Alternative Federal Budget 2004:

Rebuilding the Foundations

Canadian Centre for Policy Alternatives

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Preface

It has been almost ten years since we began doing alternative federal budgets. Our first one coincided with the historic 1995 Paul Martin budget, which declared war on the deficit by bringing down the deepest non-military program cuts in Canadian history.

We accepted then that the deficit and accumulated debt had become serious problems that had to be addressed. But we also said that the government had choices, and showed how the government could eliminate the deficit and reduce the debt burden without making brutal social cuts. Every year since the deficit was eliminated, we set out each year a credible plan of social reinvestment using the huge surpluses that have emerged in the last six years.

From the beginning our goal has been to show that governments do have choices, that the claim that "there is no alternative" is a cover for a deliberate "small government" policy agenda that has come to be known worldwide as the Washington consensus, or neo-liberal consensus. The AFB is a "what if" exercise: what a government could do if it were truly committed to a progressive social and economic agenda.

The goal of the AFB has been in part economic literacy—to demythologize budget-making—but also to empower and fuel popular mobilization, and to help build consensus around policy directions within the progressive social movement.

It has also been a public accountability exercise: exposing the federal government's hiding of the surplus to dampen public expectations concerning the resources available for social reinvestment; exposing how miserably the government has failed to meet its election promise to devote 50% of the fiscal dividend to social reinvestment; exposing the hypocrisy of the government's massive tax cuts which have disproportionately benefited a minority of well-off Canadians who didn't themselves bear the burden of the original spending cuts.

As in past years, representatives from a broad spectrum of civil society organizations—labour, environment, church, women, anti-poverty, child advocates, teachers, academic, community, cultural, international development co-operation, think tanks, and Aboriginal peoples groups—have been involved in putting together the alternative federal budget. Two innovations in our alternative budget-making process this year have helped to inject new energy into the initiative: a civil society leaders' roundtable and the participatory budget workshops. These are described in the document.

I would like, firstly, to acknowledge the financial assistance for this project provided by the Canadian Labour Congress, the Canadian Auto Workers, the United Steelworkers, the Canadian Union of Public Employees, the National Union of Provincial and General Employees, the Public Service Alliance of Canada, the Communications, Energy and Paperworkers Union, and the Canadian Conference of Catholic Bishops.

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Introduction

As he dons the mantle of Prime Minister, Paul Martin's most enduring legacy is as the Finance Minister who killed "big government," and who, in so doing, inflicted major damage on a generation of nation building.[1]

In delivering small government to Canadians, Paul Martin created a revolution in how the federation works. His reign as the federal Finance Minister from November 1993 to the summer of 2002 brought about lasting change in three ways: 1) shrinking the scope and role of government, 2) neutering federal funding mechanisms, and 3) deeply cutting spending, even for programs the government was committed to providing. These changes transformed relations among federal, provincial, and municipal governments, profoundly decentralizing decision-making, and balkanizing the provision of public services. They also transformed the budgetary process, turning endless deficits into endless surpluses.

In 2000, Martin locked in the 1995 cuts through tax cuts and debt repayment, soaking up the surplus in a way that restricted the possibility of significant re-expansion in government spending. Under his guidance, an unprecedented string of budgetary surpluses continues side by side with a struggling health care system and crumbling infrastructure for water, roads, electricity, schools and hospitals—making it obvious that, even when the resources are there, the basics are not guaranteed.

Inequality has grown more rapidly since 1995 than at any other time since records have been kept. There are more poor children today (1,071,000) than in 1989 (990,000,) and the depth of poverty continues to increase among those who remain defined as poor. Food bank use has reached 778,000 people in one month alone, and has doubled since 1989, with more than 40% of the users being children.

Poor maintenance of infrastructure and the intensification of agri-production has resulted in more frequent instances of unsafe drinking water in communities from coast to coast.

Funding for post-secondary education has still not been restored to the pre-cut levels despite an historic budgetary surplus. On average, students completing a four-year program will have accumulated $25,000 in debt, an increase of 300% from 1990.

Canada has one of the lowest doctor-to-population ratios in the Western world: 2.1 doctors for every 1,000 patients. In 2003, 3 million Canadians did not have a family doctor, overburdening acute care services such as emergency rooms and keeping waiting lists for diagnostics and treatment stubbornly high. Almost one in five Canadians requiring health care for themselves or a family member in 2001 encountered some difficulty in gaining access to services.

> "We stand together on the edge of historic possibility . . . A time of new opportunity which must be seized upon in a conscious, determined effort . . . It is a time to turn an historic circumstance into transformative change—to summon a new national will . . ."
> —*Paul Martin's Leadership Convention speech, November 14, 2003*

This is indeed an historic moment for the nation, a time for transformative change. It is a moment that calls for a return to nation building, indeed for nation *re*building.

After more than a decade of deferring the costs of construction and repair of infrastructure that supports businesses and communities across the country, we are faced with two needs: 1) maintain the infrastructure we have, much of which was built half a century ago, in the post-war reconstruction era, and is in desperate need of repair; and 2) expand and upgrade infrastructure to meet the needs of a larger, aging population, a more knowledge-intensive economy, and a productive system that must also contend with the clearly emerging limits of taking the environment for granted.

Paul Martin's commitment to continued small government has cast public investments as a drain on the economy, discounting their ability to increase Canada's capacity to grow and prosper more equitably, in both economic and social terms. His commitment to small government has emphasized provincial "flexibility" and decentralization for a decade, making new federal initiatives more difficult to launch, and attributing joint program funding shortfalls mainly to "uncooperative" provinces. The champion of small government understands that, shrugs his shoulders, and moves on to aggressive national debt repayment, rather than figuring out what combination of money and politics will prevent our collective foundation from crumbling.

The hallmark of Paul Martin's revolution has been the ongoing devolution of responsibilities: passing the buck (but not the bucks) on to other levels of government and, ultimately, onto individuals. It implies continued underinvestment in health care, in early childhood education, and in our cities. It undermines the very nature of the federation. It strangles community capacities and individual opportunities.

Can Paul Martin, Prime Minister, escape his past and transform his own vision to a future that boldly makes the investments that Canadians need in the 21st century?

Assertions that the fiscal cupboard is bare; promises of continued debt repayment and tax cuts while backtracking on his (few) social spending promises; a spending freeze and restructuring announcements that threaten renewed turmoil in the public service—the early signs are not encouraging.

The federal government's coffers, contrary to what he and his new Finance Minister have been telling Canadians, are very healthy at this point in our history.[2] Given this solid foundation, it is entirely possible for a political leader to launch something truly revolutionary for our times: a different kind of social experiment, a quest for a different type of abundance, starting with re-investment in our own future—the future of our children.

This is the challenge that the Alternative Federal Budget places before the Paul Martin government, a blueprint for truly rebuilding our social foundations. The AFB once again starts from the premise that budgets are about *choices,* and choices grow out of core values and political priorities.

Over the years, the AFB has earned a reputation for the technical sophistication of its fiscal framework and the credibility of its numbers. Canada's ecumenical movement reminded us, in our consultations for this year's AFB, that budgets are fundamentally *moral* statements. Our vision embraces core values put forward by the faith community: human dignity, mutual respect, social equity, economic equity, fiscal fairness, and ecological sustainability.

Our political priorities are to:

- make major investments in health, education, housing, and income support;
- make major investments in renewing our cities, focusing on municipal infrastructure;
- make major investments to implement the Kyoto protocol and promote a sophisticated, environmentally sustainable economy;
- rebuild and stabilize the funding for Canada's national cultural institutions;
- restore and enhance the fairness of the tax system;
- resist deeper economic and military integration with the United States, and take foreign policy measures that advance global peace, economic justice, and prosperity; and
- stop the proliferation of for-profit providers of health, education, water, and other public services and regulatory functions.

We believe these actions will:

- improve employment levels and reduce unemployment to 6% or less;
- reduce income and wealth inequality, and reduce poverty by half or more—with special focus on women, children, immigrants and refugees, and Aboriginal peoples; and
- contribute to a cleaner, safer, and more sustainable social, physical and geo-political environment.

Finally, the AFB has two recommendations regarding the budgetary process.

Paul Martin has said he wants to reduce the democratic deficit by giving more power to backbench Members of Parliament and parliamentary committees. He should go much farther. Martin's reputation as Finance Minister was as someone who consulted widely with civil society, promised much to many, but delivered very little, pushing through an agenda at odds with what most wanted. *Moreover, he has, for the last six years, hidden the true extent of the emerging budget surpluses through techniques (such as underestimating revenues and overestimating spending) that have obfuscated, rather than clarified, our fiscal capacities.*

The AFB thus urges Paul Martin to base his budget projections on independent assessments conducted by the Auditor-General, enhancing the transparency of federal budgets and hence the public's confidence in these documents as accurate statements of our national/collective fiscal capacity.

Secondly, the AFB has introduced a new feature into its budget-making process this year. Based on the acclaimed participatory budgeting model developed in Porto Alegre, Brazil, the AFB conducted a series of participatory budget workshops across the country to demonstrate how governments at all levels can go beyond traditional consultation methods—for example, Finance Committee hearings—to engender real participation by citizens. Based on the AFB steering committee's decision to create a municipal infrastructure agency to invest $15 billion over three years, the workshops took community activists through a deliberative process to prioritize and allocate the funds available to their community.

With so much interest in defining a new "cities" agenda, the AFB believes there is a clear opportunity to take on a new, more deliberative approach to public finance. The AFB therefore also urges the federal government to adopt this type of approach to help democratize its own budget-making process.

Endnotes

1 Armine Yalnizyan, *Paul Martin's Permanent Revolution*, AFB 2004 Technical Paper #3, CCPA, 2004.

2 Ellen D. Russell, *Crying Wolf Again*, AFB 2004 Technical Paper #4, CCPA, 2004.

Ottawa, Quebec and the Provinces

The Alternative Federal Budget continues to subscribe to the view 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 should not be the accommodation of Quebec's uniqueness, but the way that uniqueness is accommodated.

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

Macroeconomic and Fiscal Policy

The Recent Federal Fiscal Record

Since the elimination of the federal deficit in 1997, the federal government has posted strong budget surpluses. These budget surpluses have been used to pay down the federal debt, resulting in a $52.3 billion reduction in federal debt between 1996-97 and 2002-03. Net federal public debt fell from a high of 68.4% of GDP in 1995-96 to 44.2% of GDP in 2002-03.

At the same time that it was repaying public debt, the federal government implemented $100 billion in tax cuts over five years as the key method of distributing and eliminating the projected budgetary surplus. Tax cuts in 2000-01, the first fiscal year of the plan, cost federal coffers $7 billion. That cost rose to $16 billion in 2001-02, and to $20.5 billion in 2002-03. The projected costs of the final two years of these tax cuts would reduce federal revenues by $25 billion in 2003-04 and $31 billion in 2004-05.[1]

These commitments to debt reduction and tax cuts have come at the expense of spending on programs that Canadians need. Federal program spending was down from 15.7% of GDP in 1993-94 to 11.5% of GDP in 2002-03, a rate last seen in 1949-50. Based on today's GDP, a percentage point drop in the revenue/GDP ratio is equivalent to a drop of over $10 billion in program spending. The scale of withdrawal of federal funding has triggered cascading devolution, from federal to provincial governments, and from provincial to municipal governments, accompanied by off-loading, shifting services from public to private provision, or eliminating services.

In both the 1997 and 2000 federal elections, the Liberal government promised that it would 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. Despite this promise, in the first five years since the elimination of the deficit, the vast majority of newly available funds has been dedicated to tax cuts and debt repayment. A full 44% of the "fiscal dividend" enjoyed by the federal government in the five years after balancing its books has gone to debt reduction, with another 46% to tax cuts. Just 10% of the dividend has been allocated to genuine enhancements in federal programs.[2]

This neglect of program spending is having a harmful impact on a growing number of Canadians. There is no reason for such hardship in a country that has boasted six consecutive years of budget surpluses.

The Government's Track Record on Forecasting the Budget Surplus

Federal government watchers are by now keenly aware of the government's abysmal record of forecasting its own surplus. Every year since the elimination of the federal budget deficit in 1997, Finance Ministers have low-balled their estimates of the federal surplus. But once the fiscal year ends, they disclose that they are sitting on a much larger surplus than they had previously divulged. *These surpluses then vanish through a policy of debt repayment.*

This year is no different. Even before Paul Martin became Prime Minister, he was once

Table 1
Forecast and Actual Federal Budget Balances 1999/2000 through 2002/03[1] ($billion)

	Official Budget Target[2]	AFB Estimate[3]	Actual
1999-00	3.0	16.0	12.7
2000-01	3.0	15.5	18.1
2001-02	1.5	8.5	8.9
2002-03	3.0	6.7	7.0
Total	10.5	46.7	46.7

1 Prior to fiscal year 2002-03, estimates were not made in terms that reflected full accrual accounting measures. As of October 2003, the government has provided fiscal reference tables that restate previous numbers in full accrual terms. However, Table 1 presents the pre-accrual numbers for years prior to 2002-03 in order to compare the government's estimates with AFB estimates for those years. For years 2002/03 and beyond, all numbers are expressed in full accrual terms.

2 Equal to balance of "budget for planning purposes", excluding contingency reserve fund, from each annual federal budget.

3 Estimates of status-quo federal surplus reported in *Vital Measures: Alternative Federal Budget 1999* (February 1999)*; Reality Check: An Alternative Economic Update* (October 2000)*; Alternative Federal Budget Economic and Fiscal Statement* (December 2001)*; and The Cure for the Common Budget* (February 2003), respectively.

again cautioning Canadians that the cupboard was bare and the current fiscal context obliged us to restrain our expectations for federal government spending. Until recently, the government maintained that there would be a budget surplus of only $2.3 billion this year, barely enough to cover the $2 billion which was already earmarked as one-time unconditional funds for provinces and territories, ostensibly in support of health care. However, on February 11, the Finance Minister conceded that this estimate is out of line with fiscal reality by increasing the official estimate of the budget surplus to $5.2 billion.

For years now, the Alternative Federal Budget (AFB) has consistently delivered a much more accurate estimate of the budget surplus than has the Finance Minister *(see Table 1)*. These same methods are applied here to assess the situation of federal finances as we approach the release of the 2004 Budget.

Using the same methodology as in previous years, this year's AFB projects the budget surplus in this fiscal year, and in the upcoming three fiscal years. The current chapter describes our methodology, and offers a very different perspective on federal finance than that offered by the Martin government.

The AFB's Macroeconomic Assumptions

Wherever possible, the AFB adopts the same macroeconomic assumptions that the federal government employs. *Thus the difference in federal projections and our projections cannot be attributed to the use of any overly optimistic macroeconomic assumptions in our projections.*

As indicated in Table 2, the federal government's estimates for GDP inflation, contained in its *Economic and Fiscal Update* (EFU) of November 2003, are adopted by the AFB. However, recent events have compelled the AFB to adjust real GDP growth rates downward.

The Finance Minister has recently stated that the EFU's forecast for real GDP growth in 2003 of 1.9% has fallen to 1.6% since the publication of the EFU.[3] The government repeatedly refers to the economic shocks related to SARS, mad cow disease, and other economic misfortunes that negatively affected economic growth to imply that these events have precluded the possibility of any sizeable budget surplus. Despite adopting a lower estimated real GDP growth rate of 1.6% for 2003, the AFB still predicts a much larger budget surplus for the current fiscal year.

In addition, the Bank of Canada's Monetary Policy Report Update released on January 22, 2004 indicates that the real GDP growth rate projected for 2004 has fallen to 2.75%. Thus we have lowered the AFB's assumed 2004 growth rate accordingly. For years 2005 and beyond, we use the *Economic and Fiscal Update*'s estimates of real GDP growth.[4]

The interest rate is the final macroeconomic variable that plays a decisive role in the federal budget. The effective interest rate on the federal debt determines the level of interest payments on that debt.[5] For 2003/04 we adopt the *Economic and Fiscal Update*'s estimate that the cost of servicing the public debt will be $36.2 billion in the current fiscal year.[6] This will generate an effective interest rate on the debt of 7.09%. Since the future effective interest rate on federal debt is not forecast by Finance Canada, we assume that the effective interest rate on the public debt is fixed at the 2002/03 level for the future years of the AFB. Even if interest rates do increase somewhat, this assumption is plausible, since any increase in interest rates will take some time to generate upward pressure on the effective interest rate on the federal debt.[7] This may even be an unnecessarily high assessment of the effective interest rate, since the federal government has benefited from rolling over existing federal debt at lower rates.[8]

The Fiscal Outlook of the AFB

With these macroeconomic assumptions in place, the second step of the AFB process is to create the most accurate picture possible of the existing state of federal finances.

Table 2
Macroeconomic Indicators

(in calendar years)	2003	2004	2005	2006
GDP inflation[1]	3.30%	1.40%	1.90%	1.80%
Real GDP growth[2]	1.60%	2.75%	3.20%	3.00%
Total Nominal GDP growth	4.90%	4.15%	5.30%	4.90%
(in fiscal years)	2003/04	2004/05	2005/06	2006/07
Effective Interest Rate[3]	7.09%	7.09%	7.09%	7.09%

Sources:

[1] Economic And Fiscal Update, 2003 Table 3.1 Errors in addtion due to rounding that are present in EFU tables are reproduced here without alteration.

[2] Estimate for 2003 conforms to the Finance Minister's revised estimate, estimate for 2004 is is found in the Bank of Canada's Monetary Policy Report Update, January 2004, estimates for 2005 and beyond are found in EFU, Table 3.1.

[3] See AFB text for derivation

While the AFB adheres closely to the government's macroeconomic assumptions, we do differ in our fiscal projections. Given the government's record of inaccuracy in estimating its budget surpluses year after year, we are forced to engage in some numerical detective work to arrive at a budgetary outlook that is a more accurate reflection of the true state of federal finances. In particular, we depart from the government's estimates of both tax revenues and program spending.

1) Tax Revenue

The federal government projects that budget revenues will drop precipitously as a share of GDP. Whereas in 2002/03 revenues constituted 15.4% of GDP, the *Economic and Fiscal Update* projects that in 2003/04 this will fall to 14.8%. This is an enormous drop: revenues as a percentage of GDP have not sunk as low as 14.8% since 1966/67.

Given that the major provisions associated with the 2000 tax cuts are already in place, the AFB finds such a sharp drop in government revenue share implausible. In the past the federal government has concealed the funds at its disposal by low-balling revenue estimates,[9] and we believe that this tactic is being used once again.

However, ascertaining the actual revenue/GDP proportion poses certain challenges. It is not known how tax revenues will be impacted by the extraordinary events associated with SARS, mad cow disease, the Ontario power blackout, and various extreme weather phenomena. In addition, some tax and other measures that are scheduled to come on-stream may affect tax revenues. Thus it is impossible to determine how much of the decline in tax revenues predicted by the government is a legitimate reflection of these factors, and how much is the result of government low-balling.

Faced with these uncertainties on the revenue side, the AFB has decided to err on the side of caution. We estimate that government revenue/GDP will be 15.1%, or $183.6 billion in this fiscal year. This estimate is roughly mid-way between the pessimistic government forecasts of $180.5 billion (14.8% of GDP) and the $187 billion (15.4% of GDP) that would be raised if the revenue/GDP ratio remained at the 2002/03 level.

The AFB regards this 15.1% benchmark for 2003/04 as an extremely cautious assumption. While we adopt this assumption in deference to the unique circumstances related to the current fiscal year, we are not at all persuaded that tax revenues will necessarily be this low. Indeed, given the more optimistic tax revenue picture depicted on February 11 as part of the announcement that the government was raising its estimated budget surplus, we are increasingly suspicious that the revenue/GDP ratio may not have dropped substantially from its 2002/03 levels.

In future years the AFB assumes that government revenues are maintained at the previous fiscal year's level of 15.4% of GDP. In part these revenue goals are achieved by the AFB's decision to not implement any further tax cuts scheduled to come on stream. Should it transpire in future years of the AFB that government revenues under-perform our estimates, the AFB would reverse corporate income tax cuts in order to achieve the AFB tax revenue goals.

