Alternative Federal Budget 2005:

It's Time

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CONTENTS

PREFACE

The first Alternative Federal Budget was released ten years ago at the time of the unprecedented spending cuts imposed by Paul Martin's 1995 Budget. We showed how the federal government could have avoided these severe cuts and adequately funded health care, education, and social assistance within a responsible fiscal framework.

Ten years later, the damage from that 1995 budget and subsequent budgets is still being felt. Despite strong economic growth, inequality has increased significantly in Canada. Thanks to massive tax cuts for the rich and cuts to social programs, over four million Canadians, including one million children, still live in poverty. While record numbers are using food banks, the wealth and incomes of the richest have soared.

Budgets are not merely financial documents. They are about choices. They are the clearest statement of the government's actual priorities – stripped of the rhetoric of election promises and the vague commitments of Throne speeches.

Unfortunately, federal government budgets are developed in secret, delivered in an elaborate communications package, and festooned with technical details that obscure their real measures and impacts. Not only do ordinary Canadians have virtually no say in their development, but budget documents also do little to promote public understanding.

The Alternative Federal Budget (AFB) process started from the premise that budgets should first be about people. It is both an exercise in popular economic education and a process for Canadians to develop a consensus on what the federal budget would look like if public interests were being truly served.

Our process involves the collaboration of representatives from a broad cross-section of civil society organizations—labour, environment, anti-poverty, religious, students, academics, education workers, culture, farming, social development, child advocates, women, international development cooperation, community, disability, think-tanks and Aboriginal peoples—to develop a budget document as if people mattered.

Over the past decade we have demonstrated that, rather than accepting the deficit-and-debt-cutting mantra of "there is no alternative" to slashing social programs, governments can do better, and Canadians can expect and deserve more. Our ten-year record speaks for itself: we can implement the required progressive measures while still balancing the budget and meeting the government's debt/GDP target.

In addition to demonstrating what a government could accomplish if it were truly committed to a progressive social and economic agenda, the AFB's goal is to foster economic literacy by de-mystifying budget-making, empowering popular mobilization, and helping to develop consensus around policy decisions and directions.

Popular economic education is vital for developing public accountability. Not only has the AFB increased public knowledge about budget choices in general, but in particular we have also drawn attention to the federal government's annual practice of blatantly underestimating the surplus to lower public expectations.

We have also provided sound analysis of the degree to which the government has failed its own election promise to devote 50% of the fiscal dividend to social reinvestment while implementing a massive tax-cut package that overwhelmingly benefited the wealthiest Canadians.

In doing so, we have developed a highly credible reputation as an accurate forecaster of the federal government's budgetary situation: much more accurate than the federal government itself or than most private forecasters and banks.

The AFB's credibility speaks volumes about what can be achieved by a dedicated group of volunteers working together far away from the ivory and glass towers of the government and corporate worlds.

We would like to acknowledge the very valuable financial assistance provided by the Canadian Labour Congress, the Canadian Auto Workers, 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.

But the real wealth in this document comes from the enormously generous volunteer contributions of the many people involved in the project. This includes drafting sections of the document, providing critical and constructive comments on the various proposals, and participating in discussions through the steering committee meetings.

These contributors include: John Anderson (Canadian Council on Social Development), Lynell Anderson (Child Care Advocacy Association of Canada), staff from the Assembly of First Nations, April D'Aubin (Council of Canadians with Disabilities), Pedro Barata (Campaign 2000), Sandra Bender (National Anti-Poverty Organization), Maryann Bird (Child Care Advocacy Association of Canada), Sheila Block (Registered Nurses Association of Ontario), Phillipa Borgal (Canadian Conference of the Arts), Ian Boyko (Canadian Federation of Students), Paul Leduc Browne, Charles Campbell (United Steelworkers of Amercia), Chris Cavanagh, Jim Clifford, Alfred Gay (National Association of Friendship Centres), Joe Gunn (Canadian Conference of Catholic Bishops and KAIROS), Teresa Healy (Canadian Union of Public Employees), Andrew Jackson (Canadian Labour Congress), Dale Marshall (David Suzuki Foundation), Lise Martin (Canadian Research Institute for the Advancement of Women), Hugh Mackenzie (Hugh Mackenzie Associates), Alex Munter (University of Ottawa), Keith Newman (Communications, Energy and Paperworkers Union of Canada), Nancy Peckford (Canadian Feminist Alliance for International Action), Darrin Qualman (National Farmers Union), David Robinson (Canadian Association of University Teachers), Laurel Rothman (Campaign 2000), Pierre Sadik (Green Budget Coalition), Paul Shaker (Centre for Community Study), Michael Shapcott (National Housing and Homelessness Network), Margaret Singleton (Canadian Housing and Renewal Association), Jim Stanford (Canadian Auto Workers), Steven Staples (Polaris Institute), Andrew David Terris (ARTS NOVA Cultural Research and Consulting), Monica Townson (Monica Townson Associates) and Cindy Wiggins (Canadian Labour Congress).

Richard Shillington and Mathieu Dufour provided consultation and analysis throughout the AFB process, and Trish Hennessy was, as always, extremely helpful with communications advice.

The dedicated staff, volunteers, and research associates at the Canadian Centre for Policy Alternatives, as always, pull the AFB project together with no deficit of enthusiasm, generosity and good humour: Melanie Allison, Larry

Brown, Bruce Campbell, Anskia DeJong, Ed Finn, Kerri-Anne Finn, Marc Lee, John Loxley, Hugh Mackenzie, Christine Nesrallah, Heather-jane Robertson, Ellen Russell, Toby Sanger (AFB 2005 coordinator), Erika Shaker, Jane Stinson, Diane Touchette, Monica Townson, and Armine Yalnizyan.

Thanks in part to the AFB's work, the federal government has just recently (finally) started to provide more accurate estimates of its own surplus—and to start to reinvest in health care and some social programs. It's time now to show the government how it can act on its other promises and meet the real needs of Canadians.

INTRODUCTION

It's Time

It's been 10 years since Paul Martin first started making the spending cuts that cemented his reputation as the Finance Minister who defeated the deficit.

Canadians made large sacrifices in the fight against the deficit and debt: the federal government not only cut federal programs, but also made large cuts in transfer programs to provinces, reducing support for health care, education, and social assistance. This led both to further cuts to social programs by provinces and further downloading of costs to municipalities.

Once the budget was balanced, the Liberals promised to devote half of the surplus to debt reduction and tax cuts and the other half to restoring spending programs that had been cut. But close examination of the numbers by the AFB indicated that the split, instead of 50/50, was closer to 90/10, with debt repayment the big winner. (More recent analysis suggests that the balance is now closer to 75/25.) Contrary to the partisan rhetoric, social programs have not been inundated with adequate funding. The big winner has been debt repayment.

This unbalanced allocation of the fiscal dividend has occurred against the backdrop of a $100 billion tax relief package heavily favouring the wealthiest Canadians who didn't themselves bear the burden of the original spending cuts.

The Alternative Federal Budget has long argued that previous low-ball forecasting practices were intended to squelch debate about what to do with budget surpluses. By taking refuge in rigid accounting conventions, the Liberal government was able to direct $61 billion to debt repayment (so long as they could delay acknowledging the surplus until after fiscal year ended) without having to make a case to Canadians about the merits of debt repaymen*t versu*s tax cuts or spending enhancements. After all, Canadians can't debate about how to spend money they don't know exists. Thus this forecasting subterfuge about the size of federal surpluses amounted to a covert plan to prioritize debt repayment.

For years now, the AFB has been arguing that the government has foreseeable budget surpluses, despite the government's recurring annual pessimism about surplus estimates *(see the Macro chapter for a comparison between the government's track record on surplus projections and the AFB's).* This year, public debate is beginning to intensify on the question of what to do with these surpluses and political momentum is building to introduce greater realism into federal forecasting. Recently, economist Tim O'Neill was appointed to try and uncover the clearly systemic problems in federal forecasting,

Not only has the credibility of seven consecutive years of "surprise" budget surpluses stimulated public demand for more reliable forecasting, but the political landscape has also changed. For the first time since the inception of the AFB, we have a minority Liberal government—one that is under considerable pressure. In a situation where tax cuts or spending announcements might swing voters, the Liberals have compelling reasons to use forthcoming budget surpluses strategically in any way that may garner them votes.

Now that federal surpluses are acknowledged to exist, the question "what do we do with the surplus?" is of particular significance, and the responses are indicative of very different sets of priorities. Tax cuts? Program spending? Debt repayment? A combination? As different sides of the political spectrum present their cases, the government appears content, in the words of the C.D. Howe Institute, to "let the debate begin."

Debt Repayment

The AFB rejects further debt repayment, for several reasons. Since 1997/98, more than $60 billion of the federal debt has been paid down. Canada is on track to achieving its target of reaching a debt/GDP ratio of 25% even without paying down a further cent on the debt through economic growth alone. Nor are we obliged to repay debt to compare favorably with other countries. Canada already has the lowest net financial liabilities of any G-8 country. The case for repaying debt to save on future debt servicing costs is weak, given that other investments that government might make could yield a higher rate of return.

Concerns about Canada's aging population are frequently cited as a rationale for debt repayment. We are not persuaded that Canada's aging population represents a dire future budgetary problem for the government (particularly in light of the enormous tax-sheltered retirement savings that will become taxable as retirees access them), and so we advise the government to invest in the infrastructure (health care, housing, etc.), as well as training the personnel providers that an aging population will require.

Finally, Canadians should not be persuaded that debt repayment is a gesture of fairness towards future generations. Spending money on debt repayment diminishes our ability to invest in the social and physical infrastructure that we bequeath to our children.

Tax Cuts

High-income Canadians and businesses have been richly rewarded for their sacrifices in the fight against the deficit with the program of $100 billion in tax cuts that was introduced in 2000. Close to half of the benefits from the income tax cuts went to the top 10% of Canadian families—those with incomes over $100,000.

The AFB rejects arguments that untargeted tax cuts (such as raising the basic personal exemption, decreasing tax rates on low-income tax brackets, or raising bracket thresholds), which apply to all taxpayers, deliver meaningful support to low-income Canadians. Worse still, untargeted tax cuts severely limit the government's ability to support the types of income support programs that really do provide meaningful help to low-income people.

Canada's corporate taxes are competitive with those of the United States and, according to KPMG's survey of international competitiveness, the costs of doing business in Canada are the lowest of 11 industrial countries—approximately 9% below those in the U.S.,[1] (in large part because of the lower labour costs that result when employers do not have to purchase private health insurance).

Corporations are free to use their tax savings in any manner they wish—there is no requirement that corporations invest their tax savings in R&D, new technology or increasing Canadian production—and consequently there is no guarantee that corporate tax cuts will stimulate productivity or increase employment. An upcoming CCPA paper demonstrates that business tax cuts since 2001 have had no impact whatsoever in eliciting more investment or boosting productivity.

Enhanced Spending

Canadians experienced an era of profound budget cuts in the mid-1990s. From the early 1960s to 1990, program spending averaged about 16.5% of GDP. By the time the budget went into surplus in 1997/98, program spending had decreased to12.1% of GDP, and has continued to decline, reaching a low-point of 11% in 2000-01. Although it has since inched back up slightly to a total of 11.6% of GDP in the last fiscal year, program spending is still very low by historical standards. *In fact, to spend the equivalent of 12.1% of GDP, the level we were at when budgets were first balanced, we would have needed to spend another $5.7 billion in the last fiscal year.*

Thanks to over a decade of unprecedented fiscal restraint by the federal government, Canada entered the new millennium with an increasingly unequal income distribution, beset by the range of social problems that accompany growing social polarization.

The impacts of a decade of spending cuts are evident all around: in a faltering health care system, diminished public services, and a crumbling infrastructure. They are apparent in the increasing number of homeless, in increasing levels of inequality, child poverty, and student debt.

It also shows up in Canada's declining international rank in human and social development. In the past year, Canada has been roundly criticized by international organizations for our poor environmental record, for having a patchwork of chronically underfunded child care programs, and for our waning role in international development and peacekeeping.

It is time to address the consequences of more than a decade of neglect. The chapters of the 2005 AFB are dedicated to outlining priorities in a range of social programs and infrastructure-related issues that demand immediate attention. To forsake these neglected areas and instead use surpluses for debt repayment or tax reduction would be in direct contradiction to what polls say Canadians value.

It is also time that the Liberal party fulfilled its promises. It ran on a platform that made a number of promises related to spending (for example, national child care and a new cities and communities agenda). They made no promises whatsoever concerning tax cuts, and only a very muted nod to debt repayment. *The federal government must direct any future budget surpluses to delivering on these promises—before any future tax reductions or debt repayment can even be considered.*

It's time to focus federal efforts and dollars on the rebuilding of Canadian society. The recent health accord and the equalization deal with the provinces were important first steps. But much more needs to be done.

Canada is in an enviable position, having experienced strong economic growth for over a decade. When compared to the other G-8 countries, Canada boasts the best improvement in budgetary situation (since 1992), the sharpest decline in debt burden, the lowest debt/GDP ratio, and last year's only surplus (in a string of seven consecutive national surpluses, with another one imminent). There is no question that the federal government has the ability to more than meet its election promises. As the Macro chapter of this AFB demonstrates, the federal government will have an estimated $45 billion in available surplus over the next three years.

Rebuilding the Federation

While the federal government has restored funding for health care to the provinces with an increase of almost $10 billion over the next three years, the Canada Social Transfer remains the poor cousin of the Canada Health Transfer. Over $3.2 billion is needed just to bring funding for the Canada Social Transfer back to 1998 levels. The AFB outlines how this increase should be spent through separate dedicated transfers for child care, social assistance, and post-secondary education.

As many chapters in this document argue, simply providing more money to the provinces is not enough. A broad fabric of national standards and rights must be attached to federal transfers for health, social spending, education, and child care. Without these, Canadians won't have much accountability—nor much of a country left.

The provinces received a large injection of funds from the federal government for health care, but the funds have been provided with little accountability. As the *Health* chapter argues, strong national standards, a curbing of further privatization, longer-term planning for health care needs, and a focus on illness prevention are also necessary to "fix health care for a generation."

Even more than the provinces, it has been Canada's local governments that ultimately suffered the major brunt of federal and provincial downloading, as is shown in the chapter on *Federal-Provincial Fiscal Issues.* This has led to a burgeoning infrastructure deficit as Canada's growing municipalities take on greater responsibilities while lacking the funds to pay for them. Providing funding of two cents a litre on the gas tax to municipalities is a very small part of the new deal that is needed.

The federal government needs to address the challenges facing Canada's communities and urban areas in a much more comprehensive and forward-thinking way, as outlined in the *Communities* chapter. The AFB has designed a *Canadian Infrastructure Financing Authority* that would provide the low-cost source of funds needed by local governments, hospitals, and the post-secondary education institutions to rebuild their infrastructure.

Making Poverty History

A common theme that echoes in every chapter of this document is the need to reduce poverty and reverse the growing levels of income inequality.

Over four million Canadians still live in poverty, which constitutes a national disgrace after years of economic growth and national prosperity. Fifteen years after the passage of an all-party resolution in Parliament to end child poverty by the year 2000, nearly one in six children—over one million of them—are still living in poverty. At over 15%, Canada has one of the highest child poverty rates of the industrialized countries. Poverty is much more prevalent for the single elderly, the disabled, visible minorities, Aboriginal people, and women.

No one measure can significantly reduce or eliminate poverty in Canada. But, with commitment and a concerted set of policies, it can be achieved. The following provides a summary of the key measures needed to eliminate poverty in Canada and a summary of the main measures in the different chapters of the AFB. We have the means and resources to do this: it's time that the federal government took action.

After decades of promises, it appears that a pan-Canadian publicly-funded child care system may finally become a reality, thanks in large part to the leadership of the Quebec government. Increased federal funding of at least $6 billion over the next three years is needed if we are to establish such a program in the very modest timeline of ten years. As the *Child Care and Early Learning* chapter points out, we also need a focus on public and non-profit delivery and a federal Child Care Act with national standards and strong accountability measures.

Child care is not just about caring for children. Good quality child care provides the critical social and educational start that all children need in order for Canada to have a healthy and dynamic society and economy in future years. A public and universal system allows all parents, regardless of their income—and particularly women—to re-enter the workforce if they want. It is a perfect example of a social investment that provides overall benefits of twice the cost, while also reducing poverty and promoting social inclusion and equality.

The *Tax Fairness* chapter outlines what the AFB will do to increase equity through the tax system, including increasing the Canada Child Tax Benefit and the GST credit. These measures will provide significant benefits to low- and middle- income Canadians, particularly to women and children.

Our current tax system taxes unearned income, such as capital gains, at a considerably lower rate than it taxes wages and salaries. This chapter shows how the AFB will increase overall equity and efficiency in the tax system by reducing loopholes and treating different sources of income more equitably—and all without any overall increase in taxes.

The tax system can only do a limited amount to improve equity and reduce poverty. The major causes of poverty in Canada are a lack of jobs at decent wages, an inadequate employment insurance program, and tattered social programs.

Low-income and middle-income workers have seen essentially no increase in their real wage over the past two decades, while higher-income earners have benefited from significant wage and salary increases. Poverty in Canada will remain prevalent unless workers can earn a decent minimum wage rate. The AFB will re-introduce the federal minimum wage at a rate of $10 per hour—a rate still below what it was in 1976 in terms of real purchasing power. The overall program of the AFB will be economically stimulative and help to create hundreds of thousands of new jobs that would reduce reliance on social assistance and reduce poverty.

Canada's Employment Insurance program has been cut so severely over the past decade that it now provides coverage for only about 40% of the unemployed, while running huge surpluses year after year. The *Employment, Employment Insurance and Living Wage* chapter describes how the AFB will provide much improved benefits under the program without increasing the premium rate.

Equally important is increased funding for social assistance programs through the Canada Social Transfer, providing affordable child care, and ensuring a good supply of affordable housing.

When the federal government abandoned responsibility for affordable housing in the mid-1990s, most provinces also cut their programs. This led to the current severe lack of affordable housing in Canada, which is only too apparent in the problem of growing homelessness and reliance on food banks. A decent supply of good and affordable housing is the cornerstone for community and family health. It is another example of a critical social investment that reduces poverty, creates stronger communities—and is good for the economy as well. It's time that the federal government made a serious commitment in this area. The AFB's *Housing* chapter shows how the federal government can significantly increase the supply of affordable housing and thus reduce homelessness.

Housing is an especially severe problem for First Nations and Aboriginal communities. Aboriginal Canadians suffer from poverty rates three times the Canadian average and fare worse on almost all social and health conditions. The *Aboriginal Peoples* chapter outlines the significant investments in housing and in education that are needed if our country is to enable Aboriginal Canadians to build on the incredible wealth and opportunity that they embody. The federal government has promised to address the "shameful" conditions on reserves. It is time for the federal government to take action—for all Aboriginal Canadians, whether they live on or off reserves.

People with disabilities are twice as likely as other Canadians to live in poverty, which further contributes to persistent health problems. The AFB *Disabilities* chapter commits to tax measures to reduce poverty for people with disabilities and to both a National Disability-Related Supports Plan and a comprehensive labour market strategy to help people with disabilities gain employment.

Retirement income security ranks second only to health care on the list of Canadians' public policy concerns. The federal government has driven a wedge between Canadians who will enjoy a rich retirement and those seniors who will live in poverty by providing greater tax assistance for private retirement plans through RRSPs and RPPs while providing inadequate funding for public pensions. The RRSP program is highly regressive and provides much greater benefits for already well-off Canadians. In fact, the growth of RRSPs contributed more to the growth in wealth inequality over the past two decades than any other factor. As explained in the *Retirement and Seniors' Benefits* chapter, the AFB will increase benefits under the Old Age Security, Guaranteed Income Supplement, and Canada Pension Plans, while reducing the RSP and RPP tax benefits enjoyed by those with incomes over $80,000.

While overall employment has increased in the past year, two industries in particular have been badly hit and suffered large job losses: manufacturing and agriculture.

Our manufacturing sector faces fierce international challenges to keep jobs in Canada from being shifted to low-wage countries. The *Sector Development Policy* chapter outlines a broad set of policies designed to help preserve these and other jobs, including targeted assistance to reward real investment, more aggressive trade policies, and an expanded role for the government in supporting capital investment, technology, and innovation.

Canada's agriculture industry is in deep trouble, partly as a result of two years of drought and the BSE crisis. But the more serious underlying problems involve an unsustainable method of agriculture pushed by the large agri-businesses that provides farmers with a pittance in incomes. The *Agriculture* chapter sets out the initial steps needed to move to more sustainable farming, ensure farmers a fair share of the food dollar for their production, and reduce their reliance on agri-businesses and on the government.

Most critical to our economic future is a highly educated and innovative population. Federal cuts to education transfers over the past decade have led to an escalation of tuition fees, making post-secondary education unaffordable for many and burdening those who do go with massive debt loads. The federal government's tax-assisted education savings plans and education credits are also highly regressive—mainly benefiting those with already high incomes. As described in the *Post-Secondary Education* chapter, the AFB will replace the current patchwork of tax-assisted targeted programs with a national system of needs-based grants to make advanced education available to those without the private means. The AFB will also provide a large increase in transfers to provinces for post-secondary education that, together with legislation, will enable a substantial reduction in tuition fees, benefiting all students.

Economic growth means nothing unless we have a healthy and sustainable environment. Despite increased spending, the federal government is failing to make much progress in improving the environment, reducing pollution and meeting Canada's Kyoto commitments—which come into effect this year. Much more can be accomplished without increasing overall funding. Stronger regulations are needed, as is a rebalancing of economic incentives away from subsidizing polluting industries and fossil fuels. The AFB's *Environment* chapter describes measures the AFB will take, including the introduction of a Pollution Dividend, tax on toxic substances, the elimination of polluter subsidies, an ambitious Green Power Strategy, a Just Transition Program, and funding for new parks and marine protected areas.

While poverty is unacceptably high in Canada, the recent tsunami disaster has led to an increased recognition of the desperate poverty faced by people throughout the world. The AFB will build on the great generosity shown by Canadians in responding to the tsunami disaster by increasing development assistance by 12%-15% per year in order to reach the goal of contributing 0.7% of our country's national income as development assistance. This increase will be funded by holding the line on defence spending. Increasing our assistance is not only the right thing for a compassionate country to do: by reducing poverty and saving lives, we also enhance overall global security.

This year, the AFB calls for a "gender impact" unit within the Department of Finance. Ten years ago, at the Fourth UN Conference on Women in Beijing, the federal government made a commitment to evaluate the differential impact of public policy on men and women. A recent study commissioned by the Canadian Feminist Alliance for International Action (FAFIA) found that Canada has not implemented the mechanisms nor the financial resources required to honor these commitments. The proposed gender impact unit will provide a gender analysis of federal taxation and spending policies. This is an important step towards crafting and implementing public policy in a manner which would allow for the implementation of both the Beijing Platform for Action and the Millennium Development Goals to advance women's economic and social security (which in turn has a deep and lasting impact on the well-being of children and communities).

AFB 2005: It's Time

This year's Alternative Federal Budget provides us with an opportunity to take stock of the challenges facing Canada—shaky federal/provincial relations, the results of constant chipping away at social programs and the downloading of responsibilities from the federal to the provincial to the municipal level without the accompanying funds, crumbling infrastructure, and accelerating inequality between individuals, communities and provinces—and address and reverse them. It is no easy task, and will require a meaningful, long-lasting, multifaceted and adequately funded strategy. But, as seven consecutive surpluses (and an eighth on the way) have demonstrated, and as the Department of Finance has been forced to acknowledge, *the money is there.* And the need is profound.

We are confronted with evidence of this growing need every day. The basics of life—clean water, food, shelter, access to education and health care—are increasingly threatened for larger numbers of Canadians. Poverty rates are shameful. Inequality has grown more rapidly since 1995 than at any other time since records have been kept. Income distribution continues to be skewed in favour of those in the high earnings brackets. From 1989 to 2001, the incomes of the top 20% of wealthiest Canadians grew by over 16%, while the incomes of the bottom 40% *shrank* by about 5%.

This year the AFB focuses on the critical—and immediate—need for adequate social reinvestment, particularly given Canada's healthy fiscal position and the level of political rhetoric expressed throughout the 2004 election.

We are poised at a pivotal moment in our development as a nation, with necessary decisions that will have profound ramifications for the present and the future. With a majority of Canadians scrambling to make ends meet and to survive the cuts to programs on which they depend—child care, education and training, health care, housing, and environmental protections—the excuses for delaying meaningful re-investment in spite of a healthy fiscal dividend grow increasingly hollow, mean-spirited, and disastrously short-sighted.

Endnotes

1 *The 2004 Competitive Alternatives Study: The CEO's Guide to International Business Costs* conducted by KPMG

MACROECONOMIC AND FISCAL POLICY

The New U-shaped Federal Budget Surplus

For seven consecutive years, the Liberal government has low-balled its projected budget surpluses, only to disclose "surprise" surpluses after fiscal year-end. In contrast, the Alternative Federal Budget has consistently provided much more accurate surplus forecasts.

The AFB has long argued that these low-ball budget surplus forecasts preclude public debate. Canadians can only discuss what to do with the surplus if they realize that it exists. In effect, the government's propensity for large "surprise" budget surpluses constitutes a covert policy of prioritizing debt repayment, because, once the fiscal year ends, the Liberal government uses any remaining surplus to pay down the debt.

Public confidence in the reliability of government budget forecasts is the casualty of this political game. Thus the dynamic of surprise budget surpluses has created an embarrassing predicament for the government, which is under increasing pressure to provide more accurate fiscal forecasting.

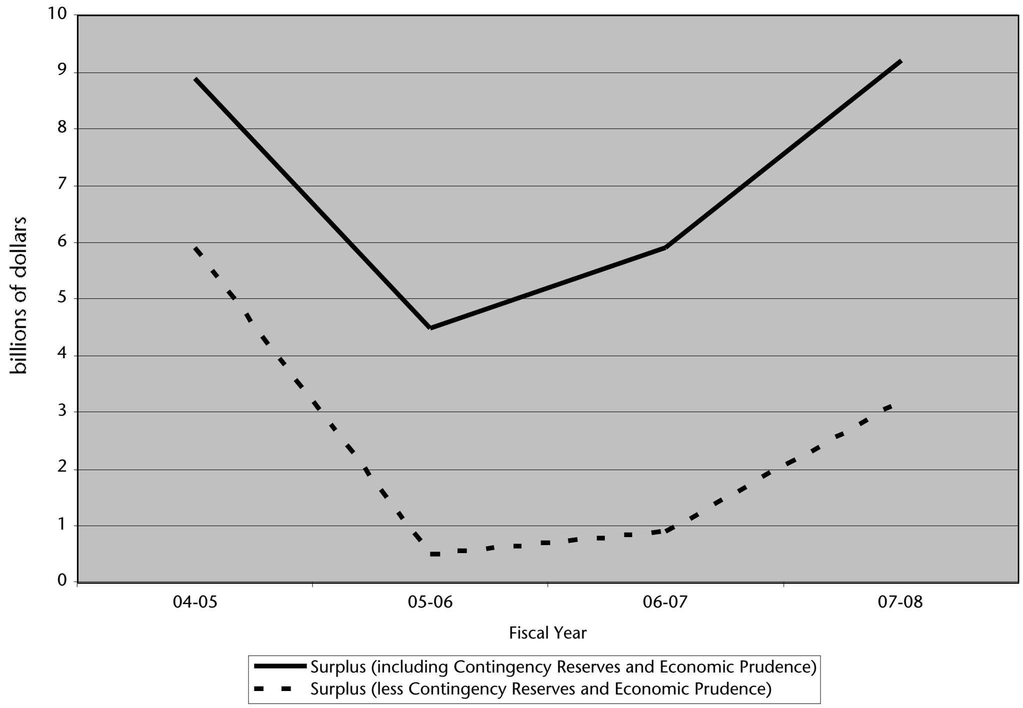
Federal surplus forecasting is subject to new influences now that the Liberals are in a minority government position. To have a chance of regaining majority status in the next election, the Liberals will no doubt be tempted to implement new spending or tax-cutting measures. This gives them an incentive to acknowledge budget surpluses before the fiscal year ends in

Table 1: Forecast and Actual Federal Budget Balances 1999/2000 Through 2003/04[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
2003-04	1.9	8.3	9.1
Total	12.4	55.0	55.8

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*); *The Cure for the Common Budget*, (*February 2003*); and *Rebuilding the Foundations* (*March 2004*) respectively.

FIGURE 1 : THE GOVERNMENT'S U-SHAPED BUDGET SURPLUS PROJECTIONS



Source: *Economic and Fiscal Update* (Finance Canada), 2004, p. 77

order to demonstrate the government's fiscal ability to undertake any such measures.

