gender, disability, and ethnicity; and
- the threat trade agreements pose to our ability as a country to provide health care as a public good.

Solving these problems requires adequate levels of public funding, expanding the range of services provided in the public system, and designing delivery mechanisms to address the disparities in access to care.

Medicare Today

In September 2000, with federal surpluses conspicuously large, the Prime Minister and the Premiers struck an accord in which the federal government agreed to increase funding over five years by committing $21.1 billion in new funds for publicly-insured health services.

While the infusion of funds was welcome and needed, the September Accord was flawed because it left in place the CHST and failed to set out a framework for addressing the real threats to the sustainability of our national public health care system. In particular, it failed to address the rapidly growing threat of the privatization of health care services and the pervasive political determination to introduce the for-profit motive into the provision of care and the operation of medical institutions.

Medicare originally was designed to cover only hospital and physician services, where most health care—and certainly the most expensive and intensive care—took place. Over the years, medical advances in the form of new medical treatments and technology, the expansion of home care and chronic care facilities, and the advancement of pharmaceutical drugs meant that the provision of health care services could take place in a variety of settings outside the more expensive hospital setting. At times, health professionals other than doctors could provide less intrusive care when needed.

In addition, health care spending restraint led to hospital restructuring and rationalization ,which ultimately led to hospital closures, the discharge of patients "quicker and sicker," and a rationing of medical procedures and diagnostic tests, all of which contributed to more care falling outside the public system and into the private system.

By the time the Prime Minister appointed Roy Romanow to chair a Royal Commission on the Future of Health Care in Canada, the flow of money to for-profit corporations to deliver public health care services appears to have been increasing steadily for several years.

In provinces such as Alberta, British Columbia, and Ontario, for-profit facilities were performing diagnostic tests and surgeries historically performed in public hospitals; some hospitals were operating in the form of public/private partnerships; and nutrition, cleaning, laundry, and maintenance services were being contracted out to private companies.

Alberta has recently moved further, giving the go-ahead for the delivery of publicly-insured health services on a for-profit basis by passing legislation to allow for-profit facilities to perform surgeries requiring overnight stays.

Capital budgets in health care were held at below historic levels throughout most of the 1990s. The failure to maintain and invest in high-end diagnostic equipment such as MRIs and CT scanners led to long wait times for tests in the public system. This led in turn to the development of private, for-profit diagnostic clinics. Ontario, Alberta, Nova Scotia, Quebec, and British Columbia have all allowed these clinics to proliferate. These facilities, which provide a medically necessary health service under the Canada Health Act, set up the conditions under which people who can afford to do so can buy access to "just looking" tests, which, if they reveal a serious condition, may lead to medically necessary procedures. This undermines the core principle anchoring Medicare: the principle of equal access to care based on need, not on ability to pay.

There is no doubt that part of the blame for this shift lies with the provinces' lack of resources, but the problem of reduced federal funding has been compounded by provincial tax cuts. This year alone, the provinces gave away about $20 billion through tax cuts – money that could have been spent on health care. The provincial tax cuts will mean $23 billion in lost public revenue in 2003-04, rising to almost $30 billion by 2005-06.

In some cases, the "need" that the for-profit sector is moving in to fill has been artificially created by a provincial government eager to encourage the development of private health services. For example, in Ontario the government is prepared to purchase 20 new MRI and CT scanners. Public hospitals are actually prohibited from bidding for a contract to operate these machines. Whether the equipment is operated in hospitals or in stand-alone private, for-profit facilities, the Ontario government will still pay for the equipment and for every test ordered by doctors. There will be no savings to be had by contracting out this service to for-profit companies. In fact, evidence shows that the public system would provide this service at a lower cost.

The federal government has the responsibility under the Canada Health Act to serve as the guardian of the national health system. It has failed consistently to fulfill this role. The federal government has the legal obligation to enforce the Act's five principles and the two conditions prohibiting user fees and extra-billing charges being levied for medically necessary health services. These conditions hinder a proliferation of for-profit health care because, in the context of the Canadian system, user charges would be a key source of profit in for-profit health systems. As the 2002 Auditor-General's report indicates, the federal government is not abiding by its own legislation.

Auditor-General Sheila Fraser criticized the government for sitting on suspected violations of the Canada Health Act, noting that 25 suspected violations have not been dealt with. Fraser says the government is slow to act and relies on news articles as a source of information for potential violations. Under the Act, the government is required to monitor provincial compliance with the Act, apply penalties when the violation is confirmed, and report these to Parliament.

According to the Auditor-General, violations include charging user fees for drugs administered in hospitals and for medically necessary MRI and CT scans performed in private clinics, the private purchase of insured health services, user fees for abortions and not paying for abortions, a scheme to buy your way to see a specialist instead of waiting in line, and the sale of full-body CT scans in a hospital.[1] These are all serious violations of the Canada Health Act.

The AFB approach

The AFB takes the first step toward securing the future of Medicare: restoring federal leadership. The federal government must further commit to upholding its responsibilities under the Act, especially dealing in a timely way with violations of the Act.

While the organization of public health insurance plans and the delivery of health services is within the jurisdiction of provincial governments, the federal government plays an important role through its spending power in providing financial support for provincial health insurance plans. The federal government has the fiscal resources to invest more public dollars into health care, thus contributing a more equitable share to the cost of providing health care services. Federal funding commitments need to be stable, predictable, and contain an escalator provision to tie contributions to growth in the economy. Adequate federal funding gives the federal government the leverage to assert the national leadership role in which it is so desperately needed.

The AFB endorses the Romanow Commission's call for a Health Covenant for Canadians. The Covenant would be a declaration of commitment to a "universally accessible, publicly-funded health care system'.[2] It would establish a consensus on objectives for the system, and outline the responsibilities of Canadians, health providers, and governments. It would not usurp the function of the Canada Health Act, but instead act as a common statement of the Canadian vision for health care.

Expanding insured health services under the Canada Health Act

The AFB expands insured health services under the CHA. The goal of this expansion is ultimately to create a continuum of care over the longer term. This will aid in attaining greater accountability from provincial governments, as well as stemming the trend towards providing services on a for-profit basis.

Home care, long-term care, and palliative care

All provincial and territorial governments provide some home care under their public health programs, but there is large variation from province to province in the degree of coverage. In total, provincial/territorial governments currently spend just under $3 billion dollars on home care.[3] However, estimates are that 80-90% of home care is provided by unpaid, informal caregivers.

Home care needs are growing, in part due to discharging patients from hospitals "sicker and quicker," but also because advances in health technology and drug therapy have meant that treatment can be delivered outside the more expensive hospital setting. Changing demographics as a result of the aging of the baby boom population will further increase the need for home care services. Providing care in the home has been shown to be less expensive than in hospital and long-term care settings, but preserving quality of life for people who are ill, elderly, or who have a disability is equally as important as cost savings.

The transfer of care into the home without the parallel transfer of the services into provincial health plans meant that a greater burden for care was placed on families, most often women family members. In keeping with the continuum of health services approach, there is a need for palliative health care services in settings outside the home. The setting for palliative care must be a choice between the family and the family member who is terminally ill.

The AFB would bring all home care and palliative care services under the CHA immediately, and would allow a five-year phase-in period for both levels of government to add home care services to provincial plans.

Studies show that caregivers experiencing the strain of giving care have 63% higher mortality rates.[4] Therefore, the AFB supports the Romanow Commission recommendation to create a category of caregiver leave under the EI program. Eligibility rules would ensure that anyone in the labour force who pays EI premiums would qualify for the caregiver leave.

Long-term care is an important aspect of health care services, and will become even more important as our population ages. Currently, these services fall outside the CHA, and the result has been a patchwork-quilt approach with uneven standards.

The AFB would initiate a national review of long-term care in Canada, culminating in a report to Parliament with recommendations as to a process for ensuring that LTC falls under the Canada Health Act, that national standards for LTC are in place, and that cost-sharing arrangements are agreed to between the federal and provincial governments.