2) Program Spending

Program spending is the second area in which the AFB's status quo forecast differs from that of the federal government. The federal government's projected program expenses are $142.1 billion for 2003/04 *(Table 3.8 Economic and Fiscal Update),* which constitutes a program

Table 3
Program Spending (Fiscal Years/$billion)

	Finance Canada Forecast, *Economic and Fiscal Update*, Table 3.8			AFB Forecast	
	2002/03 ACTUAL	2003/04 ESTIMATE	percentage change	2003/04 ESTIMATE	percentage change
TRANSFERS TO PERSONS					
Elderly Benefits	25.7	27.0	5.1%	27.0	5.1%
Employment Insurance Benefits	14.5	15.5	6.6%	15.5	6.6%
TOTAL	40.2	42.5	5.7%	42.5	5.7%
TRANSFERS TO OTHER LEVELS OF GOVERNMENT					
Transfers in support of health and other programs	22.6	20.3	-10.2%	20.3	-10.2%
Equalization and other fiscal arrangements (net)	8.0	8.6	6.7%	8.6	6.7%
Total	30.6	28.9	-5.7%	28.9	-5.7%
OTHER PROGRAM EXPENSES	62.5	70.7	13.1%	67.8	8.5%
NET PROGRAM EXPENSES	133.3	142.1	6.5%	139.1	4.4%

spending/GDP ratio of 11.7%. This represents a 6.5% increase in program spending over the 2002/03 levels.

A more detailed examination of the federal government's own description of program spending raises suspicions that the government may be inflating its program spending estimates as an additional way of introducing some behind-the-scenes "padding" into the budget.

To ascertain how much padding is going on, we examined Table 3.8 of the *Economic and Fiscal Update*. Table 3 shows the government's assessment of the increases in its various categories of program spending depicted in Table 3.8 of the *Economic and Fiscal Update*, alongside the AFB's assessment. The categories that the government uses to break down program spending are: "Transfers To Persons,"[10] "Major Transfers To Other Levels Of Government,"[11] and "Other Program Expenses."[12]

The government claims that "Transfers To Persons" increase by close to 6% to $42.5 billion. For the purpose of creating our estimate of status quo program spending, the AFB accepts this figure as stated.

The *Economic and Fiscal Update* also estimates that "Major Transfers To Other Levels Of Government" **decline** by close to 6% to $28.9 billion—solely as a result of a drop of more than $2 billion (10%) in year-over-year transfers to health and other programs. However, recently the federal government announced that it would honour its commitment to use $2 billion of its 2003/04 surplus to support health care in the provinces and territories. We might have elected to reflect this change by increasing the estimate of "Transfers in Support of Health and Other Programs" by $2 billion, but we chose not to do so. It was emphasized that this one-time transfer was to be honored only if the current budget surplus could accommodate it. To reflect the one-time and conditional character of the $2 billion commitment to health care, we are leaving *Economic and Fiscal Update* estimates of program expenditures unchanged, and we are flagging the fact that $2 billion from any surplus generated in 2003/04 must be reserved for this purpose.

The AFB differs from the government in the final spending category, namely "Other Program Expenses." The *Economic and Fiscal Up-*

date estimates that this category increases by more than 13%, to $70.7 billion. Given recent government pronouncements on the importance of fiscal restraint, the AFB regards a 13% jump in this category as an implausibly large increase.

To derive a more plausible estimate for "Other Program Spending" we employed the following method. We took the 2002/03 totals for this category and adjusted them upwards by 2% to account for increases due to inflation. To this we added new spending initiatives announced in the February budget of $2.9 billion (Table A1.2, Budget Plan 2003) and $1.1 billion[13] in new spending related to SARS, mad cow disease, and other extraordinary items announced since the February 2003 budget (Table 3.4, *Economic and Fiscal Update*). In this manner, we derive an 8.5% increase (to $67.8 billion) in this category of program spending.

Using the government's estimates of its spending on "transfers to persons" and "major transfers to other levels of government," and using our estimate for the remainder of program spending, we derive an estimate for total program spending of $139.1 billion, which constitutes a program spending-to-GDP ratio of 11.4%. Thus, we project that the federal government will *underspend* its own program spending projections by $2.9 billion.

Many observers find it surprising that the federal government would underspend its own budgetary allocations by such a significant amount. To put this into context, however, recall the performance of the federal government in fiscal year 2002/03, when the federal government *underspent* its projected program spending totals by over $5 billion. To great fanfare, it declared a program spending goal of 12.2% of GDP (or $138.6 billion) in the February 18, 2003 budget. However, its actual program expenses in 2002/03 totalled $133.2 billion, or 11.5% of GDP. This shortfall of over $5 billion in program spending helps to explain the $7 billion surplus posted by the federal government in the last fiscal year.

For future years of the AFB, we assume that program spending continues at 11.4% of GDP. Readers should recall that the 11.4% figure derived for 2003/04 included mid-year spending announcements of $1.14 billion that were largely related to dealing with the effects of SARS, mad cow disease, and the like. In this sense, the 11.4% is somewhat of an overestimate to the extent that these economic calamities are unlikely to recur every year. In addition, it should be noted that the announcement of a $2 billion transfer to provinces and territories in support of health care is also not reflected in the 11.4%, since this is depicted as a one-time transfer funded only because the government's 2003/04 surplus could accommodate it.

The 2004 Alternative Federal Budget

On the basis of the preceding methodology, Table 4 presents the Alternative Federal Budget for 2004-05. Without running a deficit, or increasing taxes,[14] the AFB is able to enhance program spending significantly. Using the funds that would otherwise accumulate as budget surpluses, the AFB is able to fund $48.2 billion in new spending over the coming three years.

AFB measures are largely funded by running a balanced budget and deploying latent surpluses for AFB purposes.[15] However, the AFB has two other sources of funds earmarked for special purposes. Just as the federal government recently announced that it would earmark part of the 2003/04 surplus for spending-related health-care, the AFB will use the entire 2003/04

Table 4
The Alternative Federal Budget

	2001-02 actuals	2002-03 actuals	2003-04 estimate	2004-05 AFB Y1	2005-06 AFB Y2	2006-07 AFB Y3
Budgetary Transactions (fiscal years)						
Revenue	171.7	177.6	183.6	195.0	205.4	215.4
Program Spending						
Status Quo Program Spending	125.0	133.3	139.1	144.9	152.5	160.0
New Program Spending under the AFB	0.0	0.0	0.0	13.7	16.1	18.4
Total Program Spending[1]	125.0	133.3	147.4	158.6	168.6	178.4
Debt Service Expense	39.7	37.3	36.2	36.5	36.7	37.0
BUDGET BALANCE[1]	7.0	7.0	8.3	0.0	0.0	0.0
Federal debt						
Starting debt	524.6	517.6	510.6	510.6	515.5	520.2
additions to debt:						
AFB Infrastructure Borrowing				5.0	5.0	5.0
Reductions to debt						
Debt repayment from budget surplus	7	7.0				
Notional charge to program expenditure for infrastructure depreciation (accrural available for debt reduction)				0.125	0.250	0.325
Total Federally Guarenteed Debt	517.6	510.6	510.6	515.5	520.2	524.9
Budgetary indicators as percentage of GDP						
Rev/GDP	15.5%	15.4%	15.1%	15.4%	15.4%	15.4%
Status-quo Program Spending/GDP (prior to AFB measures)	11.3%	11.5%	11.4%	11.4%	11.4%	11.4%
Total prog spending/GDP (includes AFB measures)			12.1%	12.5%	12.6%	12.8%
Debt Service/GDP	3.6%	3.2%	3.0%	2.9%	2.8%	2.6%
Total debt/GDP	46.7%	44.1%	42.0%	40.7%	39.0%	37.5%

Accrural method of accounts used, all dollar amounts in Billions.

Notes: In 2003/04, total program spending is equal to status quo program spending plus the budget surplus.

[1] As of January 30, $2 billion of the budget surplus for 2003/04 has been granted to provinces and territories to support health care.

surplus to fund several other urgent priorities (see *Allocating the 2003/04 Budget Surplus* below). This year the AFB introduces a new Canadian Infrastructure Funding Authority to act on our commitment to rebuild physical infrastructure in municipalities across the country (see *Canadian Infrastructure Financing Authority* below).

Table 5 presents a detailed breakdown of AFB increases in program spending. We have attempted to provide an indication of current levels of program spending in the various budget categories (so that readers can compare current government program spending performance with the AFB's spending goals). It is notoriously difficult to do this, given that the 2003/04 fiscal year is still in progress. Thus, we have made several assumptions. For example, since we lack precise data on the breakdown of direct program spending in the current fiscal year, we have taken program spending totals for the 2003 Annual Financial Report and increased them uniformly by 6.5% (the average percentage increase in program spending as depicted in the *Economic and Fiscal Update*). Readers should also note that the spending of the fiscal year 2003/04 surplus is not reflected in Table 4. Other assumptions are detailed in footnotes to Table 4.

Allocating the 2003/04 Budget Surplus

Under the AFB, the $8.3 billion budget surplus we have projected for 2003/04 will not be used for debt repayment, as has been the practice of the federal government for the previous six years. *Rather, the entire amount of the surplus will be used to meet urgent public priorities.*

The AFB proposes to spend the $8.3 billion budget surplus in the following manner. First, the AFB will not only immediately transfer the $2 billion promised to the provincial

Table 5
Final AFB Program Spending (Fiscal Years/$billion)

	actual 2002/03	estimate 2003/04	AFB y1 2004/05	AFB y2 2005/06	AFB y3 2006/07
Major Transfers to Persons					
Elderly Benefits	25.7	27.0	28.5	30.0	31.5
Employment Insurance Benefits[1]	14.5	15.5	17.1	17.0	17.4
Total	40.2	42.5	45.7	47.0	48.9
Major Transfers to other Levels of Government					
Equalization and other fiscal arrrangements (net)	8.0	8.6	12.0	12.5	12.9
Transfers in support of health and other programs[2]	22.6	20.3 [6]			
AFB Health transfer			20.1	20.9	23.1
AFB PSE Transfer			3.2	3.5	3.8
AFB Social Transfer			6.8	11.1	13.0
AFB Green Transportation Fund (to municipalities)			0.7	0.7	0.7
Total	30.6	28.9	42.8	48.6	53.5
Other Program Expenses					
Subsidies and other transfers					
Agriculture	2.7	2.8	2.9	3.1	3.3
Aboriginal Peoples[3]	4.6	5.0	5.4	6.0	6.5
Foreign Affairs and International Trade	2.5	2.7	2.7	2.7	2.8
Health Canada[4]	2.7	3.0	3.0	3.2	3.3
Human Resources Development	1.6	1.7	1.8	1.9	2.0
Industry/regional agencies	2.3	2.5	2.6	2.7	2.8
Other					
Crown Corporations					
Canadian Mortgage and Housing Corporation	2.0	2.1	3.1	3.3	3.5
Canadian Broadcasting Corporation	1.0	1.1	1.3	1.5	1.7
Development Cooperation[5]	2.7	2.9	3.2	3.6	4.0
Defence	10.8	11.7	11.7	11.9	12.2
All other program spending	29.6	32.1	32.3	32.9	33.5
AFB Canadian Infrastructure Funding Authority			0.125	0.250	0.375
Total	62.5	67.8	70.1	73.0	76.0
TOTAL PROGRAM SPENDING	133.3	139.1	158.6	168.6	178.4
Employment Insurance Fund					
Employment Insurance Premium Revenues	17.9	17.5	17.1	17.0	17.4
Employment Insurance Benefits	14.5	15.5	17.1	17.0	17.4
Balance Employment Insurance Fund	3.4	2.1	0.0	0.0	0.0

SOURCES

2002/03 :Annual Financial Report 02/03 TABLE 4

2003/04 estimates (03/04): transfers found in EFU 03, table 3.8; direct program spending derived as 02/03 levels plus 6.5%

NOTES

[1] Spending on Employment Insurance is increased during the AFB to reflect a zero balance in the Employment Insurance fund. See employment and employment Insurace chapter for revenue and spending changes proposed within the EI fund.

[2] for 2002/03 this amount consists of CHST+CHST Supplement +diagnostic/medical Equipment Fund

According to the 2003 budget plan, page 83, this transfer is allocated 62% to health and remainder to PSE and social assisitance. Since the precise split of the remainder varies from province to province, we have assumed a 70/30 split of the remainder in 2003/04 .

[3] The AFB terminology "Aboriginal Peoples " replaces the federal government's Indian Affairs and Northern Development

[4] Includes Canada Foundation for Innovation and Canada Health Infoway

[5] The Development Cooperation Budget has been separated for "all other program expenses" to illustrate the AFB's particular commitment to this priority

[6] This total does not include the recently announced $2 billion transfer to provinces and territories in support of health care charged against the 2003/04 surplus.

and territorial governments for health care in last year's federal budget, but it will also add $1.5 billion to the original amount to bring this transfer to a level more in line with what the provinces were demanding and what was recommended by the Romanow Commission. It will do so with appropriate conditions and accountability mechanisms (*See Health section*)

Second, the AFB will renew the *Canada Fund for Africa* (which will be exhausted by next year) with an injection of $800 million to be drawn over three years. The funds will be used for the HIV-AIDS pandemic, disaster relief, Canada's commitment to the Millennium Development Goals.

Third, the AFB will create a $1.85 billion *National Student Needs-based Grants Fund*, to be disbursed over three years. Canada is the only major industrialized country without such a program. After three years, it will be refinanced in part by converting the Millennium Scholarship Fund and the Canada Education Savings Grant. *(See Post-secondary Education section.)*

Fourth, pending reform of the E.I. system (*see Employment section*), the AFB will create a $1.85 billion *Emergency Training and Adjustment Fund* to provide workers who have been permanently laid-off and denied E.I. benefits with counselling and other adjustment services, including retraining costs. It will have a lower threshold for qualifying to enable anyone who paid E.I. premiums to be eligible. Older workers will be entitled to 78 weeks of benefits.

Finally, the AFB allocates $300 million for the creation of a *Democracy Renewal Endowment.* Its purpose will be to support initiatives to restore and enhance the quality of democracy in Canada. It will provide funds to research democratic practices worldwide, with a view to adapting them to Canada. It will support participatory budget initiatives at all levels of government and support initiatives aimed at introducing measures such as proportional representation into the Canadian parliamentary system. Lastly, it will help to strengthen core funding for civil society organizations to enable them to participate more effectively in the public policy process.

Canadian Infrastructure Funding Authority

This year, the AFB includes a commitment to rebuild Canada's physical infrastructure *(see the Public Infrastructure section for a definition of infrastructure).* It is well-recognized that Canada's public infrastructure is inadequate, and falling further behind with each passing year. Yet the government agencies with most responsibility for maintaining this infrastructure—especially municipal governments, hospitals, school boards, and other front-line agencies—are experiencing tremendous financial strain in their efforts to pay for needed infrastructure maintenance and repair. A new fiscal federalism in Canada is required, through which the federal government—with its unmatched taxing and borrowing capacity—lives up to its responsibility to work with other levels of government to finance these badly-needed investments through long-term and reliable funding commitments (rather than the *ad-ho*c and politically motivated infrastructure funding "deals" of recent years).

The 2004 AFB recognizes this responsibility to address Canada's infrastructure needs with a major fiscal innovation: the creation of a Canadian Infrastructure Financing Authority (CIFA). Under the CIFA, $5 billion will be the federal government's share of annual spending in each of the three years of the AFB to renew the aging infrastructure on which the Canadian economy depends.

The CIFA represents a departure from previous AFBs. In the past, the AFB has concentrated on program spending initiatives—that is, the expenditures that finance the many programs and government departments that provide services to Canadians. Program spending, like current expenditures in any conventional budget, is financed out of current revenues, since it is spending that is "used-up" during the current budget year. Infrastructure spending, however, differs from program spending. Like long-term capital spending in a corporate budget, infrastructure spending is money spent on assets that have a long life span, such as buildings, land, or other assets that are slow to depreciate.

The new accrual accounting measures implemented by the federal government treat long-term assets differently from program spending on current expenses. Under accrual standards, when the federal government buys a capital asset, the full expense of the asset is not recorded in the year in which the purchase is made. Instead, the expense is amortized over the life of the asset (assumed to be 40 years[16]) so that only 1/40th of the costs of the asset shows up as program spending in each budget year. Thus, if the federal government financed a $5 billion infrastructure project with an expected life of 40 years out of its program spending budget, $125 million would show up in program expenses for each of the 40 years of the expected life of the asset.

How should infrastructure spending be financed? As is the case with most corporations, debt financing of long-term assets is considered appropriate. After all, a debt is incurred in return for a durable asset (unlike when debt is incurred for program spending, in which case nothing of enduring tangible value remains after the budget year is finished). Thus, corporations frequently incur debt in order to build the infrastructure they require in order to enhance their productivity and stay competitive. Exactly the same logic applies to Canada's economic infrastructure. Thus the AFB is adopting the normal business practice of incurring debt to finance infrastructure and amortizing the initial cost over the life of the underlying asset.[17]

The AFB's Canadian Infrastructure Funding Authority will raise money through the issue of new federal debt. The AFB allocates $5 billion per year of this new money to pay the federal share of 50-50 cost-shared programs (undertaken with any other levels of government or consortium of other levels of government that agree to pay the other 50% of any eligible infrastructure project).

As indicated in Table 4, thanks to the AFB's commitment to a balanced current budget, there is no deficit spending in the AFB that adds to federal debt. However, with the additional borrowing undertaken for CIFA, the total stock of federally-guaranteed debt increases modestly through this period, by $5 billion (or about 1%) per year. Table 4 indicates that the overall stock of federally-guaranteed debt, including the CIFA, reaches slightly under $525 billion by the end of fiscal 2006/07. It is important to note, however, that the federal debt burden, including the CIFA, *falls* throughout the AFB forecast as a share of GDP (from about 42% of GDP at present to 37.4% after three years), and hence the relative importance of federal interest payments (measured as a share of GDP, or as a share of incoming federal revenues) will also continue to diminish.

Given the fervour with which the current government and its supporters denounce the idea of government borrowing in the wake of Canada's fiscal retrenchment in the 1990s, this new federal borrowing will undoubtedly spark controversy. But federal borrowing to finance badly-needed public capital assets is a prudent and legitimate course of action. Private corporations and households borrow money to fund long-term investments; as long as the overall debt burden is maintained within manageable limits, this is considered legitimate, and indeed a corporation that made a fetish out of never borrowing would likely be driven out of business by its more realistic competitors.

The federal government pays a lower rate of interest on its debt than any other borrower in Canada—public or private. Yet the advocates of the "no-borrowing" approach would prefer to see needed infrastructure financed by private borrowing (through public-private partnerships), at much higher interest costs.

The federal debt burden is shrinking rapidly, as a share of GDP. Canada now has the second-lowest public indebtedness of any G-7 nation (and will soon surpass Britain for first place). The new borrowing undertaken by the CIFA will not alter these trends. The AFB maintains a balanced budget in each year of its projection (including the current accrued expense of the new infrastructure projects financed by the CIFA). And it mobilizes the federal government's unparalleled borrowing capacity to address the critical needs of Canadians for a modern, reliable public infrastructure. This is a prudent and balanced course of action.

How would CIFA's infrastructure investment priorities be determined? The AFB strongly believes that budget policy-making at all levels of government sorely needs to be democratized. Accordingly, adopting the Porto Alegre model of participatory budgets, the AFB conducted a series of workshops across the country last fall to demonstrate, on a small scale, how this might work. In each of four cities, a group of community activists was brought together, and guided through a deliberative process during which they were asked to vote on priorities for infrastructure spending in their municipality as defined by the federal government *(see Appendix 1 for a full report of the participatory budgeting exercise).*

Priorities varied from community to community, and the CIFA would respect those priorities in making its infrastructure investments. However, it is noteworthy that, in all communities, affordable housing was the top priority with an average of 42% of the allocation. This was followed by local transportation (highway and railway) with an average 31% of the allocation; tourism, cultural, recreational and urban development facilities with 13%; and water and waste water treatment with 12% of the infrastructure allocation.

Endnotes

1 See Armine Yalnizyan, *Paul Martin's Permanent Revolution*, AFB 2004 Technical Paper #3, CCPA, January 2004.

2 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.

3 For example, see the Speech by the Honourable Ralph Goodale, Minister of Finance, to the Regina & District Chamber of Commerce at the launch of pre-budget consultations for 2004, Monday, January 12, 2004.