Given this unique context, the fall 2004 *Economic and Fiscal Update's* surplus projections departed somewhat from past projections. Rather than continuing to egregiously low-ball surplus estimates,[1] this year the government projects a more plausible estimate of a $8.9 billion surplus (including $3 billion in contingency reserves).

However, this forecasted surplus drops dramatically in subsequent years. After setting aside reserves for contingency and economic prudence, the government claims to have less than a billion dollars available in each of the coming two fiscal years. After 2007/08, the projected surplus again begins to grow dramatically.

We use the term "U-shaped federal budget surplus" to refer to this situation in which surpluses are depicted as occurring in the current fiscal year, falling precipitously, and then recurring in the more distant future *(see figure 1).*

THE AFB CRITIQUE OF THE U-SHAPED BUDGET SURPLUS FORECAST

This U-shaped budget surplus projection allows the government some extra financial flexibility in the 2004/05 year—a considerable advantage for a minority government anticipating a hotly-contested federal election.

In addition, the U-shaped budget surplus forecast protects the government from some embarrassment. Since the greatest attention is usually paid to the current year's surplus forecast, it lets the Liberal government suggest that it has "fixed" its forecasting credibility problem.

This new U-shaped forecast has important consequences for public policy debate. It means that Canadians are limited in their ability to discuss priorities with multiple-year fiscal implications. For example, the social programs that were cut in the deficit-fighting 1990s cannot be restored with a one-time burst of surplus money from the current fiscal year. Social programs require secure and ongoing funding in upcoming fiscal years—a possibility that is precluded if projected budget surpluses disappear and then reappear.

Thus the government can claim that any multi-year demands generated in public debate will necessitate cuts to existing programs in upcoming years.

The government is clearly trying to justify spending cuts as a necessity if the budget is to accommodate new spending. The government's "Expenditure Review Committee" is a vehicle designed to do just that. A small amount of government expenditure reallocation might plausibly be perceived as a rather benign exercise of budgetary fine-tuning. But between 2003/04 and 2009/10, the Expenditure Review Committee is charged with cutting $12 billion from existing programs. Generating savings of this magnitude for this length of time necessitates a program of sizeable ongoing budget cuts.

Canadians, however, have no appetite for new rounds of spending cuts—particularly when the programs that were cut in the fight against a deficit have not been restored. The need for renewed government program and infrastructure spending should not be manipulated to legitimize further spending cuts disguised as "reallocation."

Are The Liberal Government's U-Shaped Federal Budget Surplus Projections Credible?

To have a genuine public debate about the state of federal finances, Canadians need reliable budgetary projections for upcoming fiscal years. To encourage critical scrutiny of the government's projections, the AFB provides a status-quo budget to help readers assess the plausibility of the government's U-shaped budget surplus forecast.

The status quo budget is not intended as the AFB forecast of future federal budget surpluses. It presents only the spending room available, not including possible savings generated by expenditure reallocation or other changes to government's taxation and spending activities. Any changes in the 2005 federal budget and beyond will affect the surpluses projected in the status-quo budget.

The status-quo budget answers the following question: is the government budget surplus likely to be U-shaped? In other words, how much surplus is the government likely to have at its disposal, *without having to cut existing programs?*

For the purposes of this status-quo budget, we accept the *Economic and Fiscal Update's* spending projections. These projections already reflect the impact of this year's announcements on additional health and equalization spending, but do not include the impact of future savings generated by expenditure reallocation. We have increased these program spending estimates to reflect recent spending announcements on such things as tsunami relief and off-shore agreements with Newfoundland and Labrador and Nova Scotia.

The macroeconomic assumptions used in our projections for the status-quo budget are presented in Table 3. We assume a rate of real GDP growth as estimated in the Bank of Canada's *Monetary Policy Update* and a rate of GDP inflation as recently projected by CIBC World Markets for 2004-2006. Thereafter we assume a long-term real GDP growth rate of 3%, and a long-term real GDP inflation rate of 2%.

Much of the "U-shape" of the government's surplus projections is generated on the revenue side. The estimates provided in the *Economic and Fiscal Update* show revenues that shrink precipitously after 2004/05 as a percentage of GDP. While actual revenue/GDP was 15.3%

Table 2: Macroeconomic Indicators

	2003	2004	2005	2006	2007
	actual		forecast		
Nominal GDP Growth	5.2%	6.0%	5.4%	5.2%	5.0%
Real GDP Growth	2.0%	2.7%	2.8%	3.3%	3.0%
GDP Inflation	3.2%	3.3%	2.6%	1.9%	2.0%

Sources: Banck of Canada Monetary Policy Report January 2005 and CIBC World Markets Forecast, January 17, 2005

Table 3: Status Quo Budget (dollar amounts in billions)

	2003-04	2004-05	2005-06	2006-07	2007-08
	actual	estimate		projection	
Budget					
Revenue	186.2	197.6	206.6	216.3	227.2
Program Spending	141.4	153.7	159.3	167.0	174.1
Debt Service	35.8	34.7	34.7	34.7	34.7
BUDGET BALANCE	9.1	9.2	12.6	14.6	18.3
Federal Debt*	501.5	501.5	501.5	501.5	501.5
Revenue/GDP	15.3%	15.3%	15.2%	15.1%	15.1%
Program Spending/GDP	11.6%	11.9%	11.7%	11.7%	11.6%
Debt Service/GDP	2.9%	2.7%	2.6%	2.4%	2.3%
Debt/GDP ratio	41.1%	38.9%	36.9%	35.1%	33.4%

*See endnote 3

in 2003/04, the government projects the ratio to fall to 14.6% by 2005/06.

The federal government has a history of underestimating its revenues as part of its generation of "surprise " budget surpluses. Given strong corporate profitability and revenues from the PetroCanada sale, we see no justification for the pessimistic 2004/05 revenue estimate of $194 billion (15 % of GDP) presented in the *Economic and Fiscal Update*. In our view, a still cautious but more realistic projection of revenues is $197.6 billion (15.3% of GDP).

In years thereafter, the AFB can imagine no scenario, short of a new wave of tax cuts, which could cause government revenues to plummet to 14.6% of GDP. We adjust the government revenue/GDP ratio downward gradually to 15.1% of GDP by 2006/07, but this, in our view, is a cautious assessment of future revenues.

The AFB accepts the government's estimate of the current costs of debt service ($34.7 billion). But the government projects that these will increase substantially over the coming fiscal years. Even if interest rates were to rise, this would not justify the high debt service costs projected in the *Economic and Fiscal Update* for future fiscal years.[2] In the absence of future debt repayment *(see endnote 3),* the AFB makes the cautious assumption that annual debt service charges remain at $34.7 billion. However, even with no further debt repayment, it is quite possible that debt service costs will continue to decline.

Under these assumptions, we project that budget surpluses will be $9.2 billion for the current fiscal year, and $12.6, $14.6 and $18.3 billion for the upcoming three fiscal years.[3] These figures follow the AFB practice of disregarding contingency reserves and economic prudence in presenting surplus estimates.

These estimates show the total amount of money available to fund any mixture of debt repayment, tax cuts, or spending. Based on our assumptions, we see no justification for the "U-shaped" surplus estimates of the federal government. The government has considerable room to fund new measures from its foreseeable future surpluses—without implementing spending cuts.

The Alternative Federal Budget

The AFB advocates the use of forthcoming budget surpluses to enhance program spending in areas that have been neglected since the cutbacks of the mid-1990s. This chapter presents the AFB's plan to address this underfunding of social programs, re-invest in infrastructure, and balance the federal budget.

The AFB uses the same macroeconomic assumptions used in the status-quo budget presented above. AFB revenue estimates are also the same as those projected in the status-quo budget. And, while the AFB implements a tax fairness program, it does not change overall tax revenues.

The AFB's program spending estimates consist of three line items. The first is the baseline, which is our projection of the likely government expenses prior to the implementation of AFB measures. The second item is the increments to expenditures on government programs proposed by the AFB. The third item, entitled "CIFA amortization," is the program spending entry that reflects the activities of the AFB's infrastructure funding authority *(see below)*.[4]

For the current fiscal year, we accept as our "baseline" the spending estimate presented in the government's *Economic and Fiscal Update* (on the assumption that eight months into its fiscal year the government should have a reasonable estimate of its intended spending).

But for future years the AFB does not accept the program spending estimates of *The Economic and Fiscal Update.* The Liberal government has a track record of distorting its fiscal position by overestimating its expenses.[5] To reflect this propensity to build padding into spending estimates, we have adjusted the spending estimates of the *Economic And Fiscal Update* downward by 1% in our "program spending baseline."

The "CIFA amortization" expense reflects the impact of new borrowing of $5 billion per year by the AFB's proposed Canadian Infrastructure Financing Authority *(see page 30).* Under the rules of accrual accounting, the expense of a durable asset such as infrastructure must be amortized over its lifespan (we assume this to be 40 years). Thus CIFA's activities raise program spending slightly—by the amount of the infrastructure spending amortized over a 40-year period.

Debt service charges in the AFB are slightly higher than those in the status-quo budget, reflecting the debt service charges on the borrowing undertaken by CIFA. Here we assume that CIFA debt is incurred at the current 10-year government of Canada bond rate of 4.5%.

The AFB is able to devote surpluses towards social programs, as well as undertake significant infrastructure investment, while maintaining a balanced budget, for all of the three-year forecast period. CIFA's activities raise the federal

TABLE 4: ALTERNATIVE FEDERAL BUDGET
(dollar amounts in billions)

	2003-04 actual	2004-05 estimate	2005-06	2006-07 projection	2007-08
Budget					
Revenue	186.2	197.6	206.6	216.3	227.2
Program Spending					
Baseline	141.4	153.7	157.7	165.3	172.4
New AFB Initiatives		9.2	13.8	15.7	19.0
CIFA Amortization		0.0	0.125	0.250	0.375
Total Program Spending		162.9	171.6	181.2	191.8
Debt Service	35.8	34.7	34.9	35.2	35.4
BUDGET SURPLUS	9.1	0.0	0.0	0.0	0.0
Federal Debt	501.5	501.5	506.5	511.5	516.5
Revenue/GDP	15.3%	15.3%	15.2%	15.1%	15.1%
Program Spending/GDP	11.6%	12.6%	12.6%	12.7%	12.8%
Debt Service/GDP	2.9%	2.7%	2.6%	2.5%	2.4%
Debt/GDP ratio	41.1%	38.9%	37.3%	35.8%	34.4%

debt by only a modest amount and the federal debt burden (debt/GDP ratio) declines through all the years of the AFB projections.

MACROECONOMIC IMPLICATIONS OF THE AFB

Like the federal government, the AFB does not estimate the indirect economic impacts of our policy proposals. The AFB has employed Informetrica (a private company specializing in modeling the reaction of the economy to budgetary and other initiatives) to evaluate AFB measures, and a summary of its findings is available on the CCPA web site (http://www.policyalternatives.ca).

We expect that our proposed spending and taxation measures will have very positive economic impacts. When compared to a situation in which the government continues to run large budget surpluses that are allocated to debt repayment, the AFB program stimulates economic growth, creates jobs, and increases household income, thanks to the positive multiplier impact of increased fiscal stimulus. We anticipate that this will have only a very small impact on inflation. The benefits will be particularly large for low-income households.

The AFB package of spending and taxation policies is designed to produce a balanced budget in the sense that we match new AFB expenditures to the projected budget surpluses. However, the indirect effects of our program may well produce small budget surpluses. For example, the creation of more employment will increase tax revenues and reduce social spending.

These measures will also have very positive impacts on other levels of government. Stronger economic growth and increased employment will help provinces, territories, and municipalities to achieve balanced budgets. Given the impact of federal spending cuts on other jurisdictions *(see Federal-Provincial Fiscal Issues chapter),* this positive spin-off for other levels of government is a laudable consequence of AFB policies.

Allocating the 2004/05 Surplus

The AFB funds its multi-year spending on social programs from future budget surpluses. However, several priorities will be funded out of the current year's budget surplus. Unlike the past practice of the Liberal government, which utilized all budget surpluses for debt repayment, the AFB will fund the following public priorities out of the current year's budget surplus.

The AFB will renew the *Canada Fund for Africa* (which will be exhausted by next year) with an injection of $2 billion to be drawn over three years. The funds will be used for the HIV-AIDS pandemic, disaster relief, peace-building in countries like Rwanda and Congo, long-term development, and other poverty eradication initiatives, in keeping with Canada's commitment to the Millennium Development Goals.

The AFB will also provide $500 million to the Global Alliance for Vaccines and Immunization (GAVI) and its Vaccine Fund. According to the World Health Organization, an estimated 10.5 million children under 5 died in 2002, about 1.4 million of them from vaccine-preventable diseases. Although most children in high-income countries have access to the vaccines they need, over 27 million children—largely in low-income countries—were deprived of immunization during their first year of life. GAVI estimates that it will cost about $10 billion to vaccinate 90% of the world's children by 2015. To date, Canada has contributed only $30 million to GAVI's activities.

Pending reform of the EI system (*see Employment chapter*), the AFB will create a $1.5 billion *Training and Adjustment Fund* to provide workers who have been permanently laid-off and denied EI benefits with counselling and other adjustment services, including retraining costs. It will have a lower threshold for qualifying, enabling anyone who paid EI premiums to be eligible. Older workers will be entitled to 78 weeks of benefits. These measures represent a beginning of the repayment of EI funds previously directed to general revenues.

The AFB allocates $500 million for the creation of a *Democracy Renewal Endowment* 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.

Finally, some proposals contained in the AFB are of a nature that up-front funding is a preferable way of accommodating their requirements. The Sectoral Development Bank *(see Sectoral Development Policy chapter)* will be capitalized immediately and we will fund the sectoral consultation from the current year's surplus. This enables us to free up room in future fiscal years to accommodate other social spending priorities.

Endnotes

1 For example, in the 2003 *Economic And Fiscal Update*, the government foresaw a $2.3 billion surplus (including contingency reserve). The actual year-end surplus was $9.1 billion.

2 To appreciate the implausibility of the increases in debt services charges portrayed in the *Economic and Fiscal*

Update, consider the following. If the government is currently paying $34.7 billion to service a public debt of $501.5 billion, then the effective interest rate on federal debt is 6.9%. The current interest rate on 10 year Government of Canada bond is 4.5%. Interest rates would have to rise a very great amount before total debt service charges would experience upward pressure.

3 Since the intention of the status quo budget is to stimulate public debate about what to do with the surpluses, we don't wish to prejudge whether surpluses will be allocated for debt repayment, tax cuts and/or increased spending. Thus we highlight these projected surpluses by displaying a line labeled "budget balance" in Table 3. Since all surplus money must be allocated in some manner, as decisions are taken about its use the corresponding budget lines would be adjusted accordingly until the budget balance is zero

4 Ordinarily this expense would be displayed as a component of current program expenses. It has been displayed separately to allow readers to see the impact on the budget of the AFB's infrastructure activities.

5 For example, in 2002/03 the government spent over $5 billion less than they estimated in the 2003 *Federal Budget*.

TABLE 5: AFB SPENDING INITIATIVES
Changes from current proposed spending for these initiatives in millions of dollars

			2005/06		2006/7		2007/8
Aboriginal	Increase in health funding		184		206		230
	Increased housing and improved living conditions		1,074		1,017		1,017
	Improve Aboriginal education		303		325		652
Agriculture	Set aside land program		450		450		450
	Support for agricultural coops		110				
	Transitional loan program		250		250		250
Childcare	Build a pan-Canadian child care program		1,000		2,000		3,000
Communities	Department of Community Development		15		20		20
	Social Infrastructure Pilot		10		10		10
	Canadian Infrastructure Financing Authority		125		250		375
	Fuel tax revenues to municipal infrastructure		1,250		1,875		2,500
Culture	Renew *Tomorrow Starts Today* program				200		200
	Increase funding for CBC		250		250		250
Disabilities	Increased funding for Opportunities Fund		30		30		30
Education	Increased Funding for SSHRC		100		150		230
	National System of Needs-based Grants*		1,365		1,390		1,416
	Increase to Post-Secondary Education Transfer		1,200		1,400		1,700
Environment	National Wildlife Areas		30		30		141
	Just Transition Fund		100		100		100
Housing	Affordable Housing Initiative		1,357		1,357		1,357
	Residential Rehabilitation Assistance Program		72		72		200
	Sustainable Communities Program (Homelessness)		65		65		200
International	Increased Development Assistance		135		289		473
	Hold the line on defence spending		(125)		(335)		(540)
Poverty	Increased funding for Social Assistance and Services Transfer		1,000		1,000		1,500
Retirement	Increase GIS by 10%		550		550		550
	Increase OAS by 5%		1,000		1,000		1,000
Sector Development Policy							
	Increase funding for Technology Partnerships Canada		500		500		500
	Total Additional Spending	***$***	***12,400***	***$***	***14,450***	***$***	***17,811***
** The above amount only represents the increased spending for this program from the elimination of tax assistance for education. The total funding for this program would be:*		*$*	*2,140*	*$*	*2,280*	*$*	*2,330*

*** Additional spending under the Employment Insurance program will be entirely funded out of EI premium revenues so that that EI premiums and benefits will balance each year.*

FEDERAL-PROVINCIAL FISCAL ISSUES

Overview

Four issues related closely to the subject of fiscal imbalance have played important roles in the post-election debate over the federal government's fiscal priorities:

1) national funding for health care;
2) the newly-established social transfer;
3) fiscal equalization among provinces; and
4) the so-called new deal for cities.

Health care funding has been a consistent theme of federal-provincial wrangling since the federal government departed from the pledge of 50/50 cost-sharing in the late 1970s and early 1980s, but it was forced into sharp relief by the substantial cuts in Ottawa's share of funding imposed in the 1995 federal budget as part of the consolidation of federal transfers in the Canada Health and Social Transfer.

The social transfer has been a key issue since transfers for social assistance, post-secondary education and child care were folded in with health care in the 1995 federal budget cuts.

The issue of equalization simmered on the back burner for a number of years, as the federal government periodically reworked the equalization formula unilaterally to reduce its costs. Additional factors combined last year to give the issue much more prominence. Alberta's elimination of its public debt while other provinces are struggling financially highlighted the fiscal imbalances that equalization was supposed to address. The emergence of Newfoundland/Labrador and Nova Scotia from the protection of their respective special agreements on resource revenues at a time when oil prices are at record-high levels also pushed the treatment of resource revenues under equalization into the spotlight.

The financial stresses facing Canada's largest cities have been highlighted by widely acknowledged crises in the quality of our urban infrastructure. The gap between a limited revenue base and increasing responsibilities has been growing as a result of the downloading of responsibilities from federal and provincial levels of government.

A number of other issues have also had an impact on the fiscal imbalance. Federal program cuts have had a ripple effect. Reductions in employment insurance benefits and the elimination of the Canada Assistance Plan have shifted the burden of dealing with unemployment and poverty away from the federal government. The virtual exit of the federal government from housing policy in the mid-1990s also led to provinces abandoning this area, leaving us now with a legacy of nearly 10 years of inactivity.

In addition, the decision of the federal government in the 1990s to shift its program delivery in areas like child care, post-secondary education and child poverty from institutions to tax-system-delivered individual assistance has both cut down the flow of funds to the corresponding public programs at the provincial level and undermined the ability of provinces to make policy in these areas. For example, delivery of child care subsidies through the tax system makes it impossible for provincial governments either to focus federal assistance delivered in this form on lower-income families or to restrict subsidies to facilities that meet recognized standards.

The dramatic pull-back in the federal government's role in the financing of programs under provincial jurisdiction in the 1990s affected federal-provincial fiscal relationships in two ways. First, it reduced the flow of funds from the federal government to the provinces in what amounted to an export of federal fiscal pressures. Second, it undermined the credibility of the federal government in pressing for national standards for federally-supported programs under provincial jurisdiction.

These impacts are not short-term in nature. The reduced flow of funds from the federal government to the provinces, originally packaged politically as a necessary response to fiscal pressures, was not reversed when fiscal circumstances improved. Instead, the federal government's response to the end of the fiscal crunch was to take steps to reduce its own fiscal capacity, through tax cuts. Politically, it is not a simple matter to increase taxes to recover fiscal capacity. In addition, the diversion of billions of dollars into personal income tax expenditures in areas under provincial jurisdiction will not easily be reversed.

The challenge of developing future national standards is even more difficult. As the federal share of spending in areas under provincial jurisdiction has declined, the federal government's political leverage has also declined. In this respect, the prospect for national standards is tied to the prospect for increased federal funding. Other dimensions to this issue, while less obvious, are just as important obstacles to development of future national standards. The federal cuts in the 1990s did more than reduce provincial resources; they also signaled to provinces that the federal government is an unreliable partner in shared programs.

The cuts in the 1990s also led to changes in the structures through which programs are delivered—changes that will inevitably make the development of replacement standards more difficult. In social policy, for example, the end of the Canada Assistance Plan permitted provinces to head off in a variety of different directions, led predominantly by the ideological perspective of whatever provincial government was in power. Differences in standards are much wider than they were 10 years ago. The locus of activity in social policy development in Canada has shifted so thoroughly towards provinces that it would require a very strong exercise of political will on the part of the federal government to reverse the trend.

In employment insurance, the increased influence over labour market policies that the federal government gained through the expansion of the UI program in the 1970s and 1980s has largely evaporated through the bilateral devolution agreements that accompanied the cuts in EI.

The difficulty that the federal government is experiencing in getting back into the provision of affordable housing illustrates the problems created when policy and program infrastructure are destroyed.

The political responses of provinces to the federal fiscal squeeze have added to the difficulty in getting back to the status quo before the cuts. Provincial governments typically responded to cuts in federal funding and downloading of federal spending responsibilities onto provinces by themselves cutting transfers and shifting responsibilities onto local governments and other transfer payment agencies.

Figure 1 shows federal government transfers to provinces, as a share of GDP, from 1961 to 2003. The growth of fiscal federalism in the 1960s is apparent from the chart, as is the collapse of federal support for provinces in the second half of the 1990s.

Provincial governments followed the lead of the federal government, by in effect passing the cuts in federal transfers along to local governments.

Figure 1: Federal Government Transfers to Provincial and Local Governments 1961 to 2003

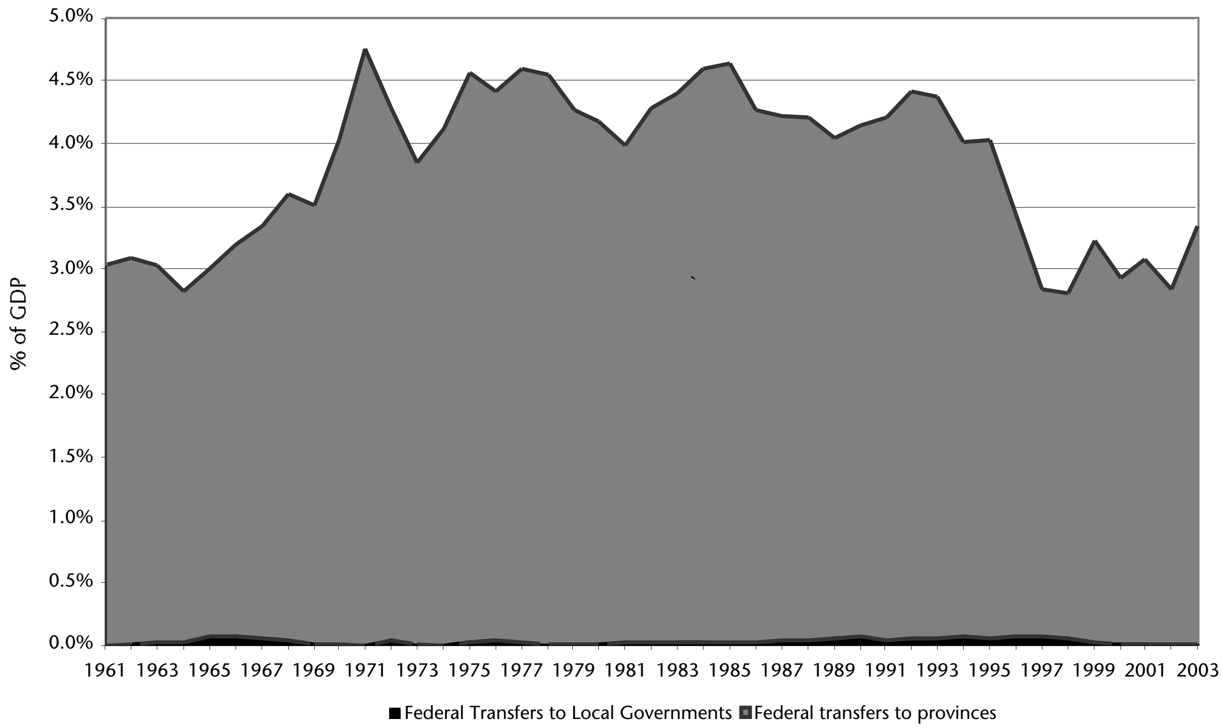


Figure 2: Local Government Transfer Revenue 1961 to 2003

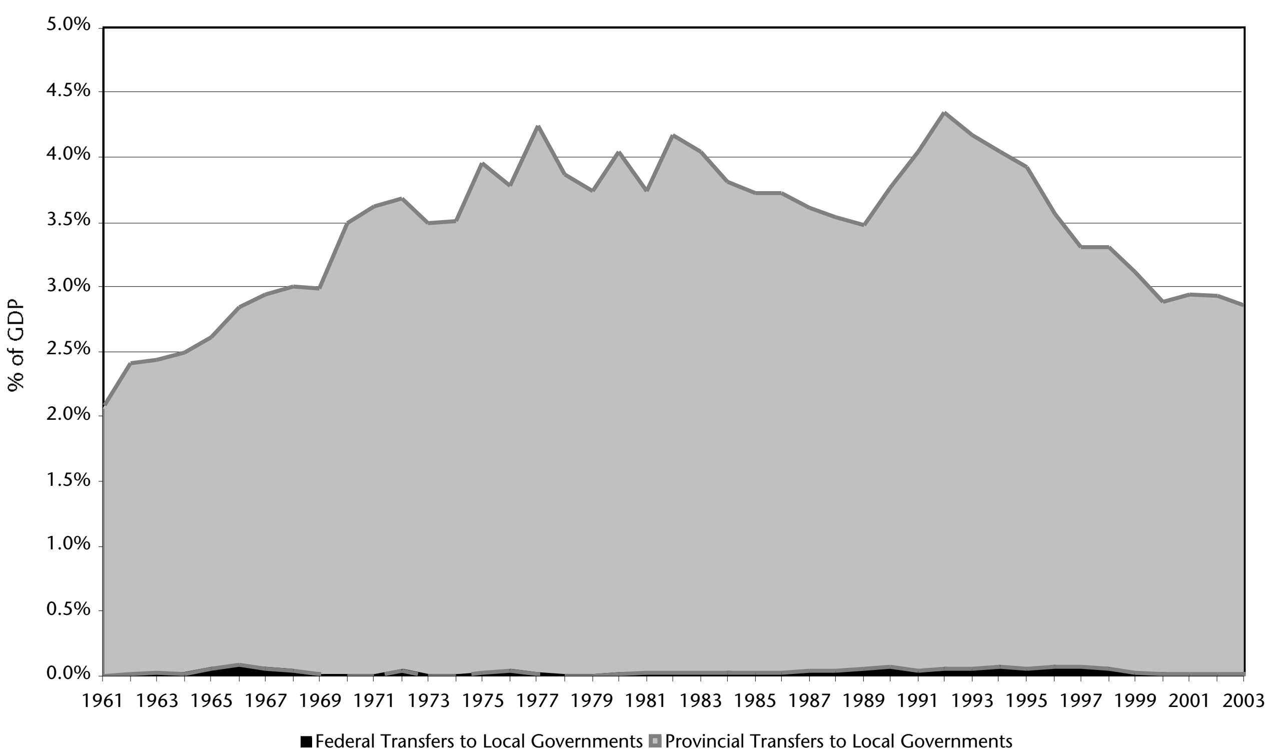


Figure 2 shows provincial transfers to local governments, as a share of GDP from 1961 to 2003. The drop in transfers to local governments tracks movements in transfers from the federal government to provinces, almost exactly.

At the same time as these shifts in transfers were taking place, the program responsibilities of local governments were expanding rapidly. For example, over the period 1955 to 2003, responsibility for public capital shifted dramatically from the federal government to local governments.

Figure 3 illustrates the change.