Diagnostic services and queue jumping

The AFB would explicitly include diagnostic services under the definition of insured health services in the Canada Health Act to clarify that these services are subject to the principles and conditions of the Act.

Prescription drugs

Total spending on prescription drugs reached $14.5 billion in 2002, representing 13% of all health care spending, about the same as physician costs. Of the $14.5 billion total, $6.5 billion is in public spending.[5] When non-prescription drugs are included, drug costs total $18.1 billion. Between 1995 and 2002, the cost of prescription drugs almost doubled (a 97% increase).

Drug costs are out-pacing the growth in other areas of health spending, as Figure 1 shows. Among the factors related to high drug costs are issues such as appropriate prescribing, the effectiveness of new drugs, the lack of reporting requirements for adverse reactions, the length of patent protection, and related regulations regarding the production of generic drugs, "me-too" drugs, patent ever-greening, the marketing of new drugs to physicians, direct-to-consumer advertising, and the enormous profit margin for brand-name prescription drugs which is most often in the range of 30% or more.

Prescription drug coverage is highly fragmented in Canada, resulting in large disparities in terms of access to necessary prescription drugs. The bulk of prescription drug costs is paid for privately (55%).[6] Of this, the largest share is provided through employer-sponsored group insurance plans, but individual Canadians pay

$2.3 billion for prescription drugs out of their own pockets.[7] Provincial government plans typically cover the cost of drugs for seniors, persons on social assistance, and those with low incomes, but coverage varies from province to province.

The AFB requires provincial plans to cover all residents with no prescription drug coverage and provide for a process whereby any individual could apply for access to the Catastrophic Drug Plan when circumstances warrant. This would ensure that no Canadian will be forced into dire economic straits because of the cost of prescription drugs.

Further, the AFB initiates a prescription drug review process which would have the goal of a full national Pharmacare plan. This would entail examining the merger of employer-sponsored drug plans into a national plan.

The AFB establishes a National Drug Agency to: evaluate and approve new prescription drugs; evaluate existing drugs, including prescribing practices, effectiveness and adverse reactions, and monitor and negotiate drug prices.

The AFB initiates a federal review of the drug patent legislation with the mandate of examining drug patent practices which contribute to rising drug prices and which cannot be justified under the principles of patent protection. This would include the practice of "evergreening" and "me-too" drugs. The review would be charged with

Bringing health services under the auspices of the public system serves a number of purposes. It would—

- halt or reverse privatization and the for-profit provision of health services;
- set comparable standards of care in areas such as home or long-term care;
- ensure efficiency and cost-effectiveness in the expenditure of limited health care dollars;
- develop programs which recognize different health care needs related to gender, disability, ethnicity, immigrants, Aboriginal peoples, and official language minorities;
- develop programs designed to deal with the special access problems for people living in rural, remote, and northern communities;
- facilitate data collection for the purposes of monitoring and evaluating the programs and their effectiveness;
- implement strategies to improve the quality of care and patient safety;
- facilitate the management of waiting times for access to care and diagnostic treatment;
- exert the maximum degree of control over ever-rising drug costs;
- protect health services from free trade agreements;
- relieve the burden on women and other family members of care-giving in the home; and
- instill greater accountability and transparency in the provision of health services.

Table 5
AFB Proposed Health Spending Increases ($billions)

	2003-04	2004-05	2005-06
Home/Palliative Care	0.75	2.0	1.5
Primary Health Care	1.2	1.0	1.0
Diagnostics	0.75	0.6	0.4
Drugs	1.0	1.0	1.0
Rural Remote	0.6	0.6	1.0
Health Human Resources	0.4	0.4	0.6
Aboriginal Health	0.5	0.6	0.6
National Health Council	0.3	0.3	0.3
Total	5.5	6.5	7.5

determining reasonable levels of patent protection.

First Nations Health

The status of the health of Aboriginal Peoples in Canada is a shame on our nation. Life expectancy is 7.4 years lower for men and 5.3 years for women, a result of longstanding economic and social disparities, poverty and racism. The rate of tuberculosis among the Aboriginal population is 17 times higher than the overall Canadian average, and over 60% of Aboriginal children in their first year of life in Nunavit have respiratory disease.

Federal funding for First Nation and Inuit health care is currently $1.3 billion, insufficient to meet the need for health services. As a result, over the next 3 years, a deficit of $750 million will accrue. Aboriginal leaders were left out of the negotiating process at the First Ministers Meeting in February 2003 and in September 2000. As a result, Aboriginal Peoples are left without a say as to what share of Accord dollars will flow to Aboriginal communities for health services, and little say in how those health dollars will be spent.

The AFB proposes the development of a framework agreement between Aboriginal Peoples and government so that a full and equal partnership can occur. An explicit mechanism will be developed for the transfer of health care dollars to Aboriginal communities out of the federal transfers to provinces. Aboriginal communities will be full participants in determining what health services are needed; where they are delivered and how much money is required to provide these services. The ultimate goal is to have health dollars flow directly to Aboriginal Peoples. The AFB allocates funding in each of the next three years for healthcare services to be delivered through the new framework agreement.

Primary care reform

Reform of the primary health care system is crucial to securing the future of the public health care system, as well as to improving the health of the population overall.

The AFB allocates $3.25 billion over three years for the implementation of the needed primary care reform.

Accountability

A recent poll sponsored by the Canadian Union of Public Employees and conducted by Pollara (the pollster for the Liberal Party) indicated that accountability and transparency continue to be a very high priority for Canadians. Fully 92% want the creation of a separate fund for the transfer of federal health dollars so that it is possible to know exactly what the federal government is contributing; 81% believe that the provinces should be required to guarantee that federal dollars are spent on health care and that reporting on this must be a condition for receipt of federal funds; and 77% agree that federal health care dollars must be spent on public, non-profit health care services.

Accountability begins with a common vision for the kind of health care system we want: publicly-funded health services delivered on a non-profit basis which conform to the principles and conditions of the Canada Health Act.

The AFB would achieve greater accountability by: attaching conditions to federal transfers to the provinces/territories for health care in order to achieve national, comparable standards for health care services; requiring provincial governments to document and report publicly on how federal transfers were used, including an evaluation of how the system has been improved by those expenditures. The reporting requirement added to the Canada Health Act would include a provision for validation by the Auditor-General.

National Health Fund: Follow the money

Money is at the heart of the current debate over health care in Canada. Without sufficient federal contributions to provincial-territorial health care costs, vastly increased privatization will not be an abstract debate: it will simply be reality.

The AFB includes increases to health spending of $5.5 billion in 2003-04, $6.5 billion in 2004-05, and $7.5 billion in 2005-06, for a total of $19.5 billion over three years. Table 5 indicates how the money will be allocated.

These increases are over and above the health care portion of the $15.5 billion base CHST that the federal government currently pays, as well as the September 2000 accord money. In total, after replacing the CHST with our National Investment Funds, and based on the above assumptions, the AFB would allocate $16 billion, $17.6 billion, and $20.2 billion, respectively, toward health over the next three budget years. Under this plan, the federal contribution toward total provincial-territorial health expenditures would reach 23% in 2005-06. In the following year we would increase the federal contribution to 25%, and this would become the new floor.

Notes

1 Globe and Mail, December 13, 2002

2 p 48

3 Romanow, p175

4 Romanow, p.184

5 CIHI, pp134, 135, 137 & 147

6 CIHI, p. 20

7 Romanow, p.195

Income Support Fund

People on welfare have long been among the poorest of the poor in Canada, and they have been treated with contempt by governments year after year. Provincial and territorial governments of all political stripes have gone out of their way to make welfare incomes that were meagre to start with even more meagre.