4 Despite the fact that the Bank of Canada projects a real GDP growth rate of 3.75% in 2005, the AFB maintains the lower 3.2% growth rate projected in the 2003 *Economic and Fiscal Update*.

5 Since government debt is often long term and matures at different times, a change in current interest rates does not generate an equivalent change in the effective interest rate on federal debt.

6 See *Economic and Fiscal Update*, Table 3.6

7 The effective interest rate on the federal debt has been decreasing for some time thanks to lower interest rates. Since much of the debt is long-term, even when interest rates do increase, there is a delayed effect of these interest rate increases on the cost of servicing the federal debt.

8 Currently, long term federal bonds pay 5.2%, well below the AFB's assumed effective interest rate.

9 See Jim Stanford, *Paul Martin, The Deficit and the Debt: Taking Another Look*, Alternative Federal Budget Technical Paper #1, Canadian Centre for Policy Alternatives. November 2003.

10 Transfers to persons consist of elderly benefits and employment insurance benefits.

11 Major Transfers to other levels of government" includes federal transfers in support of health and other programs and equalization payments.

12 Other program expenses are not broken down in the *Economic and Fiscal Update*.

13 To derive the "other program spending" related components of both the spending initiatives announced in the February budget and those announced since the February budget, any amounts related to Employment Insurance and transfers from support of health and other programs have been excluded in our calculations, since these amounts are properly placed in the categories "transfers to persons" or "transfers to other levels of government."

14 Except in the unlikely situation described in the tax revenue section above.

15 In addition to the program spending funded out of latent surplus, an increase in real per capital program spending is also reflected in the "status quo" program spending line of the budget. This is a result of the fact that status quo program spending has been fixed at 11.4% of GDP, while GDP grows at a rate greater than inflation plus population growth.

16 Capital assets may be amortized at different rates to reflect different assumptions about the lifespan of the asset. Treasury Board publishes accounting standards dealing with capital assets in which they indicate that infrastructure projects may be amortized over a period of between 20 and 40 years. (See *http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/accstd/capasset1_e.asp*.) The AFB has elected to amortize infrastructure spending over 40 years.

17 This represents a departure from current federal government practice. While the federal government uses this method to account for its direct capital spending, most of the federal government's capital spending is in fact made indirectly through third parties. The federal government still accounts these transfers, even when they are intended to be used for infrastructure purposes, on a cash basis. The AFB would amortize the cost of all direct and indirect capital spending over the life of the underlying asset. The financing authority will structure its relationship with recipient agencies so that it can account for its activities on an amortized basis instead of on a cash basis.

Public Infrastructure

One of the most serious challenges facing Canada is the alarming decline in the quality of our community infrastructure.[1] Across the country, public agencies of all sorts are desperately trying to deal with the legacy of funding cutbacks and restructuring imposed by provincial and federal governments. To pay for tax cuts, both the federal and provincial governments have downloaded funding responsibilities to the municipalities and other lower-level agencies. In response to this funding squeeze, governments have abdicated their responsibilities by turning to the private sector to finance badly-needed investments in our crumbling infrastructure, even though public-private projects tend to incur higher total costs (including higher interest costs).

There is general agreement that well-developed infrastructure is a crucial determinant of sustainable economic growth and improvement in the quality of life. Indeed, Statistics Canada reports that, over the past 40 years, public infrastructure has contributed directly to productivity growth and improvements in the standard of living in the Canadian economy.[2]

We are encouraged that the new Prime Minister has committed himself to a renewal of urban infrastructure and new partnerships between all levels of government. Where we differ from Paul Martin is in our unequivocal support for *fully-funded public infrastructure, supported by the federal budget, which preserves principles of public control and delivery, and meets the needs of large and small municipalities across this country.* The AFB rejects the privatization of community infrastructure through public-private partnerships (P3s). Contrary to promises, P3 projects do not reduce total costs to taxpayers, but rather siphon off scarce taxpayer dollars to the benefit of the private corporations and investors eager for a chance to profit from the government-created financial crisis in public infrastructure.

Defining the Need

In recent years, we have seen a significant downloading of the responsibilities for public infrastructure in Canada, and a shrinkage of the federal role. In 1961, the federal government owned 24% of all public infrastructure in the country. By 2002, the federal government held less than 7%. Between 1961 and 2002, municipal governments' responsibility for infrastructure grew from 31% to 52%. Provinces went from 45% to 41% in the same period.[3] Statistics Canada reports that, on a per capita basis, the growth of public infrastructure capital experienced a dramatic slowdown—from an average of 1.7% per year during the 1970s to half that rate in the 1980s and 1990s.[4]

Given these increased responsibilities, municipalities and other public agencies find themselves between a rock and a hard place after years of state restructuring and funding cutbacks. In some provinces, moreover, municipalities have had to cope with added responsibilities for social welfare funded out of property taxes. This muddled situation does not respond adequately to the needs of low-income people, and gives municipalities an excuse to argue they need private investments to meet their responsibilities.

The federal government has by far the strongest fiscal capacity of any level of government in Canada. Its revenues and budget balances have been the healthiest of all levels of government, and the interest rates paid on its debt are far lower than those paid by other levels of government. For reasons both of strengthening the Canadian federation, and economic efficiency, the federal government must rebuild and renew its role in providing public infrastructure in Canada, in line with its political and fiscal responsibilities.

The 2004 Alternative Federal Budget will therefore begin to reverse the long decline in federal funding for infrastructure, and start to build a new partnership between the federal and other levels of government. This will require enhancing federal financial support for public infrastructure, and establishing clear and reliable funding formulae (instead of the ad-hoc and highly politicized infrastructure "deals" of recent years).

Funding Public Infrastructure

The Federation of Canadian Municipalities estimates the investment shortfall in municipal public infrastructure has now risen to $60 billion, and is growing at a rate of $2 billion per year.[5] There is nothing inevitable about this scarcity of capital for public infrastructure. Canadian governments, especially the federal government, enjoy a fiscal position that is stronger than at any time in a generation. As a society, we can clearly afford to invest in necessary public infrastructure, through public agencies, if we choose to do so. The amount of capital for infrastructure, how it is raised, and how the benefits and responsibilities for infrastructure are allocated—these are all political decisions.

Historically, governments were able to finance public infrastructure in Canada by selling bonds to individuals and to large investors, such as pension funds. Until 1998, surplus funds from the Canada Pension Plan were invested in provincial government bonds from which the provinces would fund infrastructure programs at federal government interest rates (rather than higher-cost loans from commercial capital markets). After 1998, however, the CPP Investment Board was directed to operate under the same rules as every other pension fund and invest in capital markets. It has begun to invest in infrastructure in partnership with private investors and it supports the development of public-private partnerships in infrastructure.[6]

The AFB, on the other hand, encourages *public-public* partnerships in infrastructure. When governments cooperate with one another, the terms improve. In British Columbia, for example, municipalities have created a Municipal Financing Authority that acts co-operatively to go to the market twice a year to borrow money for municipal projects. The Authority has a Triple A rating thanks to its combined size and fiscal strength. This rating is even better than the AA rating of the B.C. provincial government. In Ontario, by comparison, smaller municipalities go to the market individually, compete with one another for funds, and are disadvantaged as a result. Hamilton, Ontario, for example, has a B rating, resulting in much higher interest costs.

By marshalling the collective financial power of all levels of government, and rebuilding a central role for the federal government, the overall cost of public infrastructure-related borrowing could be reduced substantially, and the funding basis for renewing our aging infrastructure could be stabilized.

Canadian Infrastructure Financing Authority

The 2004 Alternative Federal Budget calls for the establishment of a Canadian Infrastructure Financing Authority (CIFA). As its first priority, CIFA will be granted authority by the federal government to raise up to $5 billion per year in federally-guaranteed new credit, which will be used to finance 50-50 cost-shared public infrastructure projects undertaken in conjunction with provincial, municipal, or other lower levels of public administration. Through CIFA, the federal government will match funds committed by provincial and municipal governments (or consortia of other levels of government) to infrastructure projects falling within the existing federal definition, which includes:

- local transportation, highway and rail projects;
- water and wastewater treatment systems;
- tourism, cultural, recreational and urban development facilities;
- affordable housing;
- telecommunication systems; and
- capacity and efficiency enhancement facilities at major border crossings.

In addition to financing a renewed federal role in shared-cost infrastructure investments, the CIFA in the longer-run will also work to develop other services to promote more effective and efficient public infrastructure investment in Canada. For example, the CIFA will work with provinces, territories, and municipalities to implement life-cycle costing systems that factor in the long-term costs of operating, maintaining, and upgrading infrastructure, and providing grants or low-interest loans to ease the transition to full-cost accounting. The CIFA will also negotiate with other orders of government (especially municipalities) regarding ways in which they could better use their collective borrowing power in capital markets to reduce interest costs for their portion of cost-shared projects (by forming syndicates of municipal borrowers, for example, facilitated by the CIFA, to enable them to further reduce interest costs).

Since a crucial part of the rationale for the creation of CIFA is to ensure that Canada's public infrastructure remains in public hands, private sector participation in CIFA-supported projects will be limited to the designing and building of the infrastructure, which is the traditional role that the private sector has played. Financing, leasing, operation, maintenance, and management of such projects should be left in public hands so as to limit costs to the public as well as optimize public control and accountability.

The CIFA will be governed by an independent board consisting of three representatives appointed by the Minister of Finance, and one each appointed by the Council of Provincial Premiers and the Federation of Canadian Municipalities. Funding commitments will be allocated quarterly, on the basis of applications from provincial and municipal governments. When the total of those applications exceeds budgetary allocations, projects will be funded with a view to regional balance and to assigned priorities.

The new borrowing undertaken by the CIFA will significantly reduce the total cost of funding public infrastructure projects in Canada (since the interest rates paid on CIFA borrowing, equivalent to federal bonds, will be much lower than that paid by other levels of government and especially by private P3 participants). Interest expenses on the new borrowing will be paid from within CIFA's own budget (rather than being aggregated with other federal debt service charges). The CIFA borrowing will increase total federally-guaranteed debt by only about 1% per year, which is consistent with the AFB's projection to steadily reduce the federal debt burden (including the CIFA borrowing) to an estimated 37.5% of GDP by the end of its third year (*see details in the Macro section*).[7] Under the full accrual accounting rules now followed by the federal government, only a portion of the annual CIFA disbursements (about 2.5%, assuming average infrastructure project life of 40 years) will be reflected in the current year's federal program expenditures; the remaining portion will be expended in line with the depreciation of the newly constructed assets. Under this approach, the federal budget remains balanced (including the appropriate "current" portion of the stock of infrastructure), even though the stock of federally-guaranteed debt (including the CIFA borrowing) is growing.

Conclusion

Social policy advocates, economists, and even business leaders all agree: a reliable, high-quality, and accessible public infrastructure is an essential ingredient in promoting economic growth and social participation. Canada's economy is wealthier than ever, and collectively our governments enjoy the strongest fiscal position they have experienced in a generation. There is no excuse, then, to claim that governments cannot "afford" to invest in repairing, renewing, and modernizing the public capital stock.[8]

A homeowner who neglected to repair his or her leaking foundation, motivated by a misguided conviction to pay off the mortgage as quickly as possible, would not be considered "fiscally prudent." He or she would be considered reckless and irresponsible. Yet this is the course of action on which Canadian governments are presently embarked: under the guise of an ideological perspective which assumes government borrowing is the worst possible evil, they are recklessly permitting a dangerous deterioration of public capital that will impose long-term costs on all Canadians.

Renewing Canada's public infrastructure requires several ingredients: a realistic assessment of what needs to be done, a long-term plan for meeting those needs, and a strengthened partnership between all levels of government. A modern, reliable, and environmentally sustainable public infrastructure is key to the health of our communities, the well-being of all the people of Canada, and to economic prosperity in Canada and elsewhere.

Endnotes

1 The Federation of Canadian Municipalities defines municipal infrastructure as transportation and transit, water supply, wastewater treatment, solid waste systems, and recreation and cultural facilities. The federal government includes these services in its definition of infrastructure and also includes tourism, border crossings, broadband telecommunications and affordable housing. The Alternative Federal Budget 2004 uses the federal government's definition.

2 In these two studies, public infrastructure includes transportation systems, such as subways and highways, mass transit, water supply and wastewater treatment facilities. Statistics Canada, "Public capital and its contribution to the productivity performance of the Canadian business sector," *Economic Analysis Research Paper Series*, no. 17, November 13, 2003. Statistics Canada, "Public infrastructure in Canada: Where do we stand?," *Insights on the Canadian Economy*, no. 5, November 13, 2003. as reported in Statistics Canada, *The Daily*, Wednesday November 13, 2003.

3 Statistics Canada, *The Daily*, Wednesday November 13, 2003.

4 Tarek M. Harchaoui, Faouzi Tarkhani and Paul Warren, *Public Infrastructure in Canada: Where do we stand?* Statistics Canada: Catalogue no. 11-624-MIE—No. 005, November 2003, p.10

5 Federation of Canadian Municipalities, *A New Deal for Community Prosperity and Well Being*, Submission to the House of Commons Standing Committee on Finance Pre-Budget Consultations, September 2003.

6 Monica Townson, *The Role of Pension Funds in Financing Investment in Public Infrastructure*, October 2003, p.31.

7 If the stock of nominal debt is growing more slowly than nominal GDP (which typically expands by about 5% per year), then the debt burden – and the relative importance of interest payments on that debt – continues to decline even though new borrowing continues at a modest pace. For more on the long-run trajectory of federal debt, see Jim Stanford, *Paul Martin, the Deficit, and the Debt: Taking Another Look*, AFB 2004 Technical Paper #1, CCPA, 2003.

8 Armine Yalnizyan, *Paul Martin's Permanent Revolution*, AFB 2004 Technical Paper #3, CCPA, 2004.

Tax Fairness

The 2003-04 Alternative Budget has three tax fairness goals. The AFB's approach has always been to use the tax system as a policy tool to meet our objectives as citizens. One of these is using taxes to change market outcomes to move toward a more equitable society. We do not measure equity narrowly. It includes increasing vertical equity (a more progressive tax structure), improving horizontal equity (equal treatment of taxpayers in similar circumstances), and increasing intergenerational equity by moving to a more environmentally sustainable economy. All of these goals use the tax system for its traditional policy objectives, but are in sharp contrast to the neo-liberal approach to the tax system, which is to minimize its impact on market outcomes. The goals are:

- move to a more equitable distribution of income and wealth by reducing taxes for low-income people while increasing the taxation of unearned income and high income individuals;
- increase fairness by eliminating wasteful and costly loopholes; and
- introduce elements of ecological fiscal reform (EFR)—to contribute to an environmentally sustainable economy.

More Equitable Distribution of Income and Wealth

1. Implementing the Campaign 2000 proposals for the Canadian Child Tax Benefit (CCTB).

The centrepiece of the tax fairness package is the implementation of the Campaign 2000 program to address child poverty.[1] As outlined in the income security section of the AFB, this targeted measure will increase the living standards of families with children and reduce child poverty.

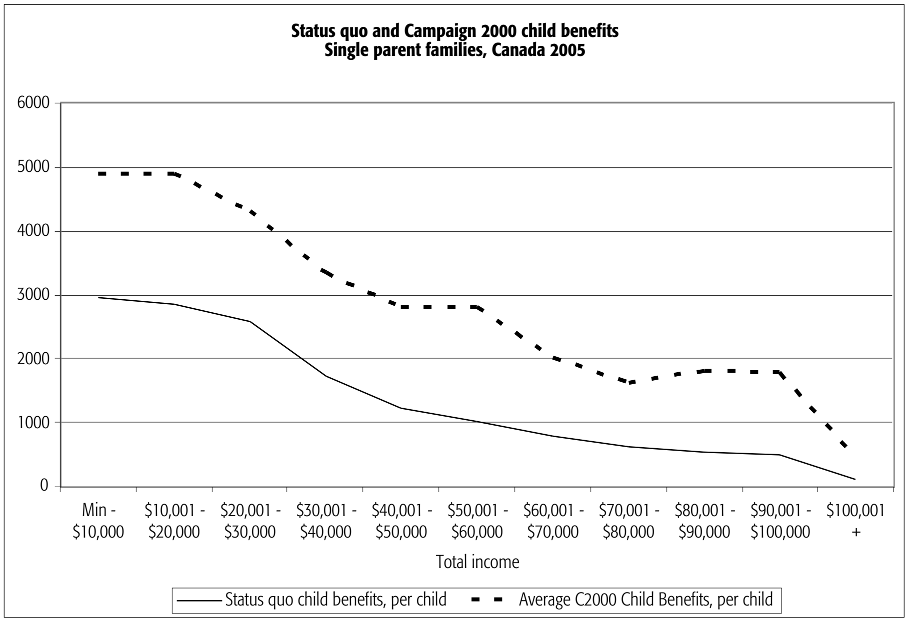
- The maximum benefit will increase from $2,934 to $4,900 in 2005. This maximum benefit will be payable to children in families with net incomes at or below $18,000.
- For families with one child, benefits are reduced by $0.10 on the dollar between $18,000 and $45,000 in net income. Above $45,000, the tax-back rate is 5%; for families with two or more children, the tax-back rates are 20% between $18,000 and $45,000 and 10% above $45,000.
- At family net income of $45,000, the benefit will be $3,000 per child for two-parent families and $2,800 per child for one-parent families. This is more than double the amounts payable under the current CCTB.

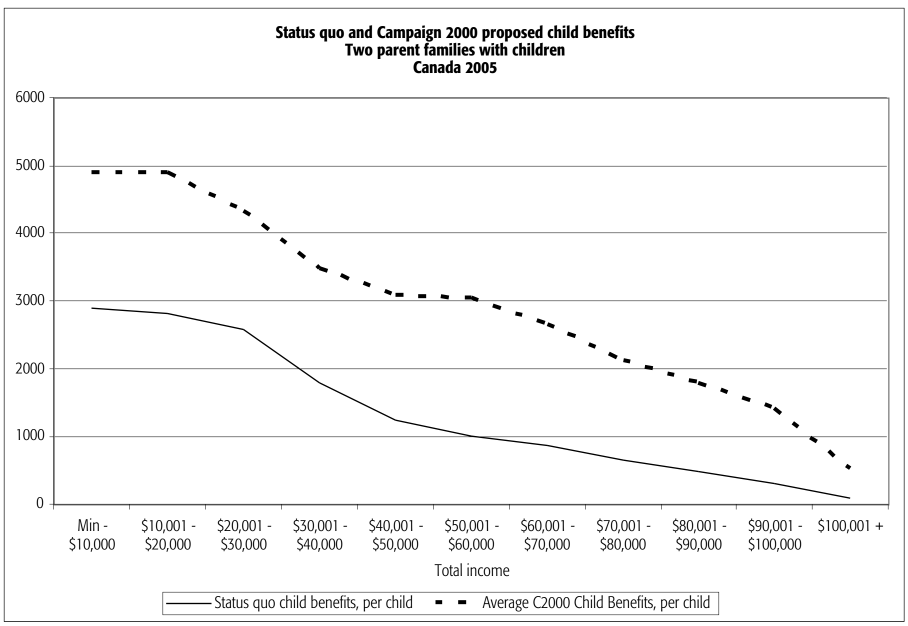
This proposal provides significant support for low-income families with children. However, it also recognizes our communal responsibility for children by supporting middle-income families, and recognizing those additional costs well up the income scale.

Figures 1 and 2 summarize the value of the benefits per child for various income levels for single- and two-parent families.

2. Proposing three changes to the taxation of unearned income: introducing a wealth transfer tax on large estates; increasing the rate of tax on capital gains; and eliminating exemptions from capital gains taxes.

Figures 1 and 2





The AFB will 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.

The AFB will implement a wealth transfer tax on intergenerational transfers of more than $1 million. The tax rate will be 25%. The tax base will be the amount transferred that is in excess of $1 million. We estimate that this level of transfers will raise $3.9 billion per year.

The AFB will 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 AFB will restore the inclusion rate to three-quarters, what it was prior to February 28, 2000. This measure will provide a total increase in revenue of about $2.1 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 will raise about $700 million.