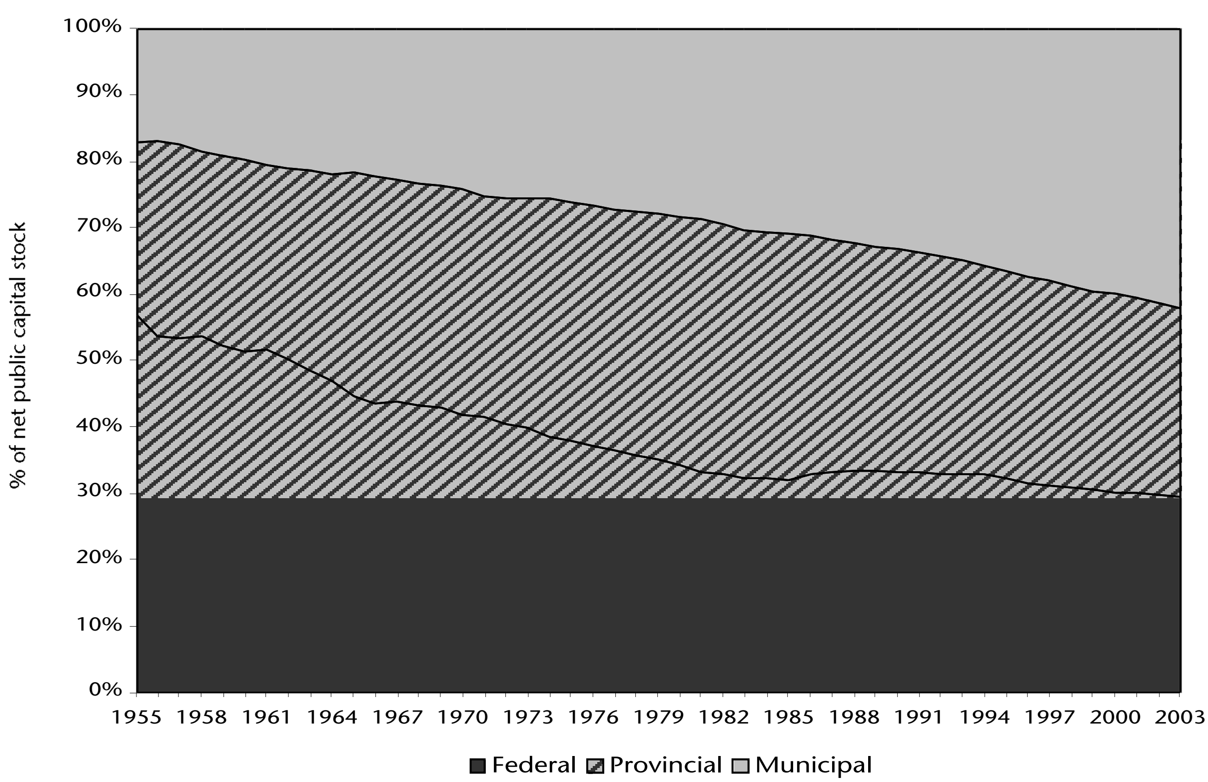
The net effect is that, while we continue to discuss fiscal imbalances as if local governments and provincial transfer payment agencies do not exist, in many respects the real fiscal imbalance is not between the federal government and provincial governments but between the federal government on one side and local governments and other transfer agencies on the other.

The fact that there is no constitutionally recognized relationship between the federal government and local governments and other agencies makes addressing these issues much more complex. In particular, the absence of a formal relationship has made it impossible for the federal government to respond appropriately to the fact that increased fiscal pressures are experienced differently and arise from different causes for different types of municipalities.

Modernizing Canada's Fiscal Arrangements

Canada's fiscal arrangements are no longer appropriate to today's political and economic environment. And while issues of fiscal imbalance may surface as federal-provincial issues, the underlying fiscal reality is much more complex. The reality is that most of Canada's infrastructure and the delivery of most of Canada's pub-

Figure 3: Share of Net Public Capital Stock 1955 to 2003



lic services is the responsibility of agencies—municipalities and provincial transfer payment agencies—with limited access to revenue, while the most robust sources of revenue are in the hands of the level of government with the most rapidly declining direct responsibilities.

That is the basis for the Alternative Federal Budget's assertion that, when you consider the context for public services throughout Canada, we do not have a surplus at the federal level; what we have is the clearest possible evidence of a mis-match between fiscal resources and service delivery responsibilities.

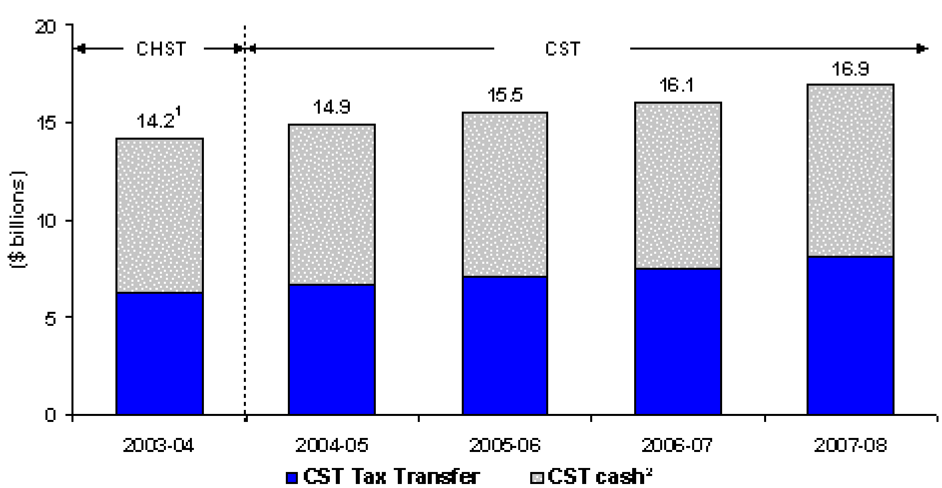
Bold steps are required to address this fundamental problem.

Fixing the Social Transfer

In April 2004, the Canadian Social Transfer (CST) arose out of the ashes of the old Canada Health and Social Transfer. The CST was created as the poor cousin of the Canada Health Transfer, which had been formed as a result of a recommendation of the Romanow Commission. The CST now amounts to a transfer to the provinces of some $15 billion in cash and tax points and is intended to support post-secondary education, social assistance, and social services, including early childhood development and early learning and child care. And yet there are no conditions attached to this huge transfer, no monitoring of how it is used, and no debate on its obvious fiscal inadequacy to deal with the issues it purports to serve. Fixing the Social Transfer is key to dealing to dealing with poverty, child care, and many other key areas of social policy such as an Urban Aboriginal Strategy.

The new CST was set up with much lower funding than had been provided under the predecessor CAP and EPF programs. It is estimated that, in the period 1995-98, the federal government reduced the CHST by some $7 billion. Of that, some $2.8 billion would have been dedicated to social/and post-secondary education spending. In today's money, this would amount to some $3.22 billion. This loss over a six-year period from 1998 amounts to at least $19.32 billion in forgone expenditures since 1998 in 2005 dollars. While certainly not the

Figure 4: Canada Social Transfer Legislated Framework



Source: Dept. of Finance 2004

only cause of cuts to social assistance, social services and to child care in some provinces over the past years, the reduced Social Transfer is certainly part of the problem. More to the point today, fixing the Social Transfer is a major part of the solution to poverty, children's rights, and many other equity issues

By 2007/08, the CST is slated to rise to $16.9 billion, but this means a rise of only 2% per year of the cash portion, which is below even the rate of inflation.

The relationship between the CST and the CHT has further worsened as a result of the major increases to health funding in the October 2004 agreement. At the start, in April 2004, the relationship was 38% for the CST to 62% for the CHT of the old CHST envelope. By 2007-08, the relationship will be 33% to 67%, or 2-to-1, in terms of health to social transfer spending.

While new monies have been added to the CST for child care in 2003 and 2004, and now $1 billion is on the table for new child care spending, the total of the Social Transfer will still be far below the pre-1995-98 period.

The AFB agrees that it is now time to start a debate on the future of the Social Transfer.[1] The AFB will initially:

1. Assure adequate funding for the Social Transfer by immediately restoring the $3.2 billion cut to bring funding to 1994-95 levels and assuring stability and predictability of funding for future years. This is only the opening step to launch the debate that needs to happen on future funding.
2. Begin to assure accountability and transparency on the Social Transfer by:
   a) dividing the transfer into separate Social Transfer and a Post Secondary Transfer; and
   b) assuring that each social item such as child care has a funding envelope within the CST.
3. Set up mechanisms to develop common principles and objectives for the social transfer that should be agreed to by all parties through a broad discussion and engagement with Canadians. We cannot allow a race to the bottom on social standards in this country.
4. Develop a pan-Canadian body, such as a Social Council, to measure outcomes, share innovation, and foster citizen involvement on social issues. All stakeholders will be represented, including governments, employees, and other citizens.

Renewing Equalization

While the issue of resource revenues in Atlantic Canada has dominated public attention in the lead-up to the 2005-6 Budget, the problems with equalization go far beyond the specific issues faced by Newfoundland and Labrador and Nova Scotia with the treatment of resource revenue.

With respect to the immediate issue of resource revenue, the key problem is that the issue has been framed as strictly political—a contest between a Premier and a Prime Minister over an election campaign commitment; between the sense of injustice rightly felt by Newfoundlanders and Labradoreans and the sense by many in other parts of the country that they are putting more into the Canadian confederation than they are getting back.

The issue of equalization should be reframed on the basis of principles that make sense to all Canadians, and that are situated in our broadly-shared belief in social justice. That means, first, re-establishing a defensible distinction between what counts and what does not count in determining a province's fiscal capacity for equalization purposes and, second, establishing a set of basic services for all Canadians that equalization is intended to enable provinces and territories to achieve.

First, the issue of what counts should be addressed consistently, throughout the formula. In particular, the treatment of resource revenues should be consistent, across all provinces. In the same vein, the formula should be re-cast so that the standard tax rates used for equalization purposes include all 10 provinces. There should continue to be a separate system for the territories. The current "system," which excludes Alberta and the Atlantic Provinces from the calculation of reference tax rates for equalization purposes, is transparently arbitrary and undermines the credibility of the entire equalization exercise.

Second, with respect to the revenue level assured by the equalization program, it is essential for the credibility of the program to shift the focus from an arbitrarily established level of fiscal capacity to a measure of the cost of providing a bundle of services under provincial jurisdiction that could be justified as meeting Canadians' basic needs for such services.

As an interim measure, the calculations in the current program should revert to the original 10-province standard for measuring fiscal capacity; and total funding for equalization should be formula-based, rather than established arbitrarily.

The New Deal for Cities

Large urban areas in Canada face fiscal issues that are not captured at all in current federal-provincial transfer payment arrangements, either those related to specific program areas or those related to general fiscal capacity. Historically, the approach of the federal government has been to treat cities economically, politically and constitutionally as "creatures of the provinces" and *de facto* rely on provincial governments to address the issues that face the large cities within their borders.

This approach is no longer good enough. Canada's large cities face significant problems that are not being dealt with effectively by their provincial governments. Cities are being expected to assume responsibility for a larger and larger share of the public services expected by Canadians, with no change in their fiscal capacity to provide them. This is not simply an issue of social or fiscal justice. It is a critical issue for Canada's economic future. In the rapidly-changing global economic environment, Canada's major cities are and will increasingly be both the engines of our economic growth and the foundations of our future prosperity.

The current federal government clearly does not get it. Despite its burgeoning fiscal surpluses, its approach to urban financial issues has been inadequate in total, gradualist in delivery, and inappropriately focused.

Two cents on the gas tax spread out over several years, and distributed to "communities" across Canada, regardless of size, is not the new deal that Canada's big cities need.

The total amount made available for renewing urban infrastructure must be much larger. And its allocation must be based on indicators that are characteristic of Canada's larger urban areas: urban infrastructure requirements; utilization of public transit; current supplies of and needs for affordable housing.

The Broader Federal-Provincial Fiscal Relationship

In the longer term, Canada needs to re-think a number of the basic ideas that have defined fiscal relationships in the federation in the past. Municipalities and other agencies of local government, relegated to the status of "creatures of the provinces" in the past, have to be recognized explicitly in these arrangements.

The division of revenue-raising responsibilities and capacities must be open to reconsideration. Taxing powers and capacities have been allocated among orders of government without reference either to program delivery responsibilities or to the ability of the order of government concerned to protect the tax base from the impact of tax avoidance. A tax base like the corporate income tax, which cannot effectively be defended at the sub-national level, is shared between the federal and provincial governments while a tax base such as the sales tax, whose defence is relatively straightforward at a sub-national or even a local level, has the federal government playing a dominant role.

It is not in the long-term interest of Canada as a nation or of Canadians as individual citizens to continue indefinitely a fiscal structure in which responsibilities and control over resources are so substantially out of synch.

Endnotes

1 These demands were orignally put forward by the Canadian Council on Social Development in its work on the Social Transfer and are contained in the document *"What Kind of Canada?A Call for a National Debate on the Canada Social Transfer"* (2004) which is available on the CCSD website at http://www.ccsd.ca/pr/2004/social_transfer/st.htm.

INFRASTRUCTURE

The AFB's Response to Canada's Infrastructure Crisis : The Canadian Infrastructure Financing Authority

The 2004 AFB introduced an innovative new approach to funding Canada's large infrastructure building and maintenance shortfall (see the *Communities* chapter for an indication of the magnitude of the Canada's infrastructure problem). The AFB will create a Canadian Infrastructure Financing Authority (CIFA), which will enable the federal government to contribute $5 billion in each of the three years of the AFB to renew the aging infrastructure on which the Canadian economy depends as part of a 50/50 partnership between the federal government and other levels of government.

The Unique Properties of Infrastructure Spending

CIFA is designed to reflect the fact that infrastructure spending is different than program spending. Program spending is the current expenditures financed out of current revenues, since this spending 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) 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.

Why Incurring Debt is Appropriate for Financing Long Term Assets Like Infrastructure

Unlike program spending (from which no durable assets remains after the fiscal year ends), the longevity of infrastructure means that it is appropriate for infrastructure projects to be debt financed. Corporations frequently incur debt in order to build the infrastructure they require. Businesses can't stay competitive unless they invest in the assets they need to promote their productivity—and 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.[1]

The AFB's Canadian Infrastructure Funding Authority will raise $5 billion annual through the issue of new federal debt. Given the fervor with which the current government and its supporters have vilified the idea of government borrowing, the AFB appreciates that federal borrowing is regarded as controversial.

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. Indeed a corporation that made a fetish out of never borrowing would likely be driven out of business by its more realistic competitors.

Most importantly, federal borrowing is the most cost-effective way of incurring debt for infrastructure purposes. 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.

As Table 4 illustrates, CIFA's borrowing activities do not imply a rising federal debt burden. The AFB projects that the debt to GDP ratio will fall from about 41% of GDP at present to 35% after three years, despite the impact of CIFA borrowing. Federal debt service charges are slightly higher to reflect the interest charges on CIFA borrowing, but the ratio of debt service to GDP also falls for every year of the AFB's projections.

Endnotes

1 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.

ABORIGINAL PEOPLES

Close to one million Canadians identify themselves as Aboriginal people, including over 600,000 North American Indians, 300,000 Metis, and 50,000 Inuit.[1] The Aboriginal population is:

- *growing rapidly*, with average annual growth of over 4% per year, compared to less than 1% for other Canadians;
- *young,* with an average age of 25 years, compared to 37 years for the non-Aboriginal population; and
- *diverse,* with a multitude of different origins and traditions, living in urban, reserve and rural areas in all regions of Canada.

Canada's Aboriginal peoples embody an incredible wealth: of heritage, knowledge, opportunity and optimism. With Canada's population aging, skills and labour shortages are bound to develop. Unless appropriate opportunities are provided for the rapidly growing Aboriginal population to contribute, our economy and society will not only forgo this great potential, but also incur continued large social costs.

Without strong and decisive action, this great opportunity will be squandered and we will have a further escalation of disparities between Aboriginal and non-Aboriginal peoples, and of the social and economic costs that come with poverty. Aboriginal peoples face among the greatest social and economic disparities when compared with other groups in Canada:[2]

- Incomes of Aboriginal people average 60% of non-Aboriginal people.
- Unemployment rates are 2-3 times the average.
- Poverty rates are three times the average.
- Life expectancy is 5-10 years less than for other Canadians.
- Infant mortality rates are 2-3 times the average.
- Suicide rates for youth are 5-8 times the average.
- They are two to three times as likely to suffer chronic health conditions and to live in inadequate and crowded housing.

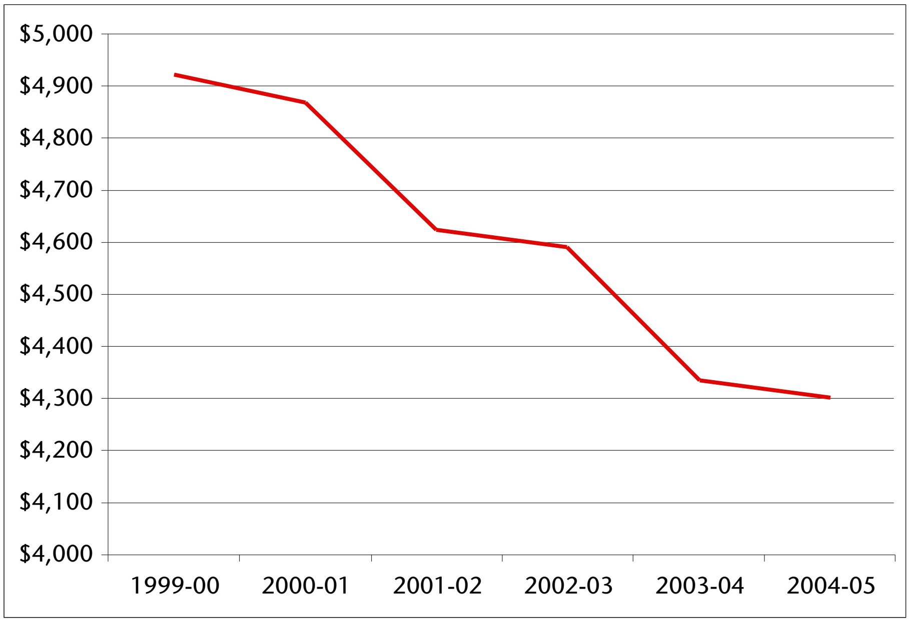
These conditions represent not just an enormous social cost, but also a massive economic and fiscal cost. If First Nation and Aboriginal people were to achieve Canadian average incomes, Canadian governments would benefit from substantially increased tax revenues as well as considerably lower costs. This should be a strong and urgent incentive to improve their conditions.

Some progress is being achieved: more Aboriginal youth are completing high school and post-secondary education. Housing conditions are showing signs of slow improvement. But, despite some progress, the gaps continue to grow as the conditions of other Canadians have improved more rapidly.[3]

To reduce these disparities, much greater investments will need to be made to keep up with the higher population growth rates of Aboriginal communities. *The status quo is not an option.*

When adjusted for inflation and population increases, the total budget for Indian and Northern Affairs Canada has dropped in real terms by 3.5% since 1999/2000. Funding for core services such as education, social development, capital facilities, and Indian government sup-

Figure 1: Indian and Northern Affairs Canada Spending on Core Programs - Per Capita* and Adjusted for Inflation[4]



* Note: Per capita refers to the "registered Indian" population only, inclusion of Inuit population statistics would show even smaller per capita spending.

port has declined by 13% in real terms over this same period.[5]

Current funding levels are not enough to positively change the conditions of Aboriginal peoples. If these critical shortfalls are not addressed now, we will be faced with spiraling costs in the future.

Maintaining the status quo means continued poverty for Aboriginal peoples. While the February 2004 *Speech from the Throne* recognized the "shameful" conditions in many Aboriginal communities, little concrete action has been taken since then. What is required is action to re-focus existing resources and increased spending targeted at concrete improvements.

Almost half of the Aboriginal population lives in urban areas. While First Nations governments have responsibility for their citizens whether they live on or off-reserve, urban Aboriginal communities have also been recognized as self-determined, organized and distinct.

Significant investments are required to meet the needs of all Aboriginal peoples, irrespective of their status or where they live: on reserves, through First Nations, Tribal Councils, territorial governments, and through Aboriginal organizations, such as Aboriginal Friendship Centres that provide a broad range of services to off-reserve and urban Aboriginal communities.

To address the growing health care needs of the Aboriginal population, the AFB will introduce an escalator clause for health care funding. An escalator of 10% reflecting population growth, health needs, and other cost drivers will cost approximately $200 million per year for each of the next three years. Appropriate escalators in other core programming areas will also be developed.

Decent quality housing is a central priority for Aboriginal Canadians. Ramshackle and overcrowded housing conditions have led to a cycle of stress and sickness that in turn pushes more costs onto the health care and social services systems. Housing is of particular concern for Aboriginal women and children, both on-reserve, where they lack provincial family and violence protection laws affecting real property interests, and off-reserve where affordability and quality are major problems.

The cost of upgrading existing housing, clearing the backlog of housing needs (estimated at 8,500 to 20,000 units) and new development and construction to meet growing needs will cost an additional $1 billion per year. This spending is separate from the affordable housing investments outlined in the AFB's Housing chapter, which includes the needs of urban and off-reserve Aboriginals but does not include the needs of those living on reserves.

Education is key for the future prosperity, health and vitality of Aboriginal peoples. While some progress has been made, conditions and achievement levels for Aboriginal youth still lag far behind national standards.

As the Auditor-General recently reported, the education gap between First Nations people living on reserves and the general population has actually widened in recent years. At current rates, it is expected to take 28 years to close this gap. The *Post-Secondary Student Support Program* (PSSSP) appears to be supporting fewer and fewer students, with little accountability—just as the needs are increasing.[6] An estimated 10,000 First Nations students were unable to access funding, as well as many thousands of other Aboriginal students.

The budget for the PSSSP program needs to be increased to allow more Aboriginal students to obtain post-secondary education, and status-based restrictions to the program must be eliminated. Funding for the PSSSP program should be indexed to the growth in the Aboriginal youth population. The proposal to tax PSSSP funding should also be rejected on constitutional and policy grounds.

Increased effort and support is needed at all different levels: early childhood development, special education and services for FAS/FAE children, program development, capital spending, curriculum development, support for Aboriginal language and cultures, and post-secondary student support. The AFB will provide an additional $1.1 billion over three years on this comprehensive strategy to improve the quality of Aboriginal education.

Urban and off-reserve Aboriginal people need access to ongoing training opportunities. Federal support for Aboriginal training has been provided largely through the Aboriginal Human Resource Development Strategy (AHRDS) agreements. Funding for AHRDS should be increased to include urban Aboriginal organizations.

The proposals outlined in the Child care chapter encompass costs for a child care system available to all children in Canada, including Aboriginal children. But specific programs for Aboriginal children need to be further developed.

There is no question: the investments required to reduce these disparities are large. *But these costs are a true representation of actual needs.* For too long, these basic needs have been underfunded. It is time that the government begins to reinvest in these crucial areas.

The Liberal government made an election commitment to provide clean water and adequate housing for all Aboriginal communities by 2008, and to enable Aboriginal peoples to achieve educational, health and employment levels equal to those of the non-Aboriginal population. The costs of *not* making these investments—in terms of continued social costs and lost economic opportunities—far exceed the costs of implementing them. Unless the federal government fulfills its responsibility to provide proper health care, housing, and education to Aboriginal Canadians, another generation may be lost. Stronger Aboriginal communities will mean a stronger Canadian economy, from which everyone will benefit.

For Aboriginal people, the AFB will:

- *increase First Nations health funding by 10% per year for the next three years;*
- *provide an extra $1 billion per year to address housing needs on reserves;*
- *provide an additional $1.1 billion over three years on a comprehensive strategy to improve Aboriginal education;*
- *expand eligibility and funding for the PSSSP program; and*
- *increase training opportunities for off-reserve and urban Aboriginal peoples.*

Other measures that will positively affect Aboriginal peoples who live off-reserve and in urban areas are discussed in other chapters of this document.

Endnotes

1 2001 Census of Canada. *Aboriginal Identity Population* http://www12.statcan.ca/english/census01/products/highlight/Aboriginal/Index.cfm?Lang=E

2 2001 Census of Canada *Aboriginal Peoples of Canada Topic-Based Tabulations*. http://www12.statcan.ca/english/census01/products/standard/themes/ListProducts.cfm?Temporal=2001&APATH=3&THEME=45&FREE=0; *Aboriginal Peoples Survey. well-being of the non-reserve Aboriginal population.* http://www.statcan.ca:80/Daily/English/030924/d030924b.htm

3 Treasury Board of Canada (2004) *Canada's Performance: Chapter 4: Aboriginal Peoples.* December 2004. http://www.tbs-sct.gc.ca/report/govrev/04/cp-rc5_e.asp#22

4 Assembly of First Nations (2004), *Federal Government Funding to First Nations: The Facts, the Myths, and the Way Forward.* http://www.afn.ca/Federal%20Government%20Funding%20to%20First%20Nations_web2.pdf

5 Source: Assembly of First Nations (2004). *Federal Government Funding to First Nations*, pp. 13-14.

6 Auditor General of Canada (2004). *Report of the Auditor General of Canada: Chapter 5 Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support.* November 2004. http://www.oag-bvg.gc.ca/domino/reports.nsf/html/04menu_e.html

AGRICULTURE

The net cash incomes of Canadian farmers reached a 25-year low in 2003. Back-to-back droughts and the BSE crisis combined to slash farm incomes by 40% across the country and by over 60% in Saskatchewan and Alberta.

Direct farm support payments to farmers amounted to $4.3 billion in 2003—accounting for almost all of the total cash income received by farmers. Farming, particularly in the Prairies, is in a deep crisis. Resolving the BSE crisis will obviously help over the short term, but it will not address the deeper structural problems in the industry.

North American and European countries excessively subsidize agriculture, driving down prices and causing hardship particularly for farmers in developing countries. The main beneficiaries of these enormous subsidies are large corporate farms and agri-businesses—and not the small family farm. Low prices also mean that farmers receive a smaller and smaller share of the retail price of food.

During the five years between the last two national censuses, an additional 11% of Canadian farm families were driven off the land. This was an acceleration of a trend that has seen two-thirds of our farm families uprooted over the past half-century.

In trying to rationalize this virtual liquidation of family farmers, government and corporate leaders claim that farmers are the victims of their own "inefficiency." All evidence, however, refutes this allegation. The truth is that our farmers are among the most efficient producers in the entire Canadian economy. Although retail food prices have doubled and even tripled since the mid-1970s, the share going to farmers has not increased. But farmers—those who still survive—continue to produce and deliver their products for 1975 prices. This outstanding performance gives the lie to the charge that our farmers are inefficient and thus to blame for their own misfortune.

To a very significant extent, the crisis has been the result of corporate greed and government neglect. The agri-business corporations that provide farmers with fertilizers, machinery and other inputs, the transportation companies that carry their crops, the firms that process the food, and the wholesale and retail grocery chains have all increased their profits enormously, dividing the benefits of food price increases among them. But the farmers have been denied their fair share. The retail price for a loaf of bread, for example, has more than tripled from $0.43 in 1975 to about $1.35 today, but the farmers who grow the grain have not received a penny of this large increase. Their share remains at a meager 6 cents. All the additional money has gone to the firms trade and process the grain and then bake and sell the bread. In addition to the low prices farmers receive, their income shortfall is also caused by the high prices they have to *pay* for the equipment they need for their operations.

Clearly, firm and decisive steps must be taken to save the remaining family farms and to bring farm and food security to the whole country. Comprehensive measures are needed to increase the prices that go to farmers, reduce the cost of their inputs and to move to a more sustainable form of production.

Because the farm income crisis is also created by the high prices farmers are forced to pay for fertilizers, tractors, seeds, and other farm inputs, as well as the low prices they receive for their crops, the power of large transnational farm input manufacturers must be curbed. They admit they set prices according to what the market will bear, and this market power must be restrained if the farm crisis is to be adequately addressed.

The following measures are aimed at enabling 95% of farmers to recover their full costs of production, including reasonable returns on labour, management, and investment.

The first elements of such a plan include:

- Joining with other major grain exporting nations to gradually decrease the acreage of grain-crop land to a level where supply is balanced with demand and storage gluts are avoided. This will raise grain prices sufficiently to meet production costs. A 3% annual reduction in such land could achieve the desired price levels in less than a decade. Canadian farmers will be offered short-term financial incentives to reduce their cropping intensity accordingly. The cost of a set-aside land program would amount to about $450 million per year.
- Helping farmers to reduce their costs by providing assistance to create both purchasing and input production cooperatives. This will help to curb the almost unrestrained market power of the large agri-business corporations. The AFB will commit $210 million in the first year to help fund the creation of these input manufacturing and purchasing coops.
- Providing funds for a transitional loan program to enable farmers to move to more value-added production and alternative farming systems with lower use of fertilizers and pesticides. Prices obtained for organic agricultural products are much higher and involve lower input costs for fertilizer and pesticides. However, the transition to this form of production takes three years. The AFB will initiate a subsidized loan program with bridge financing to help farmers make this transition, costing an estimated $250 million per year.