The income support provided to welfare recipients and the cuts in support during the past decade have been meticulously documented by the National Council of Welfare. The council's annual reports on welfare contain detailed information on the incomes of four types of welfare recipients in each province, and comparisons between welfare incomes and the poverty lines. The latest report shows cuts in welfare incomes as a percentage of the poverty line in 34 of the 40 categories tracked between 1991 and 2001, and increases in only six of the 40 categories. Most of the increases were modest, and most of the cuts significant.[1]

As of 2001, 23 of the 40 categories of welfare recipients had total incomes equal to 52 percent or less of the poverty line. That was poor by any reasonable measure of poverty.

The AFB's Income Support Fund would move, over a number of years, to tie the level of federal funding to actual needs, perhaps the actual size of welfare caseloads from year to year. In the short term, we make provisions for banning "workfare" or forced labour, for automatic indexing of welfare benefits at least once a year, no residency requirements, respect for the privacy of welfare recipients, the right to retain the family home and a reasonable level of assets, and the right to appeal welfare decisions made by welfare officials and tribunals.

Federal and Provincial Child Benefits

The second major setback for welfare recipients in recent years was the federal government's decision to encourage provincial and territorial governments to claw back a portion of federal child benefits from welfare recipients with children. This represented a complete reversal of the stand successive federal governments had taken to prevent increases in Family Allowances and other federal benefits from being offset by corresponding reductions in provincial and territorial programs.

Under the new arrangements, first announced in the 1997 federal budget speech, virtually all increases in federal child benefits in the future would go to families in the paid labour force. Families with even a bit of welfare income would have the increases in benefits clawed back. Overall, the biggest winners would be low-wage families with children. The biggest losers would be poor families on welfare — most notably single-parent mothers with children.

The only exceptions to the clawback to date are in Newfoundland, New Brunswick, and Manitoba. Newfoundland and New Brunswick refused to claw back federal benefits from welfare recipients from the very beginning, and Manitoba followed suit several years later after a provincial election and a change of government. It is probably no coincidence that four of the six increases in provincial and territorial welfare benefits reported by the National Council of Welfare over the period 1991 to 2001 involved families with children in Newfoundland and New Brunswick.

The effective increase in federal child benefits for welfare families between 1996 and 2002 works out to 12.8 percent, or slightly more than the inflation rate for the period. The only real gains went to low-wage families: an increase of 60.8 percent for a family with one child, and an increase of 84.3 percent for a family with two children.

The other half of the current federal approach to child benefits involves the reinvestment of the money clawed back from welfare families in other programs or services for families with children. The results so far have been underwhelming. Provincial and territorial governments are keen about recycling the federal money and calling it their own, but most of them have been reluctant to contribute significant additional sums of their own money to help children and their families.

The AFB increases the Canada Child Tax Benefit (see the Tax Fairness section of this document for complete details) and ends the clawback of the CCTB by any province or territory.

Notes

1 National Council of Welfare, Welfare Incomes 2001 and 2001 (Spring 2002), pp. 81-81.

2 National Council of Welfare, The 1995 Budget and Block Funding (Spring 1995), p. 26.

The Housing Fund

Canada faces a housing crisis, the roots of which reach back to 1993, when the federal government cancelled funding for new social housing altogether. There is a well-documented need for affordable housing in Canada, and for innovative national solutions to this national problem. Yet, remarkably, Canada has no national housing policy, making it unique in this regard among comparable countries.

The government stock of public housing is around 200,000 units. Of these, 164,000 were build before 1978. [1]

In November 2001, the federal government agreed with the provincial and territorial ministers on a framework for funding affordable housing. The federal government committed to a total potential contribution of $680 million over five years — but based funding on the willingness of provinces to provide matching funds. In May 2002, the National Housing and Homelessness Network released a report card on this framework. It gave the federal government a D-, for spending only a tiny fraction – less than 1 percent – of the potential funds.

Rental housing

The Federation of Canadian Municipalities reported in 2000 that Canada's urban centres lost a minimum of 13,000 rental units between 1995 and 1999: previously available rental housing was converted or demolished, and no new social housing was constructed. Not surprisingly, rents began to rise much faster than inflation.

About four out of every 10 Canadian households rent their housing, and the incomes of renters are typically much lower than those of the average person. Rental housing affordability has become a major issue in the 1990s, particularly in larger cities. A significant gap has developed between market rents and the incomes of low-income persons and families, as rents have risen sharply while the incomes of the poor have fallen or stagnated. This translates into a crisis for many particularly vulnerable groups: single parents with children; working-poor families with children; newcomers to Canada, many of whom have large families; low-income seniors; and single, low-income adults such as persons with disabilities.

Very high rents in relation to income mean that far too many families must literally choose between paying the rent or feeding the kids. In all provinces, social assistance benefits have failed to match rising rents, and the scale of rent increases has generally eclipsed the income gains of the working poor. Increases in child benefits are welcome, but they will have little impact on child well-being if they are simply swallowed up by the rent cheque.

The Fund

Only 5% of Canadian households live in non-market social housing, compared with

40% in the Netherlands, 22% in the United Kingdom, 15% in France, and 2% in the United States. The AFB gets the federal government back into the affordable housing business. Our goal is to immediately increase the number of new affordable units produced to 20,000 annually, and the number of refurbished units to 10,000 per year.

In order to reach this goal, the AFB Housing Investment Fund provides $2 billion over the next three years for new housing. The program includes a flexible capital grants program to assist provinces and municipalities in building new, affordable rental housing.

It would work with the active involvement of sponsors of the many community-based social housing projects that have sprung up since the federal government got out of the social housing game a decade ago.

The Fund would also make it a priority to fund co-op housing. Two decades ago, the federal government was funding nearly 20,000 new units of community-based co-op and non-profit housing annually. Co-ops were used to help expand the housing stock, counter neighbourhood decline, and support residents with special needs.

Among the central advantages of co-ops for housing policy are cost and affordability. Resident contributions – from self-management through "sweat equity" — in some cases combined with public subsidies, can make high-quality housing affordable for low- and moderate-income households. In contrast with programs providing direct rent subsidies, spending on co-ops has the extra and lasting outcome of increasing the permanent supply of affordable housing.

In addition to economic benefits, co-ops offer the potential for social transformation. Creating co-operatives provides physical environments that are appropriate for people's needs and conducive to their quality of life.

Housing construction is labour-intensive and has high job impacts because of the heavy use of Canadian-made materials. It can also be balanced regionally, and provides lasting social benefits.

Notes

1 *Left in the Cold: Woman, Health, and the Demise of Social Housing Policies*. Darlene Rude and Kathleen Thompson. Prairie Women's Health Centre of Excellence. November 2001.

Early Childhood Care and Education Fund

The AFB proposes a pan-Canadian universal early childhood care and education (ECEC) strategy. ECEC services simultaneously provide early childhood development opportunities, ensure care while parents (especially mothers) are in the workforce, and support parenting. Federal action on ECEC is essential to realize the promise of the 1999 Social Union Framework Agreement of "access for all Canadians, wherever they live or move in Canada, to essential social programs and services of reasonably comparable quality."

ECEC is needed for multiple reasons, including its benefits to children and families, and contributions to economic productivity and social solidarity.

Children of all classes benefit from high quality childcare, regardless of family income or parental employment. In this respect, childcare is a public good in and of itself, and quite separate from its other demonstrable benefits. Virtually every facet of children's development is enhanced by quality childcare. As the OECD has concluded, "equitable access to quality early childhood education and care can strengthen the foundations of lifelong learning for all children and support the broad educational and social needs of families." High-quality childcare enhances all children's holistic development and well-being, including their physical, emotional, linguistic, intellectual, and social capacities. In particular, childcare promotes school-readiness, and can help launch children successfully into their school years.

The National Forum on Health has pointed out that a comprehensive approach to childcare should be a key part of a population health approach. High-quality childcare is additionally valuable to children who are at-risk or socially vulnerable, by virtue of poverty or other conditions.