3. Introducing a new tax rate on incomes above $250,000

The introduction of a new tax rate at 32.5%, on individuals' incomes above $250,000 will reduce inequality. And it will help to ensure that those who benefit most from our country's economic successes make a substantial contribution to the support of our public services. This will increase revenues by $1.3 billion.

4. Decreasing the maximum RSP and RPP contribution level by linking it to twice the average industrial wage

The tax expenditures for RSPs and RPPs are among the largest in the personal income tax system. They are also regressive. Tax filers with individual incomes above $60,000 accounted for 48% of total contributions to RSPs and RPP's while they accounted for only 11% of all tax filers in 2001.[2] The current system also delivers benefits disproportionately to men, reinforcing the trend towards poverty among elderly women. Men accounted for 61% of RSP and RPP contributions in 2001.

Currently, the maximum RSP contributions are 18% of earned income to a maximum of $15,500 in 2004 and $16,500 in 2005. There are similar maxima for RPPs. We propose the maximum tax-assisted benefit available to these plans should be equivalent to 18% of an income of twice the average industrial wage. This would result in contribution limits for RSPs and RPPs of $13,000 in 2004. This will increase revenue by $1.5 billion.

5. Making the disability benefit refundable and doubling the child disability benefit

Currently, the disability benefit of $6,000 is non-refundable. This means that taxpayers only benefit fully from the credits if they would otherwise pay tax in excess of the value of the credit. This effectively excludes low-income Canadians with disabilities from any benefit from the credits.

We will provide the disability tax credit to all Canadians with disabilities, regardless of their income, by making the credits fully refundable. The current design of the disability tax credit limits the benefit to individuals who have tax obligations against which the credits can be applied. We will ensure that low-income Canadians with disabilities receive full benefit from the credit. We estimate this will increase the cost of this credit by $620 million.

The child disability benefit pays a maximum of $1,600 for children with disabilities who qualify for the disability amount. We will double the value of that benefit, at a cost of $50 million.

Ecotax Initiatives

The market cannot accurately capture the true cost of ecologically harmful products and processes. We can use the tax system to adjust the prices of these products and processes to better reflect true costs. The revenues from these taxes can be used to subsidize and encourage more sustainable economic activity. The increase in costs of harmful products and processes will reduce their use. And the subsidy of sustainable activities will increase their levels. The combination of these policies affects the structure of the economy—moving it toward more environmentally sustainable activities.

1. Maintaining revenues from corporate income taxes on non-renewable resource income.

The 2003 federal budget made a number of changes to the taxation of income from non-renewable resources. These changes resulted in a decrease in the taxes paid by this sector by $100 million in 2004-05, rising to $260 million in 2007-08.[3] The AFB will reverse this measure, maintaining the current taxation level on income from non-renewable resource extraction.

Tax Measures to Increase Fairness

1. Tax treatment of employee stock options

The proceeds of employee stock options will be taxed fully as income, rather than given special treatment as capital gains, as in the present system. Eliminating this unjustifiable tax preference, one that benefits only the highest-paid senior executives, will generate new revenue of $270 million.

2. Meals and entertainment expenses.

Fifty per cent of meals and entertainment expenses are currently deductible for corporate income tax purposes and for self-employment income. Meals and entertainment will no longer be deductible as business expenses in the corporate and personal income tax systems. This will generate $375 million.

3. Tax arrangements for foreign affiliates.

The foreign policy section of the AFB outlines the negative impact of tax havens on the fiscal capacity of governments. In her 2002 Report, the Auditor-General reported ongoing concerns about the tax arrangements for foreign affiliates of Canadian corporations eroding the Canadian tax revenues.[4] These concerns were first raised in 1992, and included four areas of concern:

- the rules for deducting interest;
- tax-exempt dividends from foreign affiliates;
- taxable dividends from foreign affiliates; and
- rules for foreign accrual property income.

This year's audit report outlines the inadequacy of the Department of Finance's response over 10 years of Paul Martin's leadership. It reviews the recommendations of the Public Accounts Committee and Paul Martin's own Technical Committee on Business Taxation about these loopholes. The report also states that his 1995 legislation left open the loopholes that it was supposed to close.

The AFB will begin to address this important issue with a change to the special rule that allows dividends from Barbados international business corporations and other similar corporations to return to Canada tax-free. Barbados international business corporations are taxed at between 1% and 2.5%, as compared to the general corporate rate in Canada of 21%. Canadian direct investment in Barbados has increased from $628 million in 1988 to $23.3 billion in 2001 – over a 3,600% increase. One of the companies that have invested in Barbados is CSL International, which is a foreign affiliate of CSL. CSL is Paul Martin's shipping empire, which he passed on to his sons in 2003. CSL International is a Barbados international business corporation. [5]

Huge sums of money are flowing into Barbados from Canada, and are returning to Canada tax-free after being taxed at between 1% to 2.5%. In 2000, Canadian corporations received $1.5 billion in dividends from corporations in Barbados.[6] Closing this one corporate tax loophole, by making dividends flowing into Canada from Barbados subject to tax, will increase revenue by $332 million.

Endnotes

1 Campaign 2000 Discussion Paper, *Pathways to Progress: Realistic Strategies to end Child Poverty*, forthcoming.

2 *Retirement savings through RRSPs and RPPs*, Statistics Canada, http://www.statcan.ca/english/Pgdb/labour 55.htm, accessed January 5, 2004, Income Statistics 2003- 2001 Tax Year, Canada Customs and Revenue Agency, Final Basic Table 2 and author's calcuations.

3 Canada, Department of Finance, *Improving the Income Taxation of the Resource Sector in Canada*, March 2003.

4 2002, Office of the Auditor-General of Canada, *Report of the Auditor-General of Canada to the House of Commons*, Chapter 11, pp.17-32.

5 Marci MacDonald, "Inside Paul Martin's Empire," *The Walrus*, Vol. I Issue 1, October, 2003.

6 Op cit, p.24.

Table 6
Summary of Potential Revenue from Tax Changes ($million)

			Explanation
Wealth tax		3,955	Revenue on wealth transfers of more than one million, at a tax rate of 25%
PIT Increase in Tax Expenditure			
	Increase Canada Child Tax Benefit	(9,978)	Maximum $4,900 per child; tax back rate of 10 per cent from $18000 to$45,000; tax back 5% above $45,000
	Refundable disability tax credit	(620)	Fully refundable to all tax eligible filers
	Increase child disability benefit	(50)	Double the amount payable
Increase in PIT/CIT Revenues			
	Capital gains small business exemption	728	Eliminate $500,000 capital gains exemption for small business assets
	75% inclusion of capital gains, personal	1018	Restore 75% inclusion rate for taxation of capital gains
	75% inclusion of capital gains, corporate	1124	Restore 75% inclusion rate for taxation of capital gains
	Decrease RSP and RPP deductions	1502	Maximum contribution linked to the average industrial wage
	Meals and entertaiment expenses	375	Eliminate 50% deductibility of meal and entertainment expenses
	Employee stock options	270	Eliminate the special treatment of employee stock options
	Increase tax rate on high income earners	1259	Introduce additional rate at 32.5% for individual incomes above $250,000
	Close loophole for Barbados International Corporations	332	These dividends flowing into Canada will be subject to corporate income tax
Ecotax Initiatives			
	Reverse revenue reductions from changes in resource taxation	100	
Total		15	

Aboriginal Peoples

According to the 2001 Census, there are some 976,000 Aboriginal people in Canada. Of these, only about 31% actually live on reserve; the others live off reserve, either in urban or rural settings. The majority live in urban centres or in rural, off-reserve locations.

Of the 150,000 Aboriginal children in Canada, 100,000 do not live on reserve, but in our urban, rural and remote communities, and the poverty rate among them is an appalling 52.1%. The overall poverty rate of Aboriginal peoples also exceeds 50%, with 16% experiencing hunger. The families of Aboriginal children are 13 times more likely than other Canadian families to be on social assistance or welfare.

Poverty in Aboriginal communities has become multi-generational, for reasons such as racism, the legacy of residential schools, and governments that are insensitive and unresponsive to the realities, the causes, and the solutions. Even with record federal surpluses, few resources have been allocated to the alleviation of child poverty through the provision of early youth intervention programs.

In such a wealthy society, no one can argue that the current reality faced by urban Aboriginal peoples is acceptable, nor that the fiscal resources to help them do not exist. The AFB will move decisively to address the social inequities that persist in our society: large numbers of Aboriginal peoples in the sex trade; repatriation of Aboriginal peoples removed by governments of the past; the deep and persistent poverty endemic among Aboriginal women, children, and their families; the racism and widespread discrimination to which many Aboriginals are still subjected, and which often prevents them from entering the labour market.

The Government of Canada invests almost $8 billion a year in Aboriginal-specific programming of various kinds. Almost 90% of it goes to assist First Nation peoples on reserve, even though less than one-third of the total Aboriginal population live on reserve. We do not, however, support efforts that would diminish the funding for reserve-based programs, since that would be an unjustified "*robbing-Peter-to-pay-Paul*" move. It must be acknowledged that First Nations on-reserve suffer from severe and disproportionate disparities in individual and community wellness, and the efforts to improve their health must be supported. All Aboriginal peoples, including First Nations, Métis and Inuit peoples, want to deliver their own services wherever possible, but consider the federal government to be responsible for the cost of this care under unfulfilled treaty obligations. Let us be clear: This cannot be a zero sum game. New funding will be required.

The Supreme Court of Canada has recognized that off-reserve First Nations band members are vulnerable to unfair treatment on the basis of being stereotyped as "*less Aboriginal*" than band members living on a reserve. Further, the Métis peoples are denied services tailored to their unique and diverse cultural needs. The Supreme Court's decision in the *Powley* case should be a catalyst for positive change. No longer can the Métis peoples be treated as an underclass among Canadians and the Aboriginal family.

The AFB will therefore extend to all urban Aboriginal peoples the Aboriginal-specific programs they are now denied, and which are essential to affirm their distinctive cultures, languages, and rights.

Fiscal Reform

The federal government can and does influence the actions and policies of the provinces and territories through the exercise of its spending and federal-transfer powers, without encroaching on their authority. The AFB will accordingly reform and redirect a number of federal transfer programs, including the Canada Social Transfer, Canada Health Transfer, and Equalization Programs, and their various multi-year funding commitments. These reforms will ensure a better targeting of Aboriginal-specific spending in these programs, and increase the federal government's accountability and transparency in its funding allocations.

They will also hold promise for moving beyond the "jurisdictional wrangling" that has left the urban Aboriginal policy agenda in a state of permanent paralysis.

The Department of Finance estimates that in 2003-04 these transfers will exceed $49 billion (about $1,562 per person). In holding all of our governments accountable, we will insist that an Aboriginal-specific element be included within all fiscal transfer programs.

Ottawa provides funding for Aboriginal-specific health services and programming tailored to the unique priorities defined by First Nation communities. First Nations on-reserve have access to culturally appropriate and specific health services, while off-reserve Aboriginal peoples must accept the health services designed for the general population. A portion of the new provincial health transfer will be targeted to the Aboriginal communities both on and off reserve. The total value of the new Aboriginal health transfer is $500 million, as stated in the Health section.

Program Enhancements

Aboriginal citizens are more likely to utilize social assistance and are less able to get off of assistance once on it. Therefore, a portion of the social transfer will be targeted to Aboriginal-specific programs. These programs will help Aboriginal peoples to break out of the welfare trap and move towards economic independence. Their value will be $70 million over 3 years.

Given the often on-reserve focus of programs, the AFB will target several programs that will help all Aboriginal peoples. Specifically we will expand and enhance the Aboriginal Friendship Centres Program (AFCP) with an additional $60 million investment spread over three years. The Aboriginal workforce is growing at a faster rate than the Canadian average, but unemployment tends to be much higher. To rectify this imbalance, the AFB will focus $20 million over two years on a Jobs and Youth strategy. Aboriginals are dramatically overrepresented in Canadian jails and underrepresented as judges, parole officers, mediators, court workers and jury members. Therefore, the AFB will commit $20 million dollars to create a national Aboriginals justice strategy.

Education is crucial to future prosperity. The current education system is failing Aboriginals. For instance, it will take over 20 years for on-reserve students to reach parity with the academic achievements of other Canadians. Therefore, the AFB will focus an additional $500 million over three years on a comprehensive strategy to improve the quality of Aboriginal education.

One of the consistently high priorities for Aboriginal peoples is the lack of affordable, high-quality housing. Inadequate housing will tend to perpetuate social and economic inequalities. This is a priority both on and off reserve. The AFB will commit to Aboriginal housing as a priority in tandem with creating affordable housing generally for all Canadians. To this end, $375 million will be allocated to Aboriginal housing over three years.

The Aboriginal peoples have a strong connection to the land, both spiritually and economically. However, both the ownership and preservation of that land is under threat. At the present time there are over 750 outstanding land claims and the number is mounting every year. The AFB will commit $200 million dollars over three years to help to clear the backlog of cases.

The preservation of Aboriginal languages is an urgent priority in the AFB. In 1951, almost 90% of Aboriginal peoples could speak their original language, but by 1991 this number had dropped to 24%. The AFB provides $60 million in funding over three years to an Aboriginal Peoples Language Foundation to maintain and enhance the preservation of Aboriginal languages.

Just as creating "*haves*" and "*have-nots*" within the Canadian federation is not acceptable, neither should be the creation of "*haves*" and "*have-nots*" within the Aboriginal "*family.*" The Government of Canada must embrace and act upon the notion that Aboriginal communities—First Nation, Métis and Inuit—can and must function as inclusive communities rather than having to accept isolation as an alternative to assimilation.

It is time to heed the direction set forth by the House Standing Committee on Youth at Risk, the Senate Committee on Aboriginal Peoples, and a number of other policy institutes, and move an urban Aboriginal agenda forward. The Senate Committee has called for a "*status-blind*" approach to be embraced in our urban communities. We agree, and in this AFB will take firm fiscal and policy steps toward that too-long-delayed objective.

Culture

"The broadcasting system is vital for our lives as Canadians. It expresses our way and sense of being, it connects us as people and as citizens, and it opens us to other people and peoples of the world." (Clifford Lincoln, Chair, *Heritage Committee Report*, 2003).

Despite the immense contribution our artists make to the cultural and societal development of this country, they remain undervalued. In addition to investing in such infrastructure as sewers and roads, Canada needs to invest in its cultural infrastructure. Arts and urban regeneration are closely allied. A vibrant arts program and a healthy cultural infrastructure contribute to the survival and renewal of communities of all sizes, improving their ability to attract new businesses, provide an improved quality of life, increase tourism, and much more.

Accordingly, the AFB will provide increased, stable, multi-year funding to Canada's national cultural institutions and agencies.

This year's AFB highlights its priorities for the broadcast sector. They are based on the recommendations of the Heritage Committee report.

The AFB will direct the CRTC to ensure that private broadcasters live up to—and increase—their obligations to produce and present Canadian drama programs and will maintain the foreign ownership restrictions on Canadian broadcasting. In addition, the AFB will direct the Heritage Department to provide increased, stable, multi-year funding to key cultural institutions. In the interest of democracy and effectiveness, the AFB will also scrap the current practice of patronage appointments to cultural institutions and put in it place arms-length, non-partisan procedures for making these appointments.

Specific budgetary measures are as follows:

- The Canadian Television Fund will be restored and enhanced to ensure its contribution to the production of made-in-Canada stories, relevant to Canada. (An increase of $250 million over four years)
- CBC funding will be increased by $1 billion over four years, conditional on a CBC commitment to restore capacity at the local/regional level.
- A new investment fund will be created to encourage local broadcasting, funded at $100 million annually, phased in over four years.
- A new fund will be established for capital equipment replacement for northern and Aboriginal broadcasters, with an annual budget of $10 million.
- A Canadian Broadcasting Monitor office will be created for ongoing scrutiny of the many federal and provincial investments in broadcasting, with an annual budget of $5 million.

Benefits

Artists earn on average extremely low and unstable incomes. The AFB will strengthen the Status of the Artist legislation to ensure improved access to social benefits.

For most artists, employment is sporadic and short-term. As a result, they do not qualify for EI benefits due to insufficient hours worked, even though they are in some cases paying EI premiums. The AFB will reform the EI system to ensure much greater access to these benefits for artists *(see Employment section)*. For self-employed artists who do not pay EI premiums, we will restructure the system to ensure access. We will model these changes on the fishers' benefit. The artist will pay in a portion equivalent to the employee contribution based on an earnings formula, and the government will contribute an amount equivalent to the employer's portion.

Other proposed AFB measures will improve the economic security of artists. The AFB will greatly improve access to affordable housing. (*See the Housing section.)* Also, besides making improvements to Canada's badly frayed income support system, the AFB will launch a major review of income security with a view to providing all Canadians with a guaranteed adequate income. *(See the Income Security section.)*

Disabilities

Disabilities afflict people of all ages and all backgrounds. Few Canadian families remain unaffected, with 3.6 million Canadians, one in eight, now having some kind of disability. Disability rates are higher among First Nations people. Having a disability in Canada usually means living in poverty. Of all the complaints to the Canadian Human Rights Commission, one in three are disability-related.

Clearly, Canadians with disabilities need equal opportunity to full citizenship rights.

The Alternative Federal Budget supports the call of the Council of Canadians with Disabilities for the creation of a National Disability-Related Supports Program to assist provinces with their investment in better programs and services. Investments include both tax measures and new programs.

The AFB will make the Disability Tax Credit refundable, and will take steps to discourage provinces and territories from clawing back the benefit from social assistance recipients. We will also increase the value of the Child Disability Benefit.

Income security comes mainly from the ability to obtain and maintain permanent employment. This will be achieved through the development of a Labour Market Strategy for Canadians with Disabilities. Part of the strategy will be for the federal government to become a model employer by creating more inclusive recruitment, job accommodation, and retention programs targeted toward Canadians with disabilities.

This strategy will also promote the development of inclusive Labour Market Agreements with the provinces and territories. These agreements will have specific targets addressing the employment and training needs of Canadians with disabilities. Until these Labour Market Agreement outcomes become sufficient to meet the training and employment needs of persons with disabilities, the Opportunities Fund will be proportionately increased.

To reduce and alleviate the high levels of poverty among people with disabilities, the AFB will also pursue collaborative initiatives with the provinces and territories to improve income support programs.

Support will be provided for community organizations which help people with disabilities. This will be done by increasing funding to HRDC's Social Development Partnerships Program by $5 million. Support of the "voice of persons with disabilities" is especially critical to good consultation and program design.

In addition, the Court Challenges Program will be expanded to support equality challenges to provincial legislation.

Early Childhood Education and Care

High-quality ECEC is the foundation for children's lifelong learning, while also helping meet families' social and economic needs. ECEC is also a precondition for women's equality and integral to equity for children with disabilities. It contributes to building healthy communities, reducing poverty, and bolstering appreciation for diversity. In short, it has been well documented again and again that high-quality universal ECEC programs are valuable to society; that—if well designed—they meet multiple goals simultaneously, strengthening productivity and the social fabric, now and in the future.

ECEC in Canada is badly underdeveloped—fragmented, market-driven, in short supply, uncoordinated between care and education, and often not high-quality enough to benefit healthy child development.

Public financing for ECEC is severely inadequate; provincial spending per child for regulated childcare ranged from $91 in Nova Scotia to $980 in Quebec (2001). In 2001, there were only enough regulated childcare spaces to accommodate 12.1% of children aged 0-12, up from 7.5% in 1992. By province, in 2001, the percent of children for whom there was a regulated space ranged from 4.2% in Saskatchewan to 21.1% in Quebec. Growth in regulated childcare slowed dramatically in the 1990s. Most of the increase in regulated childcare was in Quebec; childcare spaces in Quebec grew from 78,388 in 1992 to 234,905 in 2001, while in the rest of Canada total growth was a fraction of that—from 293,185 in 1992 to 358,525 in 2001.

Like health and other social policy issues, childcare and early childhood education are under provincial/territorial jurisdiction. However, as this is an issue of national importance that affects Canadians in all regions, a pan-Canadian strategy is not only warranted but imperative.

Building an effective ECEC system is a long-term process. Experience gained in jurisdictions such as Quebec, Sweden, and other European countries illustrates how this process takes place over a protracted period. Even the strongest advocates for ECEC agree that building a universal system of high-quality ECEC programs across Canada will take some years. Building effective ECEC systems also requires long-term goals and a planned approach, with clear objectives, targets, and timetables.