If these measures were implemented successfully, they would virtually eliminate the need for large direct subsidies to farmers. If the modulation of grain supplies resulted in even a 25% increase in grain prices, it would put an additional $3.3 billion in farmers' pockets. A doubling of grain prices would give farmers another $13 billion. The farmer-owned co-ops would enable farmers to retain their fair share of market revenue. Together, these two programs alone could save the federal treasury as much as $3 billion a year.

- One of the least costly measures could be to better educate consumers about the content of their food—and about the share going to farmers. Canada's food labels should indicate the presence of genetically-modified ingredients and an estimate of the farmers share, so that consumers are aware that farmers receive less than 5% of the cost of loaf of bread for instance.
- Ending hunger in Canada calls for a major commitment that goes beyond the scope of a single federal budget. But it is a pressing and achievable goal if given the needed priority and resources. There is more food stored in Canada than in any other nation in the world, yet our governments still leave millions of Canadians—including hundreds of thousands of children—inadequately fed and dependent on food-banks. In such a food-rich country, this neglect is inexcusable. Working with its farmers, Canada could easily guarantee zero-hunger for all its citizens. We make a commitment in this AFB to take the first decisive steps to assist and encourage our farmers to help achieve this far-too-long-delayed goal.

For agriculture, the AFB will initiate a comprehensive plan to increase farmers incomes and control over their production, reduce agriculture subsidies and move agriculture to a more sustainable basis. The first elements will include:

- *helping farmers to gain greater control over their production by funding farmer input co-operatives;*
- *setting aside land to modulate grain supplies and prices; and*
- *taking measures to encourage the transition to more organic and local production.*

CHILD CARE AND EARLY LEARNING

After many decades of promises, there is now some optimism that the federal government is finally ready to provide support for a national system of child care and early learning.[1]

High-quality universal child care provides not only lasting educational and social benefits to children, but also allows parents to contribute more to society through greater workforce participation, reduced social assistance costs, and higher tax revenues. A recent report estimated that the child development and labour force benefits of a good quality child care program would exceed the costs by a ratio of two to one:[2] that is, $5 billion in spending on child care would provide $10 billion in benefits in terms of better care and outcomes for children and more workforce activity on the part of parents. Additional benefits of such a program include more and better jobs for child care workers and increased tax revenues (and lower social assistance spending) with more parents able to work.

In addition to child care's key role as a support to participation in the workforce, we know that "quality child care is essential to addressing many of our most pressing societal challenges, including promoting a healthy population, reducing child poverty, advancing women's equality, deepening social inclusion, and building a knowledge economy".[3]

A recent report by the Organization for Economic Cooperation and Development (OECD) roundly criticized Canada for having a patchwork of chronically underfunded child care programs that offer little more than babysitting services. The OECD report recommended that Canada substantially increase funding on child care and introduce an integrated system with the provinces and territories with targets, benchmarks and timelines for implementation.

Over the past decade, average wage increases have barely kept up with inflation. This means that both parents in families with young children usually need to work to keep up with increasing costs. Canada's scarce set of inadequate and expensive child care programs of uneven quality—calling it a "patchwork" is generous—puts a high level of strain on working families and deprives children of the stimulating and healthy start they deserve in life.

Quebec's successful child care program, which provides quality child care for a minimal daily fee, now acts as a beacon for other governments in Canada. Federal, provincial and territorial ministers met in November 2004 and agreed on shared principles to guide the development of a new national system of early learning and child care. Quebec was not part of this agreement since it has already introduced such a system.

The Liberal minority government has promised to phase in an additional $5 billion over five years for a national child care and early learning program, but much more is needed to meet its promise of achieving a high-quality, universal care and developmental program. Unfortunately the government already appears to be weakening its commitment to having a universal program.

Child care advocates have provided a detailed blueprint to achieve such a program over the next 15 years.[4] This includes new federal child care funding and legislation tied to provincial and territorial plans for local delivery of quality, universal, publicly-funded child care and policies to help parents balance work and family responsibilities.

The AFB supports this plan to build access to quality, regulated *not-for-profit* child care on a full-time or part-time basis for all children from birth to six years. Studies have shown that non-profit day-cares provide much higher quality care for children in all areas.[5] The plan moves Canada away from the current user-pay patchwork system towards publicly-funded child care programs, with parents contributing an average of 20% for the overall costs. In this plan, 10% of the spaces, and additional resources, would be for children with disabilities.

The plan is targeted to be available to the entire 0-6-year child population by 2020 and to require approximately $10 billion in annual federal spending—or 1% of Canada's GDP—the minimum funding level recommended by the European Union Child Network for its member countries. Achieving this target within 15 years is a modest target, but one that is highly achievable. Funding will be provided to Quebec in recognition that it has already implemented such a program.

The AFB will incrementally increase federal funding on child care by $1 billion for each of the next three years: annual federal funding of approximately $600 million now will increase to $1.6 billion in 2005/6, to $2.6 billion in 2006/7, and to $3.6 billion in 2007/8.

Funding for this program will be provided through a dedicated child care social transfer. This will enhance transparency and accountability for public funds and help communities to assess progress.

While this plan is geared to children under age 6, the AFB recognizes that additional planning and resources will enhance Aboriginal Head Start and other much-needed programs and services for First Nations and Aboriginal children. The AFB also recognizes that adequate resources are required for the child care needs of school-age children.

Funding for the Aboriginal Head Start in Urban and Northern Communities Program should be increased, particularly in urban areas with lengthy waiting lists. Funding for these programs should have annual increases to meet increased costs and demands. Funding for the Community Action Plan for Children (CAPC) and Canada Prenatal Nutrition Program (CPNP) should also be increased, particularly in urban areas with high levels of urban Aboriginal people.

A Child Care Act

Effective child care and early learning systems can only exist in the presence of a strong public policy framework. Layering new funding on top of the current patchwork—without adequate infrastructure, accountability mechanisms, and family supports—will not provide the desired results that are urgently needed.

While provinces and territories have jurisdiction over child care service design, the Social Union Framework Agreement affirmed the federal government's pro-active role on pan-Canadian social issues. A federal Child Care Act with national standards will provide accountability for, and be consistent with this agreement's assurances that Canadians will have access to comparable services wherever they live. We need to enshrine the principles of child care—quality, universality, accessibility, developmental programming, and inclusion—in legislation.

This act will include a commitment to expansion in public and/or non-profit service delivery only, to ensure that all funding remains within the child care services. This will also ensure that trade agreements do not constrain the program.

Canada's families can't wait any longer. A pan-Canadian child care system will lay the foundation for our future economy and a higher quality of life for all Canadians.

For child care and early learning, the AFB will:

- *commit an extra $6 billion over the next three years for the development of a pan-Canadian high quality, universal, affordable child care program;*
- *provide additional funding for school-age and Aboriginal child care programs; and*
- *introduce a federal Child Care Act.*

Endnotes

1 Early learning and child care is "generally defined as a non-compulsory service that promotes the healthy development of children, at the same time as it provides parenting supports and resources and enables parents to work, study, care for other family members and/or to participate in their community."

2 Cleveland, G. and Krashinsky, M. (1998). *The Benefits and Costs of Good Child Care*. University of Toronto at Scarborough, p. 65.

3 OECD (2004). *Early Childhood Education and Care Policy Canada Country Note*. OECD, Paris.

4 Child Care Advocacy Association of Canada (2004). *From Patchwork to Framework: A Child Care Strategy for Canada*. Ottawa: CCAAC. http://action.web.ca/home/ccaac/alerts.shtml?x=69262

5 Cleveland, G. and Krashinsky, M. (2005). *The quality gap: A study of non-profit and commercial child care centres in Canada.* University of Toronto at Scarborough. http://www.child carepolicy.net./research/profit.php

CITIES AND COMMUNITIES

Canadians increasingly look to their cities and communities to provide a good quality of life for citizens and new immigrants by becoming vibrant centres of employment, culture, learning and commerce, nourished by public ownership and control.

Drastic cuts in federal and provincial government program spending over the past decade have severely hobbled local governments. Federal and provincial transfers to municipalities have declined by 37% in the past decade.[1] As a result, Canada's municipal infrastructure debt is estimated to be $60 billion and is growing by $2 billion a year.[2] Another estimated $21 billion is needed to improve urban transit.

Our towns and cities are feeling the impacts of globalization, downloading, funding cuts, restructuring, and amalgamation. A shrinking financial base has left many communities struggling to find new ways of financing investments and services.

Diversity of Needs

The federal government has many different but diffused policies directed at municipalities. These include infrastructure funding, environmental sustainability and climate change initiatives, services for new immigrants, housing programs, community development initiatives, transportation and energy use in cities, urban Aboriginal policy, and the real estate activities of the federal government itself.

Strong communities need affordable housing and supports for homeless people. Many communities are currently experiencing crises in housing that could be addressed through a national housing strategy. (See *Housing chapter*)

For many women in underfunded urban centres, the inadequacy of public services makes city-living stressful and even dangerous. With restricted access to public transportation, child care, affordable housing and community centres, women can find cities particularly inhospitable.[3]

Municipalities are largely dependent on property taxes for their revenues. Property taxes are not directly related to income, and tend to be regressive, placing a heavier burden on those with lower and middle incomes, particularly renters. Property taxes do not grow with the economy, which places an annual budget challenge on municipalities. Municipalities face growing responsibilities for social assistance, with EI covering fewer and fewer Canadians.

Almost half of Canada's Aboriginal people live in urban areas. Many of these are youth with limited access to the public services they need.[4] Adequate infrastructure funding and programs must be developed in consultation with Aboriginal communities, both on and off reserve. *(See Aboriginal Peoples chapter.)*

Nearly three-quarters of all new immigrants settle in Toronto, Vancouver, or Montreal. Immigration is helping to meet Canada's labour force needs, but has also led to increasing demands on municipalities.

Urban development policies have promoted urban sprawl, moving us further away from our Kyoto targets. Few municipalities charge developers for the full costs of new developments, thus creating further incentives for sprawl and resulting in growing municipal infrastructure and development costs. Sprawling communities rely heavily on automobiles, which are the greatest source of greenhouse gas emissions. Sprawling communities need to have their water and natural gas pumped in and waste pumped out over long distances, using more energy than would be required to service denser, more integrated communities.

Urban development plans should include local job creation, local shopping and services, energy-efficient housing construction, green spaces, investment and diversification of downtowns, and improved public alternatives.

A pan-Canadian urban strategy is needed to address the current centralization of wealth and development in few urban centres. While the largest cities in Canada have enjoyed strong growth, many smaller Canadian communities have experienced a decline in population. This has led to increasing inequality among Canadian cities and a declining ability of many communities to sustain an adequate quality of life.

By investing in quality jobs in health and social services, and ensuring that infrastructure and municipal services are publicly maintained, governments can contribute to a more equal and welcoming society, a better quality of life for residents, and healthy local economies.

Co-ordination of Responses

The federal policies on cities and communities should be part of a coherent sustainable social, environmental, and economic infrastructure program—and more than just a transfer of funds. It should involve sustainable public financing for infrastructure and policies to reduce the future infrastructure needs generated by urban sprawl.

The federal government needs to help develop communities in which workers have job security, healthy workplaces, decent pay, and pensions. This can be done by working with provincial and local governments to develop programs for employment equity and to ensure that immigrants' skills and experiences are recognized.

A National Communities Strategy

The AFB will develop a National Communities Strategy to provide direction for all government departments and articulate to the public a clear statement of the federal government's role in their communities.[5] This would be developed in consultation with the public, municipalities, workers, unions, social service agencies, and other stakeholders.

Increased co-ordination under such a strategy will encourage the CMHC to contribute its significant expertise in the areas of housing, research and planning to support the infrastructure needs of communities. CMHC housing assistance programs and services will be enhanced and positioned as an integral part of a national communities strategy.

Department of Community Development

The AFB will upgrade the current portfolio of the Minister of State for Infrastructure and Communities to a full department. Full departmental status with a senior seat at the cabinet table will reflect the national long-term importance of community issues. The Department of Community Development (DCD) will coordinate federal action on community issues and develop the National Communities Strategy.

The new department will include the current responsibilities of the current Ministry of Infrastructure and Communities, including infrastructure funding and the four urban Canada Lands Crown corporations. It will also include the existing Rural Secretariat and a new Small Communities Secretariat to provide inter-departmental coordination on these issues.

The AFB will also support the Federation of Canadian Municipalities' proposal for a three-year pilot project of support for community facilities dedicated to cultural, educational, and recreational events and programming.

Funding Communities

The Department of Community Development will help communities meet the tremendous challenge of renewing public infrastructure by enhancing existing infrastructure programs with a portion of the fuel tax and by establishing a new Crown corporation: the Canadian Infrastructure Financing Authority (CIFA).[6]

Part of the ongoing funding for infrastructure will come from a dedicated share of the fuel tax, consistent with the municipal requests for 2.5 cents/litre in 2005 ($1.25 billion), ramping up to 5 cents/litre by 2007 ($2.5 billion).[7] This money will go towards expanding the Canada Strategic Infrastructure Fund and will be allotted according to the formula agreed upon by the Federation of Canadian Municipalities.

The CIFA will raise up to $5 billion per year in federally-guaranteed new credit, which will be used to finance public infrastructure projects cost-shared on a 50/50 basis with provinces, municipalities, or other levels of public administration. The new borrowing undertaken by 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 among the lowest available in Canada. *(See Infrastructure chapter for more details.)*

Municipal infrastructure projects will continue to be jointly funded through public-public partnerships between governments, with the Canadian Strategic Infrastructure Fund providing the basis for federal contributions, functioning as a public bank from which other governments could borrow for these infrastructure projects. The CIFA will also allow the federal government to develop strategies to encourage public borrowing through municipal debt pooling, and public investment of pension funds by issuing bonds at attractive rates.

Precious infrastructure resources will not be directed to more expensive and less accountable for-profit schemes, such as contracting-out and public-private partnerships (P3s). This will ensure fiscal prudence and long-lasting reliable public services.

Good Neighbour Initiative

The AFB rejects the idea that the federal government should sell its significant real estate holdings, which are worth over $7 billion and generate annual rents of over $500 million. DCD will help facilitate, along with the Department of Public Works, the development and implementation of a "Good Neighbour Initiative."[8] This initiative will build on current policies to direct, through legislation, real property spending to support local planning objectives such as sustainable development and downtown revitalization.

Retaining public ownership of federal real property assets is key to this initiative, as it preserves a major tool to help spur urban revitalization, environmental standards, best practices in construction industry, heritage preservation, support for public transit, and a green procurement policy.

For communities and cities, the AFB will:

- *develop a National Communities Strategy;*
- *establish a new Department of Community Development;*
- *provide a dedicated share of the fuel tax totalling about $5.6 billion over three years to fund municipal infrastructure; and*
- *establish a Canadian Infrastructure Financing Authority that would help finance up to $10 billion per year in new cost-shared infrastructure projects with provinces, municipalities, and other public agencies.*

Endnotes

1 Federation of Canadian Municipalities, "A New Deal for Cities and Communities: Pre-Budget Consultations", Submission to the House of Commons Standing Committee on Finance, November 2, 2004, p.5

2 Federation of Canadian Municipalities. (2003). *A New Deal for Community Prosperity and Well Being*, Submission to the House of Commons Standing Committee on Finance Pre-Budget Consultations. Ottawa: FCM.

3 Canadian Policy Research Network, "Towards Women Friendly Cities", CPRN Urban Nexus, March 2004. http://www.cprn.org/en/doc.cfm?doc=551

4 Statistics Canada, "Initial Findings: Well-being of the non-reserve Aboriginal population", Aboriginal Peoples Survey 2001, September 2003, Catalogue 89-589-XIE, p.8

5 Shaker, Paul. (2004). *More than Money: The New Deal for Cities and a Federal Urban Lens*. Hamilton: Centre for Community Study, p. 8.

6 Alternative Federal Budget, "Public Infrastructure", Ottawa: Canadian Centre for Policy Alternatives, 2004, pp.19-23

7 Mayors' Summit. (2004). *Mayors' Summit Communique: September 18, 2004.* Toronto: Mayors' Summit, p. 1.

8 Public Works and Government Services Canada is the department responsible for most of the general use office space, acts as custodian for approximately $7.4 billion worth of Government of Canada real property holdings, administering some 1,500 lease contracts with annual rents totalling over $550 million. Public Works and Government Services Canada. (2004). *PWGSC—Facts and Figures 2002*. Ottawa: Public Works and Government Services Canada. Ottawa: Public Works and Government Services Canada, http://www.pwgsc.gc.ca/min/prof/crppubs/factsandfigures/index-e.html#real.

CULTURE

Culture is at the very foundation of who we are as Canadians. More than any other factor, it is our culture that makes us unique and distinct in an increasingly homogenized world.

It is through the creators of culture—our writers, musicians, filmmakers, animators, painters, sculptors, actors and dancers—that we come to know ourselves as a country and as a people. Our cultural industries create Canadian cultural products and distribute them across the country and around the world, while our heritage institutions, our museums, libraries, and archives, ensure that our culture is preserved for future generations.

Culture, in all its many aspects, is fundamental to a high standard of living, good quality of life and social cohesion in Canadian communities, large and small.

As important as Canada's culture is as a source of self-awareness, national pride, and healthy communities, it has also become a singularly important provider of wealth. According to Statistics Canada, the economic impact of the culture sector is $33 billion and 733,000 jobs.[1] Even more impressive has been the sector's ability to create jobs. Between 1971 and 2001, the culture sector labour force grew twice as fast the overall labour force and it maintained this pace consistently over three decades.[2]

Despite these impressive numbers, the wealth is not well distributed. Within the culture sector, average income is 6% lower, self-employed income 28% lower, and artists' income 26% lower than the average for the total labour force.[3]

Much of the wealth and many of the jobs in Canada's culture sector are in the cultural industries, i.e. broadcasting, film, publishing, sound recording, and new media. It is here that the work of our creators is turned into cultural products for mass consumption.

Understanding the strong relationship between artist and industry is critical for the success of federal programs for culture in Canada. Without the vision of creative artists, the cultural industries would grind to a halt. Conversely, many artists earn a substantial proportion of their livelihood through their work in and for the cultural industries.

For the past 50 years, the federal government has played a fundamental role in the growth and vitality of Canada's culture sector through legislation, regulation, policies, programs and funding. It has done this directly through departments (mainly Canadian Heritage) and indirectly via its agencies, such as CRTC and NFB, and Crown corporations, such as CBC, Canada Council and Telefilm.

If we are to preserve cultural diversity and a wide range of creative expression, federal budget measures must help to ensure a wide range of creative voices within Canada and a strong cultural voice for Canada in the world.

There are currently a number of critical issues of concern to artists and cultural industries. In its ongoing role as key advocate of Canadian culture, the federal government should move quickly to address these issues.

Tomorrow Starts Today

Tomorrow Starts Today, a program first introduced by the Department of Canadian Heritage in 2001, has become an essential component of sector funding, supporting a wide range of existing agencies, institutions, festivals, and programs. It has also permitted development of new programs, such as Cultural Capitals of Canada, an incentive for municipalities to invest in their cultural communities and develop municipal cultural policies.

Between 2001/2 and 2003/4, it invested $560 million in the culture sector, reversing some of the cuts suffered during the 1990s. Under intense pressure, the program was extended into 2004/5 ($207 million) and again into 2005/6 ($192 million).

The AFB will make a strong commitment to increased, stable, multi-year funding to Canada's cultural institutions and agencies by renewing *Tomorrow Starts Today* for a minimum of five years at a cost of $200 million per year.

Public Broadcasting

The single most effective measure for dealing with media concentration, foreign ownership, the balance of trade, and content regulation in Canada is a strong, dynamic, independent public broadcasting system.

The Canadian Broadcasting Corporation must become the foremost champion of Canadian content in both the domestic and global marketplace. It must be allowed to innovate and find new ways to maintain old audiences and reach new ones. It must restore and expand its regional production capacity, which directly assists the development of local talent in almost all of the cultural professions. It must ensure that cultural diversity is a priority so that all Canadians can see themselves reflected in the heterogeneity of our national culture.

The AFB will increase federal funding for the CBC by $1 billion over four years, conditional upon presentation of a clearly articulated plan indicating how additional funding will be used to: 1) produce, commission, and purchase more TV drama and documentaries, 2) greatly increase regional production, 3) support the work of independent Canadian creators, 4) engage diverse communities, and 5) bring together Canadian creators and Canadian audiences in new and innovative ways that respect the needs of both.

Tax Relief for Artists

On average, self-employed artists have substantially lower incomes, higher income insecurity, and minimal employment benefits when compared to the general labour force. Nor can they benefit from measures available to some employees, such as income averaging.

The AFB will introduce the following measures in order to make the system fairer for self-employed artists to encourage artistic creation.

- *Tax Exemption on Copyright Income:* The AFB will allow up to $30,000 per year in copyright income to be exempt from federal income tax for artists and writers with incomes below $60,000. Quebec currently allows $30,000 of copyright income to be tax-exempt, with copyright income between $30,000 and $60,000 taxed on a sliding scale. In Ireland, all artistic income is completely tax-exempt. This is expected to reduce federal income taxes by up to $7 million per year.[4]
- *Income Averaging:* The AFB will allow artists, writers and performers to average their income for tax purposes over five years to a maximum of $50,000 per year. This will benefit artists and creators who experience large year-to-year income fluctuations. This measure will even out the tax burden and prevent unduly high tax rates in windfall years.

Benefits for Artists and Employment Status

The rate of self-employment in the culture sector (20.9%) is considerably higher than in the total workforce (7.7%), reaching a high of 44.4% among those who work in the arts.[5] Combined with generally lower incomes and the absence of benefits, working artists enjoy almost none of the financial security that many of their employed colleagues take for granted. This same condition holds for many self-employed outside the culture sector.

Given the rapid rise in the number of self-employed Canadians, the AFB will undertake a thorough investigation of self-employment in the Canadian labour market. This study will focus on access to social benefits and employment insurance for self-employed workers.

In particular, the AFB will reform the EI system to ensure much greater access to EI benefits for artists, modeled on the fishers' benefit. Artists will pay EI 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 *(see Employment Chapter)*.

Two other issues have caused considerable difficulty for artists and performing arts companies and urgently need to be resolved: the status of artists as self-employed or employees, and the expectation of profit test as applied to artists.

The AFB will increase retirement benefits through the OAS, CPP and the GIS to provide adequate retirement incomes for all, particularly lower-income Canadians who don't have employer pension plans (see *Retirement and Seniors Chapter*). The AFB will also greatly improve access to affordable housing, which will help to improve the economic security of artists *(see Housing Chapter*).

Control of the Cultural Industries

Ownership of the cultural and media industries is becoming increasingly concentrated, with disturbing tendencies towards homogenization, centralization, and control by a small number of very large corporations.

- *Concentration of Ownership:* Global media empires are developing into ever more concentrated levels of ownership by buying up all aspects of cultural output (books, newspapers, magazines, film, television, music, commercial theatre) plus many of the distribution channels (broadcasting, cable, satellite, internet, telephone). Increasing concentration in media and expression restricts the diversity of views and poses threats to our democracy.
- *Foreign Ownership:* The federal government is facing immense pressure to open our telecommunications industry to greater foreign ownership. Media convergence has led to conglomerates that integrate communication and cultural functions. Opening the door to foreign ownership of our telecom companies could easily result in foreign control of our cultural industries and thus of our cultural production.
- *Balance of Trade:* Our trade deficit for cultural goods and services was $2.2 billion in 2002.[6] This means that Canadians spent far more on foreign culture than foreigners spent on Canadian culture, and it is a clear indicator of foreign (primarily American) penetration and domination of Canada's cultural marketplace.
- *Content Regulation:* The rapid evolution of communications technologies is making it increasingly difficult to regulate content. Satellite broadcasting and the Internet have

turned borders porous, making such regulation difficult, if not impossible. Given this reality, how can Canada ensure a place for Canadian voices in domestic and global media? How can we make sure that our artists and creators have access to audiences, both at home and abroad?

The AFB will appoint a federal task force to address these critical issues and to make recommendations that will ensure a robust diversity of voices, viewpoints, and ownership in Canada's media and cultural industries.

For Artists and the Cultural Industries, the AFB will:

- *provide stable multi-year funding for the Tomorrow Starts Today program;*
- *increase funding for the CBC by $250 million per year to increase regional programming and develop more Canadian content;*
- *provide tax relief for artists through limited exemption of copyright income and income averaging;*
- *ensure expanded benefits for self-employed artists; and*
- *appoint a task force to address concentration and content regulation in the media and cultural marketplace.*

Endnotes

1. Statistics Canada. (2002). *Canada: A Portrait*, 57th edition, Ottawa, p. 99.
2. Hill Strategies. (2004). *Canada's Cultural Sector Labour Force*. Ottawa: Cultural Human Resources Council, pp. 37-39.
3. Hill Strategies. (2004). *Canada's Cultural Sector Labour Force*. Ottawa: Cultural Human Resources Council, pp. 30-34.
4. Based on estimates from a similar provision in Quebec, which is estimated to cost $3 million per year. Quebec (2003). *Tax Expenditures 2003 Edition*. Québec: Ministère des Finances, de l'Économie et de la Recherche, March 2003, p. 35.
5. Hill Strategies. (2004). *Canada's Cultural Sector Labour Force*. Ottawa: Cultural Human Resources Council, p. 21.
6. Statistics Canada. "Culture Services Trade (1996 to 2002)", *The Daily*, 9 September 2004.

DISABILITIES

Over 3.6 million Canadians—people of all ages and backgrounds—have disabilities. Many more are affected either directly or indirectly.

The chance of having a disability rises dramatically with age: while 4% of children are affected, 10% of adults and over 40% of seniors have some form of disability. Almost all Canadian families will be affected in some form by disabilities, particularly as they get older.

Those with disabilities are more likely to be unemployed and to have much lower incomes than other Canadians. Having a disability all too often means living in poverty. Aboriginal people are affected by much higher rates of disability, estimated at over 30%. Women are more likely to have disabilities than men and tend to suffer from more severe disabilities. Women with disabilities also have much lower individual incomes than men with disabilities. Having a disability also means facing continued discrimination: one-third of complaints to the Canadian Human Rights Commission are disability-related.

People with disabilities continue to lack equal opportunity to contribute to and benefit from Canadian society.

The Alternative Federal Budget supports the recommendations of the *Technical Advisory Committee on Tax Measures for Persons with Disabilities*. These include broadening the eligibility criteria for the disability tax credit, expanding the disability supports deduction, enhancing the refundable medical expense supplement, and increasing the child disability benefit. The total additional cost of implementing these measures is expected to be $100 million per year.

The AFB will also make the Disability Tax Credit refundable so that its benefits are available to all Canadians with disabilities regardless of their income. This tax credit provides about $375 million in assistance each year to people with disabilities, but it is non-refundable which means that the benefits reduce taxes but provide nothing to low-income people who do not owe further taxes. Making it refundable at a 16% tax rate will cost about $475 million per year or about $100 million more than the current benefit.

Tax measures alone, however, do little to help the most needy among people with disabilities: those who are too poor to pay tax, and Aboriginal Canadians, most of whom are not required to pay income tax.

The AFB strongly supports the priority of the disability community in calling for the development of a *National Disability-Related Supports Plan.* This will involve federal government funding to assist provinces and territories in providing a broad range of disability supports: facilities, equipment and services necessary for people to overcome disability barriers. This plan will be based on priorities determined in consultation with provinces, territories, and the disability community, and will involve measurable outcomes and reporting mechanisms.

Another priority is the development of a *Comprehensive Labour Market Strategy for Persons with Disabilities*. Canadians with disabilities face very high rates of unemployment and underemployment, leading in turn to greater poverty and more health problems. The barriers to employment are numerous: a lack of disability supports, inaccessible workplaces, discrimination, and a lack of training opportunities. The devolution of training to the provinces and increasing reliance on EI funds made many people with disabilities ineligible for training programs as they were not EI recipients.

This strategy will include:

- the federal government becoming a model employer with more inclusive recruitment, job accommodation, and retention programs targeted toward Canadians with disabilities;
- developing inclusive Labour Market Agreements (LMAs) with provinces and territories with specific targets to address the employment and training needs of Canadians with disabilities; and
- increasing funding for the *Opportunities Fund*, which assists voluntary organizations in providing skills development programs for persons with disabilities, with funding rising from the present level of $30 million to $60 million until the LMAs address these needs.

The move from regulations to voluntary codes of practice in the transport sector has led to an erosion of accessibility for persons with disabilities. Inclusion of persons with disabilities requires that access regulations be imposed on all federally-regulated modes of transport, including air and rail. The current review of the Canada Labour Code should include making workplaces open and accommodating to persons with disabilities.