Early childhood care and education services also are made necessary by demographic changes to Canadian families and a changing labour force profile. Most households with young children now have two wage-earners, replacing the "traditional" family with its male breadwinner and stay-at-home mother. Women's labour force participation rates are skyrocketing, and the number of children in Canada is decreasing. The vast majority of employed women with children work full time (30 or more hours per week). In 1999, 71% of employed women with at least one child under age 16 at home worked full time, as did 68% of employed women with one or more children under 3 years of age. Dual-earner families are now the norm, yet there are few policies and supports in place to enable them to combine employment and caregiving. The sharp rise in dual-earner households, spurred by increased female employment, makes comprehensive ECEC and parental leave policies more important than ever for the well-being of families.

Additionally, ECEC contributes to economic productivity. Childcare is a smart investment in a competitive economy. Without it, parents — particularly mothers — cannot participate fully in the labour force. A 1998 study by University of Toronto economists has concluded that $2 of social benefits are returned for every $1 invested in childcare. The initial costs of ECEC are offset by longer-term gains, which include increased workforce participation, higher tax revenues, and lower social spending. The National Council of Welfare claims that "good childcare makes an enormous difference in the ability of poor families to find and keep jobs." And, as the Council also points out, "preventing problems and ensuring that children have the best possible start in early development makes good economic sense.

While national productivity would be enhanced by universal ECEC, a pan-Canadian childcare system cannot be established by the private market. Charles Coffey, executive vice-president of the RBC Financial Group, has argued that "business can do its part, but early learning and childcare is an issue of national importance, requiring the leadership that only senior governments can provide."

Finally, and of equal importance, ECEC contributes to social solidarity. Certainly, universal childcare is a precondition of women's equality. It is also a mechanism to build healthy communities, reduce poverty, create jobs, and facilitate community and economic development. Universal early childhood services strengthen appreciation for diversity and promote equity among classes, levels of ability, racial and ethnic groups and generations, strengthening social solidarity.

The AFB agrees with the Caledon Institute that "childcare is smart social policy, smart economic policy, and smart health policy." Under the AFB, the guiding principles for a federal ECEC strategy are:

- regulated, licensed services;
- universal provision (including all children regardless of income, class, ability or disability, region, and parents' work status);
- high quality (reflecting best practices and a participatory approach to quality improvement and assurance);
- comprehensiveness (a systematic and integrated approach to policy development and implementation, including a range of service choices);
- responsiveness (reflecting community values and diversity, as well as including community and parental input);
- accountability (services are responsible to the communities served, and good governance is present); and
- non-profit auspices (to ensure all dollars are directed to program and staff, making most effective use of funds).

ECEC services in Canada (save for Quebec) are badly underdeveloped. Across the country, childcare is severely compromised on three fronts: 1) the availability of spaces to meet the needs of children and their families, 2) the affordability of care, and 3) the quality of services provided. It is additionally compromised as children's care, services, and education are fragmented in different policy "silos," uncoordinated between education, welfare, family, and community services, Labour and other government departments, and between local, provincial, and federal jurisdictions.

The federal government has begun to recognize these problems, and is beginning to create a policy architecture that can remedy them. In September 2000, Canada's First Ministers (except for Quebec's) signed an agreement on early childhood development services. The Federal/Provincial/Territorial Early Childhood Development Agreement has two objectives: 1) "to promote early childhood development so that, to their fullest potential, children will be physically and emotionally healthy, safe and secure, ready to learn, and socially engaged and responsible; and 2) "to help children reach their potential and to help families support their children within strong communities." The ECD Agreement provides a funding and policy framework through which the federal government can act.

What would it cost to establish a universal ECEC program for all Canadians? A reasonable financial goal for a fully developed, comprehensive ECEC system would be at least 1% of GDP. One percent is the European Union guideline for spending on ECEC for children aged 0 -6, and several countries surpass this level. In Canada, 1 percent of GDP would represent approximately $10 billion a year. Building a comprehensive ECEC system is a multi-year undertaking, which must include an orderly ramping-up from the currently fragmented system. Building both physical and social infrastructure is time-consuming.

Over the next three years, the AFB increases spending to reach $5 billion per year. The two main priorities for spending this money would be:

- Improving coverage and compensation rates under EI for new and adoptive parents. Extending coverage to all new parents, at compensation rates of at least 80 percent would bring Canada in line with most EU countries. With adequate coverage and compensation, most households will be able to provide parental care to infants up to age one.

- ECEC for children aged 1 - 6, before children reach school-age.

Employment Insurance

The EI program has failed to keep pace with the modern realities of Canadians' work lives. Corporations and workplaces are being re-organized. With the rise of casual labour and people forced to work multiple jobs, work schedules and hours don't fit the old assumptions. Many working Canadians have to balance work and family responsibilities for children and elders, a situation that has been made worse by federal program cuts.

Women are especially hard hit, because they make up the majority of workers taking on the new part-time jobs. They end up short of hours to qualify for EI if they get laid off. New mothers may not have the 600 hours to qualify for pregnancy and parental benefits.

Changes to the program introduced in 1997 stripped many Canadians of their eligibility for EI. Currently, only 38% of the unemployed are receiving EI at any given moment, compared with over 75% just a few years ago.

Yet the EI Account has built a surplus of close to $50 billion since 1994.

The AFB would balance the EI Fund, spending all of its revenue to provide income support to unemployed workers. The improvements to the Fund described below will consume the full surplus that would otherwise have accumulated. In addition, to ensure that the fund is never again in danger of being raided by the government, the program will be separated completely from the general budget.

There is also a growing demand for education, training, and lifelong learning. Long years in the work force count for nothing when it comes to qualifying for EI. Leave from work for training or learning is not covered by EI benefits.

The AFB prohibits the use of EI revenues for federal debt reduction, tax cuts, or other government spending.

The current system of variable eligibility requirements – which varies from place to place and month to month, and the type of benefit ranges from 420 to 910 hours – will be replaced with one that requires a basic 360 hours to qualify.

More flexible qualifying rules would be introduced for workers who have been in the labour force for a number of years, and the definition of labour force attachment will be reformed to count years. And workers over 45 years of age, the ones who have the hardest time getting a new job, would be guaranteed benefits for a year-and-a-half.

Regular earnings will be defined as an average of the worker's best 12 weeks.

As well, training insurance will begin to be introduced for all workers. Regular benefits would be made available to support workers who lose time from work while training and learning, as they are now for workers in apprenticeship training.

These are the first steps toward a truly modern system, one that would:

- protect workers in all forms of employment, including full time, part-time, and temporary;

- cover unemployment, pregnancy, parental leave, temporary sickness, and income support while training;
- end UI discrimination against women, youth, older workers, and workers in seasonal industries;
- be clear and simple to understand;
- extend benefit weeks when unemployment is high;
- raise the maximum benefit level, which has been frozen since 1996; and
- stop deducting severance and vacation pay from EI benefits.

The Post-Secondary Education Fund

In the 1990s, tuition fees in Canada increased an average of 10% per year. Very recently, the rate of increase slowed, with the average since 2000 being just over 4%. Nonetheless, signs point to a faster increase in the future: some of the additional funding in recent years has been the result of restored transfer payments making up for earlier cutbacks. TD Bank economist Craig Alexander projects that the full cost of a university education will reach $125,000 by 2020.[1]

Since 1998, the federal government has increased its support for registered education savings plans (RESPs). The $423 million the government plans to spend this year on Canada education savings grants (CESGs), which are the federal matching grants that accompany RESP contributions, will end up disproportionately in high-income households. These payments do nothing to improve access to post-secondary education for Canadians from disadvantaged backgrounds.[2]

The Millennium Scholarships, similarly, do nothing to address the fundamental problem facing post-secondary education in Canada: affordable access.

The AFB creates a new National Post-Secondary Education Act, which operates as a parallel to the Canada Health Act, guaranteeing the right to a quality post-secondary education, and national standards. Under this Act, the AFB creates a new system of grants based on need. A total of $1.5 billion has been allocated to this system over three years.