There is reasonable consensus that, in a mature system of Canadian ECEC:

- all families everywhere in Canada could use an ECEC program if they so chose;
- there would be comparable provincial/territorial systems of ECEC, complemented by adequately paid maternity/parental leave;
- ECEC programs would be high-quality, with qualified, decently paid early childhood educators, and educational in the non-didactic, play-based sense;
- ECEC programs would be multifunctional and seamlessly provide care in the parents' absence, early childhood education, and family support for families with a parent at home (perhaps for a shorter day) and families with parents in the workforce/education/training;
- parents would have reasonable choice of high-quality, non-compulsory, full or part-day (or flexible hours, within reason) centre-based or family childcare;

- ECEC would be publicly-funded, probably with affordable parent fees;
- there would be a public infrastructure rather than sole reliance on parent or volunteer initiation and operation or on business operations;
- ECEC would be responsive to parents, and shaped and delivered at the local level;
- provinces/territories might employ different approaches but share common pan-Canadian principles and goals (similar to Medicare); and
- consistent with Canadian values, ECEC would include families and children across the socio-economic spectrum, cultural diversity would be respected, and children with disabilities would be fully included.

In 2003, a Multilateral Framework on Early Learning and Care supported by all provinces/territories (except Quebec, which had already begun to develop its own program) began to shape a national ECEC strategy. This agreement restricts federal funds to regulated childcare and commits to public reporting in key areas. The Framework was characterized by federal HRDC Minister Jane Stewart as "the first step to a national childcare program." There are, however, no national goals, objectives, legislation, targets and timetables, or implementation plans. New funds allocated in the 2003 federal budget were extremely limited—a total of $25 million in year 1, $75 million in year 2, rising to no more than $350 million in year 5.

If the long-term action needed to put a national ECEC strategy in place is to follow the 2003 agreement, coherent public policy and substantial public financing are required. To ensure public accountability and that public funds are used for intended purposes, a strong, well-defined, clear policy framework must go hand-in-hand with fiscal commitments.

This policy framework will include: a long-term goal of a system of universally accessible high-quality ECEC to be fully developed across Canada within 10 or 15 years; stated principles; national ECEC legislation; quantifiable short and medium-term objectives; and implementation plans with targets and timetables for components of the system, including program development, quality improvement and data, research and evaluation. Development of the policy framework will necessitate the presence of federal leadership and resources, collaboration with provinces/territories, and participation of community experts.

Estimated public spending on ECEC programs in 2001 totalled $4.1 billion, of which $700 million was federal and $3.4 billion was provincial. (Of the $1.9 billion total regulated childcare spending, 58% was by Quebec.) The cost of a mature universal program of ECEC for children aged 0-6 is estimated at more than $10 billion. (See Campaign 2000 for a detailed costing.) The AFB makes a commitment of new federal dollars that takes into account an initial period of collaboration on policy development and planning, provincial/territorial capabilities, and willingness to use federal funds within the agreed-upon terms. Federal finances will be contingent upon public accountability, continued use of existing provincial/territorial expenditures on ECEC programs, and working collaboratively for the common good of Canadian children and families.

The AFB will ramp up investment in early childhood education and care to $3.8 billion by the end of year 3.

A well-designed national strategy for ECEC must be at the heart of a renewed social policy mission for Canada. A critical part of this strategy is making sure that key elements—goals and objectives, who the program is for, and how programs are delivered—are in place right at the start by designing policy approaches that reliably deliver the most desirable outcomes.

Employment and Employment Insurance

Canada's national unemployment rate bottomed out at an average annual rate of 6.8% in 2000, but then rose to 7.2% in 2001, to 7.7% in 2002, and to an average of almost 8% in 2003. Forecasters expect the national unemployment rate to remain at about 7.5% through 2004. And unemployment will be even higher among important sub-groups such as youth, recent immigrants, and residents of many communities outside of our large urban centres. Given that the average length of a spell of unemployment is about five months, an annual unemployment rate of 7.5% could translate into as many as one in six working Canadians experiencing a period of unemployment over the course of the coming year.

Over the next few years, it will be important to maintain a strong pace of job creation to meet the needs of new immigrants, Aboriginal peoples, women re-entering the workforce, and the most recent wave of baby-boomers who are just now entering the workforce in large numbers. If there is indeed a looming labour shortage in Canada due to demographic factors, it will not occur within the next five years. *(See Conference Board of Canada, Performance and Potential, 2003.)*

In 2003, unemployment would have risen much higher had it not been for the positive, if modest, job creation impacts of recent federal and provincial budgets. More than 70% of the new jobs created between December 2002 and November 2003 were in the public sector. Private sector job creation ground to a near halt, and jobs were lost in manufacturing. The very rapid appreciation of the exchange rate of the Canadian dollar in 2003 likely means that manufacturing and related jobs will continue to be lost in 2004. At the same time, there are reasons to fear that the new housing construction boom of recent years will begin to taper off now that interest rates have bottomed-out, and household debts have increased to a record high level of almost 100% of after-tax income.

Despite the fundamental importance of strong job creation and low unemployment to the living standards of working families, the federal government has consistently refused to set job targets for Canada. We have a formal national inflation target of 1-3% and a slightly less formal target for running federal budget surpluses, but high unemployment is, at a minimum, tolerated. Indeed, unemployment above the so-called NAIRU or low-inflation rate of 7-8% is seen by many mainstream economists as desirable.

By contrast, the AFB adopts an explicit target of bringing down unemployment to an interim target of not more than 6%. While a 6% rate can rightly be seen as still far too high, it has not been achieved in Canada for more than 25 years. The stimulative effects of AFB spending will help meet this target.

Continuing high unemployment since the mid-1970s has been a major reason why the real wages of Canadian workers have stagnated over this long period, meaning that all gains in household incomes for average and low-income households have come from individuals and families working longer hours. (The average real wages of women have done a bit better than those of men over this period.) High unemployment also helps explain rising wage and income inequality in the 1990s, the high incidence of low-wage jobs, and the increasing numbers of working poor families. If jobs are hard to find, low-wage workers are unlikely to make gains.

Low unemployment is sometimes feared—not least by the Department of Finance and the Bank of Canada—as a potential source of higher inflation. But the lesson of other countries, including the U.S., in the 1990s has been that this is not the case, and that low unemployment instead stimulates stronger productivity growth. At the same time, low unemployment helps counter low pay and poverty wages, closes earnings gaps between the high and low paid, and equalizes opportunities for groups who experience discrimination in the job market. A tight labour market is just what Canada needs for employers to discover the unacknowledged skills and credentials of new immigrants, and the virtues of investing in training for all workers.

The investment program of the Alternative Federal Budget will create many net new jobs, in both the private and public sectors of the economy. Our key job-creating initiatives include the development of an early childhood education program and the expansion of health care services, including home care. These measures will create many new jobs at decent wages, and socialize some of the domestic caring burden, which is disproportionately borne by women. In social democratic countries like Sweden, the expansion of public and not-for-profit social services has been a major source of good new jobs for women.

Our affordable housing and green infrastructure investment programs will directly create many new construction jobs, with significant spin-off benefits to the Canadian manufacturing sector. Job multipliers from public infrastructure investment are high, and recent research confirms that such investment makes an important contribution to private sector investment and productivity growth.

The AFB also includes major industrial, educational and training initiatives that will increase our capacity to improve job quality.

Public Investment Bank

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 will include Crown corporations, cooperatives, worker-owned enterprises, and other non-profit entities in addition to traditional businesses.

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. There was another surplus of $3.4 billion in 2002-03 and there is a projected surplus of $2.1 billion in 2003/04.

The AFB will maintain current premium rates and balance the EI Fund, spending all of its revenue to provide income support to unemployed workers. The improvements to the Fund outlined 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.

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

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 (with the exception of apprenticeship programs).

The current system of variable eligibility requirements—which varies from place to place and month to month, and the type of benefit, which ranges from 420 to 910 hours—will be replaced with one that requires a basic 360 hours to qualify. More flexible qualifying rules will also 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, will be guaranteed benefits for a year-and-a-half.

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

The insurable earnings base, frozen since 1996, will be gradually increased. This will bring in additional premium revenues, and also provide a greater degree of income security to workers.

As well, training insurance will begin to be introduced for all workers, to turn the rhetoric of lifelong learning into reality. Regular benefits will be made available to support workers who leave work for training and learning, as they are now for workers in apprenticeship training. Such a program will support joint employer-labour initiatives to raise the general level of skills, provide opportunities to recent immigrants to acquire Canadian credentials, and give workers the ability to pursue continuing education.

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 AFB will finance a better EI system by eliminating the EI surplus and by gradually raising maximum insurable earnings as new entrance requirements are phased in. Raising maximum insurable earnings from the current level of $39,000 per year would, on net, increase EI revenues even with a stable premium contribution rate, since higher paid workers will contribute more to the EI fund, and are less likely than average to experience unemployment. At the same time, this change will give better-paid workers a greater level of income security than the current system, including for parental and sick leaves.

Finally, the AFB allocates $1.85 billion from the 2003-04 surplus to an Emergency Training and Adjustment Fund (*see Macro section*).

The Environment

Canada's environmental policy is hampered by a patchwork quilt of federal/provincial legislation and the burden of too many ill-conceived spending initiatives. In some instances, such as the subsidization of polluters, federal spending is clearly counterproductive. In other instances, federal dollars are wasted on poorly-implemented strategies that lack overall coherence.

Without the need for a dramatic increase in spending, the AFB will revamp Canada's environmental spending patterns and at the same time enhance environmental policy. The AFB will use the budget as a tool for achieving sustainable development by implementing progressive environmental spending and taxation policies.

Ecological Fiscal Reform

The AFB will use financial incentives and disincentives—also known as ecological fiscal reform (EFR)—to contribute to an environmentally sustainable economy. EFR makes it cost-effective to operate in an environmentally sustainable manner and creates conditions making it more financially attractive to implement pro-environment measures. Often this is all it takes to tip the balance in favour of sustainable development.

The AFB will initiate a process to specify and implement a tax-shifting scheme, as has successfully been done in many EU countries, that will levy a small tax on energy use and introduce a corresponding rebate for industries that implement energy efficiency measures. The tax is revenue neutral and the corresponding rebate typically accrues to those who have to pay the energy tax. The payoff for Canadians is twofold: there is a reduction in harmful emissions, and an improvement in public health.

In addition, further changes can be contemplated whereby taxes will be shifted from innovation and investment to toxic substances by introducing tax incentives aimed at promoting "eco-economy" industries. Measures will include an allowance for reinvestment of proceeds from the sale of shares in start-up businesses, and tax credits for investment in early-stage green technology companies. Lost revenue will be offset by a new toxic substance tax. The rate of taxation will vary, commensurate with the level of toxicity of each substance in question.

The AFB will ensure that the essential underlying components are present for the successful introduction of such a tax-shifting scheme. Taxes will focus on those substances whose reduction will have an environmentally positive "ripple" effect on other sectors of the economy. Escalation of the level of taxation will be slow but steady, to give industry time to adjust and find environmentally satisfactory alternatives. All tax-shifting measures will retain scrupulous budget neutrality; *there will be no increase in federal tax revenue.* This will be accompanied by openness and transparency in order to maintain public support and confidence in the measures.

Environmentally Harmful Subsidies

Canadians have sustained incalculable losses—both environmental and economic—as a consequence of federal subsidies and tax exemptions to the conventional energy and resource sectors. Annual federal subsidies to the fossil fuel and mining sectors range in the hundreds of millions of dollars. Furthermore, the nuclear industry has been the beneficiary of taxpayer largesse for more than 50 years. In 1996 the federal government promised to cap industry subsidies at $100 million per year. This promise was broken, most blatantly in 2001 with a subsidy of $211 million, and most recently in 2003 with a subsidy of $178 million. The AFB will phase-out environmentally harmful subsidies.

The Kyoto Protocol

Since the release of the last federal budget, the government has announced the details of an investment of over $1 billion toward the implementation of its Kyoto plan. It is apparent that the funding, which is currently widely dispersed, could provide a greater bang for the buck if it were focused more effectively on *bona fide* solutions.

Canada needs to follow through with its financial investment in greenhouse gas reductions by directing the funds to programs that will provide sustained, deep emission cuts over the long term. This must include the implementation of aggressive conservation and energy efficiency programs, coupled with energy efficiency regulations that will provide an incentive for industry and consumers to employ the programs.

Expensive technological fixes that prolong our dependence on fossil fuel will not be subsidized by the AFB. Measures such as geological carbon sequestration or a marginal reduction in emission intensity from oil sands constitute a waste of tax dollars and an environmental step backward in meeting the challenges of reducing emissions below 1990 levels.

The money is better spent on investments in emerging industries that can not only deliver real greenhouse gas reductions, but, more importantly, will greatly help in the vital transition toward a less carbon-intensive economy. Further, the AFB will limit taxpayer assistance to the fossil fuel sector in order to encourage companies to make the transition to sustainable energy operations, with much greater emphasis on low-impact renewables and energy efficiency.

The AFB will encourage the use of public transit by treating employer-provided transit passes as a non-taxable benefit. Currently, the government allows (through non-enforcement) employers to provide employee parking as a non-taxable benefit, while employer-provided transit passes are taxable. This tax policy has the undesired effect of encouraging people to pollute more by driving to work instead of using public transportation.

The Alternative Federal Budget is proposing to earmark 1.5 cents of the 10-cent-per-litre gasoline tax to assist in meeting the greenhouse gas reduction target in the transportation sector. Paul Martin initially introduced this portion of the gas tax as a deficit levy in 1995. It is appropriate that the funds collected from this tax be redirected to the social and environmental deficit that Martin's cutbacks helped to create. These funds will be directed to a "Green Transportation Fund" that can be accessed by municipalities. The fund will support investments in public transit infrastructure and service improvements, as well as investments in alternative urban design, and alternative modes of transportation. This measure will make $684 million available for this program.

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. 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 up front.

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 counseling 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.

Environment Canada

Finally, the AFB will increase funding to Environment Canada by 10% or $72 million in order to begin restoration of its capacity to protect our health and Canada's bio-diversity. Throughout the 1990s, Environment Canada suffered deeper budget cuts than virtually any other department, and its budget today still ranks near the bottom of all federal departments. Canada currently spends less than 1% of its GDP on environmental protection, compared with Sweden, which outpaces Canada by spending more than 3% of its GDP on protecting the environment.

Green Agriculture

The current fiscal environment often stymies Canadian farmers in their natural inclination to be good stewards of the land. Despite years of innovation that have produced increases in crop yield and food variety, the financial health of farmers continues to decline, and government safety net systems remain inadequate. Changing regulatory and market conditions also have negative financial implications for farmers.

The public is anxious about food safety, especially as it relates to pesticide residues in food and the genetic engineering of crops and livestock. There is ample evidence of agriculture's contribution to environmental degradation, such as several years of fish kills on P.E.I. caused by pesticide-contaminated runoff. Such events threaten not only wildlife, but also human health.

The Agricultural Policy Framework (APF) launched in 2002/03 makes available $5.2 billion federal plus $3 billion in provincial matching funds over five years. Out of this total, relatively few resources, compared to the U.S. and Europe, are dedicated to policies and programs to advance ecological sustainability and reduce inputs of agricultural pesticides. Rather than accelerating the adoption of environmental farming systems that are proven to permanently improve environmental conditions, the programs rely on piecemeal approaches that have traditionally failed to address the root of these problems.

Although federal/provincial APF agreements have been signed, governments should look for opportunities in the 2003-2008 period to incorporate and re-focus program design, delivery, and investment in order to encourage the transition to more ecologically sound farming systems and agricultural products in Canada. The 2004 Alternative Federal Budget will make this focus a requirement in the next APF round. We will also take the following measures:

- Set targets for the adoption of bio-intensive integrated pest management (IPM) and organic farming methods. Reaching a target of 40% of Canadian farmland under bio-intensive IPM and 10% under organic farm management by 2013 is feasible.
- Dedicate at least $90 million annually over 10 years to directly support farmers who choose to make the transition to IPM or organic farming methods. Existing agencies, such as the provincial CanAdapt councils or Environmental Farm Plan coalitions, could administer this funding stream, aimed at maximizing the adoption of IPM and organic farming methods. Per-hectare assistance will also be necessary and vary by crop, depending on the financial and technical challenges inherent in making the transition to more environmentally friendly methods of growing a specific crop.
- Dedicate at least $90 million annually over 10 years to increasing research into alternative farming methods, providing training in bio-intensive IPM and organic farming methods, delivering extension services and developing markets for "ecologically grown" food. Sustainable agriculture—that is, both IPM and organic farming—emphasizes preventing pests, enhancing soil fertility, and extensively monitoring pests.

Adoption of these farming methods as proposed by the AFB could yield multiple benefits and solve various problems. Financial support for such farming practices is justified because using them will:

- *Reduce the reliance on and risks associated with using pesticides.* Data from around the world indicate that a 50% reduction in pesticide use is feasible and will result in financial savings to farmers.
- *Lower financial pressure on farmers.* Evaluations from the United States and Europe for a range of crops have found that pesticide use decreases and yields remain the same following adoption of IPM and integrated crop management. Often the economic benefits of reduced use of pesticides are unaccounted for in assessments of bio-intensive IPM or

organic farming, and therefore the profitability of these alternative farming methods is underestimated.

- *Over time, reduce the need for government support programs.* Bio-intensive IPM and organic farming are less vulnerable than conventional farming to the effects of climatic variability and tend to be more diverse with multiple revenue streams. This reduces the need for government payment to cover failures. These are the key reasons behind the European agri-environment program.
- *Help governments address costly pollution problems.* It is far cheaper to invest in pollution prevention at a farm level than it is to remediate environmental problems once they have occurred.
- *Alleviate pressure on the pesticide regulatory system.* Registration of a new pesticide or a complex re-evaluation of an existing one costs at least $216,000. The Swedish government's expenditures on pesticide registration dropped significantly after IPM and organic farming programs were implemented.
- *Contribute significantly to rural vitality.* Studies of agriculture-dependent communities in the United States suggest that certain supply sectors would be enhanced and income for farm families can be increased. However, a lack of products and services required by farmers who opt to use alternative methods places limits on more widespread benefits to the rural community.
- *Maintain or improve global market access.* International markets are increasingly placing environmental requirements on Canadian producers, and a significant shift to IPM and organic farming will meet the growing expectations of international customers.

Experience shows that farmers can reduce their use of pesticides and at the same time enhance their success. Shifting to IPM and organic farming practices, as provided for in the AFB, offers so many benefits that governments should support farmers in making the transition. Such support would recognize farmers' role as stewards of the land and of the public's health.

A minimum of $180 million annually over 10 years of transition (with farmers providing another $30 million in in-kind and cash contributions), is required to achieve the IPM/organic farming objectives, and this is the amount allocated by the AFB. This investment is dwarfed by the potential savings in government expenditures on pollution cleanups and income-support programs for hard-pressed farmers. Pollution prevention pays, on farms as elsewhere, and benefits everyone.

Equalization

The Equalization program, which was introduced in 1957 and enshrined in the Constitution in 1982, is an expression of core Canadian values. It is intended to ensure that all Canadians, no matter where in the country they may live, can enjoy reasonably comparable levels of public services at reasonably comparable levels of taxation. This goal is achieved by equalizing the fiscal capacity of all provinces.

Although differences in fiscal capacity between province have been reduced, it has become evident that the current equalization system, as a means of binding the country and its citizens together, is in need of reform. This is crucially important today, given the powerful centrifugal forces of regionalism which set Canadians apart from one another, as well as the powerful pull from the United States.

Critics of equalization argue that the program provides a disincentive to economic development in poorer provinces. As evidence, they point out that the provinces receiving the most in equalization have the poorest economic performance, but this argument confuses cause and effect. The central aim of the program is precisely to support poorer provinces. Evidence shows that the program has served the nation well. Growth in per capita productivity in recipient provinces has actually exceeded the rate found in the other provinces over the past four decades. A recent study found 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, but what they really want is to erode the *public* provision of services and turn more of that responsibility 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 ten Canadian provinces. When oil prices skyrocketed during the energy crisis in the 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 been lowered three times since

1982. It stood at $11.6 billion for 2002-03. 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 will eliminate the cap on equalization and return to the ten-province standard. This adjustment will cost the federal government an estimated $2.4 billion per year over and above the equalization expense estimated in the 2003 Economic Fiscal Update.