The AFB supports easing the regressive changes introduced in 1998 that limited support for disability pensions. These changes made it harder for people with disabilities to qualify for a pension.

For people with disabilities, the AFB will:

- *implement the recommendations of the Disability Tax Fairness report;*
- *make the Disability Tax Credit refundable;*
- *initiate development of a National Disability-Related Supports Plan with provinces and territories; and*
- *develop a Comprehensive Labour Market Strategy for Persons with Disabilities.*

EMPLOYMENT, EMPLOYMENT INSURANCE AND A LIVING WAGE

Canada's unemployment rate dropped to 7% at the end of 2004, its lowest rate since May of 2001. Job growth in the past year has been very strong in the construction and resource sectors, but manufacturing has continued to lose jobs. The high dollar resulted in a loss of 27,000 manufacturing jobs last year, bringing the total job loss in this sector to 100,000 since 2002. Employment gains in 2004 owed a lot to the modest social re-investments of last year's budget. Almost four in ten of the new jobs created in 2004 were in the public sector, almost all in health, education and social services. Private sector employers, who have been remarkably reluctant to add to their payrolls, created only 40% of the new jobs in 2004.

Unemployment is much higher among youth, recent immigrants, and residents of many communities outside of our large urban centres, particularly Aboriginal peoples. Given that the average length of a spell of unemployment is less than five months, an annual unemployment rate of 7% means that as many as one in six working Canadians experienced unemployment during the year.

While 2004 was a reasonably strong year for job creation, Canada's labour market is still operating with a lot of slack. Many (mainly female) part-timers want but cannot find full-time jobs, and many self-employed workers would prefer to be employed at decent wages. Our employment rate is high but far too many jobs are insecure and/or poorly paid. Canada has the highest proportion of low-paid workers of any country in the OECD, other than the U.S. One in four Canadian workers—one in five men and one in three women—earn less than about $11 per hour in today's dollars. Average hourly wages in 2004 continued to increase at barely the rate of inflation. While wages for the great majority of workers stagnated in real terms, corporate profits are at a record-high as a share of total national 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 formal targets to keep inflation and the federal debt/GDP ratio low, but high unemployment is still tolerated. In fact unemployment above 7% is seen by many mainstream economists as desirable so as to maintain low inflation.

The AFB adopts an explicit target of bringing down unemployment to not more than 6%. While a 6% rate is still 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. The AFB stimulates job creation by spending surpluses rather than paying down debt or cutting taxes (both of which have much lower job impacts), and by allocating additional funds to such labour-intensive areas as infrastructure and housing construction and to public and social services.

The AFB's investment program 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 a pan-Canadian child care program and greater education and infrastructure spending. These measures will create many new jobs at decent wages, and socialize some of the domestic caring burden, which is disproportionately borne by 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 this investment makes an important contribution to private sector investment and productivity growth, providing returns to the private sector averaging 17%.

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

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 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 requisite 600 hours to qualify for pregnancy and parental benefits.

Growing numbers of self-employed workers in Canada are also excluded from the EI system. In some sectors of the economy, such as the cultural sector, self-employment can be as high as 67%, with many of these workers subject to low income, few employment benefits, and no job security.

Changes to the program introduced in 1997 stripped many Canadians of their eligibility for EI. Currently, only about 40% of the unemployed are receiving EI at any given moment, compared with over 75% just a few years ago. Yet the EI Account increased by another $2 billion in 2003-4 to reach an accumulated surplus of $46 billion last year. If interest on this surplus were calculated, the amount would be even higher.

The federal government has reduced employment insurance premium rates every year for the past 11 years, most recently in December 2004. Premium rates are now more than 35% lower than they were in the mid-1990s. But insurance benefits for unemployed workers are still far below their levels of a decade ago.

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.

To ensure that the Fund is never again in danger of being raided, the program will be separated from the government's general budget. The AFB will prohibit 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. Leave from work for training or learning is not covered by EI benefits, with the exception of apprenticeship programs. Long years in the workforce count for nothing when it comes to qualifying for EI.

The current system of variable eligibility requirements, ranging from 420 to 910 hours, will be replaced with one that requires a basic 360 hours to qualify. More flexible qualifying rules will 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. Workers over 45 years of age, 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.

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. This will support joint employer-labour initiatives to raise the general level of skills, provide opportunities to recent immigrants to acquire Canadian credentials, and allow workers 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 EI 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; and
- stop deducting severance and vacation pay from EI benefits.

The AFB will also develop a framework to reform the EI system to extend benefits to self-employed, such as artists, as well as paid workers.

These improvements to the EI system will be financed entirely out of annual premiums and will be introduced as financing allows. Premium rates will remain at current levels, but the insurable earnings base—lower than it was 10 years ago—will be gradually increased, providing greater revenue to finance the enhanced benefits. Raising maximum insurable earnings from the current level of $39,000 per year will increase EI revenues without premium rate increases 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.

A Living Wage for Canadian Workers

Minimum wages are far too low in all provinces to put working families with even full-time, full-year jobs above the poverty line. A single person in a large urban centre needs to work full-time in a full-year job and earn at least $10 per hour to escape poverty. Even $10-per-hour full-time, full-year jobs supplemented by current government income supports leave most families in larger cities at risk.[1] A two-adult family with children has to put in about 75 weeks of work a year at $10 per hour to get above the poverty line. The threshold is higher if a single earner has to support a child or a non-working spouse.

Social programs and progressive income taxes significantly lessen family income inequality. But even improved EI benefits will not prevent increased income inequality if earnings inequality continues to increase and nothing is done about low wages.

The conventional view is that providing decent wages for so-called lower-skilled workers leads to job losses, but higher wages can work in a positive way by raising productivity and job quality. The fact that employers are under pressure to pay good wages will lead them to invest more in capital equipment and in training. Higher minimum wages can lower worker turnover and increase experience and skills, reducing employer costs. If all employers pay the same wage and benefit package, firms must compete with one another on the basis of non-labour cost factors, such as quality and customer service, which require more skilled workers.

Responsible employers would welcome a wage floor that stops them from being undercut by more unscrupulous competitors. International competition is not a major factor. Most low-wage workers work in restaurants, hotels, stores, and other parts of the private service sector, or in community services, and their jobs are not vulnerable to relocation.

Higher minimum wages will work best if they are combined with active labour market and training policies to raise the skills of lower paid workers, and accelerated job creation in public and social services. Some European countries—notably Denmark and Sweden—have shown that it is possible to have much greater wage equality with high rates of employment. The proportion of working-age people with jobs is actually higher in the Scandinavian countries than in the U.S. or Canada, even though poverty-level wages hardly exist.

The AFB proposes a national minimum wage for Canada of $10 per hour, with an example being set at the federal level. The AFB will reintroduce the federal minimum wage (eliminated in 1996) at a rate of $10-per-hour in the federal jurisdiction, indexed to the growth of the average hourly wage. To prevent disruption, the new federal minimum wage will be reintroduced at $8 per hour in 2005, and then increased by $1 per hour in 2006 and 2007. The rationale for $10 per hour is that this is roughly the wage needed for someone working full-time, full-year to escape poverty in a larger city. At this rate, the federal minimum wage would still leave it lower than it was in 1976 in real purchasing power terms.

Analysis has shown that setting a minimum wage at a reasonable level will not have a negative impact on jobs.[2] A higher minimum wage can help lower poverty, lower the costs of government income support programs, address the issue of the "welfare wall," and raise productivity and job quality in the private sector. A minimum wage is not the whole answer to poverty, but it is an important part of the answer, especially when accompanied by effective training programs for low-wage and precariously employed workers.

The current federal review of Part III of the Canada Labour Code (Employment Standards) opens up a big opportunity for the federal government to show leadership in setting a high level of standards on key issues as better rights and standards for precarious and non-standard workers; work schedules and hours of work; paid time off the job; access to training; family responsibility leaves, and work-family balance.

On employment and EI, the AFB will:

- *have a target rate of unemployment of no more than 6%;*
- *reform the EI system by improving eligibility, extending benefits to a wider range of the unemployed, including the self-employed and providing training insurance;*
- *protect the EI Fund from being raided by the government for other purposes; and*
- *reintroduce the federal minimum wage at a rate of $10 per hour.*

Endnotes

1 National Council of Welfare (2004). *Income for Living?* Ottawa, Spring 2004.

2 This has been the recent experience in Britain and it was also the conclusion reached by the OECD in a major review of the economic studies, published in the OECD *Employment Outlook*, 1998.

ENVIRONMENT

Canadians generally see themselves as strong supporters of the environment and overwhelmingly favour increased action by the federal government on environmental protection.[1] But the federal government's progress on environmental issues lags far behind what the public wants—and also lags further and further behind the performance of other countries.

Canada's emissions of greenhouse gases are among the highest in the world on a per capita basis and are now 20% higher than our Kyoto baseline level in 1990. Serious action—and not just more hot air—is now needed for Canada to meet its Kyoto commitments and reduce global warming. Even the U.S., whose government has rejected Kyoto, has nonetheless taken far more effective steps than Canada in curtailing greenhouse gas emissions.

In a recent report, the OECD revealed that Canada is still dramatically under-performing on environmental issues in comparison with other OECD countries. Europe has taken an important lead in reducing greenhouse gases and in handling toxic chemicals.

While there is no substitute for regulations to backstop environmental protection measures, Canada is behind in the use of economic instruments to meet environmental objectives. In the past year, both the OECD and the federal government's own Commissioner of the Environment and Sustainable Development reported that Canada lags far behind other countries in its use of the tax system and economic instruments to protect the environment.[2]

Despite Canada's vast size and diversity of wilderness, only 7% of our land has been set aside for protection from development and exploitation. In global terms, Canada ranks an embarrassing 61st in the percentage of protected land, lagging behind Zimbabwe, Guatemala, Germany, and the United States. Canada's record in marine protection is even worse, with just an appalling 0.1% of ocean waters afforded some basic protection.

The environment and the economy are inextricably linked. Decisions taken in either realm will inevitably have a lasting impact on both. Unless Canada takes decisive steps to make our economy and industries more environmentally friendly, then both our environment and economy will deteriorate over the longer term. The AFB will revamp Canada's environmental spending and taxation policies to catch up with other nations that are taking creative steps to get on top of environmental problems.

Federal Protected Areas

Canada needs a properly funded Federal Protected Areas strategy that will make a significant contribution to the long-term protection of our land and water. The long-term protection of healthy terrestrial and marine ecosystems is critical to the protection of human health and the health of the planet.

Canada's marine ecosystems are under increasing stress from over-fishing, shipping, invasive species, damage caused by trawlers, oil and gas development, land-based sources of pollution, and climate change. Marine protected areas are important tools for conserving marine ecosystems. The AFB will invest $500 million over five years to develop a total of 35 new Marine Protected Areas by 2010.

The federal government manages a network of 51 national wildlife areas and 92 migratory bird sanctuaries that together protect an incredible diversity of wildlife habitat. This network, however, is in a state of crisis, suffering from a series of threats to its ecological integrity. Environment Canada currently lacks the capacity to manage this protected areas network, with staff, capital and operating budgets amounting to a mere $1.9 million.

The AFB will invest $175 million over five years to establish a total of 22 new national wildlife areas: 11 in the first two years and 11 more in the next three. This funding will also reduce the number and severity of threats to existing national wildlife areas with better management and a stronger legislative and policy framework.

Energy and Climate Change

In the last six years, the federal government has allocated over $3.7 billion towards meeting its Kyoto Protocol obligations on climate change. Despite this substantial investment, Canada's greenhouse gas emissions are increasing faster than ever, and Canada is further from its Kyoto target than any other G-8 country.

The lessons from this experience are twofold. The first is that government spending alone cannot make Canada a global leader in climate protection. In fact, a recent evaluation of Canada's environmental record by the OECD found that Canada relies too much on subsidies and voluntary initiatives to battle climate change.[3] The OECD recommended that Canada complement its present approach with the use of regulations and economic instruments, including environmental taxes.

This is a crucial lesson. The AFB obviously focuses on what the federal government should be doing in terms of fiscal and economic policy, but regulatory measures must be used to reinforce economic instruments.

The second lesson is that it is clear that money has been spent on the wrong things, given that Canada's greenhouse gas emissions have only accelerated. 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.

Canada, instead, 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 strategic investments in sustainable energy technologies.

A Pollution Dividend

The AFB will introduce a *Pollution Dividend for Health Care and a 21st Century Economy.* This will involve adjusting excise taxes on fuels to reflect their immense health and environmental costs and using the proceeds to fund health care and progressive technological adjustment measures. Excise taxes will be increased, particularly on dirtier fuels such as thermal coal and diesel. The current 10-cent-per-litre gasoline tax will be the benchmark from which the level of taxation on other fuels will be adjusted in proportion to their health and environmental costs.

A portion of all revenue from fuel excise tax will be invested in the health-care sector, with an emphasis on preventive health care. Another portion will be used to establish a *21st Century Economy Fund*. This fund will support investment in technologies and infrastructure that are environmentally restorative and strengthen Canadian competitiveness.

The dividend and investment arrangement will have the double benefit of having fuel prices reflect their true cost, and putting in place mitigative and remedial programs to address the health and environmental costs of burning fossil fuels.

This will help address the growing environmental health crisis, driven in part by exposure to air contaminants, including mercury, sulphur, nitrogen oxides, particulate matter, and ozone—all from fuel combustion. Air pollution kills more people annually in Canada than traffic accidents or breast cancer.[4] In Ontario alone, air pollution is responsible for more than $1 billion annually in direct costs such as hospital admissions and absenteeism, and another $9 billion in indirect costs, such as mortality.[5]

Over the past 15 years, many OECD countries, including Finland, Denmark, Germany, Norway, Sweden, the Netherlands, and the UK, have introduced ecological tax reform to promote economic growth while reducing air pollution.[6]

Experience in Europe has shown that the effect of environmental tax-shifting on the economy is minimal or even somewhat positive, through lower costs in labour-intensive sectors, energy substitution, and increased energy efficiency. In addition, there is no evidence that environmental measures, including carbon taxes, have had a negative impact on the international competitiveness of corporations.[7] Given that energy prices in Canada are low and energy use per capita is significantly higher than in the United States or Europe, there is enormous potential for low-cost energy conservation measures.

The current level of taxation on gasoline should be considered the benchmark for initially phasing in taxes. Most of the new revenue could, therefore, be generated from tax increases on the other fuels. The largest source of new revenue would come from a modest excise tax on thermal coal. More research into health and environmental impacts are needed to determine revenue estimates.

Burdens on the economy can be minimized by introducing taxes at low levels and phasing in gradual increases so that firms can adjust their investment decisions accordingly. Exemptions or tax rebates could also be granted to firms in energy-intensive sectors in exchange for commitments to meet increased energy efficiency targets.[8] The AFB will introduce a refundable tax credit for low-income Canadians to offset increases in the cost of living from higher fuel taxes.

Green Power Strategy

Low-impact renewable green energy is the fastest growing source of energy in the world. It has the potential to meet half of Canada's long-term electricity needs and must play a central role in addressing Canada's global climate change and air pollution challenges. Despite its great potential and all-party support for greater use of green power, it is being developed much too slowly in Canada.

To catch up with other countries that are developing their green power resources and to tap into market opportunities, the AFB will implement a National Green Power Strategy. This will include the following measures:

- expand, increase and extend the existing Wind Power Production Incentive;
- establish a Green Power Production Incentive for other green power technologies;
- expand and extend the existing Market Incentive Program;
- establish funding for a comprehensive program to engage Canadians in supporting, investing in and purchasing green power;
- re-focus and enhance investment in R&D to support the development of innovative Canadian technologies for low-impact renewable energy;

- increase federal government procurement for EcoLogo certified low-impact renewable energy; and
- establish a 100,000 solar roof program.

At the end of 2003, more than 90% of wind generation capacity was located in Europe and the United States. This expansion is occurring because governments of many industrialized and developing countries recognize the central role of green power. Substantial economic instruments to encourage low-impact renewable energy are already in place in the United States, United Kingdom, Germany, Denmark, Spain, Japan, France, Brazil, China, and India.

In comparison, Canada is doing little to develop its green power resources. For example, Canada has access to one of the largest wind energy resources in the world, yet most other industrialized countries produce more wind power than Canada. Denmark generates over 16% of its annual electricity needs with wind power, while other European countries have similar targets. In contrast, wind contributes only 2% of Canada's current electricity needs.

Canada also needs to make a serious commitment to the development of other green power sources such as solar, biomass, wave, tidal, and run-of-river hydro-power. A serious effort to meet a target of 25% green power by 2025 would help Canada meet its Kyoto commitment, reduce health costs from air pollution, and help to transform our manufacturing base, labour force and export industries to meet the economic challenges of the 21st century. Funding for this would come from existing federal government spending on climate change that is being ineffectively spent.

Polluter Subsidies

One problem that has plagued the federal budget for a very long time is the policy of providing environmentally harmful subsidies to polluters. Two of the most environmentally harmful sectors of the economy, fossil fuel and mining, have been among the largest recipients of federal subsidies.

According to the federal Auditor-General's office, the fossil fuel sector has received more than $40 billion in federal subsides over the last three decades. Current annual federal subsidies to the oil and gas sector total more than $1.5 billion.[9]

These subsidies not only go to a sector that has experienced record profits, but also encourage poor environmental practices that threaten our health and the health of our children. By subsidizing the fossil fuel sector, the government stimulates and accelerates greenhouse gas emissions, contrary to its Kyoto commitments.

The mining industry also receives substantial polluter subsidies from the federal government. Current annual federal subsidies to the mining sector are estimated at more than $400 million.[10]

These subsidies encourage the use of virgin minerals over the use of recycled metals. This is particularly regrettable because most metals are especially good candidates for recycling. Unlike many other materials society uses, metals do not lose their mechanical properties when recycled while retaining their economic value. As a result, metals can be re-used and recycled through the economy almost without limit.

Just Transition Program

As our economy is transformed from heavy reliance on fossil fuels to more sustainable green power, different industries and workers will face economic adjustments. Meeting Canada's Kyoto commitments will mean job losses in some sectors, job gains in others, and 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 exports.

Taking a conservative assumption that Canada will meet its obligations without international emissions trading, government estimates show that there could be a loss of 12,800 jobs in the energy sector. 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 those where jobs are lost.

The solution is to ensure that those workers who *do* lose their jobs are provided with other options, particularly in 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 AFB will introduce a *Just Transition* program with the following elements:

- training and educational opportunities for skills upgrading that allow workers to upgrade their skills for the jobs that are being created;
- early notice of layoffs so that workers can access counselling and training programs quickly;
- income support for displaced workers for up to three years to enable them to take advantage of training and educational opportunities;
- peer counselling to assess workers' needs, and analysis of labour market needs; and
- relocation funds for those who must move in order to find new work.

A high-end estimate of the cost of such a program is about $1 billion over 10 years.

Tax-exempt Transit Passes

The AFB will encourage the use of public transit by treating employer-provided transit passes as a non-taxable benefit for employees. Currently, the government allows 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 by driving to work instead of using public transit. This measure is expected to cost $20 million in lower revenues in the first year, rising to $40 million by the third year.

Toxic Substances Tax

The AFB will begin to implement a tax-shifting scheme by levying a tax on toxic substances. The rate of taxation will vary, commensurate with the level of toxicity of each substance. The revenue from the tax will be used by the government to properly implement the *Canadian Environmental Protection Act*. Revenue will be used to measure, monitor, and understand the presence of toxins in our environment, and sustain research on better ways to prevent pollution with a focus on reducing toxins throughout the complete product cycle. Further research is needed to determine the revenue impacts.

For the Environment, the AFB will:

- *develop 35 new marine protected areas and 22 new national wildlife areas by 2010;*
- *introduce a Pollution Dividend on fossil fuels to reflect their environmental and health costs, with the proceeds going to the preventive health sector and economic renewal;*
- *Implement an ambitious Green Power Strategy with clear targets;*
- *phase out polluter subsidies to mining and fossil fuel sectors;*
- *begin to introduce a tax on toxic substances;*

- *fund a Just Transition Program to help displaced workers adjust to economic restructuring; and*
- *make employer-provided transit passes tax-exempt.*

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MAINTAINING HUMAN HEALTH THROUGH ENVIRONMENTAL PROTECTION

The state of Canada's health care system has come to the forefront of public discussion over the past decade. While treating illness and disease is an important component of the health care system, equally important should be the prevention of disease and the maintenance of good health. This has received little attention or discussion, even though most Canadians intuitively understand that clean air, clean water, and homes and workplaces free of toxic chemicals are essential to good health. The research is also clear on this link.

Air Quality

Industrial activity and the burning of fossil fuels remain the main sources of air pollution in Canadian cities. The link between air pollution and poor health is clear. Research from Southern California shows that children living in areas of high smog are three to four times more likely to develop asthma compared to children from communities with better air quality.[1] Canadian children are also at risk, with childhood asthma rates in this country climbing from 2.5% of children in 1979 to 11.2% in 1995, making asthma Canada's greatest chronic illness.[2]

This not only affects Canadian health, but also health care dollars. A study of 11 Canadian cities shows increased hospital admissions for respiratory illnesses during periods of high smog, with infants being the most vulnerable.[3] The Ontario Medical Association estimates that the cost of ground level ozone and particulate matter air pollution costs Ontario more than $1 billion per year in hospital admissions, emergency room visits, and absenteeism.[4]

Not surprisingly, air pollution also contributes to premature death. Estimates vary from 5,000 to 16,000 deaths per year.[5] Air pollution may even affect the next generation, if a McMaster University study of genetic mutations in mice exposed to urban air pollution can be extrapolated to the human population.[6]

Clean Drinking Water

Water quality is also an issue of increasing importance for the health of Canadians. The tragedies in Walkerton, Ont. and North Battleford, Sask. remain top-of-mind, but these were simply extreme examples of long-standing chronic problems with Canada's drinking water. Municipalities across several Canadian provinces have detected parasites such as *cryptosporidium*; bacteria, including the deadly *E. coli*; radioactive substances; and toxic chemicals such as trihalomethanes, a class of known carcinogens, and trichloroethylene.[7] On any given day, hundreds of boil water advisories are issued across Canada.[8]

Poor water quality may have an even bigger impact on the health of Canadians without us knowing it, since Canada's water regulations are so weak. The Safe Drinking Water Act in the United States includes stringent regulations on several chemicals that are not even included in Canada's water quality guidelines, as well as stricter limits on others.[9]

There are various elements to ensuring safe drinking water. Appropriate water treatment, testing, and public notification are obvious factors. But many water quality problems can be completely avoided by adequately protecting the source of that water, whether it is groundwater or surface water from lakes, streams or rivers.[10]

Eliminating Carcinogens from our Communities

Exposure to chemicals in our homes, workplaces, and communities also threatens the health of Canadians. The World Health Organization estimates that 80% of all cancers are environmentally-based, with up to half of those being occupational.[11] Other exposure routes include drinking water, air, and food.

Carcinogens are now ubiquitous in Canadian society. In 2001, according to the National Pollution Release Inventory, Canadian industries reported the distribution of 18 million kilograms of known carcinogens into our air, soil, and water.[12] Not surprisingly, over the last three decades, age-adjusted cancer rates in Canada have increased by 35% among men and 27% among women.[13] Canadians now have about a 40% chance of developing cancer in their lifetime.

Tragically, efforts to *prevent* cancer by limiting exposure seem to get little attention compared to detection and treatment campaigns. When prevention is addressed, it is often in the context of lifestyle choices. And while anti-smoking campaigns are important, regulations that prevent the release of carcinogens into our environment or exposure to them in the workplace are too.

Increased cancer rates of course lead to increased health care costs. Health Canada estimated that cancer cost Canadians $16.2 billion in 1993, including $3.5 billion in direct costs such as health care services.[14]

Environmental Protection

A healthy environment—the "environment" including the places we live as well as more natural spaces—is a prerequisite for healthy human communities. Strong environmental regulations can prevent hazardous chemicals from getting into our air, soil, and water in the first place. And preserving natural environments can directly filter air contaminants such as particulate matter as well as purify water better than we ever could. These benefits need to be considered in addition to the economic costs of a strong regulatory environment.

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HEALTH CARE

The 2005 Alternative Federal Budget's health measures differ from those of previous years. The September 2004 First Ministers' Agreement has precluded the need for further increases in federal health transfers to the provinces. What are now needed are revisions to the September accord to strengthen its weak accountability and enforcement provisions, along with increased capital spending on hospitals and a concerted effort to deal with the serious shortage of doctors, nurses, and other health care professionals.

The accord's creation of a modest "catastrophic-drug plan"—leaving further drug-cost reforms to a Ministerial Task Force—is a poor substitute for implementing a national pharmaceutical program as earlier demanded by the provinces and territories. We therefore reiterate in this budget the strategy outlined in the 2004 AFB to deal with the spiraling costs of drugs, both to the public health care system and to individual Canadians. *(Health care proposals specifically relating to Canada's Aboriginal peoples can be found in the Aboriginal Peoples chapter.)*

The September 2004 accord met—even exceeded—the funding recommendations of the Romanow Commission and the federal transfer increase demands made previously by the AFB and other health care advocates. Provided the additional multi-billion-dollar federal transfers are not misused by provincial/territorial governments to reduce their own health care spending or to finance further tax cuts, the new additional funds should be adequate to sustain Medicare, assuming other needed reforms are made.

Money Alone is Not Enough

To put Medicare on a sustainable footing, key priorities other than money need to be addressed. The two essential components that were missing from the September First Ministers' Agreement were 1) steps to curb—and ideally to reverse—the privatization of health care and to enforce the basic principles of the Canada Health Act; and 2) an expansion of Medicare to include home care and prescription drug care.

Sustaining Medicare requires an end to further privatization. The evidence confirms that for-profit health care costs more than publicly-provided care.[1] Quality is compromised, resulting in higher mortality in for-profit facilities.[2] [3] Not-for-profit providers are less sensitive to bottom-line incentives, and hence are more likely to deliver the desired level of quality care.[4] For-profit firms have an incentive to maximize the amount they bill (increasing total health care spending), minimize the quality of care (unless this will harm their business), reduce labour costs and curtail spending on non-profitable activities, such as teaching, research, and community services. Despite this evidence, however, the need for not-for-profit delivery of health care wasn't even on the agenda for the First Ministers' meeting.

The agreement also failed to expand the *Canada Health Act.* A national home care program is essential to preserving the integrity of Medicare. More and more treatment is taking place in settings outside the scope of the *Canada Health Act,* narrowing public coverage and fostering a large market for commercial home care services. Instead of building a national program, the September Accord merely provides for two weeks of acute home care, two weeks of community mental health home care, and some palliative end-of-life services.

A true commitment to accountability would have expanded the *Canada Health Act* to include even this minimal range of home care services to ensure that, in any future expansion of home care, the services would fall within the public system. It would also have protected these services from international trade agreements, as urged by the Romanow Commission.

Conditionality, Accountability and Enforcement

The 2004 Accord is devoid of meaningful accountability measures in terms of how and where federal money—the public's money—will be spent. Nothing in the agreement even specifically requires federal transfer funds to be spent on health care. Nothing requires public funds to be used to deliver only non-profit health services. Federal funds—including the additional billions—could go to the profits of private health care companies instead of meeting health care priorities.

The only condition in the agreement is contained in one sentence: "*All funding arrangements require that jurisdictions comply with the reporting provisions of this communiqué.*" But there is no guarantee that accountability will flow from such vague reporting requirements. Genuine accountability requires an enforcement mechanism. A true accountability and transparency measure would require them to submit a detailed report to Parliament—and therefore to the people of Canada.

The provinces and territories also achieved their longstanding desire to erode the enforcement of the Canada Health Act by having cases of non-compliance with its principles dealt with by "third party" dispute resolution panels that will be authorized by the federal Minister of Health to interpret the Act's principles. This process can only lead to a further weakening of the Act's enforcement and thus to a weakening of Medicare itself. The AFB will move quickly to re-negotiate this damaging federal concession and reclaim the Canada Health Act for strictly federal interpretation and enforcement.

Hospital Capital Spending

Like other public investments, spending on hospital capital has been cut over the past 30 years, necessitating now a substantial new investment in this sector. These changes are noteworthy in light of the fact that, while hospital capital and investment have been declining as a share of GDP, the share of the health care sector of the economy has been increasing.[5]

The investment capital needs of the health care sector are more significant than they were in the past. Hospital equipment has increased as a share of the total hospital capital stock in relation to buildings. Since equipment depreciates more rapidly, a higher rate of investment is needed to meet needs.