Notes

1 The Future Cost of a University Education. TD Economics Topic Paper. November, 2002, Craig Alexander.

2 *Tax Preferences for Education Saving: Are RESPs Effective?* C.D. Howe Institute Commentary. By Kevin Milligan.

Elderly Benefits and Retirement Income

The changing nature of work in Canada – including the growth of part-time, insecure jobs – hurts seniors. Fewer than one out of two Canadian workers are at any one time enrolled in an occupational pension plan.

The alternative, RRSPs, disproportionately benefit higher-income earners, through tax benefits. And few low- or middle-income Canadians contribute anywhere near their RRSP maximum.

The Guaranteed Income Supplement has been the subject of criticism because so many seniors are unaware that they are eligible to receive it.

The AFB increases the GIS by 10% each year, and would take the necessary steps to ensure that all seniors who are eligible for the program receive funding.

A Green Industrial Policy

Canada needs an active and effective industrial policy, led by the federal government. The historical record shows that intelligent government involvement in channeling resources into strategic sectors is an important avenue for enhancing standards of living in the long run.

Currently, a handful of programs (such as Technology Partnerships Canada and various regional development programs) support such objectives in principle. However, they have been criticized by the Auditor-General for their lack of transparency and accountability.

This year's AFB includes an innovative, revitalized industrial policy to increase the productivity of the Canadian economy and make Canada a world leader in green industries.

Much of the Canadian hinterland is still alarmingly dependent on the export of primary, minimally processed resources to the U.S. (and highly vulnerable to U.S. trade actions). Our industrial policy would support the creation of greater value added from existing resource harvests, and do so in a manner that is ecologically sustainable.

Canada's manufacturing sector is increasingly under threat from lower cost jurisdictions, whether in the Southern U.S., Mexico, or China. The AFB's industrial policy is designed to retain investments in Canada, and encourage new ones.

Industrial policy should target emerging sectors that are likely to bear fruit, and where market decisions lead to a sub-optimal allocation of resources. This includes information and communications technologies, alternative power sources, and green technologies.

To address these needs, we abandon the notion that industrial policy is limited to stimulating or encouraging the private sector. We need to more fully bring back the public sector into the equation. The key planks of the AFB's plan to revitalize industrial policy follow below.

Kyoto Implementation and Opportunities Fund

While much of the debate around Kyoto has focused on the perceived costs of implementation, little attention has been paid to the *ongoing costs* of climate change itself, or to the potential economic, environmental and social *benefits* of addressing climate change. Ongoing costs are wide-ranging and include the cost of repair and replacement in the aftermath of extreme weather patterns such as ice storms and floods, which are occurring with greater frequency. They also include the impact on livelihoods of farmers due to droughts, and to native communities in the far north due to changes in traditional food systems.

The Kyoto Implementation and Opportunities Fund would support a two-pronged innovation and transition strategy for Kyoto. Funded out of the 2002-2003 budgetary surplus, it would put aside $7 billion to accelerate the transition towards a more sustainable energy economy, including energy efficiency and the development and implementation of environmentally friendly technologies and power sources. And it would provide $1 billion for a "just transition" strategy to assist those workers adversely affected by action on climate change.

Developing and implementing environmentally-friendly technologies

Cost-effective and viable technologies already exist to decrease greenhouse gas emissions and human impact on the climate. In addition, emerging industries in renewable energy production and related sectors provide vast opportunities for growth and job creation. Spending money on the purchase of emissions credits would be a huge waste, given other opportunities to invest in a greener economy.

The Kyoto Investment and Transition Fund would allocate $7 billion over 10 years to support energy efficiency projects, develop green technologies and power sources, and implement existing and new technologies to make Canadian industry more sustainable. Many renewable energy technologies are viable today. Such technologies include: earth energy technologies; wind power; producing ethanol from biomass; and solar power.

The Fund would make a number of investments to provide business incentives in emerging industries and to create new sustainable jobs:

- creating energy efficiency funds, modelled on the Toronto Atmospheric Fund, for individuals and businesses who want to make commercial and residential buildings more energy efficient;
- funding needed public transit infrastructure in cities across Canada; and
- extending a 1.2 cents/kWh subsidy to all non-hydro renewable electricity generation, to match the present subsidy for electricity generated from wind power. (This subsidy could help ensure that 10% of electricity by 2012 will be generated by non-hydro renewable sources.)

Efforts to improve energy efficiency would be complemented by a strong industrial strategy aimed at the diffusion of existing technologies in existing industries, plus the strategic targeting of new green technologies and power sources as a development area for the Canadian economy. A number of means of implementing this include:

- providing tax credits to companies that invest in industrial energy efficiency and technologies that reduce greenhouse gas emissions;
- expanding the Industrial Research Assistance Program (IRAP), a successful federal program that supports the diffusion of new technologies to small and medium sized enterprises, to cover a range of environmental technologies and applications; and
- significantly expanding the funding provided by Technology Partnerships

Canada for the development of new environmentally-friendly technologies, power sources and applications.

New money for environmental initiatives could also be raised by diverting existing funding away from the aerospace and defense industries that currently dominate the funding base.

Just Transition

One important challenge of addressing climate change will be the transition from an economy that is heavily reliant on fossil fuel use to one that gradually focuses more on emerging industries: energy efficiency, renewable energy, and public transportation. While recent analyses reveal opportunities for positive economic gain, this transition will mean shifts in the types of jobs available. Energy workers are particularly vulnerable to job losses. Over the 1990s, the Canadian energy sector shed over 80,000 jobs, despite increased production and increased exports.

Meeting Kyoto will mean job losses in some sectors and job gains in others.

Taking a conservative assumption that Canada will meet its obligations without international emissions trading, the National Climate Change Process modelling analysis shows that there could be a loss of 12,800 jobs in the energy sector. The provinces that would experience the greatest job losses (in descending order of impact) are Alberta, Ontario, Nova Scotia, and B.C. Over that same period, 16,000 jobs would also be created in the energy sector, but not necessarily in the same energy sub-sector or province as job losses.

The solution to this shift in jobs is not to forgo action on climate change, but to ensure that those who *do* lose their jobs are given other options, particularly in those related sectors experiencing overall growth. Transition programs for displaced workers have been successfully implemented in the U.S. and Canada, but only when these programs are developed upfront.

The elements of a successful Just Transition program would include:

- training and educational opportunities that allow workers to upgrade their skills for the jobs that are being created;
- early notice of layoffs, whenever possible, so that workers can access counseling and training/educational programs quickly;
- income support for displaced workers for up to three years–depending on time in the energy workforce–to enable workers to take advantage of training and educational opportunities;
- peer counselling to assess workers' needs, and analysis of labour market needs; and
- relocation funds, up to a maximum of $15,000 per worker, for those who must move in order to find new work.

A high-end estimate of the cost of such a program would be about $1 billion over 10 years. These represent incremental funds to the EI system, which would also shoulder its portion of the transition.

Subsidies now extended to conventional energy production cost about $250 million per year. These subsidies to conventional energy production could be directed into new subsidies for clean energy. The renewable energy industry received only $12 million in subsidies in 2000, mostly in the form of research and development programs and tax incentives.

The federal government should also be able to generate a pool of funds by auctioning off greenhouse gas emissions permits. The federal government's most recent implementation plan moves away from selling domestic emission permits, a move we urge them to reconsider. Moving away from tradeable permits only relieves the emitters of greenhouse gases from paying any of the costs for climate change action, thereby rewarding the biggest polluters.

These two sources of funding could conservatively generate $12.5 billion over the next 10 years. This money that could be allocated towards enhancing the toolbox of subsidies, tax credits, and public infrastructure investment required to go beyond the Kyoto targets.

Further change can be contemplated in the design of the tax system to better meet certain environmental objectives. Tax credits for achieving environmental benchmarks (such as credits for ecologically-certified or new value added production in the forest industry) could reinforce the measures set out above. The provision of tax credits for meeting environmental objectives ensures that only the companies that meet the objectives benefit from paying lower taxes, rather than the "blank cheque" approach of corporate tax cuts currently being phased in.