Foreign Policy

Canada should pursue a foreign policy that is independent of the United States. Trade and military policy should be compatible with development cooperation polices. Its hallmarks should be peace, justice, and prosperity.

Development Cooperation

The 2003 United Nations Human Development Report reports a "development crisis" in which 54 countries are now poorer than in 1990; where in 21 of them a larger proportion of people goes hungry; in 14, more children are dying before age 5; in 12, primary school enrolments are shrinking; and where, in 34 countries, life expectancy has fallen. The report also notes that, within nations, "women, rural inhabitants, ethnic minorities, and other poor people are typically progressing slower than national averages – or showing no progress…"[1]

The primary goal of Canadian development assistance programs should be poverty eradication – and the results can and should be measured in terms of Canada's stated commitment to reach the Millennium Development Goals by 2015.[2] At the 2002 Financing for Development Conference in Monterey, Mexico, the UN calculated that an additional $50 billion in ODA spending per annum is required to achieve these goals. The Alternative Federal Budget believes that Canada can and should play its part in eradicating world poverty, as an investment in a secure and just future.

Goal 8 of the Millennium Development Goals commits wealthy nations to a range of policies designed to enhance development in the Global South. Such policies include measures to enhance debt relief, provide affordable access to essential drugs, and move to the target of 0.7% of their Gross National Income (GNI) in overseas development assistance, while targeting this aid to meet basic human needs for poverty eradication.

(The AFB is the Canadian component of *Global Social Watch*, a civil society initiative in 60 countries, which holds developed and developing country governments to account on their international commitments to reduce poverty and inequality in their own societies. Canada's contribution to this year's nation-by-nation global Social Watch report, on the theme of obstacles to human security, will be published in April, 2004.)

In the February 2003 budget, the Chrétien government committed to increase international aid by 8% over the next three years. Unfortunately, however, this would raise the ratio of aid spending to Canadian Gross National Income to a mere 0.29% in 2003-04. Worse, under current commitments of 8% increases, by 2009-10 Canada will have increased its performance to only 0.32% of GNI, a recovery of not even half of the declines suffered in the 1990s.[3] The Canadian Council for International Cooperation (CCIC) suggests that Canada's fair share of international obligations to the MDGs would be 3% of the increase needed worldwide, or an average of $4.4 billion.[4]

To achieve this goal, the AFB will increase aid by 12% annually, rather than the current commitment of 8% or another $1.2 billion between 2004-05 and 2006-07, and by 15% annually between 2010 and 2015.[5]

The AFB will also take the lead in cancelling all outstanding foreign debt to poor countries and support a fair debt arbitration process for other highly indebted developing countries. It will also take a leadership role in improving governance, transparency and flexibility in the World Trade Organization, including a more equitable participation of developing countries.

The Canadian commitment to the Global Fund to Fight AIDS, tuberculosis and malaria has been hugely inadequate. Stephen Lewis, the Special Envoy of the Secretary-General of the United Nations on HIV/AIDS in Africa, has reported that the $150 million Canada has offered over the four-year 2002-05 period should be tripled if Canada is to meet its global commitment.[6] The Alternative Federal Budget agrees that the AIDS pandemic in Africa, where 50% of those infected are women, should be met by a Canadian contribution of an additional $350 million throughout the period 2003-05. These funds are in addition to the portion of the 2003/04 surplus allocated to renew the *Canada For Africa Fund*. (*See Macroeconomic and Fiscal Policy section*.)

The AFB will also ensure that aid money is not directed away from the main goal of poverty reduction and towards counter-terrorism and security activities. The most immediate threat to people's security is the denial of human rights, political exclusion, social and political disintegration, and the violence that accompanies it.

Moreover, the AFB will focus aid on what we do best—innovative approaches related to gender equality, agriculture, the participation of civil society, and peacebuilding.

Defense

Canada's new Prime Minister favours much closer military co-operation with the United States. He wants to boost Canada's already substantial level of military spending, and he supports joining the proposed ill-considered and hugely expensive American national missile defense system. So do Canada's defense industry and the Canadian Council of Chief Executives led by Tom d'Aquino, who argues that Canada must enhance the "interoperability" of Canadian and U.S. armed forces. The CCCE's position is echoed by senior military officials.

Achieving "interoperability" with the U.S. military has been a central objective for Canada's war planners for many years. For them, success is measured by the ability of Canada's military to operate seamlessly with U.S. forces, using similar equipment and strategies, usually under U.S. command.

The degree of integration that has already occurred was illustrated during the invasion of Iraq. Even though the Canadian government refused to join the war, it was impossible to prevent Canadian ships, aircraft, and some soldiers (those integrated into U.S. military forces) from indirectly aiding, and in some cases fighting the war.

The military integration agenda supported by Paul Martin will clearly require additional money, and potentially very large sums. The Department of National Defense spent $10.8 billion in 2002-03. Together with other sources of funding, Department spending is expected to rise to $13.5 billion in 2003-04, an amount that makes Canada the sixth highest among NATO's 19 member countries.

Many Canadian programs currently consuming billions in defense spending are devoted to purchasing new equipment or upgrading equipment to make the Canadian Forces more useful to U.S.-led combat operations, not for the legitimate defense of Canadian territory or for UN peacekeeping missions.

For example, the Canadian military is already spending nearly $2 billion to upgrade the CF-18 fighter-bombers, largely to enable the planes to participate in U.S. bombing campaigns by using such weapons as laser-guided bombs. The recently announced purchase of wheeled tanks known as Strykers for more than $600 million is aimed directly at heavy combat operations alongside U.S. forces that use the same vehicles.

It is more troubling that Canada's financial contribution to the incalculably expensive U.S. national missile defense system could cost billions of dollars in scarce public resources over the life of the program. One military official recently revealed that the Department of National Defense has quietly allocated nearly $500 million to contribute to the U.S. program, should the government decide to join.

Paul Martin may argue that more military spending is needed for peacekeeping, a role widely supported by Canadians. But the current missions and equipment priorities for the Canadian Forces show that the military has virtually abandoned its traditional peacekeeping role. More money will be used for other, less popular missions.

According to the Department of National Defense, as of November 13, 2003, Canada had a mere 260 personnel participating in United Nations missions out of 3,487 personnel deployed around the world. This means that less than one of ten deployed Canadian soldiers were contributing to UN missions, while the remaining nine out of ten were committed to NATO missions in Bosnia and Afghanistan, or U.S.-led operations as part of the "war on terrorism."

The current missions and spending priorities fly in the face of Canadian public opinion. A recent poll found that 52% of Canadians want their troops involved in non-combat peacekeeping missions, while only 40% support both peacekeeping and combat roles. Further, when asked to rate the best long-term solution to terrorism, only 15% thought more money should be spent on the military, with 41% supporting increases in intelligence and domestic security measures. And incredibly, 37% agreed that the best long-term response to terrorism is to "increase focus on tolerance, immigration, and multiculturalism."

Canadians clearly favour an independent role for their military forces, and think that complex international problems cannot be solved through military actions. Further integration of our military forces and foreign policies, as signalled by Prime Minister Martin, will clearly undermine these public preferences.

The AFB will therefore contain spending increases to the rate of inflation and begin to refocus Canadian military spending, in line with Canadian preferences and values, on territorial surveillance and non-combat peacekeeping missions, where possible under UN command. It will re-allocate military spending away from expensive U.S.-interoperable and combat capabilities, making available significant resources to retool the military for sovereignty patrols and UN peacekeeping, in support of peacebuilding missions.

The AFB will give priority to strengthening UN management of military operations, in particular promoting a UN rapid response force that can operate within dangerous low-intensity conflict environments and in situations involving local populations and civilian humanitarian agencies.

Such restructuring will ensure sufficient staff and the modern equipment necessary to carry out this new mandate. The AFB will also halt the costly practice of contracting out defense functions to the private sector.

International Trade and Investment

The Prime Minister's business friends and many in the Ottawa policy establishment are advocating deeper forms of economic and military integration with the United States. Some advocate "big" measures such as a customs union and common trade policy, common energy policy, common currency, a common security perimeter, military integration, etc. Others favour a more stealth-like approach, including harmonization of tax, competition, and resource regulations and policies, etc.

The AFB does not support these "deep integration" proposals. Further integration at the policy and regulatory level should be avoided or reshaped where possible, and reversed where harmful to Canadian interests. Where it does take place, it should do so only under clear and well-defined conditions. The impact of 15 years of the FTA/NAFTA has, on balance, adversely affected the lives of the majority of Canadians. Not only has NAFTA failed to deliver on its promises, but it has also significantly eroded Canada's policy flexibility.

The AFB proposes a pragmatic approach to managing trade and investment relations with the United States, and with other nations—one that embraces a coherent vision of maintaining and enhancing national policy flexibility for the purpose of improving the social and economic well-being of its citizens. Trade is a tool that *may* advance this goal, *but trade is not an end in itself, and should not be driving policy.*

Government should reassert and reclaim its capacity as an active manager of the economy. Though constrained, there is still substantial national policy space remaining under NAFTA. It should identify and maximize that space, and test the limits of that space where appropriate.

Canada-U.S. issues and irritants should be dealt with on a case-by-case basis. The emphasis should be on cooperation to solve common problems—without fundamentally compromising policy flexibility.

The government should seek ways to prune back the most egregious aspects of NAFTA—for example, working with NAFTA partners to strengthen social and cultural exemptions, exempt water, and eliminate the agreement's pernicious investor-state dispute mechanism.

More generally, the federal government must stop negotiating trade agreements that increase pressure on Canada's health care, education, and other social services. Ottawa must begin by acknowledging the existing threats to public service systems and public interest regulation, and change its trade negotiating objectives and existing treaty commitments to secure the strong, fully effective protection that Canadians were promised, but not given.

Wherever conflicts between social and commercial policy emerge, Canada should not rely exclusively on country-specific social exceptions, which have significant shortcomings and should only be regarded as stopgap measures. Instead, Canada should pursue generally agreed exceptions or safeguards—permanent features of treaties that are far more likely to endure over time.

In the meantime, the government should maximize benefits from those limited safeguards that currently exist in trade treaties; this generally means minimizing the role of private financing and for-profit care delivery of social services. Canadian governments at all levels should protect against trade-induced "regulatory chill" and instead should work assiduously to ensure that Canada's trade and foreign policies conform much more closely to domestic priorities.

Furthermore, the government should open up the negotiating process to full public scrutiny and participation from health professionals, advocates, and the general public. Trade negotiators, whose primary mandate is to expand export markets, cannot reasonably be expected to be fully cognizant of the intricacies of Canada's social system, nor should they be entrusted with the task of safeguarding social policy.

Canada should recognize the primacy of international human rights law over other areas of international law, including trade and investment treaties. Canada should work in multilateral forums to forge agreements in the area of human rights, environment, health, culture, and taxation that are enforceable and supersede the rules in agreements like the WTO and NAFTA.

Finally, the government should take steps to strengthen economic, social and cultural relationships with other nations—China, India, Japan, Korea, Europe, the Americas, etc.

The AFB will provide additional diplomatic and other resources to advance federal policy in this area.

Tax Havens

The global proliferation of tax havens and offshore financial centres that large corporations and wealthy individuals use to avoid or evade taxes is a serious threat to the tax bases of developed and developing countries alike. According to the IMF, there are currently 60 of these centres; the number of offshore companies is growing at the rate of 150,000 per year. An estimated one-half of global trade is booked through subsidiaries in these centres.

Governments of all countries are losing vast sums. In Canada, according to official estimates, Canadian corporations and individuals are diverting $45 billion per year to tax havens, up tenfold from 1988 *(*cited Kent, Caledon, 2003:2*)*. Paul Martin's shipping conglomerate, Canada Steamship Lines (CSL), is among the many corporations that have benefited from tax havens.

Following up on a promise in the 1993 Red Book, Martin's first budget took some initial steps to stem the loss of tax revenue through tax havens. However, the government reversed this measure under pressure from tax lobbyists. It created the Barbados loophole, which caused Canadian investment there to rise 3600% to $23.3 billion. By 2000, Canadian companies (including CSL) were repatriating tax-free dividends totalling $1.5 billion (Macdonald, *The Walrus*, October 2003:53).

The AFB will move immediately to reduce the ability of Canadian companies and wealthy individuals to avoid taxes through tax havens and examine ways to limit tax avoidance by wealthy individuals (*See Tax section*).

Tax havens, however, are a global problem, one which ultimately requires concerted multilateral action. The AFB will put Canada at the forefront of efforts to protect against these vehicles of tax avoidance and evasion, and strengthen all governments' ability to create tax bases in accordance with the values and priorities determined democratically by their citizens.

Endnotes

1 United Nations Development Program, Human Development Report 2003: *"Millennium Development Goals: A Compact Among Nations to End Human Poverty,"* Oxford University Press, New York, 2003, pp. 2-3.

2 See: http://www.un.org/millenniumgoals/index 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, etc. Canada, along with 188 other countries, committed to these goals in 2000.

3 The Canadian Council for International Cooperation, *"Re-committing to the Millennium Development Goals: A Plan to Increase Canadian Foreign Aid to Achieve the United Nations' Target by 2015,"* October 2003.

4 CCIC brief to the Standing Committee on Finance, October 21, 2003, see: http://www.ccic.ca/devpol/federal_budget_2003/final_oct_20_calculating_canada_oda_targets_for_mdgs_dr_5.pdf

5 Ibid.

6 Stephen Lewis, testimony to the Standing Committee on Foreign Affairs and International Trade, April 1, 2003, Ottawa.

Health Care

The Alternative Federal Budget will take firm measures to restore the federal leadership in health care that has been sadly missing in recent years. Through the establishment of a Health Covenant for Canadians, as proposed by the Romanow Commission, the AFB will strengthen the commitment of governments to a public health system based on the values of Canadians. The Covenant will not usurp the function of the Canada Health Act (CHA), but will define health as a public good and reaffirm the public, non-profit foundation of Canada's health care system. Health services will go beyond the services traditionally thought of as health-related to include services such as dietary, laundry, cleaning, and maintenance.

In terms of the CHA, this AFB commits to deal immediately with outstanding violations of the Act, meet legal obligations to obtain information from the provinces to determine compliance with the Act, and report annually to the public on violations and actions taken to deal with them. The AFB will amend the CHA to explicitly include diagnostic services under the definition of medically necessary services, making them subject to the principles and conditions of the Act.

Leadership requires accountability mechanisms. The AFB will ensure that the National Health Council develops health policy, analyzes existing public health care systems, and provides the basis for evidence-based decision-making with respect to primary care reform, best practices, technology assessment, etc. The Council should be representative of the public, government and health professionals. It should develop a common evaluation system so that Canadians can know how their health care system is performing.

Accountability also requires knowing how taxpayers' money is spent. The AFB will achieve greater accountability by attaching conditions to federal health transfers in order to ensure national comparable standards for quality of care and access to care.

In order to begin the process of creating a continuum of health care under the auspices of a national, public-funded, publicly-delivered health care system, the AFB expands the range of health services covered under the Canada Health Act. This measure will stop the trend towards privatization, and begin to bring health services currently provided on a for-profit basis into the realm of publicly-delivered, non-profit services.

Currently, home care is a hodgepodge of programs delivered publicly, privately, and either on a for-profit or non-profit basis. Access to care services based on need is highly unequal across the country. As well, the need for home care is growing as a result of a combination of factors: discharging patients from hospitals "sicker and quicker;" advances in health technology and drug therapy; and changing demographics. The shift towards more care in the home, without a parallel shift in public funding for these services, has imposed a significant burden on families, most often women who tend to be primary caregivers.

Palliative care is currently a pressing unmet need within the health care system, and great disparities exist in accessing these services, whether such care takes place in hospitals, hospices, or the home. The setting for palliative care must be a choice made by the person who is terminally ill and the family.

The AFB brings these two areas of health services under the Canada Health Act immediately, and will allow a five-year phase-in period for both levels of government to add these services to provincial plans.

Long-term nursing care is a critical component of health care. Currently, it falls outside the scope of the CHA. This has led to unequal access, with uneven standards of care. The AFB will initiate a national review of long-term care in Canada, undertaken by the new Health Council with a view to bringing long-term care services under the umbrella of the Canada Health Act. The federal government will work with the provinces to develop standards of care, funding targets and cost-sharing arrangements.

Primary Health Care

Primary health care is the front line of health care services. Canadians have made it clear that they place a high value on primary care. They want accessible care. They want a trust-based relationship with primary care-givers, and they want more attention paid to health promotion and illness prevention in the primary care system. Over the past several years, three key areas have concerned Canadians deeply: long waiting lists for medical treatments; the lack of communication, and barriers between parts of the health system, and the shortage of family doctors and nurses.

Fundamental change is required in the primary care system. At the top of the priority list is the development of community-based health care organizations in which multi-disciplinary teams of health providers ensure Canadians receive appropriate care from the most appropriate provider. This would reduce the use of costlier hospital and emergency room treatment. Such a system would allow a much greater focus on disease prevention and health promotion, resulting in longer-term savings to the health system. In combination with better health information systems, care can be better coordinated throughout all parts of the system, resulting in better care and reduced scope for medical error. Primary care reform also requires an end to the fee-for-service system of physician payment.

Prescription Drugs

At $14.5 billion in 2002, the cost of prescription drugs is now the second most expensive health care cost after hospitals. Continued soaring drug costs have serious implications for the sustainability of the public health care system. At the collective bargaining table in labour relations, employers are claiming that the cost of drugs is unsustainable, and they are pressing for solutions that would shift the burden onto workers. While the majority of Canadians have some coverage for the cost of drugs, coverage is highly unequal and is often dependent on the job. As technology reduces the need for treatment in hospitals where drugs are covered, more and more Canadians are being forced to pick up the tab for needed drugs. People with illnesses requiring costly drugs are most likely to be at risk of inadequate drug insurance. When this happens, the consequences are catastrophic.

Notwithstanding important concerns about prescription drugs in terms of their efficacy and safety, they do play an important role in the treatment of illness. They save lives, prevent disease, and can improve the quality of life for people with chronic ailments. As technology and genetic research advances, prescription drugs will play an ever greater role in treating illness. Genetic engineering is now used to create new types of drugs. Many people are concerned about the safety and long-term effects of this technology.

For all of these reasons, it has never been more critical that Canada develop a national drug policy framework to ensure the quality, efficacy, and safety of all prescription drugs. The AFB establishes a National Drug Agency, similar to that proposed by the Romanow Commission. Its mandate will include the evaluation measures, an examination of prescribing practices, the monitoring and reporting of adverse reactions to drugs, the development of a national drug formulary to help contain costs, and the monitoring of such costs. This agency will develop a proposal for a national Pharmacare plan.

The AFB realizes that, without controlling the cost of prescription drugs through changes to patent legislation, the cost of a full-scale national Pharmacare plan may be unsustainable. We therefore take a two-pronged approach: working towards a national Pharmacare plan, *and* changing the patent legislation.

In 2002, spending on prescription drugs totalled $14.5 billion. Of this, public spending amounted to $6.5 billion. Of the nearly $8 billion in private spending for prescription drugs—an increase of 15% in just one year!—two-thirds is paid for through private insurance plans, but one-third comes directly from the pockets of families and individuals.

A full-scale Pharmacare plan covering prescription drugs would thus cost governments an additional $8 billion dollars each year, plus annual increases. On a 50/50 cost-sharing basis, the federal share would be a minimum of an additional $4 billion a year, rising every year, with the remaining $4 billion shared by provinces and territories.

Before implementation of a full national pharmacare plan, the AFB believes it is necessary to first address the cost-drivers of prescription drugs. Therefore, the AFB proposes that the federal government meet with other levels of governments, representatives from employers and the public, to determine a framework and timetable for a national Pharmacare plan. Such discussions would include considering a fair rate of contribution to such a plan by employers. In the meantime, the AFB will allocate an additional $1 billion a year to implement the Catastrophic Drug Plan recommended by the Romanow Commission in its final report.