The 2000 and 2003 Health Accords also provided for funding targeted to hospital investment, but more is needed. The AFB's proposed Canadian Infrastructure Funding Authority will provide the means for a national health care capital investment program in partnership with the provinces and territories, and on terms acceptable to both levels of governments. *(See Infrastructure Chapter for details.)*

Health Human Resources

A serious shortage of health care professionals has already developed in many parts of Canada, and the shortage will worsen unless decisive corrective measures are taken. The shortage results from demographics, the aging of the workforce, and from mistaken health policy decisions made in the 1990s that reduced the number of seats in nursing and medical schools. Similar shortages of radiologists, pharmacists, lab technicians, and other health professionals are also looming.

Sick Canadians are being deprived of proper nursing care because the funds and facilities have not been provided at levels needed to employ adequate nursing staffs. As a result, some graduating nurses still cannot find work and many senior nurses are leaving the profession before their normal retirement age. High rates of part-time and casual work, high rates of overtime hours with correlated injury and sick time, and reductions in support services for nurses have all contributed to an exodus from the profession—and even from the country.

Most of the health human resource policy issues require action at the provincial/territorial level. Without more opportunities for full-time employment, new graduates will continue to move from one jurisdiction to another or, worse, south of the border. However, progress can be made by increasing the affordability of post-secondary education, providing more funding to the provinces for post-secondary education, and working with the provinces to increase the facilities and ability for students to enter the health and medical professions.

Prescription Drugs

The cost of prescription drugs is the second most expensive health care cost after hospitals. Continued soaring drug costs imperil the very sustainability of our public health care system. While most Canadians have some coverage for the cost of drugs, either through provincial plans or workplace benefits, coverage is highly unequal and uncertain. With many provinces "de-listing" drugs and employer benefit plans restricting coverage, more Canadians are being forced to pick up the tab for the drugs they need.

While there are valid concerns about the efficacy or even the need for many prescription drugs, they remain essential for the wellbeing of many, particularly those with chronic ailments. With escalating costs for prescription drugs, it has never been more critical to develop a national drug policy that goes far beyond the tepid initiatives approved in the First Ministers' Accord.

The AFB will establish a National Drug Agency, similar to the one proposed by the Romanow Commission. Its mandate will include evaluating and examining prescribing practices, monitoring and reporting adverse reactions to drugs, and developing a national drug formulary to help contain costs. It will also be the mandate of this agency to carry out all the steps required to establish a national Pharmacare program.

Without controlling the cost of prescription drugs, the cost of a national Pharmacare system could reach an estimated additional $8 billion a year. It is thus imperative to reduce the costs of prescription drugs. The AFB will promptly initiate a review of current drug patent legislation, including drug patent practices and the inordinate length of patent protection. An immediate measure will be to halt the automatic two-year extensions of patent protection now granted brand-name pharmaceutical firms, which keeps cheaper generic drugs off the market for an extra two years.

Illness Prevention

Our health care system has an unbalanced emphasis on curative medicine with a relative neglect of preventive measures. Apart from programs to discourage smoking and excessive drinking, exhortations to exercise more, promoting breast self-examination for women, and advice on proper diet and nutrition, very little of the massive health care funding is devoted to keeping people in good health, while 95% or more is spent on treating them after they get sick.

Apart from genetic and hereditary factors, good health is largely determined by social, economic, behavioral and environmental conditions. A person or a family with a decent income, adequate food, housing and social services is more likely to be physically and mentally fit and thus not in need of medical or hospital care. A serious government switch of priorities from cure to prevention could conceivably cut the nation's health care costs by 40% or more over the next 10 years.

Many of the measures advanced elsewhere in this AFB—those dealing with employment, housing, poverty, child care and the environment—would, if implemented, greatly enhance the overall health and quality of life of most Canadians, and also significantly ease the strain on our public health care system.

The AFB will protect and broaden the scope of our public health care system by:

- *including home care services and palliative care services under the Canada Health Act, and setting up a task force to study long-term care with a view to bringing it into the public health care system;*
- *strengthening the accountability and enforcement terms in the September First Ministers' Accord;*
- *curbing and then reversing the trend toward for-profit provision of health care and giving primacy to public not-for-profit delivery;*
- *establishing a National Drug Agency with the mandate and tools to evaluate and monitor drug prescription costs and practices, and develop a national Pharmacare program;*
- *explicitly including diagnostic services under the definition of medically necessary services under the Canada Health Act; and*
- *ensuring that public health care is exempt from international trade deals.*

Accountability for public funds spent on health care will be ensured by:

- *affirming the responsibility of the federal government to uphold statutory requirements of the Canada Health Act with respect to enforcement of national standards;*
- *requiring provincial and territorial governments to include in their report to Parliament expenditures on for-profit health care services; and*
- *having the Health Council of Canada monitor, track and report on for-profit health care delivery in a way that allows for comparison between for-profit delivery and non-profit delivery.*

The AFB will make Canada's health care system sustainable by:

- *funding a national health care capital investment program, in partnership with the provinces through the newly created Canadian Infrastructure Financing Authority;*
- *increasing funding for post-secondary education and working with the provinces to improve the facilities and ability for students to enter the health and medical professions;*
- *using funding from a Pollution Dividend on fossil fuels to support preventative health care.*

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HOUSING

> *Good housing provides a source of individual and community pride, and a stable platform from which other social and economic needs of a community can be addressed. The availability of a wide choice of affordable housing not only contributes to the quality of life of Canadians, but also drives business investment and growth and influences where people want to live and work. When housing issues or problems cause impediments to business investment and growth, it affects Canada's overall living standards and quality of life.*[1]
>
> —Hon. Steven Mahoney, Secretary of State for CMHC, September 10, 2003

Homelessness represents the most extreme failure of our society to ensure adequate shelter for everyone. Most Canadians are aware of homelessness in their communities, but we have no accurate national statistics on the level of homelessness.

Canada's housing system is substantially market-driven, compared with that of most other advanced industrial countries. Two-thirds of households are home-owners,[2] and the vast majority of rental housing is privately owned, with social housing (public and non-profit) representing only about 5% of the total.

During the 1990s, home ownership became more accessible compared with the 1980s, as the price of the average house fell to just over 30% of median family income, compared with over 40% in the late 1980s.[3] This apparent improvement in affordability masks significant problems, particularly for young families with children, as well as young single adults. There is:

- a growing wealth divide between generations;
- an increase in housing-related debt levels;[4] and
- a growing gap between high- and low-income groups.

Recent increases in house prices have led to a decline in their affordability since 2001, particularly in large urban centres. While low interest rates have kept home ownership relatively affordable despite large increases in house prices, home ownership will move beyond the reach of many more Canadians when mortgage rates increase again.

Increasing income inequality has further aggravated housing affordability issues for many Canadians.[5] The rental market has stagnated in terms of supply, with a net increase of only 2,000 units across all of Canada between 1996 and 2001.[6]

The rental housing sector houses the lowest income households in our communities, including 64% of single-parent families, and most households in the bottom income bracket.[7] Affordability for renters is much more of a problem than it is for owners, with nearly 35% of renter households paying more than 30% of income for rent in 2001 compared with only 14% of owner households. On average, these renter households—more than a million of them across Canada in 2001—were paying 48% of their extremely limited (average $16,711) incomes for rent.[8]

One in four non-reserve Aboriginal households were estimated to be in "core housing need" in 2001: living in homes that are overcrowded, in need of major repairs or unaffordable, costing more than 30% of their income to operate. For non-reserve Aboriginal households who were renting, the conditions are worse, with over 37% falling into this category. *(See Aboriginal Peoples chapter.)* Lone-parent families and women and seniors who live alone are also much more likely to be in core housing need.[9]

Increasing income inequality has compounded the difficulties in achieving affordability in the rental sector without government support. Affordable housing has also been squeezed out by the gentrification of low-income neighbourhoods and conversion of affordable housing to ownership and condominiums. Canada's mixed income neighbourhoods are being lost through this process, and the poor increasingly live in isolation.

Direct government intervention is essential to make housing affordable for the less well-off. Otherwise we will have a society where low-income groups are increasingly marginalized and where the social policy goals of diversity, inclusiveness, and equality of opportunity are increasingly unobtainable. Without appropriate housing, access to health and educational and employment opportunities is seriously constrained or lost, while demands on health and income-support services are increased.

A National Housing Strategy

This AFB will initiate a National Housing Strategy to address housing concerns for all Canadians, with a special focus on the needs of low-income Canadians. The strategy will be developed through a consultative process and be locally delivered, with a community-based model for decision-making, including an accountability structure with measurable results.

The strategy will include Aboriginal communities and will ensure a separate consultation with First Nations governments and Aboriginal representatives to develop a specific approach to the delivery of housing for Aboriginal Canadians, who suffer from some of the worst housing conditions in Canada.

As part of the development of the National Housing Strategy, the AFB will consider the establishment of a foundation or trust fund with the objectives of increasing and stabilizing the availability of capital funding for affordable housing; contributing to the viability and affordability of existing social housing through investment in rehabilitation or redevelopment; and supporting local capacity building.

A broad-range strategy is essential if the long-term issues of affordable housing and homelessness are to be dealt with. In the interim, however, we need to take action; and some elements of a broad-range strategy are already clear.

Affordable Rental Housing Program

The Affordable Rental Housing Program will be reviewed and updated through the consultative process associated with the National Housing Strategy. There is a particular need to make the program accessible when provincial governments do not commit matching funds, and to make the housing produced truly affordable to low- income Canadians.

More immediately, there is a need for an increase in federal support for affordable rental housing that cannot wait for the development of a national housing strategy.

Since its introduction in 2001, the federal government has increased its financial commitment to the Affordable Rental Housing Program. Most recently, the federal government promised to increase funding for the program to $1.5 billion over five years. Unfortunately, with the exception of the provinces of Québec and British Columbia, there has been a very slow take-up of the program due to a lack of matching provincial funding. By the end of 2003, only 10,000 units (equal to $200 million of federal funding) had been committed under the program.

Given the stagnation in the rental housing market, and the clear need to ensure the provision of affordable housing for low and moderate income Canadians, this AFB will support the development of 25,000 affordable housing units annually, of which at least 10,000 will be specifically targeted to low income families and individuals in core housing need. With an average federal cost of $60,000 per unit (depending on the level of low income households and the level of capital contributions from other sources) this commitment will require annual funding of $1.5 billion.

This commitment includes housing programs for off-reserve and urban Aboriginal Canadians, but does not include housing for communities located on Aboriginal reserves. *(Details about proposals for First Nations housing proposals are included in the Aboriginal Peoples chapter.)*

A Continued Commitment to Residential Rehabilitation

In 2003, the government made a commitment to extend the longstanding Residential Rehabilitation Assistance Program (RRAP) for three years, with funding of $128 million annually. This funding will continue at this level through to the 2006/7 fiscal year.

The AFB will increase funding for this program to $200 million annually for each of the next three years.

The provision made for affordable housing in this AFB is significant, reflecting a very clear recognition of the importance of affordable housing in ensuring favourable health, educational and other critical outcomes for Canadians. Access to affordable housing for low and moderate income households cannot be achieved solely through market mechanisms and requires government intervention.

A Long-term Commitment to Help Communities Deal With Homelessness

While all social housing programs help to reduce homelessness, the provision of supportive, alternative, and transitional housing is particularly effective in addressing the needs of the homeless. The government has demonstrated a commitment to helping community-based organizations to address the most acute needs of the homeless through the National Homelessness Initiative, and in particular through the related Supporting Community Partnerships Initiative which helps to provide emergency shelters for women and transitional supportive housing for the homeless. This initiative was extended for three years in 2003, with funding of $135 million per year. The AFB will expand this program by 50% to bring the total commitment to $200 annually for the next three years. *(Funding to address the needs of on-reserve Aboriginal communities are covered in the Aboriginal Peoples chapter.)*

Re-investment of Savings from Existing Social Housing Programs

Federal government subsidy support to existing social housing has started to step out, thanks to mortgages being paid off and the housing becoming financially self-sufficient. Some will need continued support, either to ensure necessary major maintenance, or to ensure income support to the lower income tenants in the form of rent subsidies. This is expected to yield savings to the federal government of $210 million annually by 2013-2014, and over $1 billion annually by 2023-2024.[10] The AFB will re-invest the government's own savings in affordable housing for low-income Canadians to ensure the ongoing viability of the existing housing and to provide additional affordable housing in the future.

The provision made for affordable housing in this AFB is significant, reflecting the central importance of affordable housing in creating and developing healthy communities with a high quality of life for all Canadians, particularly those in low- and moderate-income households.

On housing and the homeless, the AFB will:

- *initiate a National Housing Strategy;*
- *provide $1.5 billion each year to support the development of 25,000 affordable housing units per year, with 10,000 targeted to low income families and individuals in core housing need;*
- *increase funding for the Sustaining Communities Partnership Initiative to $200 million per year to provide housing, shelters and services for the homeless; and*
- *plough savings coming from existing social housing programs back into affordable housing programs.*

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INTERNATIONAL POLICY

Canada is entering a critical stage in its international relations.

High on the list of priorities of Prime Minister Martin's corporate backers when he came to power a year ago was forging closer relations with the United States. The Prime Minister quickly took steps in this direction by establishing a cabinet committee on Canada-United States relations, and reorganizing some federal departments to more closely resemble those in the U.S.

The Prime Minister also initiated an international policy review of the government's policies in the areas of foreign policy, trade, defence, and development assistance. The preparation of this review has been tightly controlled within Foreign Affairs. Whatever else the review includes, it is likely to provide a cloak of justification for closer relations and deeper integration with the United States, instead of developing an international policy based on the holistic concept of human security, as articulated by former Foreign Affairs Minister Lloyd Axworthy.

This approach takes the security of human beings, rather than territorial security, as its central focus, understanding that human security involves economic, environmental, health, food, community, human rights and political factors, as well as traditional security concerns. The security of people in wealthy countries such as Canada cannot be isolated from the security of people in less-developed countries. Human development and human security are two sides of the same coin, mutually reinforcing each other.

International Trade Policy

Free trade agreements signed with the United States and Mexico have led to an insidious deterioration of Canada's distinctive economic and social policies. Soon after the agreements were signed, governments heeded the call from businesses to increase Canada's "competitiveness" by reducing spending on social programs, lowering corporate taxes, and making labour markets more "flexible."

While the value of exports to the United States and the level of Canadian corporate profits have soared, the value of social programs has plummeted since the free trade agreements were first signed. Over the past 15 years, income inequality in Canada has risen sharply. The share of income taken by the top 5% is now at levels not seen since the early 1940s.[1] At the same time, real wages for most workers have stagnated thanks to constant corporate pressure on wages and the prosecution of complementary monetary policies by the federal government. For Canadian workers, harmonization from free trade has for the most part all been downward.

Now there is a strong push from corporate interests for Canada to further deepen its level of integration with the United States. Led by the Canadian Council of Chief Executives (CCCE), these interests are pushing for:

- harmonizing tariffs with the U.S. and eliminating rules of origin requirements for bilateral trade;
- a convergence of regulations;
- increased military integration;
- development of new joint institutions with the U.S., and

- greater "coherence" within the federal government so that our government departments more resemble those in the U.S.[2]

These CEOs clearly find distinct Canadian policies and institutions troublesome, prefer that the Canadian government and its laws function as a pale reflection of those in the United States, just as many of their branch plant corporations act as appendages of their American parent corporations.

These calls for greater economic and political integration come at a time when the United States is showing dangerous signs of economic instability and decline. U.S. economic growth is being fuelled almost entirely by consumer spending and by increased defence spending. This has led to massive government deficits and record levels of debt for American consumers. The military and consumer spending binge has been financed by foreign borrowing of over $600 billion per year from countries such as China. The economic situation in the United States is unsustainable and dangerous for the world economy.

Canada would be making a grave mistake to more closely integrate our economy and institutions with those in the U.S. Not only would it be unwise economically to tie ourselves closer to an economy that is in decline, but it would also involve implementing policies at odds with the values of Canadians.[3]

The AFB proposes a pragmatic approach to managing trade and investment relations with the United States and with other countries. This approach involves putting the social and economic well-being of Canadian citizens foremost. National policy flexibility must be maintained and enhanced and government should reassert and reclaim its role as an active manager of the economy.

While NAFTA has constrained many things that governments can do, room still remains for more active economic policies to be exercised. The government should identify and maximize that space and test its limits where appropriate. Canada-U.S. issues and trade irritants should be dealt with on case-by-case basis, with an emphasis on cooperation where possible to solve common problems.

Some of the most objectionable elements of NAFTA need to be changed in short order. These include eliminating the agreement's investor-state dispute mechanism and working with NAFTA partners to strengthen social and cultural exemptions. The federal government should stop negotiating trade agreements that put pressure on Canada's health care, education and social services. Fully effective protection for Canadian public services needs to be secured in existing trade agreements.

Where conflicts between social and commercial policy emerge, Canada should obtain permanent generally-agreed exceptions or safeguards in trade treaties rather than country-specific social exemptions. One impact of the trade agreements is that they have induced a regulatory and policy chill with governments fearful of introducing any policies that may possibly be contrary to the trade agreements. Canada's trade and foreign policy should instead correspond to the domestic values and priorities of Canadians.

Trade agreement negotiations need to be opened up to full public scrutiny and participation by those who are likely to be affected, including health professionals and the general public. Canada should also recognize the primacy of human rights law over trade and investment treaties. Our country should be working in multilateral forums to forge strong agreements and protections for human rights, environment, health, culture and taxation that are enforceable and supersede trade and investment rules in the WTO and NAFTA.

Most importantly, Canada needs to take strong steps to diversify our trade and international relations away from a dangerous dependence on exports (increasingly energy-based) to the United States. We need to strengthen our economic, social and cultural relations with other countries in Asia, Europe, Africa and the Americas.

Development Assistance

> *"…the most pressing challenge we have for the 21st century is to end poverty—to realize, in human terms, the aspiration of the Millennium Development Goals."*[4]

Global poverty remains a staggering problem. In a world where 1.2 billion people live in absolute poverty, 50,000 persons still die every day from poverty-related causes. We believe the Canadian government must show leadership by directing an adequate amount of financial resources for development cooperation, with the primary goal of global poverty eradication.

In December 2002, all 191 United Nations member states pledged to meet the Millennium Development Goals by the year 2015. These goals committed the international community to reduce the number of people living in absolute poverty (less than $1U.S./day) by half, achieve universal primary education, reduce the child and maternal mortality rate by two-thirds, promote gender equality, ensure the provision of clean water, combat HIV/AIDs, malaria, and other diseases, and commit sufficient funds for a global partnership for development.[5]

Although these are extremely modest goals, the international community—including Canada—is already falling short of achieving them. Two successive Liberal governments failed to substantially increase development assistance. After years of cuts,[6] the 8% funding increase of the last federal budget and an equal promise in 2005 would only allow Canadian aid levels to reach 0.28% of Canadian Gross National Income (GNI) by 2005-06.[7]

The AFB will commit Canada to contributing its fair share of financial resources to meet the these goals by 2015, when Ottawa would reach the UN target of 0.7% of Canadian GNI devoted to development cooperation. To do this, the AFB will gradually increase international aid by 12% annually until 2007/08, and by 15% thereafter to 2015.

This aid will be targeted to meet basic human needs for poverty eradication, including reducing gender inequalities and promoting girls' and women's human rights.[8] The AFB will increase the share of civil society organizations as delivery agents of bilateral aid, since their work is essential to human development and should be a more integral part of a Canadian-financed development agenda.

The AFB aid strategy will focus aid budgets on serving the human development needs of the poor, rather than manipulating them to serve geopolitical objectives. Canada's aid program should not be directed to assist a foreign policy agenda fashioned in Washington. Between 2002 and 2004, $350 million was committed for humanitarian and reconstruction programs in Afghanistan, amounting to the largest single-country pledge ever made by Canada.[9] Similarly, in Iraq, Canada announced $300 million in reconstruction aid in October 2003. Canadian assistance to these areas of conflict should not displace our commitments to long-term development in sub-Saharan Africa.

The AFB supports complete cancellation of multilateral debt owed by the poorest countries and supports a debt arbitration procedure for other highly indebted developing countries. Canada showed that it could act resolutely when $600 million in Iraqi debt was cancelled while similar measures were not announced for highly indebted poor country debts. Just as the Indian

Ocean tsunami led to debt cancellation in Asia, the AIDS/HIV crisis should result in debt cancellation in Africa. Developing countries urgently need new resources to meet the Millennium Development Goals, unrestricted by stringent donor conditions that hamper their ability to meet these goals. World Bank and IMF resources can be used for multilateral debt cancellation without compromising Canada's development assistance budget.[10]

Canada has supported the World Health Organization's 3X5 plan, which, with the support of UNAIDS, will put three million people into anti-retroviral treatment by 2005. This action is a health as well as a development imperative that must not be allowed to fail. Stephen Lewis has stated that the development goals are being "held hostage" by AIDS.[11] In 2006, the eyes of the world will turn to Toronto, which will play host to the XVI International AIDS Conference. The AFB will ensure that Canada shows the necessary leadership and sustained commitment in the struggle against the AIDS/HIV pandemic by meeting its proportionate commitment to the Global Fund to Fight AIDS, Tuberculosis and Malaria.

By making the financial resources available to meet our international commitment to reach the Millennium Development Goals, including the target for development assistance of 0.7% of GNI, the AFB's foreign policy will strengthen Canada's image in a world in need of peace and just economic development.

Rebuilding South Asian countries after the devastation of the Indian Ocean tsunami will take many years and require ongoing development as well as emergency assistance. Unfortunately, the impact of the tsunami was greatly exacerbated by poverty in the regions affected.

The overwhelmingly positive response of the public and of countries around the world to this natural disaster is very welcome and is heartening. At the same time, there are 170,000 people who die of AIDS every three weeks around the world. AIDS in 2004 claimed 3 million lives, three-quarters of whom were in Africa and 500,000 of whom were children. The very positive response to the tsunami calamity should be translated into a sustained commitment to sustained international development and reduction of global poverty. All tsunami aid must be considered as additional and not at the cost of aid to the poorest countries.

Defence

The Department of National Defence has received substantial increases to its budgets since the late 1990s, including a double-digit increase in spending last year. Forces personnel received substantial salary increases starting in 1999 that addressed concerns of low pay. In addition, the department has been engaged in an extensive capital spending program on military weapons and equipment that is expected to total almost $30 billion.

Canada's military spending is now close to $14 billion a year—the sixth highest of all NATO countries and the 16th highest in the world. The "peace dividend" reductions in military spending from the 1990s have now been fully clawed back, with military spending over 40% higher than in the late 1990s.

What is more troubling than the increases in military spending is the direction that the government and the department are taking Canada's military.

Canadians generally feel that the priorities of Canada's military should focus on maintaining Canada's security and sovereignty and on Canada's strong tradition of supporting UN peacekeeping operations.

While the federal government pays lip service to this tradition, the reality is that, behind the rhetoric, Canada's military is becoming increasingly integrated with the U.S. military, in line with its objective of achieving "interoperability" with the U.S. armed forces so that Canadian forces and equipment can work seamlessly under U.S. or joint command. Canada's Navy has already demonstrated an ability to work under the command of the U.S. Navy: now the rest of our forces are building towards the same level of integration.

Virtually all the new weapons systems now being purchased by Canada's military—the $2 billion CF-18 upgrades, $600 million Stryker tank purchase—have been specified for their ability to work in conjunction with the U.S. military. What is particularly troubling is that some of the weapons systems purchased by Canada—such as the SM-2 surface-to-air missiles—are not fully functional *unless* they are used with radar systems that now exist only on U.S. ships.[12]

Canada's debacle in purchasing faulty submarines is an example. The subs have little role to play in protecting Canadian sovereignty when coastal surveillance can be accomplished using ships, satellites, and new radar systems. As the hearings into the submarine accident has found, Canada was pressured to buy the secondhand subs by the United States, so that it could conduct war games with its nuclear-powered submarines against the much quieter diesel-electric powered subs that the British no longer wanted.

For Canada's military brass and for Canadian military contractors, this direction makes perfect sense.

The United States is leading what is called the Revolution in Military Affairs (RMA), which involves the development and use of highly sophisticated technological weapon systems. Since these weapons are also extremely expensive, the Canadian military cannot afford to purchase and operate them, and find that the only way to get their hands on the latest weaponry is by working closely with the United States military to increase the "leverage" of their military spending.

The United States has pushed hard for Canada to increase its military spending and demands interoperability with its own forces—which conveniently means greater Canadian purchases from U.S. military contractors.[13] Canadian military contractors, which are often closely linked to their U.S. parents, strongly support greater interoperability because it puts them in line for much larger U.S. military purchases.

While Canada hasn't yet officially joined the U.S. National Missile Defense System, Canada's military has already quietly allocated nearly $500 million to the program, confidently assuming we eventually will join. The NMD program, which currently costs close to $10 billion per year, could eventually reach U.S.$1 trillion, according to some estimates.[14] More incredible is the fact that, despite all the effort and spending, the system has proved unworkable: all the tests have failed.

Canada is likely to join this program—partly to appease the U.S. and partly because of pressure from Canadian military contractors—even though a system designed to shoot down incoming missiles over foreign territory, including Canada, would be more likely to reduce than increase Canadian security. The real cost of participation in this program also needs to take account of any clean-up costs. Canada was left with a bill of close to $1 billion for clean-up when the United States abandoned its DEW Line sites located on Canadian soil.

While greater integration serves the military interests on both sides of the border, does it really serve the interests of Canadians?

In terms of Canada's national sovereignty, greater integration and interoperability take Canada in exactly the opposite direction: it involves increasingly surrendering our sovereignty to the United States, both on an operational level in the military field and also in terms of having an independent foreign and defence policy. If Canada's military can't operate independently of the United States in the field, how can we have any independent defence policy, except on paper?

Moving towards greater integration with the United States military has also meant that the Canadian Forces are increasingly abandoning their traditional peacekeeping role. Most of Canada's overseas troops are committed to U.S. or NATO-led operations, including Op Athena in Afghanistan and Op Altair and Op Foundation in the Gulf region. These troops are participating in the U.S. war on terrorism, rather than participating in UN peacekeeping missions.

These missions and spending priorities run contrary to Canadian public opinion. 52% of Canadians want their troops involved in non-combat peacekeeping missions, while only 40% support both peacekeeping and combat roles. Only 15% think that more money should be spent on the military in order to combat terrorism, while 41% support increasing intelligence and domestic security measures and 37% believe that the best long-term response to terrorism is to "increase focus on tolerance, immigration and multiculturalism."

Canadians clearly want an independent role for their armed forces, one focused on maintaining Canadian sovereignty, peacekeeping, and global security, rather than on protecting American interests. Further integration of our armed forces with those of the United States undermines the values and preferences of Canadians.

The AFB will freeze defence spending and start to re-focus Canadian military spending in line with Canadian values, including territorial surveillance and non-combat peacekeeping missions under UN command. Military spending will be re-allocated away from expensive U.S.-interoperable systems and towards lower-cost technologies that can operate independent of U.S. command.

The AFB will also end the costly practice of contracting out defence functions to the private sector and outsourcing services, such as for military health care, to private sector firms.

The AFB will give priority to strengthening UN management of military operations, including promoting a UN rapid response force that can operate to quickly restore order in conflict environments and support humanitarian relief.

The AFB will engage Canadians in a broad-based national consultation, involving both experts and the public in a review of Canada's international and defence policies. Only through such a public exercise can the influence of special interests be limited, while building public support for an international policy that is appropriate for Canada in the 21st century.

The technological wizardry of modern warfare may seem impressive, but it is much less effective than diplomacy and good international reputations in establishing peace, order and security in the world.

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POST-SECONDARY EDUCATION

Education is essential to the long-term economic, social, and cultural health of Canadian society. If primary education builds the fundamentals for basic civic participation, post-secondary education expands the opportunities available to individual Canadians and to Canada as a whole. This point becomes even more compelling when it is recognized that close to 75% of all new jobs will require some post-secondary education.

However, access to the opportunities afforded by higher education is increasingly restricted to those with above-average financial resources. Tuition fees and student debt loads are at historic highs, putting post-secondary education beyond the reach of a growing number of Canadians. Average fees for undergraduate students across Canada have ballooned by 185% since 1990/91: from $1,464 to $4,172 in 2004-2005.

Students entering graduate and professional programs have witnessed even steeper increases. Between 1990 and 2004, fees for law, medicine, and dentistry skyrocketed by 346%, 481%, and 585%, respectively. One year in law school now costs $6,471, medical school nearly $9,977 and dentistry $12,331. The Canadian Dental Association, the Canadian Medical Association, and the Canadian Bar Association have all expressed growing concern about the deregulation of fees in professional programs and the impact on accessibility, particularly for students from marginalized and equity-seeking groups.

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.

Recent increases in federal funding have not fully restored the federal government's contribution to post-secondary education. Only a tiny share of the soon-to-be eight consecutive federal surpluses has been directed at post-secondary education (PSE). Federal cash transfers for PSE, when adjusted for inflation and population growth, are roughly 50% lower today than they were 10 years ago. Continued underfunding has far-reaching implications: the number of academic staff at Canadian universities and colleges is nearly 10% below 1995 levels, and the quality of the learning and working environment is suffering.