In addition, we recommend making polluting activities more expensive by establishing new taxes on carbon emissions, chemical pollutants, and particulate emissions. To minimize transition costs, these taxes should be phased in based on a timetable over 10-20 years.

An Urban Air Pollution strategy could be complementary to Kyoto initiatives. For example, a move to reduce carbon emissions from automobiles can be twinned with a strategy of addressing the problem of smog in Canada's cities. The aim should be a future of zero emission vehicles that address both climate change and urban air pollution.

Finally, the accelerated development of inter-city and mass commuter transit must be made a priority over expanding the infrastructure for automobiles. A high-speed rail link from Windsor to Quebec City would be a good start. A rapid build-out of public transit in cities, along the lines common in Europe, is also a necessary to relieve traffic congestion in cities and reduce automobile reliance. Each of these could be achieved under the auspices of existing Crown corporations and regional bodies.

Public Investment Bank

The federal government needs to address the challenge of channeling resources into the real economy rather than getting caught up in the whirlwind of speculation that is the financial markets.

The AFB will seek to establish, within three years, a Public Investment Bank, seeded by compulsory deposits from existing private financial institutions, credit injections from the Bank of Canada, and interest-earning investments from governments, pension funds and individuals. Funding from the Public Investment Bank would then be allocated to smaller "development councils" that would finance projects in particular sectors, as well as projects in regions or communities.

The AFB envisions a Public Investment Bank as a provider of seed funding for new and innovative economic areas, where private sector financing is less likely to be abundant (if there at all). Funding recipients would include Crown corporations, cooperatives, worker-owned enterprises, First Nations, and other non-profit entities, in addition to traditional businesses.

A theme of sustainable development would be front and centre for the new entity. It would provide funding support for national projects in sustainable agriculture; sustainable forestry; recycling facilities; investments in resource efficiency; development and purchase of environmental technologies and green power sources.

Tax incentives, not tax cuts

In recent years, public policy has been overly obsessed with tax cuts as the tonic for Canada's economy. The 2000 Federal Budget set out a plan to reduce taxes for all business to the lower rate of 21% for manufacturing and processing companies. Spun as a boost to the high-tech sector and service economy, this large reduction will mean that Canada's largest banks and other large and profitable companies will receive tax windfalls.

The evidence that corporate tax cuts lead to more investment and employment is thin. Tax cuts are effectively a blank cheque to corporate Canada, a leap of faith that the Canadian economy will benefit. That said, tax policy should not be completely ignored. The tax system can provide incentives, but they must be structured in a manner that ensures tax breaks go only to those that deliver new investment to the Canadian economy.

The AFB would undertake a major review of federal tax policy, with the goal of developing and implementing corporate tax reforms aimed at supporting our industrial policy objectives. These reforms would include:

- tax credits to Canadian companies that meet specified targets of investment, production and employment in Canada; this would apply to all companies operating in Canada, regardless of ownership; and

- tax credits for companies that meet certain environmental and social objectives, such as credits for ecologically-certified or new value added production in the forest industry.

The provision of tax credits for meeting economic and social objectives ensures that only the companies that meet the objectives benefit from paying lower taxes.

Companies that are making large profits in Canada, but are not investing or employing Canadians, should pay higher taxes.

These tax credits would be offset by changes in the rate of corporate income tax and the size of the base. We recommend a progressive income tax structure for Canadian businesses (some modelling would need to be done to assess the proper rate structure). Certain deductions should be fully or partially eliminated, such as meals and entertainment expenses, advertising, or political donations and lobbying expenses.

Public services and Crown corporations

Canada has benefited from having a mixed economy. Focusing industrial policy only on the private sector ignores a large part of the Canadian economy. The spectacle of corporate scandals over the past year have dropped the veil of the supposed supremacy of the private sector over the public sector.

Crown corporations, in particular, represent an under-utilized institutional force for industrial development. Indeed, trends over the past decades have tended to ideologically favour privatization of Crown corporations, even those with very successful records. Carving out a stronger role for Crown corporations as agents of industrial policy makes sense in a wide variety of areas.

Public sector industrial policy measures could support Canadian priorities for health care reform. For example, Canada could develop a national pharmaceutical drug Crown corporation to do research in the public domain and to produce low cost generic drugs. This could complement a return to a compulsory licensing regime to support the production of generic drugs. These moves would lower drug prices and support a domestic industry over the foreign, brand-name pharmaceutical industry.

As part of a re-entry into the social housing field, Canada could create a new Crown corporation to coordinate the construction of new structures. This could be used as a platform to make social housing units that are highly environmentally-friendly, using grey water recycling, energy efficient design, and geothermal energy.

Canada should also develop a national broadband infrastructure utility. Such an entity would be able to provide universal access at low cost to all Canadians for the infrastructure of the future. Consumers would be better off under a single-provider system that is regulated and non-profit. This would also provide a platform for private sector development of applications, content, and software.

A final example is the development of inter-city and commuter transit. A high-speed rail link from Windsor to Quebec City, along the lines of the French *TGV* or Japanese *shinkansen*, would be a good start. A rapid build-out of public transit in cities, along the lines common in Europe, is also necessary. Each of these could be achieved under the auspices of existing Crown corporations and regional bodies.

Canada's international trade commitments also pose a challenge, but there is more room to manoeuvre under these agreements than commonly acknowledged. Industrial policy measures are allowed as long as they do not have an explicit link to international trade. There may still be challenges from other countries, but this should not stop Canada from pursuing good industrial policies.

None of this means "going it alone" by turning our back on access to the U.S. market or foreign investment. These will continue to be important for Canada. But such preoccupations should not be the priority of an industrial strategy. Rather, Canadian industrial policy should be rooted in the needs of Canadians.

The Environment

The AFB would focus on two broad areas: the need to reduce urban air pollution; and supporting "sustainability investments" by creating new national parks and cleaning up toxic waste sites.

Urban air pollution

In some respects, the federal government must be a leader in the creation of market demand for new technologies. An excellent example of this is California's plan to ensure that 10% of new auto sales in that state, between 2003 and 2008, are zero emission. The AFB will embark on a similar, though more aggressive, strategy setting out requirements for zero emission vehicle sales of the next 5-20 years. A timetable for lowering fuel emissions standards of auto manufacturers' fleets is another option.

The AFB will also introduce a "fee-bate" initiative. This is a revenue-neutral tax shift that would increase taxes on fuel-inefficient vehicles and use this revenue to provide subsidies for purchases of fuel-efficient vehicles.

In addition, the AFB will make polluting activities more expensive by establishing new taxes on pollution (including carbon emissions, chemical pollutants, particulate emissions, etc). To minimize transition costs, these taxes should be phased in over time, based on a 10-20-year timetable.

Proceeds of this tax will go toward:

- Expanding the Industrial Research Assistance Program (IRAP), a successful federal program that supports the diffusion of new technologies to small and medium sized enterprises, to cover a range of environmental technologies and applications.
- Significantly expanding the funding provided by Technology Partnerships Canada for the development of new environmentally-friendly technologies, power sources, and applications. New money for environmental initiatives could also be raised by diverting existing funding away from the aerospace and defence industries, which currently dominate the funding base.

Sustainability investments

The 2002 Report of the Commissioner of the Environment and Sustainable Development (under the auspices of the Auditor-General of Canada) noted that much remains to be done to clean up thousands of federal contaminated sites, plus numerous abandoned mines in the North. The Commissioner notes that the clean-up of contaminated sites will cost billions of dollars. The Department of Indian and Northern Affairs estimates that clean-up and closure of abandoned mines will cost a minimum of $555 million.

The AFB will, as recommended by the Commissioner, develop a priority list of the worst sites, and fund an action plan to clean up these sites over the next 10 years. One source of funds is the elimination of existing subsidies to the mining industry. According to a recent report by MiningWatch and the Pembina Institute, federal subsidies to the industry amounted to $383 million in 2000/02, much of which is through tax expenditures such as the Canada Exploration Expense, the Canada Development Expense, and the Resource Allowance. The AFB will revoke these tax expenditures to remove the long-standing bias of the tax system towards polluting mineral extraction.