On the other side of the coin, the AFB initiates a review of drug patent legislation, including drug patent practices and the length of patent protection. The AFB will immediately change the legislation to prohibit the granting of automatic two-year injunctions granted to brand-name drug manufacturers near the end of the patent term which allows them to extend the life of the patent for several years, thus keeping cheaper generic drugs off the market.

Health and Trade

The AFB also takes immediate steps to ensure that public health care is exempt from international trade deals, including the stipulation that Canada's right to regulate, finance, and operate its health care system shall not be subject to claims for compensation from foreign-based companies as a result of any expansion or reform of the health care system. (*See Trade and Investment section.*)

Aboriginal Health

In last year's AFB, the health status of Aboriginal Peoples in Canada was documented, noting the huge disparities in health between Aboriginal peoples and non-Aboriginal people. It was also noted that Aboriginal leaders have been left out in the cold in terms of major discussions and inter-governmental agreements on health.

The AFB extends the framework agreement between Aboriginal peoples and government proposed in last year's AFB so that the full and equal partnership developed will continue. Aboriginal communities will continue to determine what health services are provided, where they are delivered, and the necessary funding levels. The AFB proposes that federal funds flow through an Aboriginal Health Transfer. The practice of a stable funding commitment continues with a three-year funding schedule.

In its last budget, the federal government allocated $1.3 billion over five years for First Nations and Inuit health programs. This falls short of meeting Aboriginal health needs. The AFB allocates $500 million a year over the next three years.

Funding

There is a policy conflict between those in government who regard the provision of health care as a source of economic growth and those who believe that the access to health care is a fundamental right, and thus, that the provision of health care is a public good, not a commercial activity. The commercialization of health care will drive up health expenditures because of the motivation on the part of providers to provide more and more services for which they will receive payment. The AFB believes that public financing and public, non-profit delivery is the key to stable and sustainable health care expenditures. As such, federal transfers to the provinces will be dependent on public or non-profit delivery of insured health services. Thus, in the table below, the AFB estimates that provincial health costs will grow at a rate of 6% per year over the three years of the AFB.

Health spending is estimated to be $121 billion in 2003 of which about 70% or $85 billion is public spending. Between 1975 and

Table 7
Federal Transfers to Provinces and Territories for Public Health Care Plans, 2003 - 2006 (Billions of Dollars)

	2003-04	2004-05	2005-06	2006-07
Status Quo Projections				
Provincial health expenditures[1]	$77.5	$82.15	$87.1	$92.3
Federal transfer[2]	$12.5	$13.5	$15.1	$16.1
Federal share of provincial health spending (%)	16.1%	16.4%	17.3%	17.4%
AFB Projections				
AFB transfer (billions)		$20.1	$20.9	$23.1
AFB share of provincial spending (%)		24.4%	23.9%	25.0%

[1] 62% of Average private sector projections of federal transfers in support of health and social programs, Annex 3, Private Sector Five-Year Economic and Fiscal Projections, Table 3.8

[2] For 2003-04, the estimate of provincial spending is from the Canadian Institute for Health Information, National Health Expenditure Trends, 1975-2003. Remaining years assume a growth rate of 6% in total provincial health expenditures.

1991, public spending (adjusted for inflation) grew by a modest rate of 3.8% per year, on average. Between 1992 and 1996, when governments were cutting social spending, spending on health care actually fell by -0.5% per year. Public spending increased by an annual rate of 5.3% between 1997 and 2001, followed by 3.9% in 2002 and 4.3% in 2003.

Provincial government health spending is estimated to be $77 billion in 2003. This total includes federal cash transfers to provinces in support of their public health care plans. As Table 7 shows, the federal cash transfer for provincial health care in 2003-04 is estimated to be $12.5 billion, representing 16.1% of provincial health costs. In 2004–05, the federal health transfer rises to $13.5 billion or 17.3% % of provincial costs. By 2006-07, the federal share is estimated to represent just 17.4% of provincial costs.

For a number of years, the AFB, along with many other organizations, has recommended that the federal government contribute a minimum of 25% of provincial health costs. The Romanow Commission on the Future of Health Care recommended that the federal share of public health spending should be no lower than 25% of the cost of the public health care system.

Keeping in mind that the federal government used to share almost 50% of health costs through a mix of cash support and tax points, the AFB's federal transfer of cash for health care to the provinces will reach 25% of estimated provincial health costs in three years. Accordingly, health cash transfers to the provinces spending will increase to $20.1 billion in 2004-05, $20.9 billion in 2005-06 and $23.1 billion in 2006-07. This level of funding begins to restore the federal role in providing a national, public system of health care, grounded in the principles and conditions of the Canada Health Act.

Housing

Affordable housing is essential for healthy communities and cities, and is a key to individual well-being and a prosperous economy. High and rising rents have a direct influence on poverty. While many households struggle with two or even three part-time jobs to make ends meet, their efforts are undermined by the high proportion of income they must spend on housing. High rents "crowd out" the available disposable income remaining for other necessities – essentially creating a problem of *housing-induced poverty*.

A report prepared for the TD Bank Financial Group recognized that addressing the need for affordable housing is smart economic policy. A lack of such housing can be a major impediment to business investment and growth.[1]

Canada continues to face a housing crisis, the roots of which reach back to 1993, when the federal government cancelled funding for new social housing. The accompanying chart shows the dramatic decline in the production of social/affordable housing. In 2001, more than 700,000 renter households—almost 20% of all renters—paid more than half of their income for shelter (rent and heat); and 40% paid more than 30%—the common benchmark of affordability. The number of homeless individuals and families is increasing across the country, particularly in Canada's urban centres.[2]

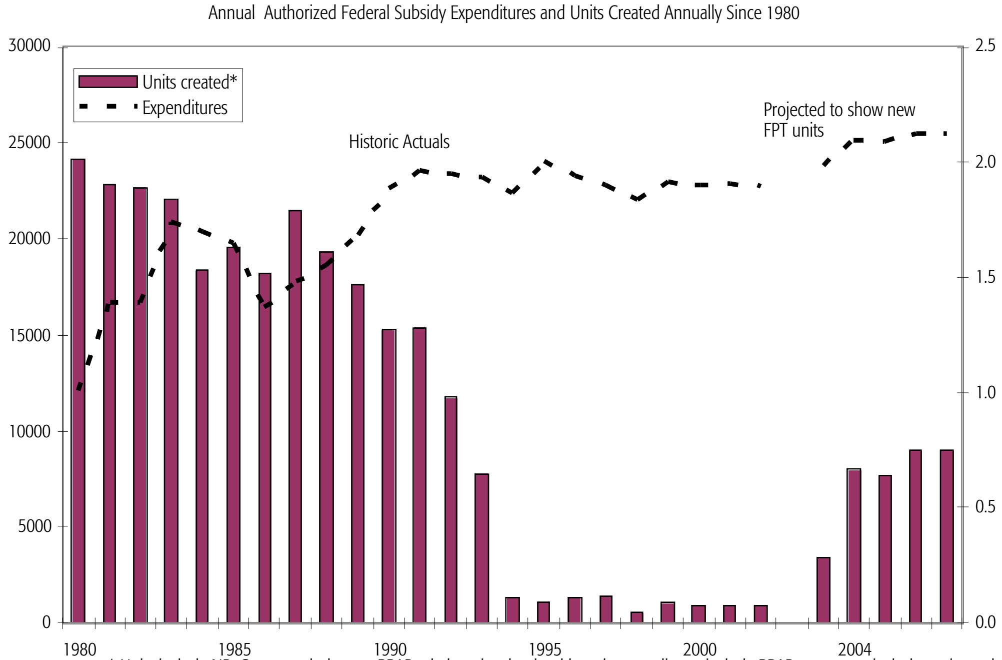
The 2001 Census found that 35% of all renter households had annual incomes of less than $20,000. At this income level, they could afford to pay no more than $400 for monthly rent, but only 19% of the rental stock had rents at or below $400. It is clear that average rents are well above a level that working poor households earning minimum wages can afford. On average, for households with a single earner, the affordable rent at 30% of the minimum wage is $180 less than the average market rent. For dual-earning households, the affordable rent at 30% of the minimum wage is $74 less than the average market rent.

In 2001, the federal government announced the new Affordable Rental Housing Program (ARHP). Funding, totalling $1 billion over six years (2002-2008), is expected to help create approximately 40,000 units. While this is a step in the right direction, these units fall far short of what is needed. In addition, the program will produce units targeted to average market rents—rents that have been shown to be beyond the reach of working poor households. On a positive note, in 2003, the federal government extended the Residential Rehabilitation Assistance Program (RRAP) for three years, and allocated $128 million a year to preserve the existing stock of affordable housing. The 2003 federal budget also provided a three-year extension of the Supporting Communities Partnership Initiative (SCPI) at $135 million a year to help communities sustain their efforts to address homelessness.

The AFB establishes a concrete urban strategy that supports healthy and inclusive neighbourhoods and communities, including an explicit component to address the critical shortfall of affordable housing. The affordable housing strategy employs a variety of approaches:

1. Given the backlog of affordable housing need, the AFB will boost funding to increase the stock of affordable housing by $1 bil-

Figure 3: Dramatic Decline in Output of Social/Affordable Housing



* Units include NP, Co-op; excludes any RRAP rehab assisted units although expenditures include RRAP, post 2002 includes units under new FPT capital grants

lion in the first year of the AFB and maintain this level of spending until 2008. This will support the development of a minimum of 25,000 units annually. Targeting under the Affordable Rental Housing Program will also be increased so that at least 50% of units produced under this program will be available to households that cannot afford average market rents.

2. Federal funding under the Residential Rehabilitation Assistance Program (RRAP) will continue and be increased to $200 million per year to protect the existing stock of affordable housing and allow for major restoration of public housing projects. Housing sponsors will be able to utilize this program to acquire existing lower rent properties at risk of demolition or conversion, and to undertake the redevelopment of older public housing developments.
3. Recognizing the success of SCPI, federal funding will be increased under this program to $150 million annually to enable local groups to provide facilities and services and permanent housing for homeless people.

Canada Mortgage and Housing Corporation recently enhanced its mortgage insurance program to help producers of affordable housing access financing. This is a welcome move, but underwriting policies remain restrictive and premiums remain costly. The AFB will introduce a mortgage insurance subsidy program to offset the costs of CMHC mortgage insurance premiums on units meeting specified and meaningful affordable target rents.

Affordability problems arise because of two concurrent circumstances: 1) lack of housing priced at levels that are accessible, and 2) insufficient income. To complement measures to stimulate supply, measures to improve incomes are also necessary. Although the federal government is not directly involved in income assistance, federal changes to transfer payments—notably the CHS—have left fewer resources to help maintain income support programs. Social assistance payments have been reduced to the point where, in most provincial and territorial jurisdictions, the shelter component is now equivalent to only about half the average market rent. The AFB urges the provinces to increase the shelter component to the level of average market rents so that households in receipt of social assistance will not face housing-induced poverty and will still have funds available for food and other necessities.

The federal government currently provides $1.9 billion annually in ongoing subsidy payments to support just over 600,000 households. These long-term commitments, typically 35-50 years in duration, are beginning to expire. As a result, by 2010, the federal Treasury will save in excess of $230 million per year, and this amount will continue to grow over the years as mortgages expire. The AFB therefore commits to reinvesting federal savings from expiring agreements to address affordable housing needs.

The AFB will increase program spending on social/affordable housing by almost $1 billion per year. In addition, housing investment under the Canadian Infrastructure Financing Authority will average about $2 billion per year over the three years.

Endnotes

1 Drummond, Don, Derek Burleton and Gillian Manning. 2003. *Affordable Housing in Canada: In Search of a New Paradigm.* Toronto: TD Bank Financial Group.

2 Social Planning and Research Council of BC, Deborah Kraus and Paul Dowling. 2003. *Family Homelessness: Causes and Solutions.* Ottawa: Canada Mortgage and Housing Corporation.

Income Security

Economic growth and modest investments in income support have contributed to a decline in the poverty rate in Canada. The proportion of poor families decreased from 14.8% to 11.4% during 1996-2001. Although fewer people are living in low-income households, the child poverty rate of 15.6% remains significantly higher than the 14% recorded in 1989, with 1,071,000 children, almost one in six, remaining in poverty in 2001. And poverty has deepened. Among two-parent families with children, the depth of poverty—or income required to reach the "low-income" threshold—grew from $9,394 in 1989 to $10,265 in 2001. Female-led lone-parent families still required, on average, an additional $8,886 to lift themselves out of poverty in 2001. More people are precariously housed, more are homeless, more are hungry. Inequality (in market and after-tax terms) has grown more rapidly since 1995 than at any other time since records were kept.

During the past decade, the major factors driving poverty have remained largely unchanged: a labour market that does not deliver jobs with living wages, an income support system that does not provide an adequate income floor to protect children from economic harm, and a lack of affordable housing and accessible quality child care.

The growth of non-standard and precarious employment, and the polarization of jobs into "good" jobs and "bad" jobs have led to economic uncertainty for many Canadian families. Women, in particular, have been over-represented in such low-status, low-paying work with little or no mechanisms of social protection[1,2].

When unemployment insurance failed (*See Employment Insurance section*) provincial social assistance systems did little to soften the blow. In March 2003, children and their parents made up 52% of Canada's social assistance recipients. Their welfare incomes ranged from a low of only one-fifth of the poverty line in Canada to a high of almost three-quarters of the poverty line.[3] In fact, the gap between welfare incomes and the poverty line actually widened for all household types in Newfoundland, New Brunswick, Ontario, Alberta, and British Columbia between 2001 and 2002. Only Quebec showed a narrowing of the poverty gap among most household types.

Federal and Provincial Child Benefits

Urgently needed is a new, comprehensive child benefit system with the capacity to reduce child and family poverty significantly and to recognize the costs of raising children for low- and middle-income families.

The most recent federal budget included gradual increases to the Canada Child Tax Benefit to a maximum of $3,243 per child by the year 2007. But this commitment is too slow and is far from sufficient to help vulnerable families achieve an adequate standard of living.

The AFB will significantly raise the living standards of all families and substantially reduce the incidence of child poverty by consolidating the Canada Child Tax Benefit into a single program that provides a maximum benefit of at least $4,900 per child to families in poverty. (*See Tax Fairness section.*) This Comprehensive Child Benefit System will include increasing investments in the Canada Child Tax Benefit and measures to discourage the clawback of federal child benefits by some provincial governments from families on social assistance. By accomplishing, in effect, a tax reduction for many families and establishing the base of an effective child and family social security system, this benefit will go a long way toward improving income security for Canadian families.

The AFB will separate the newly created Canada Social Transfer (CST) from the post-secondary education transfer. The CST (which includes new AFB funding for early childhood education and care) will increase to $13.2 billion by year three. This will help restore the federal share of social assistance payments.

The AFB will attach national standards and accountability mechanisms to ensure funds are properly invested in social assistance and social services. Standards include:

- the right to assistance based solely on need (i.e. prohibition of workfare or time limit regulation);
- the right to assistance without being subject to residency requirements;
- assistance rates adjusted in line with the cost of living;
- respect of recipients' privacy;
- the right to retain one's home and a reasonable level of assets; and
- the right to appeal decisions made by officials and tribunals.

The AFB will ensure a better targeting of Aboriginal-specific spending in the social transfer.

It will create a Social Council modelled after the Canada Health Council, with citizen and voluntary sector involvement to help ensure accountability and transparency. It will separate the portion of the transfer earmarked for Aboriginals with appropriate standards, mechanisms, and involvement of Aboriginal peoples.

The AFB will increase the federal minimum wage to $10 per hour and encourage provinces to do the same.

AFB 2004 introduces a package of measures—job creation, employment insurance, reinvestment in public services and housing, income support through the tax system and through direct program spending, and regulatory reform—that constitute a frontal assault on poverty. Their goal is to reduce the rate of poverty in half, at least, by the end of the government's mandate. (This is in keeping with the government's commitment to the Millennium Development Goal to cut global poverty in half by 2015.)

The AFB, at the request of the National Anti-Poverty Organization (NAPO), will launch a major review of Canada's social security system with a view to possibly introducing a "guaranteed adequate income" for all Canadians.

To more effectively address women's poverty and inequality issues, the AFB proposes a comprehensive womens' accountability framework comprised of: a status of women act, a parliamentary standing committee on the status of women, and the designation of a senior status of women cabinet minister and department.

The AFB is the Canadian component of *Global Social Watch*, a civil society initiative in 60 countries, which holds developed and developing country governments to account on their international commitments to reduce poverty and inequality in their own societies. Canada's contribution to this year's nation-by-nation global Social Watch report, on the theme of obstacles to human security, will be published in April, 2004.

Endnotes

1 Battle, K. (2003). *Minimum wages in Canada: a statistical portrait with policy implications*. Ottawa: Caledon Institute of Social Policy.

2 Broad, D. (2000). *Hollow work, hollow Society?: globalization and the casual labour problem in Canada*. Halifax: Fernwood Publishing.

3 National Council of Welfare Reports. (Spring 2003). *Welfare Incomes 2002.* Ottawa: National Council of Welfare.

Post-Secondary Education

Universities and colleges are vital to the economic, social, and cultural development of their communities and of the nation as a whole. Post-secondary education nurtures human talent and intellectual curiosity, helps to advance the personal development of individual citizens, promotes a more equitable and inclusive society, and contributes to the long-term economic, social, and cultural life of our communities.

Unfortunately, our ability to realize these benefits has been seriously compromised in recent years as Canada's post-secondary education system has fallen victim to deep government funding cuts. Reductions in funding have been particularly severe in the wake of the Canada Health and Social Transfer (CHST) introduced in 1996. Even with recent CHST increases and the introduction of the Canada Social Transfer (CST), cash transfers for post-secondary education remain well below previous levels. It is estimated that federal cash transfers for post-secondary education, when adjusted for inflation and population growth, are roughly 50% lower today than they were 10 years ago.

It is not difficult to see the consequences of continued underfunding. Tuition fees and student debt loads are rising dramatically, putting the promise of a post-secondary education beyond the reach of a growing number of Canadians. The AFB will make PSE transfers conditional on the provinces immediately freezing tuition levels and initiating measures to lower fees over time. Underfunding has also led to a nearly 10% decline in the number of university and college teachers over the past decade, threatening the quality and range of education students receive. The infrastructure of universities is in serious disrepair. Faced with less public funding, universities and colleges have turned to private sector funding that is increasingly threatening the integrity of research and academic freedom.

A New Post-Secondary Education Transfer

The Alternative Budget recognizes that the federal government must play a more active role in assisting the provinces with university and college funding. This can only be achieved through a fundamental change in the way cash transfers are provided to the provinces in support of post-secondary education. A new fiscal transfer is required that is accountable and transparent, and that meets the urgent needs of Canada's publicly-funded universities and colleges. Now is the time to reconsider not just the level of funding required, but also the mechanism and rules by which the federal and provincial governments provide support for colleges and universities.

This AFB will repeal the CST and introduce separate stand-alone social and post-secondary education transfers. A newly established Post-Secondary Education Fund will be governed by a *Canada Post-Secondary Education Act*, modelled on the *Canada Health Act*, that outlines clear responsibilities and expectations for the federal and provincial governments, establishes national guidelines and principles, enacts enforcement mechanisms, and determines long-term and stable funding formulae.

The AFB will increase the PSE transfer by $3.6 billion over three years.

The AFB will ensure a better targeting of Aboriginal-specific spending in the social transfer.

Student Financial Assistance

Average fees for undergraduate arts students across Canada have ballooned by nearly 170% since 1990/91—from $1,496 to $4,025. Students entering graduate and professional programs have witnessed even steeper increases. Between 1990 and 2003, fees for law, medicine, and dentistry skyrocketed by 313%, 447%, and 552%, respectively. High fees are keeping more and more qualified Canadians out of universities and colleges, and are imposing unacceptable debt burdens on those who do go on.

To date, the federal government's response to rising tuition fees and swelling debt loads, including the recent Throne Speech, has been inadequate. Programs such as the Canada Millennium Scholarship Fund and the Canada Education Savings Grant provide little assistance to the majority of those most in need. The Canada Millennium Scholarship Fund provides financial assistance to only one out of every 14 post-secondary students. This can hardly be considered enough.