Deferred maintenance costs at Canadian universities and colleges are estimated to be $3.6 billion — with $1 billion considered urgent. Declining facilities range from classrooms to offices to laboratories, and deteriorating physical infrastructure has created unsafe working conditions for many students and campus employees.

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. The use of contracting-out of support staff, sessional and casual teaching staff and other education workers at both universities and colleges has increased, with implications for education and workplace quality and job security.

The benefits of education are both individual and social, and range from the economic (increased earning potential) to the more general (improved health, greater community, political and familial involvement). Educational institutions perform an invaluable role in Canadian research and innovation, particularly with inadequate private sector investment in research. There is a clear need for increased public funding of research at universities to strengthen Canada's research capability and to limit the disturbing implications of increased private funding of research (including academic freedom and integrity of research). Federal funding for research is piecemeal in nature, with the arts and social sciences particularly underfunded. Public money is often dependent on matching grants from the private sector, which only reinforces the growing corporate influence in university and college research.

To restore the balance in research funding, the AFB will double the core grant of the Social Sciences and Humanities Research Council (SSHRC). SSHRC receives less than a third in core funding of the amount received by its sister agency, the Natural Sciences and Engineering Research Council. This increase would be phased in over three years. To limit the increasing corporate influence in research, the AFB will discontinue the Commercialization Fund established in the 2003 Federal Budget, with funding for the program allocated equitably to the granting agencies.

A New Post-Secondary Education Transfer

The AFB will replace the Canada Social Transfer with separate stand-alone social and post-secondary education transfers. The *Post-Secondary Education Fund* will be governed by a *Canada Post-Secondary Education Act*, modelled on the *Canada Health Act*. The *Act* will outline clear responsibilities and expectations for the federal and provincial governments, establish national guidelines and principles, enact enforcement mechanisms, and determine long-term and stable funding formulae.

The AFB will increase the PSE transfer by a total of $4.3 billion over three years, phasing in to an increase of $1.7 billion above planned post-secondary transfers by year three. These transfers will be made conditional on provinces immediately freezing tuition levels and initiating measures to lower fees over time. Tuition fees paid by all students at universities and colleges across Canada total close to $4.5 billion per year. This substantial increase in funding would allow institutions to reduce tuition fees considerably—by at least 25% even after allowing for increased hiring of teaching staff. Tuition fees would be regulated as a condition of the new transfer and would decline to affordable levels accordingly.

The AFB will also increase funding and eliminate status-based restrictions for the Post-Secondary Student Support Program, which has enabled many Aboriginal students to pursue and obtain a post-secondary education. *(See Aboriginal chapter.)*

Student Financial Assistance

The federal government has a confusing and expensive patchwork of aid programs that has failed at assisting students from disadvantaged backgrounds. The AFB's approach will consolidate the vast public expenditure on student financial assistance into a comprehensive system of grants. The grants will reduce the complexity of the existing system while being more responsive to the needs of low-income students. Instead of reducing the need for Canada's neediest students to borrow for their education, the Liberal government last year increased the loan maximum by over 20% to $11,900 per year. This has simply provided students in the greatest need with the opportunity to go over $47,000 into debt for a four-year degree, an egregiously regressive move.

With average student debt levels reaching $25,000, the Millennium Scholarship Foundation was to be the centrepiece of the federal government's student debt reduction strategy. At the time of its introduction, Finance Minister Paul Martin declared that it would help those in greatest need and reduce average student debt by $12,000. But the program has been more effective as a public relations exercise than in reducing student debt. A recent review of the program found that its impact on student access had been "at best, weak and indirect." The program, scheduled to run out in 2008, was implemented without an oversight system to track how the money was spent.[1] Consequently, a number of provinces simply let it replace their existing provincial student aid plans, leaving students no further ahead.

The Registered Education Savings Plan (RESP) program was substantially changed in 1998 with the introduction of a matching federal grant—the Canada Education Savings Grant or CESG, which provides 20% of the original contribution up to a maximum of $400 a year.

Not only does the CESG commit substantial federal revenue (an estimated $1.3 billion from 1998 to 2002) that could better be spent directly on 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. Less than 19% of children in households earning below $30,000 have RESP savings, while over 60% of children in households earning $80,000 or more have RESPs.

In spite of these serious deficiencies, the federal government announced new measures in its 2004 Budget to enhance the CESG. In theory, these changes were intended to ensure that more low-income families would be able to make use of this money. Starting in 2005, families with incomes of less than $30,000 will be eligible for a matching 40% federal grant each year—on the first $500 invested in an RESP. Families with incomes between $30,000-$70,000 will be eligible for a 30% federal grant each year, again on the first $500 invested. The federal government estimates that 4.5 million children will benefit from the enhanced funding at a cost of $80 million annually.

In addition to CESG enhancements, the 2004 Budget introduced the Canada Learning Bond (CLB) —a $500 grant for children born to families eligible for the National Child Benefit. Each subsequent year, these eligible children will receive an additional $100. All CLB monies are paid into an RESP. If the effects of the CLB are maximized, an eligible student would receive $2,000 that, wisely invested, could be worth $4,000 by the time the beneficiary turns 18 (less than the cost of one year's tuition in most Canadian provinces). The CLB is estimated to "benefit over 120,000 newborns, at a cost of $85 million," in 2004.

Instead of eliminating the regressive RESP program, the federal government has put even more money into it by enhancing the CESG: over $400 million in 2004/05, rising to more than $500 million in 2005/6 and $620 million in 2006/7. In comparison, these funds would eliminate tuition fees for about 20% of full-time university students.[2]

The AFB also recommends that private, for-profit educational institutions no longer be eligible to receive public funding in the form of student loans or grants provided for study there. This would eliminate a significant public subsidy to institutions that are unaccountable to the public; furthermore, loan default rates are often significantly higher for students from these institutions than for public universities and colleges.

2005 Alternative Federal Budget Proposals

Under the 2005 AFB, tuition fees will be regulated and will decline thanks to a new transfer as described above. At the same time, a progressive system of student financial assistance is still required to "level the playing field" for those without the resources to cover living costs and other expenses. The 2005 AFB will repeal the existing patchwork of tuition fee and education tax credits, the Millennium Scholarships, Registered Education Savings Plans, the Canada Education Savings Grant, and the Learning Bond, and use the savings ($2.15 billion) to fund a system of needs-based grants. Without any increase in federal spending, this program will provide an average of $7,000 in grant aid to over 300,000 university and college students each year.

More efficient use of public money will ensure a significant reduction in the impact of tuition fees on students and their families, and will more than compensate for the elimination of the tuition tax credit. Unlike tax credits, a system of grants will promote access and substantially reduce debt on the "front end." The redirection of spending on savings plans and tax credits into the grants program will also ensure that student financial assistance is more generous to those students most in need.

The AFB recognizes the additional expenses associated with post-secondary education beyond tuition fees and will continue to work towards expansion of the needs-based grants system to ensure that the full costs of higher education are recognized.

For post-secondary education, the AFB will:

- *create a new dedicated Post-Secondary Education Transfer and fund it with an additional $4.3 billion over the next three years;*
- *require provinces to freeze and reduce tuition fees as a condition of receiving the additional funding;*
- *replace the current confusing and regressive federal student financial assistance program with a national system of grants targeted to the neediest students; and*
- *double the core grant of the Social Sciences and Humanities Research Council and increase funding for the other research councils.*

Endnotes

1 Despite the concerns of transparency raised by the review of the Millennium Scholarship Fund, in 2003-4 the Federal Government allocated $85 million to the newly-created Council on Learning—whose goal appears to not shape policy but rather provide the tools "to empower our partners [NGOs and governments throughout Canada] to ultimately demand progress in learning and incite governments to take collective action."

2 Kevin Milligan (2002). *Tax Preferences for Education Savings: Are RESPs Effective?* Toronto: C.D. Howe Institute Commentary Paper, November 2002. These estimates are still valid: average undergraduate tuition fees were $4,172 in 2004/5 and the latest full-time enrolment numbers were 635,600 (2002), for a total tuition cost of $2.6 billion.

POVERTY

Poverty During Economic Prosperity

Canada has experienced strong economic growth for over ten years. Since 1992, Canada has had the best improvement in its budgetary situation among the G-8 countries, including the sharpest decline in its debt burden. The 2004-5 fiscal year will mark the eighth consecutive year of a federal budget surplus. Canada has the lowest debt/GDP ratio in the G-8 and was the only one with a surplus last year.

All Canadians should be enjoying significant prosperity, but over four million of our citizens are still living in poverty. For them, very little has improved over the past year. Despite continued strong economic growth, marginalized groups such as Aboriginals, immigrants, racialized people, disabled people, youth and seniors all suffer from higher rates of poverty, particularly women in these groups.

While poverty rates for seniors and female lone-parent families have improved slightly, progress in reducing the overall poverty rate has been minimal. Over 50% of female lone parents are poor. Almost one in six children—over one million—are still living in poverty 15 years after the passage of an all-party resolution in Parliament to end child poverty by the year 2000. For the first time in six years, the child poverty rate increased recently. At over 15%, Canada has one of the highest child poverty rates of the industrialized countries. Most of these children are attached to the one in seven Canadian women living in poverty. Poverty among Aboriginal groups remains appallingly high, both on and off reserve, and several groups such as young families and workers have experienced significant increases in poverty levels.

Vulnerability to poverty has also grown, with young families, workers, youth, immigrant families, and women all receiving inadequate incomes. For immigrants, including those who have been in the country longer than 10 years, poverty is rising. The national poverty rate for young families with children rose from 41.5% to 56.6% from 1981 to 2001. The situation is worse for immigrant and racialized families. Workers, particularly young workers, also experience greater poverty as real wages have declined. Real median wages for families between 25-34 years of age fell by 18.4% from 1981-2001.

By any measure, these rates of poverty are inexcusably high for a wealthy country like Canada. Even more alarming is the increase in the depth of poverty. Those who are poor are poorer now than they were a few years ago. To reach the poverty line in 1989, two-parent families needed an additional $9,394. In 2001, they required $10,265. And income distribution continues to be skewed in favour of those in the high earnings brackets. From 1989 to 2001, the incomes of the top 20% of wealthiest Canadians grew by over 16%, while the incomes of the bottom 40% shrank by about 5%.[1] After taxes and transfers, the highest income group had an increase of 16.8%, while the income of the bottom 40% only increased by 2.4%.

The major causes of poverty in Canada are well known and have remained fairly consistent over the last 10 years: a labour market that does not provide jobs with stable, living wages; an increase in precarious and non-standard employment; an eroding income security system that fails to provide adequate financial support for those in need and insufficient social housing as well as a lack of accessible and affordable child care.

At one time, being employed would cushion people against poverty. This is no longer the case. Canada is now a low-wage employer with an increasing number of jobs that do not pay workers enough to live on. Among industrialized countries, only the United States has a greater ratio of low-paid workers than Canada.[2] In 2002, 25.3% of Canadian workers were low-paid, meaning they earned less than two-thirds the median hourly wage.[3] By contrast, only 5% of workers in the Scandinavian countries are in low-wage jobs. The rise of non-standard and precarious employment has led to greater income insecurity and vulnerability to poverty, especially for women who make up a significant number of those employed in these jobs.[4]

Income security and adequacy have slipped badly since the 1990s as wages have dropped, eligibility for Employment Insurance has been restricted, and social assistance benefits have been cut. Tighter EI eligibility rules, reduced benefits, and increasing numbers of part-time and self-employed workers has led to declining levels of insurance coverage. The result has been a greater number of unemployed workers without income support. Only 30% of unemployed women received benefits in 2001, while only 44% of men had coverage.[5] Again, these EI changes have impacted heavily on women and youth who are more vulnerable to poverty.

Social assistance programs have offered little protection for people who must access them. Provincial and territorial cuts to benefits leave people well below the poverty line, assuming they are able to qualify for assistance at all. Shelter allowances fail to cover rent for even rudimentary housing, leaving people to choose between paying the rent and buying food. The gap between the poverty line and welfare income increased for all households in every province except P.E.I. and Manitoba from 2002-2003.[6]

Debt reduction and tax cuts have been the focus of the last several budgets. This has decreased money spent on income support programs, social housing, child care, and other badly needed supports for poor families and individuals. While Canada spends relatively more on social programs and public services than the United States, the gap between the two countries has narrowed dramatically. The result has been deepening poverty and increased vulnerability to low income for many Canadians.

AFB Poverty-Reduction Measures

The AFB will provide adequate funds for social programs and services by increasing monies allocated to the Canada Social Transfer (CST). The AFB will increase current CST funding levels by well over $10 billion in the next three years and split the program into a Canada Social Assistance and Services Transfer and a Canada Post-Secondary Education Fund. An escalator clause will also be included, as is the case with the CHT, in order to ensure predictable growth in funding.

The Canada Social Assistance and Services Transfer will clearly identify standards to ensure that funds are spent on social programs. The standards will be the same as those previously contained in the Canada Assistance Plan and will include the right to income when in need, regardless of the province of residence, the right to an amount of income that at the very least meets basic needs, the right to appeal a welfare decision one feels is wrong and the right not to have to work for welfare. This will involve the creation of a Canada Social Council modeled after the Canada Health Council, with citizen and voluntary sector involvement to help ensure accountability and transparency.

The AFB will ensure a better targeting of spending in the social transfer for off-reserve Aboriginal peoples. It will separate the portion of the transfer earmarked for Aboriginal people with appropriate standards, mechanisms, and the involvement of Aboriginal communities.

The AFB will also reinstitute the federal minimum wage at a minimum rate of $10 an hour, index it to the cost of living, and put pressure on the provinces and territories to do the same with their respective minimum wage rates. *(See the Employment chapter)*

Initiatives in the AFB 2005 will also improve income security programs by altering EI eligibility requirements so those who need benefits can access them. In addition, the surplus from the EI program will be used to fund income support for unemployed workers, and for effective employment programs and training. Measures will be put in place to ensure that no future government can access EI funds or surpluses for debt or deficit repayment.

To assist families with low and middle incomes the AFB will consolidate the Canada Child Tax Benefit (CCTB) and the National Child Benefit Supplement into one program and increase it to a maximum of at least $4,900 for the first child. Current CCTB levels are simply too low and the timetable for scheduled increases too slow to help vulnerable families achieve an adequate standard of living. This increase will cost an additional $4 billion in 2005, $7 billion in 2006, and $10 billion in 2007. The consolidation of the CCTB and NCB Supplement programs will provide adequate benefits to all families, regardless of their source of income, and eliminate the NCB clawback from families on social assistance that is currently carried out by several provinces. This measure, together with increases in the minimum wage, are designed to enable a lone-parent with one child and a full-time minimum wage job to have an income above the poverty line.

Parents who cannot access affordable quality child care have difficulty entering or re-entering the workforce. Lack of spaces and inadequate care means people cannot make the transition from social assistance to employment. The AFB establishes a pan-Canadian Child Care Program with funding to reach 1% of GDP by 2020 *(See Child Care chapter).*

The AFB would also increase the GST credit by 25% both to make up for the value that was lost when the credit was not indexed to inflation and also as an anti-poverty measure. The GST credit is one of the most effective ways in the tax system of benefiting low-income people.

The goal of the AFB initiatives is to bring down the overall rate of poverty in Canada by one-half, at the very least, by the end of this decade—and, soon enough, to "Make Poverty History."

In doing so, Canada will move closer to honouring its commitments under a number of international conventions, including the International Covenant on Economic Social and Cultural Rights and the Convention on the Elimination of All Forms of Discrimination Against Women,[7] as well as meet its obligations under the UN's Millennium Development Goal to cut global poverty in half by 2015.

Reducing poverty and income inequality in a time of plenty is a major focus of this year's AFB. Most of the measures that we propose are directed to improving the conditions of those most in need. These include:

- *increasing the Canada Child Tax Benefit to $4,900;*
- *increasing the GST tax credit amount and thresholds by 25%;*

- *increasing funding for the Canada Social Transfer immediately by $3.2 billion per year and splitting the program into a Canada Post-Secondary Education Fund and a Canada Social Assistance and Services Transfer;*
- *enforcing clear standards for the Social Assistance and Services Transfer and creating a Social Council to help ensure accountability and transparency;*
- *introducing a pan-Canadian Child care program to provide universal, affordable and accessible quality child care to all those who need it;*
- *enhancing the Employment Insurance program to broaden eligibility and enhance benefits;*
- *re-introducing the federal minimum wage at a rate of $10;*
- *increasing seniors' GIS benefits by 10% and OAS benefits by 5% and enhance retirement security through other measures;*
- *making a major commitment to affordable housing, with the development of 25,000 annually at a cost of $1.5 billion per year;*
- *enhancing programs for the homeless;*
- *significantly increasing funding for post-secondary education with a commitment to freeze and reduce tuition fees and the introduction of a national system of needs-based grants;*
- *significantly increasing funding for Aboriginal peoples and communities, both on-reserve and off-reserve, focusing on the priority needs of education, housing and health care;*
- *increasing support to people with disabilities, including improving tax provisions and initiating a Labour Market Strategy for Persons with Disabilities and a National Disability Related Supports Plan; and*
- *increasing international development assistance by 12% annually until 2007/8 and then by 15% until Canada meets the target for development assistance of 0.7% of GNI in 2015.*

Endnotes

1 Jackson, Andrew. (2004) "Paul Martin's Economic Record: Living Standards of Working Families and Prospects for Future Prosperity." Hell and High Water. ed. Todd Scarth, p 83.

2 Jackson, 81.

3 Jackson, p. 81.

4 Cranford, Cynthia J. Vosko, Leah F. Zukewich, Nancy. (2003) "Precarious Employment in the Canadian Labour Market: A Statistical Portrait" in *Just Labour* Vol. 3 (Fall), , p 8. http://www.yorku.ca/julabour/volume3/cranfordetal_justlabour.PDF)
Vosko, Leah F. (2002) "Rethinking Feminization: Gendered Precariousness in the Canadian Labour Market and the Crisis in Social Reproduction" Robarts Canada Research Chairholder Series, April, York University, p.1.

5 Canadian Labour Congress (March 2003) "Falling Unemployment Insurance Protection for Canada's Unemployed", p. 5.

6 National Council of Welfare. (Spring 2004) "Welfare Incomes 2003", p. 60-62.

7 Including the International Convention on Economic Social and Cultural Rights and the United Nations Committee on the Convention of the Elimination of All Forms of Discrimination Against Women (CEDAW). In February 2003 CEDAW made 26 recommendations to Canada, which addressed the persistent discrimination of Aboriginal women and the decrease in income supports for women.

RETIREMENT AND SENIORS' BENEFITS

Uncertainty about retirement financial security continues to increase. Workplace pension plans are facing deficits, and several high-profile corporate bankruptcies have put the pensions of workers at risk. Pension plan coverage has continued to decline and contributions to RRSPs increased only slightly in 2003, after falling for three consecutive years.

More people are worried about having enough money to live on in retirement. So much so that, according to some surveys, protecting retirees' pensions and retirement incomes now ranks second in priority only to health care on Canadians' list of public policy issues.

Only 40% of employed Canadians now have a registered pension plan at their workplace, and an increasing number have defined contribution plans that do not guarantee any particular pension at retirement.[1] Even workers with guaranteed pensions can lose them if their employer goes under because they rank after other creditors in a corporate bankruptcy. The growth of non-standard employment arrangements (temporary or contract work, casual and part-time employment) also means that more and more workers will not have the security of traditional pension plans or retirement savings programs.

While Canada has made some changes to its retirement income system over recent years, the emphasis has been very much on cost savings. Little attention has been paid to how the future financial security of older people might be ensured. Recent increases in RRSP contribution limits do nothing to help the majority of Canadians who do not contribute to RRSPs because their low incomes leave them no spare cash to make a contribution. 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. Nearly 80% of individuals with RRSP contribution room and annual incomes of $80,000 or more contribute to RRSPs, while only 21% of those earning less than $20,000 a year do so.[2]

Many workers do not understand their pension plans and are not sure what benefits they will receive from public programs either. The mounting sense of alarm that many people now feel about their future financial security makes it imperative that action be taken now to protect the most vulnerable in our society and to ensure that older Canadians will have adequate incomes in retirement. 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 to be considered will include the following:

Improving the Benefits Payable Under Public Pension Programs

As membership in workplace pension plans continues to decline and private savings are increasingly beyond the reach of lower-income workers, more seniors will have to rely on public pension programs for financial security in old age. It is clear that the current level of benefits under these programs will not provide an adequate income for those who will have no other sources of financial support in retirement.

In its October 2004 Speech from the Throne, the federal government announced it would increase the Guaranteed Income Supplement (GIS) "for Canada's least well-off seniors." There are now almost four million seniors in Canada and about 37% of them, or almost 1.5 million, have incomes so low that they qualify for the GIS. Of these, 65% are women.[3]

- Over the longer term, the AFB will improve the level of benefits payable under public pension programs, such as Old Age Security (OAS) and the CPP, to reduce the incidence of low income among seniors and minimize the need for GIS. As an interim measure, we will increase benefits available under GIS by 10%. This would cost an estimated $550 million per year. However, costs could be considerably less than this if CPP benefits were improved through the measures we propose.
- We will also implement a 5% increase in OAS benefits as an interim step to improving the incomes of older Canadians. With the OAS system costing approximately $20 billion per year, a 5% increase would cost approximately $1 billion per year, less the amounts that would be recovered through clawback of OAS payments through the tax system.

Ultimately, our objective is to establish public benefits at such a level that the minimum income guarantee from OAS and GIS combined is above the poverty line as defined by the after-tax low-income cut-off calculated by Statistics Canada for individuals and families. Our approach will pay particular attention to the needs of immigrants who may not be able to benefit from social security agreements with their countries of origin.

- We believe federal, provincial and territorial finance ministers should review 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.
- The review should also include an analysis of the way in which the CPP contributory period is calculated to explore measures that would assist recent immigrants to accumulate adequate pensions.
- Ministers should also move to implement a caregiving 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.

In their 1997 *Agreement on Proposed Changes to the CPP*, finance ministers decreed that any future benefit improvements to the CPP would have to be fully funded. One possibility for funding the changes we propose would be to raise the ceiling on contributory earnings, as has been proposed by the government of British Columbia.

- As part of the 1997 CPP reforms, contribution rates were increased and have now reached a combined employer/employee rate of 9.9% of contributory earnings. Those with below-average earnings have been particularly hard hit by higher contribution rates, as have workers in certain types of non-standard employment such as the self-employed who pay both the employer and the employee contribution themselves. We therefore propose to redesign the non-refundable tax credit given through the tax system for CPP contributions to provide more tax relief for contributors with below-average earnings, placing it on a geared-to-income basis. We have estimated that redesigning the credit would cost about $500 million per year.

Changes to the Third Tier of the Retirement Income System

In last year's AFB, we proposed limiting the individual tax assistance to private retirement savings through Registered Pension Plans and RRSPs to a maximum annual dollar amount equivalent to twice the average industrial wage. We repeat that recommendation in the AFB for 2005. This would bring the maximum annual RRSP limit to about $14,600 for 2005, down from the limit of $16,500 for 2005 and of $18,000 for 2006. Tax revenues would increase by about $1.3 billion over three years as a result of this rollback, with the funds generated helping to fund the increases in the GIS and OAS.

Regulation of Workplace Pension Plans

Registered Pension Plans are regulated at both the federal and provincial level. The federal Office of the Superintendent of Financial Institutions regulates only those plans under federal jurisdiction in such industries as banking, telecommunications, airlines, etc., which cover only about 10% of the Canadian workforce.

The federal government, however, does have certain powers that could be used to protect the pension benefits of workers in all jurisdictions and help improve their future financial security—particularly through the use of bankruptcy and insolvency laws. To this end we propose the following:

- Changes to the *Bankruptcy and Insolvency Act* to ensure monies owed to workers, including wages, termination and severance payments as well as unfunded pension liabilities, are recovered before banks and other secured creditors.[4]
- Amendment of the *Companies Creditors Arrangement Act* (CCAA) to provide that courts do not have the right to suspend pension contributions (including both payments for future service and special payments) required under pension legislation and regulation[5].
- Implementation of a pension benefits guarantee fund at the federal level, similar to the PBGF now in place in Ontario, which would be funded by contributions from employers who sponsor pension plans under federal jurisdiction. This 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.

Priority for Review of Retirement Income System in Policy Development

Given the growing alarm among Canadians about their financial security in retirement, this issue must be made a priority for federal policy development. The AFB supports the proposal made for the appointment of a Minister of State for Retirement Security and Seniors Affairs, who would immediately initiate a dialogue on retirement security among all the stakeholders. The Minister of State would have one year to report back to Parliament on the outcome of this national dialogue.

For Seniors and Retirement Security, the AFB will:

- *increase GIS benefits by 10%;*
- *increase OAS benefits by 5%;*
- *provide greater benefits through the tax system to CPP contributors with below-average incomes;*

- *propose changes to improve the CPP in its treatment of recent immigrants, caregivers and in its replacement rate formula;*
- *reduce the maximum RRSP contribution level to $14,600; and*
- *appoint a federal Minister of State for Retirement Security and Seniors Affairs.*

Endnotes

1 Statistics Canada (2004) "Employer-sponsored pension plans" in *The Daily,* Wednesday September 22 2004 at http://www.statcan.ca/Daily/English/040922/d040922a.htm Accessed 9/22/04.

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3 Human Resources Development Canada (2003) *The ISP StatsBook 2003* at http://www.sdc.gc.ca/asp/gateway.asp?hr=/en/isp/statistics/statbook.shtml&hs=ozs Accessed 11/18/04.

4 Neumann, Ken (2004) *Policy: Campaign to Reform Canada's Bankruptcy and Insolvency Laws*. United Steelworkers at http://www.uswa.ca/program/adminlnks/docs//ccaa.pdf. Accessed 11/18/04.

5 *Ibid.*

SECTOR DEVELOPMENT POLICY

WE NEED MORE *GOOD* JOBS

Measured by standard macroeconomic indicators (like GDP growth, overall job-creation, and the unemployment rate), Canada's economy has performed adequately, if not spectacularly, in recent years. But dig beneath those aggregate indicators, and serious questions arise about the *quality* of jobs in our economy. A large share of new jobs consists of part-time or temporary positions, offering inadequate income, benefits, and job security. Others are located in chronic low-wage segments of the economy—like restaurants, retail, and other low-wage private services. Meanwhile, many of the sectors of our economy that have traditionally provided relatively better-paid positions (including many resource and manufacturing industries, and the public sector) have shrunk relative to the size of the overall economy and labour market. This has accentuated the polarization of work and income opportunities in our society.

In short, a 7% unemployment rate does not begin to tell the whole story of the state of our labour market. More Canadians are employed (as a share of the working age population) than ever. But for individuals, just finding a job provides no guarantee of economic security, because so many jobs are insecure and low-paid. And for Canada's economy at a whole, the fact that our unemployment rate has declined does not prove that our economy is doing especially well in terms of the quality, innovativeness, and productivity of our jobs—nor of the sectors where those jobs are located.

Economic policy must therefore consider not only the quantity of jobs being created in our labour market, but also the quality of those jobs, and the sectors where they exist. In part, this will require better labour standards and unionization to prevent employers from abusing and downgrading their workforce, and thus to improve the quality and compensation of jobs. It will require protecting and revitalizing public services, and the hundreds of thousands of jobs associated with their delivery. But in part, creating better jobs also requires us to improve the economic conditions of the various *sectors* which make up Canada's total economy.

Some sectors inherently feature jobs which are higher-productivity and higher-income; we need more of these jobs, and hence we must develop and expand these sectors (through policies that would increase investment, employment, and production). And in *any* sector of the economy, more investment in technology, innovation, capital equipment, and skills can help to produce better, more interesting, and more productive jobs.

Canada is crying out for new strategies to stimulate more innovative and productive jobs, and to strengthen the sectoral makeup of our economy. So, with this 2005 edition of the *Alternative Federal Budget*, the AFB's participants are recognizing that a progressive sector development strategy, aimed at fostering high-quality jobs in high-value, high-productivity sectors, in all regions of our country, must be a central element of our overall strategy to make Canada's economy a fairer, more prosperous, and more sustainable place.

Issues of investment, productivity, and the sectoral makeup of the economy were traditionally important to progressive strategies in Canada—but less so in recent years, as we focused on fiscal issues and opposing cutbacks in public programs. These proposals are just the beginning of a longer discussion among trade union, social and environmental organizations, and it will take more research and dialogue before we can present a more complete policy agenda in this field. In particular, some of the issues we will need to consider in this discussion include:

- finding a healthy balance in our policies between measures which stimulate public investment and those which stimulate private investment;
- supporting existing resource and manufacturing industries, while ensuring that our policies are also effective in stimulating new industries, in both goods and services; and
- determining to what extent changes in private corporate behaviour can be leveraged through changes in the tax system.