Finally, the AFB will invest $100 million per year for the next five years to provide funding for the establishment of new national parks and protected areas, and to reverse the underfunding of existing national parks.

Equalization

Equalization is intended to equalize the fiscal capacity of all provinces, so that all Canadians, no matter which province they may live in, can enjoy reasonably comparable levels of public services at reasonably comparable levels of taxation. In recent years it has become evident that the current equalization system is in need of reform.

When Canadians in all parts of the country enjoy reasonably comparable levels of public services at reasonably comparable levels of taxation, as an entitlement of citizenship made possible by equalization payments, the program becomes a means of binding the country and its citizens together. This is crucially important, given the powerful centrifugal forces of regionalism which set Canadians apart from one another, and the powerful pull from the United States. Equalization embodies a set of values rooted in the virtues of equity and of mutual solidarity. These are values that Canadians should strive to maintain.

Critics of equalization argue that the program provides a disincentive to economic development in poorer provinces. As evidence, they frequently point to the fact that the provinces that receive the most in equalization have the poorest economic performance – thus confusing cause and effect: the central point of the program is precisely to support poorer provinces. Further, evidence shows that the program has served the nation well. A recent longitudinal study by Bird and Vaillancourt showed that, since equalization was introduced in 1957, per capita economic growth in the recipient provinces has been slightly higher than that in non-recipient provinces. Many critics of equalization argue that a better alternative would be direct support to individuals, through income support payments or tax cuts. In this way, these critics seek to erode the *public* provision of services and turn more over to the individual and the market.

The amount of equalization payable annually to each eligible province is determined by a complex formula that calculates the revenue-raising capacity of that province on a per-capita basis, as compared with the average revenue-raising capacity for Canadian provinces on a per-capita basis. Any province with a per-capita revenue-raising capacity below the average, or "standard," is entitled to an equalization payment — paid out of federal government revenues — sufficient to bring that province's per-capita revenue up to the standard.

At one time, a province's revenue-raising capacity was measured against the average of all 10 Canadian provinces. When oil prices skyrocketed during the energy crisis in the early and again in the late 1970s, the huge energy revenues accruing to the energy-producing provinces, especially Alberta, drove the average up and thus increased the cost of equalization to the federal government. The standard was changed in 1982 to a five-province standard, which excludes Alberta and the four Atlantic provinces. In effect, most of the oil and gas revenue in Canada was removed from the calculations.

Alberta's fiscal capacity is now over $10,000 per person, compared with the "standard" of $5,914 for 2000-01.

Another major barrier to an effective, equitable equalization program is that, since 1982, equalization has been capped. This measure was imposed unilaterally by the federal government, initially for the purpose of cost containment. The ceiling has in fact been lowered three times since 1982. The effect on smaller have-not provinces is now quite substantial — in the range of $100 million per year for Manitoba, for example. If there were ever a justification for this ceiling, it no longer exists. The federal government is running large surpluses — in part, it could be argued, by clawing back entitlements from the seven least affluent provinces — and many provinces are struggling to meet growing demands for health, education, and social assistance.

The AFB would eliminate the cap on equalization and return to the ten-province standard.

Aid, International Trade and National Defence

An active defence lobby is working to redirect public resources toward military spending. The *Ottawa Citizen* recently reported that the defence lobby feared that the Prime Minister's social agenda would ignore the Canadian Forces, and that a "focus on social programs will slow defence spending."

Due to September 11 and the "war on terrorism," the Canadian government is being challenged in several quarters to push government resources into military spending in the next federal budget. Parliamentary committees, private think-tanks, and the Bush Administration have chastised Canada's level of military spending and have called for a substantially expanded and well-armed Canadian military to contribute to the war on terrorism and participate in U.S.-led operations such as in Afghanistan or Iraq. These reports have called for additional annual spending of $1 billion to $6 billion or more on Canada's military.

However, independent reviews of Canada's military spending paint a much different picture. The report *Breaking Rank: A citizens' review of Canada's military spending* by the Polaris Institute, a public interest research group based in Ottawa, found that Canada's $12.3 billion in military spending ranks very highly by international comparisons: in actual dollars Canada is the sixth highest amongst NATO's 19 members and 16th highest in the world, according to National Defence figures.

By contrast, pro-defence critics often cite Canada's military spending as a percentage of GDP, rather than in real dollar terms, which places Canada far down the ranking of military spenders amongst NATO members (next to tiny Luxembourg). But Daniel Bon, the military's Director-General for Policy-Making and one of the architects of the current defence policy, blatantly called the percentage of GDP method "pure crock." He told the *Ottawa Citizen*, "What really counts is how much money you actually spend. I think that's terribly significant and people are underplaying that."

The Polaris Institute's report found that the Department of National Defence's funding woes do not stem from insufficient funding, but from a flawed and outdated defence policy forged nearly a decade ago, and a long history of poor planning, waste, and mismanagement of Canadians' defence dollars.

The 1994 White Paper on Defence is mired in Cold War thinking, and pressure from the United States and NATO have resulted in Canadian Forces trying to play an increasingly combat-oriented role internationally. These missions under NATO and U.S. command have come at the expense of traditional UN peacekeeping, so much so that at the end of 2001 only 219 soldiers — fewer than 6 percent of deployed Canadian personnel — were participating in UN peacekeeping missions.

The outdated defence policy and waste within DND has resulted in billions of dollars misspent on big-ticket military programs with no clear purpose or benefit to Canada's defence, according to the Polaris Institute. For example, $750 million was wasted on used British submarines with a well-known history of design flaws, $174 million on a satellite communication system that was never used, $65 million for pilot training that was never taken, and generous raises were granted to generals and admirals while privates suffered a wage freeze for eight years.

The need to shed outdated capacities and equipment, and reallocate resources to high-priority areas without spending additional dollars, was a central theme in a recent report written by soldiers inside the Canadian Forces, called "The Corporal's Report." The report put forward reasonable recommendations which included mothballing artillery, fighter planes, and surface ships in order to pay for new equipment to properly fulfill specialized defence capabilities.

A sound defence policy, and budget, should ensure that Canada's legitimate territorial defence and sovereignty are met at the minimum cost necessary. In addition, the Canadian Forces should play a positive role internationally through non-combative peacekeeping under UN auspices.

Quite apart from defensive needs, other factors are influencing Canada's defence budget. Military spending and participation in the U.S.-led war on terrorism are being used to curry favour with the United States, Canada's largest trading partner. A growing number of Canadian corporations receiving multi-million-dollar contracts from DND are lobbying for more contracts. And free trade agreements that limit government powers are driving defence dollars toward corporate subsidies and other non-defence economic purposes.

The pressure to increase military spending is actually running counter to an informed public opinion. Pollsters consistently report that, when asked to choose between social programs and the military, Canadians overwhelmingly desire tax dollars to go towards health care, education, and poverty-reduction – not defence. This trend was demonstrated once again in the *MacLean's* year-end poll that found that 59% of Canadians chose more money to improve health care, while only 7% chose more money for the military.

Canadians are resisting Canada's participation in the war on terrorism and more military spending, which will come at the expense of social programs. Polls are telling the government that Canadians desire Canada to take an independent role from the United States, to seek non-military means to effect positive change in the world, and to protect Canadian sovereignty and social programs.

Canadians view security as being derived from social programs – not the military. Fiscal priorities should match this view, and resources devoted to improving social programs and environmental protection, domestic capacity to represent and respond to emergencies, and non-military means of intervention internationally in line with Canada's traditional role as a provider of aid and peacekeeping.

The AFB approach

Canada's defence spending should not be increased. Instead, new spending demands should be met within the existing budget by reallocating resources to priority areas.

Canada's foreign and defence policies would be publicly reviewed, and a fund established to facilitate citizen participation and independent expert research.