The Canada Education Savings Grant is also badly flawed. Under the CESG, Ottawa provides a 20% top-up to private Registered Education Savings Plan (RESP) contributions (to a maximum of $400 per student per year). As of the end of 2002, the federal government estimates that it has paid out more than $1 billion since the CESG was established in 1998.

Not only does the CESG commit substantial federal revenue that could better be spent directly for post-secondary education, but it has also failed to provide benefits for the large number of families that cannot afford to save for their children's post-secondary education. According to Statistics Canada, less than 19% of the parents of children in households earning below $30,000 have RESP savings. By contrast, the parents of nearly 63% of children in households earning $80,000 or more have RESPs.

The AFB will convert the Canada Millennium Scholarship Fund and the Canada Education Savings Grant into a new *National Student Grants Program,* a fully needs-based student assistance program. A $1.85 billion National Student Grants fund (*see Macroeconomic and Fiscal Policy section*) will provide transitional needs-based grants for a three-year period while the new program is being established.

Merit, for purposes of the program, will be defined as meeting the entrance requirements of a public Canadian post-secondary institution.

Seniors' Benefits and Retirement Incomes

Canadians approaching retirement face an uncertain future. Many people in their late 40s and 50s—a generation that includes about three-quarters of the baby boomers—don't know when they are going to retire. Recent surveys from Statistics Canada[1] also show that almost one-third of near-retirees in the age group 45-59 feel they have not made adequate preparations for their retirement. Uncertainty about financial security in retirement has also been fuelled by recent turbulence in the stock markets, which has reduced the value of the private retirement savings individuals may have accumulated in RRSPs. Many workplace pension plans now face deficits, raising questions about the future financial security of workers who belong to these plans.

Some groups in the Canadian population are particularly vulnerable as they approach old age. Women are more likely than men to expect their retirement income to be inadequate or barely adequate to maintain their standard of living in retirement. Recent immigrants are also more likely to believe they will not have enough to live on. Individuals in poor health, and people who are widowed, separated or divorced are also more likely to feel their financial preparations are inadequate.

Almost one-fifth of those recently surveyed said they did not intend to retire at age 65. Many of those in this group have lower household incomes, do not own their own homes, and have lower levels of education. Other studies have found that declining earnings among recent immigrants will make it much more difficult for them to make ends meet as they enter their retirement transition. They will be much more vulnerable to setbacks such as job loss or unexpected expenditures.

While major changes to the Canada Pension Plan were implemented a few years ago, it is clear from this most recent information that more needs to be done to protect the most vulnerable in our society and to ensure that older Canadians have adequate incomes in retirement. Recent increases in RRSP contribution limits do nothing to help the majority of Canadians who cannot contribute to RRSPs because their low incomes leave them no spare cash to make such contributions. The cost of these measures in lost tax revenues is borne by all Canadians, but the benefits are directed at individuals in the highest income brackets. In the six-year period from 1993 to 1999, for instance, 40% of all those who filed tax returns had average annual incomes of less than $20,000.[2] Only 13% of individuals with incomes between $10,000 and $19,999 eligible to make an RRSP contribution claimed a contribution on their tax returns in 1999, while 79% of those with incomes of $80,000 or more contributed to an RRSP that year.[3]

The majority of Canadians no longer have a registered pension plan at their workplace. In 2000, for example, only 41% of paid workers belonged to a workplace pension plan, compared with just over 45% in 1991.[4] As well, the growth of non-standard employment arrangements, such as temporary or contract work, casual and part-time employment, means that more and more workers will not be covered by traditional pension plans or retirement savings programs.

For many Canadians—and particularly for those in the most vulnerable groups—public pension programs are therefore vital to their financial security in old age. The AFB will therefore undertake a major review of the retirement income system to ensure that it meets the needs of the changing work force and that it addresses the concerns of those groups who face the most uncertainty as they move into old age. The measures we will consider include:

- An increase in the amount of the Old Age Security (OAS) benefit so that OAS, together with the CPP, provides an appropriate income replacement rate for those who will have no other sources of income in retirement. Pending the outcome of our review, we will increase elderly benefits by $1.5 billion per year over the next three years. This is roughly 50% more than the government's annual increase to take account of inflation and demographics. These additional funds will be used to help bring benefits for the most vulnerable groups up to the poverty line (LICO).
- Abolition of the OAS clawback. About 5% of OAS recipients are currently subject to the clawback, which effectively denies OAS benefits to individuals whose incomes exceed a certain threshold. It should be noted that OAS benefits are already taxable. We see no justification for imposing an additional tax on incomes that applies only to individuals who have reached age 65.
- Establish public benefits at such a level that the minimum income guarantee is above the after-tax low-income cut-off poverty levels calculated by Statistics Canada for individuals and families, paying particular attention to the needs of immigrants who may not be able to benefit from social security agreements with their countries of origin.
- A review of the replacement rate formula for CPP retirement pensions. Currently, the CPP retirement pension is equivalent to 25% of pre-retirement average annual earnings up to a certain limit. For those whose average earnings are less than half the average wage, the replacement rate should be increased.
- A review of the way in which the CPP contributory period is calculated to explore measures that would assist recent immigrants to accumulate adequate pensions.
- Implementation of a care-giving dropout in the CPP that would allow those who care for family members with disabilities or older relatives to exclude a certain number of years from the calculation of the average earnings on which their retirement pension will be based, as the existing child-rearing dropout allows for those who care for young children.
- Improvement of benefit levels from public pension programs should then allow RRSP maximum contribution limits to be reduced. (This year's AFB will reduce the maximum to 18% of twice the average industrial wage. *See Tax Fairness section.*)
- Implementation of a pension benefits guarantee fund, similar to the PBGF now in place in Ontario, that would be funded by contributions from employers who sponsor pension plans under federal jurisdiction. Such a fund would guarantee the pensions—up to certain limits—of workers whose benefits are put at risk by the bankruptcy or insolvency of their employers.

Federal Public Sector Union Pension Fund Surplus

In 1999, the federal government brought in legislation which gave it authority to appropriate the surplus in the federal public service union pension fund, estimated at $30 billion, and reduce its liability, in part by giving itself a contribution holiday. The public sector unions see this move as reprehensible and illegal, and are suing the government to repatriate the monies owed to them. The AFB supports the public sector workers and will, accordingly, return the appropriate surplus to their pension fund.

Endnotes

1 Statistics Canada (2003) General Social Survey: "Social support and aging," in *The Daily.* Ottawa: September 2, 2003.

2 Statistics Canada (2001) *Retirement Savings Through RPPs and RRSPs.* Ottawa: Statistics Canada catalogue no. 74F0002XIB.

3 Statistics Canada (2003) *Canada's Retirement Income Programs: A Statistical Overview (1990-2000).* Statistics Canada catalogue no. 74-507-XPE.

4 Ibid.

Appendix

National Infrastructure Spending Priorities Determined from Participatory Budget Workshops November 2003

The 2004 Alternative Federal Budget designed and implemented a participatory budget experiment in order to allocate a $15 billion (over three years) from an Infrastructure Fund. Four workshops were planned and facilitated in which invited participants debated and discussed local infrastructure spending priorities. This appendix gives the results of these workshops and extrapolates the results of local priorities to a national context.

Participatory budgeting is a growing practice of democratic citizen participation in municipal budget decision-making. Inspired by the 13-year-old practice in Porto Alegre, Brazil (in which 20% of the municipal budget is set by a series of neighbourhood and citizen assemblies) many cities and countries around the world are examining and experimenting with this approach. It is a lengthy and involved process that necessitates mobilizing hundreds, and sometimes thousands of citizens, organizing and facilitating democratic assemblies, educating citizens about spending priorities, and, finally allowing citizens both to determine their local priorities and to allocate budget amounts to those priorities. Research, education, and development is happening in earnest around the world to use participatory budgeting in public administrations, municipalities, and provinces.

Participatory budgeting usually begins with a priority-setting process, followed by an allocation and negotiation process. Adapting this process to the 2004 AFB required accepting certain limitations of time and purview. The AFB proposes a $15 billion Infrastructure Fund to be implemented over three years. This fund will be administered by a federal infrastructure agency to be established by the federal government. For the purposes of the participatory budget workshops, it was agreed to use the existing categories as defined by Infrastructure Canada. These are:

- Local Transportation, Highway and Railway
- Water & Wastewater treatment facilities
- Tourism, Cultural, Recreational & Urban Development facilities
- Affordable Housing
- Telecommunication systems
- Border crossings

It was predetermined to divide the $15 billion based on population figures for each locale. Thus each workshop began by knowing how much money they had to spend as follows:

- Greater Vancouver: 2 million = $1 billion over 3 years
- Regina: 150,000 = $75 million over 3 years
- Winnipeg: 500,000 = $250 million over 3 years
- Toronto: 4 million = $2 billion over 3 years

Each workshop included discussions and proposals for infrastructure spending, followed by a democratic setting of priorities and voting on allocations for each set of priorities. The priorities generated by each workshop are numerous and should be seen as preliminary, in that, given a lengthier and more developed process, these priorities would be subject to research, development, and negotiation before being finally voted upon and approved. Nonetheless, despite the limitations, it is clear that "Affordable Housing" and "Local Transportation, Highway and Railway" are unanimously agreed upon as top priorities, with "Telecommunication systems" and "Border crossings" being virtually ignored by all workshops.

The results of each workshop can be seen in the tables below. Table 1 presents the summary results and, using the average of the percentage expenditure, proposes total national allocation amounts.

The following tables tabulate those priorities discussed and voted on by each workshop. The second column, "Needs and Hopes," lists the items prioritized by each workshop. These lists are long and, given a lengthier and more elaborated process, these would be narrowed down progressively through debate, negotiation, and voting. Some of the items are not necessarily concrete spending priorities, but rather policy recommendations. Again, given time, these would be separated out and dealt with (through education, negotiation, delegation, and referral) before allocation voting was to occur. Column three, "Votes," shows the results of each round of allocation voting and column four represents the voting results as a percentage of the total votes cast. The last column uses the percentage to calculate the actual allocation.

Table 1: Percentage expenditure per workshop, average expenditure and extrapolation for national expenditure

	Winnipeg	Regina	Vancouver	Toronto	average percentage allocation of all workshops	total average expenditure over three years
Local Transportation, Highway and Railway	31	29	30	34	31	**4.65 billion**
Water & Wastewater treatment facilities	6	19	19	5	12.25	**1.84 billion**
Tourism , Cultural, Recreational & Urban Development facilities	19	5	9	19	13	**1.95 billion**
Affordable Housing	44	47	42	36	42.25	**6.34 billion**
Telecommunication systems	0	0	0	2	.5	**75 million**
Border crossings	0	0	0	4	1	**150 million**

N.B. It is important to note that participatory budgeting allows for each locale (municipality or province) to set different priorities and allocations. Thus the figures for national expenditure based on overall averages belie the diversity allowed in this process for actual local spending.

WINNIPEG
500,000 population = $100 million over three years

	NEEDS & HOPES	VOTES	%	over 3 years
Local Transportation, Highway and Railway	· Increased bus routes · Affordable mass transit that is eco friendly · Bus Flyers routes increased (free routes) · Warmer bus shelters · Bike paths in city (for commuting and leisure) · Bike paths/ski routes · Build up transit friendly modes of urban development for density	5	31	**31,250,000**
Water & Wastewater treatment facilities	· Water treatment twin sewers – rain/sewage · Neighbourhood solar water treatment plan with greenhouse demonstration project for northern climate · Sewage system – pipes, treatment, disinfections · Research and development of "natural" waste water purification process	1	6	**16,666,666**
Tourism , Cultural, recreational & Urban Development facilities	· Policy: it also helps local development and life style: i.e. river walk/summer and winter bike · Children facilities · Pools, play equipment (climb wall, wave pool, skate park, toboggan runs. · Networks of green space funds for trails, green ways, green space, wild natural urban space · Edible landscape initiative · Skate Board Parks · Urban Aboriginal reserves · Aboriginal "showcasing" theatre/museums · Public space reclamation (riverfront) · Commercial/Tourism · Expansion of folklorama · Winnipeg strike museum labour -tourism	3	19	**18,750,000**
Affordable Housing	· Development plan and policy to end urban sprawl · Money for seniors housing and health and social support close to necessary amenities · Affordable housing foundation · Safe and healthy (holistic) neighbourhoods (parks/recreation, residential and commercial areas – maintained and supported, community involvement/connection, activity, local economy- support, community centre) · Housing co-ops, co-op housing land trust with subsidies and community equity · Family transitional housing · Co-op housing and alternative housing models · Tools and equipment pools for neighbours to retrofit etc. Training for home and property owners · Affordable housing – housing and rental units.	7	44	**43,750,000**
Telecommunication systems	· Community club, libraries have access to technology/public use to expand access · Technology upgrades in inner-city schools and public access sites	0	0	**0**
Border crossings		0	0	**0**
		16		

REGINA
150,000 population = $75 million over three years

	NEEDS & HOPES	VOTES	%	over 3 years
Local Transportation, Highway and Railway	· Subsidized transit in urban areas including para-transit support/maintenance · Streets and roads are in need of repair · Restore VIA on workable capital structure – priority for local public transit · Energy efficient public transportation – busses/vans · Inter city passenger rail service · Localize control of rail lines (support)	6	29	**21,750,000**
Water & Wastewater treatment facilities	· Water conservation initiatives – cisterns · Rural areas upgrading of systems especially on reserves, possibly with alternative materials · Drinking water policy & regulation · National fresh water policy and regulation · Major overhaul of local water treatment · Use monitoring · Implement ecosystem approach to water management · baseline study · Training · Investment to bring water treatment and delivery systems to standard of healthful water · Federal share of grants to reduce user costs in smaller communities	4	19	**14,250,000**
Tourism , Cultural, recreational & Urban Development facilities	· Operating subsidies to reduce user costs to major community facilities to allow greater participation · Farmers markets · Food charter · Public freezer facilities · Transportation · Healthy food in public · Public access space in south downtown Saskatoon	1	5	**3,750,000**
Affordable Housing	· Cooperative rotating loans for housing · Accessible housing for people with disabilities – supported cooperatives · Student housing cooperatives · Subsidized affordable housing project · Non-targeted low-income marginalized groups – supported cooperatives · Re-establish federal role in inner-city housing projects in major cities · Major investment in public affordable housing · Rent control in major cities	10	47	**35,250,000**
Telecommunication systems	· ·	0		
Border crossings	· ·	0		
		21		

VANCOUVER
2 million population = $1 billion over three years

		NEEDS & HOPES	VOTES	%	over 3 years
Local Transportation, Highway and Railway	A:	· Clean air accessible · More Buses–double the fleet · More routes, more frequent · Replacement or Addition of Bus fleet · City-wide rapid · Bus System with designated bus lanes	13	30	**300,000,000**
	B:	· Bus Designated lanes · Bus triggered traffic lights- transit priority · Public Bus Shelters			
Water & Wastewater treatment facilities	A:	· Clean water, safe treatment · Chlorine only for drinking water (separate delivery systems) · Protect sources instead of adding chlorine ("preventative medicine") · Ionized water treatment · Cisterns for all houses/apt · Roof Gardens · Keep water services public · Keep water public (no p3s) · Better legislation on water treatment by corporations, this has decreases significantly under current provincial governments	8	19	**190,000,000**
	B:	· Replace water infrastructure (with public sector workers where possible!) · Improve water distribution, capacity and quality · Replace ageing water infrastructure · Water infrastructure upgraded to meet year round need · Less leakage from delivery system			
Tourism , Cultural, recreational & Urban Development facilities	A:	· Increase ESL and adult education centres · Increase immigration services/providers · Childcare · More parks · More and larger libraries · Public pools and community centres · Increase neighbourhood houses · Increase women's centres	4	9	**90,000,000**
	B:	· Multicultural museum · Ecotourism info centre and national history/interpretive delay · Cultural Human Resources Centre and Regional satellites			

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VANCOUVER (cont'd)

		NEEDS & HOPES	VOTES	%	over 3 years
Affordable Housing	A:	· Coordinated affordable housing strategy · 2000 units of safe affordable housing/year · Targeted% of affordable housing- Greater Vancouver Regional District · Funds to encourage +upgrade secondary suites · Mix of low/medium income housing · Affordable housing – low income housing as component of commercial projects · Old Lesbians' housing · No housing "projects" · Requirement for affordable housing in budget and development process	18	42	**420,000,000**
	B:	· Housing for Youth · Housing for seniors · Long-term care facilities · Detox treatment beds · Detox for women (from 0-> sufficient) · Welfare increase shelter allowances (no 2yr limit) · Affordable housing co-op housing through grants (combined with tax breaks?) · Local income generating program · Urban organic programs			
Telecommunication systems	A:	· CBC! fund it, build it · More access & frequencies for public/community broadcasting	0	0	**0**
	B:	· High-speed internet infrastructure under municipal ownership · Universal access to high speed internet			
Border crossings	A:	· User fees for border crossings, with exemptions for low income · Close the border to the U.S	0	0	**0**
	B:	· Reduce money from borders and move to housing · No Rumsfeld			
			43		

TORONTO
4 million population = $2 billion over three years

		NEEDS & HOPES	VOTES	%	over 3 years
Local Transportation, Highway and Railway		· Reduce Car Use–increase parking areas at subways eg Kipling subway · Increase subway routes eg Kipling to Albion to low income area · Subsidies for TTC – fares dramatically lowered · Extend subway and/or high speed trains to the airport · Eglington Ave subway · Subway Expansion to Scarborough · Expanded Public Transit – Subsidized · Subway extension to York U · Subway extension along eglington to Pearson Airport · Expand subway system · Buses and Streetcars take too long to transport people – add more subway routes criss-crossing and along borders of city · A subway that serves Jane/Finch area	18	34%	**680,000,000**
Water & Wastewater treatment facilities	A:	· Modernatization of sewage system. Water filtration · Create a research centre to find "greener" healthier water, sanitation process · Create systems that allow for "greener" wastewater treatment · Better treatment for storm water run-off (to improve Lake Ontario) · Ecologically sustainable treatment of sewage and waste water	3	5%	**100,000,000**
	B:	· I want to be able to swim in lakes and rivers in Ontario · Take the stink out of Toronto summer drinking water. · Open-up buried streams to reconnect people to local water sources · More natural swamp lands closer to schools and communities · Cleaner water in Toronto beaches · Distribution of affordable water filtration systems			
Tourism , Cultural, recreational & Urban Development facilities	A:	· Restore & reuse old buildings for arts/music · Build an opera house/community theatre in Scarborough North · Build a theatre meeting the needs of low-income people with quality performances · Enable/create space fore public art · Play more music in public places–to drown the engines · Affordable arts · An urban park devoted to mural making · Build arts high schools–art is an amazing tool for youth to learn their worth, and gain confidence to find their place in life. This place/job(?) is often not artistic · Build community-based art & culture centres in every neighbourhood	10	19%	**380,000,000**
	B:	· Multicultural education expanded as sources of community research centres for ethno-specific issues · Convert empty industrial buildings into space to lease to community groups · Open inclusive block/neighbourhood meetings to discuss infrastructure needs · Recreation facilities pods/programming for young women/sports promtion · Anti-racism ed centres · Alternative education centre · Committee for school and nutrition, health- distribute funding food program · Convert closes schools for affordable community/space rec · Centre for youth issues and engagement			

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TORONTO (cont'd)

		NEEDS & HOPES	VOTES	%	over 3 years
Affordable Housing	A:	· Convert space that is not currently even considered for housing to housing · Convert unused municipal office space · Convert Moss Park armoury to housing · City land donated for affordable housing (30% + cost of houses is land) · Convert closed schools to housing for homeless	19	36%	**720,000,000**
	B:	· Develop a process so people can more easily partake of low-income housing · Make re-development properties rent-geared to income housing · Make housing 100% rent-geared to income · Building new affordable housing downtown · Rent subsidies to low-income families/people			
Telecommunication systems	A:	· Make accessible technology available to everybody · Free Internet access	1	2%	**40,000,000**
	B:	· Do not make Dundas Square like Time Square · Don't sell out public space to advertisers			
Border crossings	A:	· Make buildings more accessible · Build temporary shelters and/or affordable housing for all immigrants and/or refugees in need	2	4%	**80,000,000**
	B:	· Human rights border observers and advocates · Create centres for anti-racism training · End racial profiling at borders			
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