Many groups, including Project Ploughshares, an ecumenical church coalition on peace and justice issues, have been proposing a more far-reaching review of defence policy that challenges current policy and would focus Canada's defence resources on peacekeeping, border patrol, and national emergency response.

In addition, a permanent research and public policy institute would be established, with an annual budget of $6 million, to conduct research and promote citizen involvement in defence and foreign policy discussions, and to promote Canadian values of non-military-based conflict prevention and resolution internationally.

Canada should be devoting, for example, security resources to implement the basic obligation to protect vulnerable civilians, building on its considerable peacekeeping and peace-building experience. What military doctrines are appropriate, rules of engagement, training and equipment needed for that role?[1] Another major source of insecurity is the diffusion of small arms and light weapons within regions of political instability. Current debates in Canada on national defence must go beyond attention to a narrow focus on military capability and integrate wider notions of development, human rights, arms control, and disarmament in policy options under consideration.

Finally, domestic, civilian emergency response and search and rescue agencies such as the Coast Guard should be provided with enhanced capacities to respond to emergencies. Federal, provincial, and municipal agencies such as Health Canada should hire additional public employees to ensure regular and comprehensive monitoring of food and water supplies and other essential services.

Holding the government to its aid commitments

The pre-eminent threats to international peace and security cannot for the most part be mitigated by increased military prowess on the part of United States and its allies. On the contrary, focusing on human development and human security is essential for achieving international peace for all. Governments must respond with urgent and major infusions of new resources for these non-military aspects of global security. During the 1990s, the period during which Canadian military spending declined by 14%, ODA spending declined by more than 30%.

The Canadian government is committed to doubling Canadian aid by 2010. This announcement in the September 2002 Speech from the Throne follows a decade of declining generosity as a nation, with our aid performance falling from 0.44% of our Gross National Income (GNI) in 1993/94 to 0.25% today. Canada now ranks 14th among 22 developed country donors (tied with four other donors), down from 6th in 1993, and far removed from our commitment to the UN target of 0.7% of our GNI.

The United Nations has calculated that an immediate increase of US$50 billion in total aid is required to achieve by 2015 the Millennium Development Goals adopted by all countries, including Canada, at a special session of the UN General Assembly in 2000. These goals include halving the proportion of people living on less than a dollar a day, cutting the number of hungry people by half, achieving universal primary education, and eliminating gender disparity in enrolment, among others, along an urgent path to end global poverty.

The AFB increases Canada's foreign aid spending to reach the target within two years. As well, we would make a special effort to ensure that Canada contributes its share to the global fund to fight AIDS in Africa.

Ensuring a development framework for Canada's trade agenda

Canadians remain committed multilateralists and have strong interests in a global rules-based trade system. Canadian citizens, however, have also repeatedly pointed to core Canadian values – fairness, equity, human rights, and environmental sustainability – as central concerns in Canada's trade policy.

There remains a major gap between Canada's expressed commitment to development, and Canadian trade positions presented to date for agriculture. Canada's continuing push for an overall limit to the level of subsidies given to farmers is positive. But there are two key areas for development leadership and action in agricultural trade rules. Canada must support new and simplified trade defence tools that allow developing countries to protect their farmers from food dumping. Canada should also support a "development box" that allows developing countries to exempt key food security crops from tariff reduction commitments and be able to expand production-enhancing support to low-income farmers.

Canada has also been playing a problematic role in global trade fora in defence of strict enforcement of intellectual property rights agreements (TRIPS). Canada must support the least cumbersome means for the poorest countries to be able to import life-saving generic medicines. Canada should also support a review of TRIPS to ensure that patenting of life forms is banned, and that farmers' rights to save and sell seeds on local markets is preserved.

Finally, Canada's approach to trade-related capacity building in the South must ensure support for diverse analytic approaches to trade and development, and boost the capacity of marginalized elements of civil society to participate in national decision-making on trade policy.

Notes

[11] *The Responsibility to Protect: Report of the International Commission on Intervention and State Sovereignty*, International Development Research Centre, Ottawa, 2001.

Tax Fairness

The majority of the Alternative Budget's major tax initiatives are focused on providing sufficient revenue to fund important public services. These tax changes are outlined in the macroeconomic and fiscal parameters section. This section of the Alternative Budget concerns itself with a limited number of measures that are aimed at increasing the fairness of the tax system.

The following measures are included in the tax fairness package of the AFB:

1. Reducing child poverty by expanding the Child Tax benefit.
2. Providing a refund of the increase in taxes paid by low-income individuals that result from the income tax rate changes proposed in this year's Alternative Budget.
3. Proposing three changes to the taxation of unearned income: Introducing a wealth transfer tax on large estates; and two changes to the tax treatment of capital gains.

Targeted tax fairness measures

Support for Children

The 2002-03 Alternative Budget is proposing an improvement in federal support for children. The Canada Child Tax Benefit (CCTB), a refundable tax credit, is the major source of federal support to families with children. It currently has two components: the base benefit and the national child benefit supplement (NCB). The Budget proposes increasing the basic benefit, the supplement for children under 7, and the supplement for three or more children.

- The benefit will be increased by $1,195 per child in 2004. The supplement for young children would increase to $425 per month, up from $237, and the increase per child for three or more children will increase from $83 to $150.
- The annual value of this program would be $15 billion per year, with an increase in federal support to this program of $6.5 billion.

Refund of increased taxes paid by low-income individuals

- The increase in the first tax rate from 16% to 17% will, of course, have an impact on people with high and low incomes. This budget is proposing to refund the increase in tax paid by individuals below the LICO. This measure will cost about $200 million.

Revenue-increasing measures

This substantial increase in support to families with children and low-income individuals will be offset by changes in the taxation of capital gains and the introduction of a wealth transfer tax.

We would introduce a tax on the transfer of large concentrations of wealth 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.

Wealth is much more unequally concentrated than income, and some forms of wealth do not generate significant taxable income (e.g., long-term shareholdings, large houses, luxury goods). Further, large accumulations of wealth in a few hands underpin a significant concentration of economic and political power, which is undesirable in a democratic society. And large bequests of wealth between generations fly in the face of the democratic goal of genuine equality of opportunity.

We would implement a wealth transfer tax on inter-generational transfers of more than $1 million. The tax rate would be 25%. The tax base would be the amount transferred that is in excess of $1 million. We estimate that this level of transfers would raise $3.8 billion per year.

We would reverse changes to the tax treatment of capital gains that have been made since 2000. Over the last three years, the Liberal government dropped the inclusion rate for capital gains twice. The Alternative Budget would restore the inclusion rate to three-quarters, what it was prior to February 28, 2000. This measure would provide a total increase in revenue of about $2.2 billion from both the corporate and personal income tax systems. In addition, the current $500,000 lifetime exemption for capital gains for small business shares will be eliminated, and taxed at the three-quarters inclusion rate. This measure would raise about $600 million.

Summary of potential revenue from tax changes ($ million)

		2003-04	Explanation
Tax Rates			
Wealth tax		3,885	Revenue on wealth transfers of more than one million dollars, at a tax rate of 25 per cent
PIT increase in tax expeditures			
	Implementation of Campaign 2000 child benefit; includes elimination of earned income credit	(6,364)	$3,000 per child benefit, 10% of income offset from $18,000 to $45,000; 5% offset above $45,000
	tax relief for individuals below LICO	(205)	refund of increase in tax payable for those below the LICO resulting from the increase in the first tax rate from 16 to 17 per cent
Increase in PIT/CIT Revenues			
Personal	75% inclusion ofcapital gains, personal	1157.5	Restore 75% inclusion of capital gains, back from 50% inclusion implemented in 2000
	eliminate $500 lifetime capital gains exemption for small business	607.5	
Corporate (2000 projected)	75% inclusion ofcapital gains, corporate	1,015	Restore 75% inclusion of capital gains, back from 50% inclusion implemented in 2000
Total		95	

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