We look forward to elaborating and refining our proposals in this broad area, and to this end the AFB will sponsor a conference and follow-up events as part of our efforts to develop a more complete sector development policy for the next edition of our Budget. The rationale for—and central elements of—a progressive sector development strategy are also discussed further in a companion technical paper to be published separately at www.policyalternatives.ca and intended to help start the broader discussion which we are envisioning.

Holding Business to Account

We have been told for years that to develop more efficient, productive industries, we just have to hand more power and freedom over to private companies—through policies like free trade, privatization, deregulation, and tax cuts. Once it gets the economic "fundamentals" right (low inflation, balanced budgets, and globalization), government should just get out of the way—and let business do the rest.

The failure of this recipe for qualitatively advancing our economy has become abundantly evident with recent economic data:

- Canada's productivity has stalled: in fact, there's been no productivity growth at all in Canada's economy since the beginning of 2002, marking one of the longest productivity slumps in our postwar history.
- Capital investment, which was supposed be stimulated by large business tax cuts, has declined notably as a share of GDP. In fact, excluding booming capital investment on new export-oriented energy projects, Canadian businesses are investing less (as a share of GDP) than in the midst of the last recession.
- The structure of our exports has begun to regress, reinforcing Canada's traditional reliance on exports of unprocessed natural resources and commodities. Last year, for the first time in over a decade, commodities accounted for well over half of our total merchandise exports. Meanwhile, our exports of higher-technology products and services have declined.

It's not for a want of profits that Canadian businesses are failing to invest in new facilities and equipment; in fact, business profits have expanded strongly this decade. Corporate profits before taxes now account for almost 14% of Canada's GDP; that's the largest profit share since Statistics Canada began gathering this data in 1926. After-tax profits have grown even more dramatically, with the growth in before-tax profits reinforced (since 2001) by significant business tax cuts. Yet the share of after-tax cash flow that companies are reinvesting back into Canada's economy is at its lowest ever: only slightly more than half of after-tax cash flow is currently being reinvested.

The notion that we will elicit more investment, innovation, and productivity through still more business tax cuts, still more free trade, and still more privatization is simply not credible. Instead, our strategy emphasizes the need to *challenge* business, and hold business accountable to Canadians for its economic development record—using a combination of "carrots" and "sticks" to generate more investment. Our strategy partly reverses recent across-the-board, no-strings-attached business tax cuts, and instead provides targeted resources to stimulate more investment in various strategic sectors of the economy. It sets a higher bar before global corporations to ensure that their investments in Canada, and their sales into the Canadian market, enhance our economy in a more mutual and beneficial manner. And it will revitalize the state as a more active, direct player in economic development and technology, recognizing that private investment alone cannot meet our needs for investment and innovation.

Again, this sector development agenda should be seen as a preliminary proposal, aimed largely to stimulate more research and discussion among AFB partners and the broader public. Our initial proposals are described in detail below. Their net impact will be to:

- slightly increase the overall net tax burden on the business sector;
- provide direct financial support for targeted investments;
- impose new regulatory oversight on incoming foreign investment and imports; and
- expand the role of government and public agencies in capital investment, technology, and innovation.

Increased corporate taxes balance out increased financial support under this program.

The AFB's Sector Development Strategy

1. Sector-Specific Economic Strategies

Every sector of the economy features its own challenges and opportunities, its own strengths and weaknesses, and hence policy interventions aimed at strengthening targeted sectors must reflect and address those sector-specific factors. The AFB proposes that the federal government begin establishing sector-specific industrial strategy forums in targeted sectors of the economy (including both goods and services, in both the private sector and the public sector). These forums would engage all industry stakeholders (including unions represented in each sector, as full and equal participants). Major Canadian *customers* of each sector would also be engaged in the strategy forums, as a way of "closing the circle" between producers and consumers, and assisting Canadian suppliers to anticipate and successfully meet the needs of their existing and potential customers.

Sectors which might establish strategy forums in the initial period of this initiative could include:

- Tourism
- Public transit equipment
- Wind energy equipment
- Electronics manufacturing
- Software development
- Film and broadcasting
- Book and magazine publishing
- Value-added forestry & wood products
- Value-added products from petroleum and natural gas
- Environmental technologies
- Aerospace
- Steel
- Automotive products

Any sector facing strategic challenges and opportunities, and where focused investments in capital, innovation, or skills would make a difference to its future economic prospects, is "fair game" for the establishment of a sector strategy forum. The repertoire of sector strategy forums would expand over time. The activity of the sector forums would be supported from a $50 million federal fund, expended over an initial five-year period. The fund would both support the work of the individual forums, as well as the provision of central research and support services to all the forums. Of course, it is likely that through their work these forums will identify recommendations for other policy measures to strengthen investment and production in each targeted industry, many of which will require public resources. The $50 million budget is intended to support the working of the forums, not to pay for their resulting recommendations (which would need to be financed from other budget areas, including some of those identified below).

2. Stimulating Real Investment

Across-the-board corporate tax cuts have delivered no bang-for-the-buck to Canadian taxpayers in eliciting new business investment. More focused fiscal measures, tied to the expenditure of additional capital in productive uses, are required. The AFB proposes the partial reversal of recent across-the-board federal tax cuts. The resulting revenues would be allocated instead to support new investment spending in targeted sectors of the economy.

Specifically, the AFB will:

- Raise the general corporate tax rate two percentage points to its 2003 levels (23%), raising about $2 billion per year. These tax cuts have not spurred new business investment in any visible manner. They will be partially reversed to fund alternative approaches to stimulating new investment in Canada (both public and private).
- The proceeds from this partial restoration of corporate tax rates will be allocated to fund the activities described below (such as the Canadian Sector Development Bank and the Technology Partnerships Canada program), which aim to expand a direct public role in innovative and productivity-enhancing investments in a range of targeted sectors (again, both private and public). In this manner, the AFB's overall sector development strategy is "fiscally neutral," while producing a modest redistribution of investment responsibility from private corporations to public agencies (including the new Sector Development Bank).

3. Canadian Sector Development Bank

This new public agency will receive most of the funds (about $1.5 billion per year) from the partial restoration of corporate taxes. It will reinvest those funds to support new Canadian-based projects and facilities in targeted high-value sectors, undertaken by private companies (of all sizes) or by public or community agencies. These investments can take a range of forms: loans, loan guarantees, or equity ownership in particular projects or in their sponsoring companies or agencies. The Bank will be managed with the goal of generating a weighted-average return on its investments equal to the rate of inflation (that is, simply aiming to preserve the real value of invested capital), allowing it to support a range of activities that would not be financeable through normal commercial lending activities. The investments of the Bank will be further leveraged by partnering with commercial investors and other public agencies (such as the federal government's Business Development Bank), thus ultimately generating a multiplied increment in total investment spending in the targeted industries.

The Bank's investment decisions will be governed in part through a structure of sector and regional advisory committees, which receive first-hand input regarding economic needs and opportunities in the various industries and regions of Canada. In the case of the sector committees, they will operate (where relevant) in conjunction with the new sector forums facilitated by the federal government (described above). In this manner, this new public investment agency will begin to democratize and decentralize the process of investment decision-making in Canada.

4. Review and Amend the Canada Investment Act

Recent developments have highlighted the inadequacy of current Canadian foreign investment review legislation. We need new review legislation—not to stop incoming foreign investment, but rather to ensure that Canadian economic interests are protected, and to allow us to leverage incoming foreign investment to capture maximum benefits in new facilities, job-creation, and value-added economic development.

The existing Canada Investment Act (instituted when the former Foreign Investment Review Agency was abolished by the Mulroney government) will be reviewed through a comprehensive public process. The goal will be to establish criteria on which to judge the net costs and benefits to Canada of new foreign investments (especially those in resource sectors of the economy), to identify sectors (such as telecommunications, culture, or banking) where it may still make sense to limit or prohibit foreign investment, and to identify and establish policy levers through which the federal government could attach conditions and performance requirements on incoming investments. As part of this process, we will also eliminate the most intrusive investment-related aspects of current international trade agreements—in particular, by renouncing the infamous Chapter 11 of the North American Free Trade Agreement.

5. Review Canadian Energy Export Policy

Canada now exports over half of all the primary energy (of all forms) that we produce, and we have become the largest single source of imported oil to the U.S. While this specialization as continental energy supplier has generated immense profits to Canadian energy companies, and stimulated investment and limited job-creation in particular regions of the economy, it is inconsistent with the well-rounded, long-run economic development that Canadians need. A Parliamentary review of Canada's energy exports, conducted in conjunction with the National Energy Board, will examine the balance between Canada's existing energy flows (including exports) and our (finite) stock of energy reserves. It will consider the costs of benefits of energy exports (including the environmental costs). It will also examine ways in which Canadian energy resources can be channelled into value-added industrial activities.

6. Green Economic Development

The *Environment* chapter describes in detail the numerous fiscal and regulatory initiatives the AFB is proposing to build a more environmentally sustainable economy in Canada. Targeted efforts to stimulate high-tech energy-efficient practices in Canadian industries and households, and to support the development of Canadian-based environmental industries (such as a domestic high-tech windmill industry) to meet the needs of Canadians for energy-efficient equipment and facilities, will constitute an important feature of our overall sector development strategy. Environmentally progressive industries will feature prominently in the sector forums to be facilitated by the federal government (discussed above), and investments in these industries will receive particularly powerful incentives through the actions of the Canadian Sector Development Bank and Technology Partnerships Canada.

7. Technology Partnerships Canada

The Technology Partnerships Canada program has assisted in the development of some of Canada's most successful and innovative industrial activities. The federal government plans to expand the TPC envelope in coming years to support a broader range of investment initiatives (including delivering federal participation in major automotive facilities, and managing a $500 million "advanced manufacturing" program announced during the last federal election). The federal government will require additional financial capacity to support sector development interventions in coming years—both in existing industries (such as automotive and aerospace), and in the new high-tech industries in which Canada must carve out a larger presence (such as environmental technologies, biotechnology or advanced electronics). The AFB therefore proposes an injection of $500 million per year into the TPC program (in addition to new funding which the government has already announced), and a broadening of the program's mandate to include a wider portfolio of supported sectors. This will allow TPC (along with other federal agencies, such as the Canadian Sector Development Bank described above) to play a more aggressive role in supporting the projects and initiatives that will be developed through the work of the sector strategy forums.

8. Drawing a Line on Trade

Foreign trade flows are crucial determinants of Canada's success in many goods and services industries. In some cases, foreign trade has helped high-value Canadian sectors to develop—by opening up new markets and allowing Canadian producers to specialize and take advantage of economies of scale. In other cases, however, foreign trade has clearly hurt valuable Canadian industries, by undermining demand for domestic producers and shifting investment and employment to foreign jurisdictions. Canada's large and growing trade deficits with China, Mexico, Japan, and Europe suggest a need for targeted government efforts to build a more mutual and balanced trade relationship with these countries (and the corporations which operate there). Instead of following the mantra that "free trade is always best," the federal government should adopt a more strategic and interventionist approach to maximizing our trade opportunities, and managing our trade weaknesses.

With suasion and pressure, a great deal more could be done (through creative regulatory interference and through the explicit invocation of emergency trade protections if necessary) to limit bilateral trade imbalances and press offending nations and companies to invest more in Canada (either by purchasing Canadian exports, or investing in Canadian production facilities). We need to start by opening talks with both:

- Particular *countries* with which bilateral trade imbalances pose a significant and growing threat to the sustainability of high-value Canadian industries and the Canadians who work in them (including China, the E.U., Mexico, and Japan—regions which generated a cumulative trade surplus with Canada exceeding $50 billion last year).
- Particular *companies* whose private actions demonstrate a lack of responsibility to ensuring that Canadian industries and communities get some economic benefits from the significant sales which they make in Canada. There are a handful of global companies—such as Nissan and Hyundai in automotive products, Airbus Industrie in aerospace, or Dell Computers in electronics—with to-

gether account for many billions of dollars of sales in Canada each year, but which have developed no productive presence in Canada whatsoever. These firms will continue to view Canadians solely as customers, rather than as workers and citizens, unless and until they are approached by a Canadian government intent on extracting some industrial benefits in return for their lucrative presence in our market.

In each case, the intervention can begin with simple negotiations regarding the scale and likely direction of the trade imbalance. We can move to invoking informal or formal trade remedies if and when the offending countries and/or companies refuse to commit to a schedule of Canadian investments or purchases of Canadian-made products or services.

9. The Canadian Dollar

The 30% appreciation in the Canadian currency (against its U.S. counterpart) in the last two years has been especially damaging to Canada's prospects for developing a more sophisticated and productive economy. Contrary to the predictions of free-trade experts that a high dollar would somehow "force" Canadians to become more productive, in fact it has had the opposite effect—by undermining the case for investment in export-oriented Canadian industries. Canada's exports are declining (especially of value-added goods and services), and over 100,000 jobs have already been lost in the manufacturing sector since the dollar began its ascent. Worse consequences are in store if the dollar's rise is not halted and reversed.

The Bank of Canada exerts a key influence over the dollar, through its interest rate decisions. To date, it has largely failed to respond to the run-up in the dollar, claiming that its actions are solely motivated by a concern with domestic inflation levels. This approach is unduly narrow and short-sighted. The Bank can reasonably anticipate the negative impacts of the appreciation on Canada's most important export industries, and act to moderate the dollar—without having to wait for a major industrial recession (like the one we experienced the last time the dollar appreciated, in the early 1990s) before acting to cut rates.

10. Investments in Public Infrastructure

The *Communities* and *Infrastructure* chapters discuss the AFB's proposals for a dramatic improvement in Canada's public infrastructure, including major investments in urban, transportation, water, and cultural facilities. Reinvigorating public investment in these facilities (and closing off the phony "efficiencies" promised by private P3 financiers eager to elbow their way into these projects) will constitute an important part of the modernization and sustainability of Canada's economy. These investments in public infrastructure are generally helpful in the effort to build a more dynamic and productive economy; indeed, economists have long recognized that public infrastructure investments can "crowd in" private investment spending. And within the broad envelope of infrastructure spending, particular types of public investments are especially valuable in supporting the development of other high-value industries.

For example, targeted transportation facilities can help to attract "cluster" investments in key industries (like supplier parks in the auto industry). Public support for "incubation" clusters (like high-tech entrepreneur centres) can similarly help Canadian companies tap into networks and evolve a critical mass. A top-quality electronic infrastructure (including the provision of leading-edge broadband services to all regions, including through public agencies such as schools, universities, libraries, and medical facilities) can facilitate the Canadian development of high-value tradeable services (from engineering to software design to medicine). In the infrastructure financing programs, therefore, these investments in "economic infrastructure" will be emphasized and can be conceived as constituting an important pillar of our overall industrial strategy for Canada.

11. Public Procurement

Canadian governments and public sector agencies at all levels collectively constitute one of the largest "consumers" in Canada. Together they purchase almost $300 billion worth of goods and services each year. The value of this spending can and must be leveraged into maximizing the opportunities for domestic investment and employment. For example, the cost of purchases of pharmaceutical products by the Canadian health care system could be reduced, and the domestic economic benefits of pharmaceutical research and production enhanced, through a pro-active strategy to combine the buying power of public health agencies across Canada and link their purchases to commitments of price reductions and Canadian investments by selected suppliers.

Similarly, investments in public telecommunications infrastructure (such as broadband access to remote communities, and computer and Internet facilities for schools and libraries) should be linked to efforts to support Canada's underdeveloped advanced electronics industry. Many other examples exist of ways in which the purchases of Canadian governments and public agencies could be leveraged to support Canadian investments and jobs. To this end, the AFB will establish a new Canadian Procurement Institute, with participation from federal, provincial, and public sector agencies. The Institute will gather data on public procurement in various sectors and develop strategies (in conjunction, where relevant, with the sector forums discussed above) to maximize the potential leverage of those purchases on domestic investment and technology opportunities.

TAX FAIRNESS

The Alternative Federal Budget demonstrates how Ottawa's budget can be used to create a fairer and more equal society in which basic needs are met and where everyone has an opportunity to contribute their fullest.

This is a very different direction than has been taken over the past decade. Federal and many provincial budgets have focused on spending cuts and tax cuts. The result has been a society characterized by large increases in income and wealth for a few—with few or no benefits for those with the lowest incomes. Privatization and an increasing emphasis on individualism have increasingly torn away at our collective sense of a civil society.

The Liberal government's tax measures have been instrumental in this. Paul Martin's 2000 Budget with $100 billion in tax cuts over five years overwhelmingly benefited those with the highest incomes and reduced the government's fiscal capacity to provide the services needed by low-income Canadians.

Equity and fairness are fundamental principles of tax policy: the AFB aims to use the tax system to increase fairness in three different ways:

- Create a more progressive tax system that contributes to a more equitable distribution of income and wealth by reducing taxes for low income people while increasing taxes on unearned income and high incomes: *Vertical equity*
- Eliminate wasteful and costly tax loopholes so that taxpayers in similar circumstances and income from different sources are treated more equitably: *Horizontal equity*
- Reform the tax system to reduce pollution and use of exhaustible resources to promote a more sustainable economy, thereby safeguarding the planet for future generations: *Inter-generational equity*

Overall our tax measures will be revenue-neutral: there will be no increase in the overall tax burden and federal government revenues will remain at the same share of GDP. But the AFB's tax measures will significantly increase equity and fairness in the tax system instead of reducing it.

More Equitable Distribution of Income and Wealth

Increase the Canada Child Tax Benefit (CCTB) to $4,900 by 2007

The Canada Child Tax Benefit is an important tool for reducing child and family poverty. Unfortunately, benefit levels have been too low to produce a meaningful reduction in poverty levels. Over a million Canadian children still live in poverty. The current CCTB level of $2,934 is scheduled to increase to $3,243 by 2007, but this increase is not sufficient to bring working families with children out of poverty.

The AFB will increase the maximum benefit level to $4,900 by 2007. The maximum benefit will be available to families with incomes below $18,000. For families with incomes above this level, the benefit will be reduced by 10% for each child for each extra dollar of income. At incomes above $45,000, the tax-back rate will then drop to 5%. This measure will also provide substantial benefits to low and middle income families who have struggled as a result of Liberal cuts in spending over the past decade.

This proposal will have a significant impact on reducing child poverty in Canada and it is a priority of organizations such as Campaign 2000 focused on tackling this problem. For instance, it will enable a lone-parent with one child and a full-time $10/hr job to have an income above the poverty line.

The increases will be phased in and will cost an extra $4 billion in 2005, an extra $7 billion in 2006, and an extra $10 billion in 2007.[1]

Increase the GST Credit and Threshold By 25%

The GST credit is one of the most effective means in the tax system of benefiting lower-income people. However, the value of the credit was reduced by about 12% between 1992 and 1999 because it was not indexed to inflation at that time.

The AFB will increase both the GST credit amount and the income threshold at which people receive the credit by 25%. This measure will compensate Canadians for the loss in the value of the GST credit during the 1990s and help to increase incomes of low and middle-income families. This measure will cost approximately $1.2 billion per year.[2]

Introduce a New Tax Rate on Incomes Above $250,000

Income inequality has increased to a stark degree in Canada over the past decade. Much of this has been the result of the Martin tax cut measures and reduced income taxes on unearned investment income. The highest-income 25% received over 50% of the benefit of the Martin 2000 tax cut package, while the lowest-income 20% received only 4.7% of the benefit.

The AFB will increase the federal income tax rate on the highest income earners—those with incomes above $250,000—from the current rate of 29% to 32.5% in mid-2005. We will then increase it to 34% in 2007—the same rate that was in effect in the 1980s. This measure will only affect the less than 1% of taxfilers with incomes above $250,000.

Re-introducing a higher tax rate for high-income earners will increase revenues by about $2 billion per year when fully phased in. It will help to reduce income inequality and ensure that those who benefit most from our country's wealth make a substantial contribution to our public services and programs.

Increase the Corporate Income Tax Rate to 23%

The general corporate income tax (CIT) rate was reduced from 28% in 2000 down to its current level of 21%. These tax cuts have not spurred new business investment in any visible manner. The AFB will increase the CIT rate to 23%, which was its level in 2003. It is estimated that this measure will increase corporate income tax revenues by $2 billion per year when fully phased in. This increase in the rates is being made to help fund the initiatives designed to spur business investment as in outlined in the Sectoral Development Chapter.

Reduce the Maximum Contribution Levels for Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs) to Link Them to Twice the Average Industrial Wage

The deductions for RRSPs and RPPs are among the most expensive in the personal income tax system, costing the federal government an estimated $16 billion lost revenues in 2005.[3] They are also very regressive since the cost of this program is borne by all Canadians but those with high incomes derive the most benefit from these tax sheltered savings plans. Not only can those with higher incomes deduct higher amounts, but they also benefit more from the tax break. About 80% of individuals making over $80,000 contributed to RRSPs while fewer than 20% of those who make less than $20,000 did. In fact, RRSPs contributed more to the growth in wealth inequality over the past two decades than any other factor.[4]

The maximum RSP/RPP contributions are now 18% of earned income to a maximum of $16,500 in 2005. The maximum is slated to increase to $18,000 in 2006. The AFB will limit the maximum amount to 18% of twice the average industrial wage—which will provide a maximum of $14,600 in 2005. This will only mean a reduction in the maximum threshold for those with incomes in excess of $80,000.

It is estimated that this measure will increase federal revenues by $330 million in 2005, by $578 million in 2006, and by $610 million in 2007. The revenue gained will help to fund increases in the Guaranteed Income Supplement (GIS) and Old Age Security benefits that will help to benefit low-income seniors (see *Retirement and Seniors Benefit Chapter*).

Implement Disability Tax Fairness Measures

Adults with disabilities are twice as likely to live in poverty as other Canadians.[5]

The disability tax credit provides about $375 million in assistance each year to people with disabilities. But the tax credit is non-refundable which means that the benefits provide little or nothing to those with incomes so low that they pay little or no tax. Benefits of the disability tax credit are also higher for those in higher tax brackets. The AFB will make the disability tax credit refundable, making it available to all Canadians with disabilities, regardless of their income. The additional cost of making this credit refundable is estimated at $100 million per year.

The AFB will also implement the tax measures proposed by the Disability Tax Fairness report: broadening the disability eligibility criteria, expanding the disability supports deduction, increasing the child disability benefit and enhancing medical expense supplements and credits. These measures will cost about $100 million per year.[6]

However, tax measures can do a limited amount in improving the lives of people with disabilities. The priorities for action now needs to be on measures such as developing a National Disability-Related Supports Plan and a Comprehensive Labour Market Strategy for People with Disabilities. (*See Disabilities Chapter*)

Reform the Education Tax Savings System

The federal government's current confusing and expensive patchwork of student assistance programs has failed to help students from low-income backgrounds. At the same time, federal cuts to post-secondary transfers have led to escalating levels of tuition—and mountainous debt loads for graduating students.

The AFB will replace the array of tax-assisted education programs such as Registered Education Savings Plans (RESPs), the Canada Education Savings Grant (CESG), the Learning Bond, and the tuition and education tax credit with a national system of needs-based grants with over $2 billion in funding each year. The student loan interest credit program will be maintained to provide relief to those who already have a large debt burden.

Eliminating RESPs and the tuition and education tax credits will save the federal government over $1 billion per year. Combined with savings from the CESG and other federal education programs, these will fund the new program of needs-based grants outlined *(see Education chapter*).

Redesign the Non-refundable Tax Credit for CPP Contributions

Contribution rates for the CPP now reach a combined employer/employee rate of 9.9% of contributory earnings. Those with below-average earnings have been hit hard by higher contribution rates, as have workers in certain types of non-standard employment such as the self-employed who pay both the employer and the employee contribution themselves.

The AFB will redesign the non-refundable tax credit for CPP contributions by placing it on a geared-to-income basis in order to provide more tax relief for contributors with below-average earnings. Redesigning the credit is estimated to cost about $500 million per year. *(See Retirement and Seniors chapter)*

Tax Fairness

Increasing the Inclusion Rate for Capital Gains Income

The Liberal government reduced the inclusion rate for income from capital gains from 75% to 50% in 2000. This means that unearned income from capital investments is taxed at half the rate of earned income, such as wages.

There had historically been a reduced inclusion rate for capital gains income in recognition of the fact that some of the capital gains income represented the impact of inflation from the time that the asset was first purchased to when it was sold. The original inclusion rate of 75% was meant to roughly adjust for this inflationary component of capital gains. This rationale for a lower tax rate on capital gains was completely abandoned when, in a time of low inflation, the federal government drastically cut the inclusion rate for capital gains. With inflation lower, it should have increased the inclusion rate.

The new rationale for the lower rate was that it would increase investment and savings. Even sympathetic analyses have suggested that the impact on increasing investment from reducing the capital gains inclusion rate is likely very marginal.[7] But having a lower inclusion rate has cost the federal government a lot of money: over $20 billion in lower revenues in the five years, according to the Department of Finance.

Having a lower inclusion rate for capital gains is inequitable and inefficient in at least three different ways:

- It reduces horizontal equity: income from capital gains is taxed at a much lower rate than dividend and interest income and much lower than income from wages and salaries. This inequity leads to decisions being made on the basis on tax rules rather than on the productive capacity of the investment and effort.
- The benefits of this measure have largely gone to wealthier and higher income individuals, cutting away significantly at the progressiveness of the tax system and reducing vertical equity.
- Having a lower capital gains inclusion rate that is not adjusted for inflation creates a perversion in the tax system by rewarding short-term speculative investments and penalizing the longer-term investments that our economy and businesses need.

The AFB will restore the inclusion rate for capital gains income to 80% so that it will be taxed on a more equitable basis with other forms of income, but it will be adjusted for inflation that has occurred since the time that the capital investment was made.[8] For short-term speculative investments, the effective inclusion rate will be 80%, for investments that are held for decades, the effective inclusion rate could be 50% or even less, depending on how long the capital investment was held.[9] These two measures will increase revenues by over $3.5 billion per year on a full-year basis.

Eliminate 50% Deductibility for Meals and Entertainment Expenses

The AFB will eliminate the meals and entertainment expense deduction for both corporate and personal income tax. Together these deductions cost the federal government over $400 million in lower revenues.

Eliminate the Special Treatment of Employee Stock Options

One of the most gratuitous benefits for high-income executives involves the special treatment of employee stock options. Not only are employee stock options given special treatment as capital gains and taxed at half the rate of income, but tax on the shares can also be deferred until they are sold. This benefit, which cost the federal government $650 million in lower tax revenues in 2001, is projected to cost $500 million in future years.

Tax Arrangements for Foreign Affiliates

The Auditor General, the Public Accounts Committee and the Technical Committee on Business Taxation have all pushed for closure of special loopholes that allow dividends from tax havens such as Barbados to return to Canada virtually tax-free. International business corporations in Barbados—the home of Paul Martin's CSL International shipping empire—are taxed at rates of between 1% and 2.5% compared to the general corporate rate of 21% in Canada.

Canadian foreign direct investment in Barbados amounts to over $23 billion with $1.5 billion returning to Canadian corporations each year in dividends. If these dividends had been taxed at Canada's general corporate rate, tax revenues would have been $332 million higher. Closing similar loopholes for other tax havens will increase revenues further in future years.

Partial Tax Exemption of Copyright Income and Income Averaging for Artists and Writers

For artists, writers, and other creative workers who have relatively low and unstable incomes and cannot benefit from employee income averaging measures, the AFB will allow a limited exemption on copyright income and limited income averaging. This measure will help to encourage artistic creation and even out the tax burden. The copyright income exemption will apply only to copyright income up to $30,000 each year and for taxpayers with incomes below $60,000 each year. Income averaging will be limited to a maximum of $50,000 per year.

It is estimated that these two measures will cost about $12 million per year.

Environmental Tax Initiatives

Introduce a Pollution Dividend on Fossil Fuels

The AFB will introduce a "Pollution Dividend" on fossil fuels, adjusting federal excise taxes on fossil fuels to reflect their immense health and environmental costs. The current 10 cent-per-litre gasoline tax will be the benchmark from which taxes on other fuels will be measured. Hence taxes on thermal coal and diesel will increase. This measure will have the double benefit of both acting to reduce use of these dirtier fuels, but also raising funds to be invested in preventive health care and in technologies that are environmentally restorative.

To develop estimates of the revenues that will be raised by such a tax adjustment requires more research into the health and environmental costs of these fuels.

Toxic Substances Taxes

The AFB will also begin work on introducing a toxic substances tax. The rate of tax will vary depending on the toxicity of each substance. The revenue from this tax will be used to properly implement the *Canadian Environmental Protection Act*.

Reduce Polluter Tax Subsidies

The oil and gas sector has received more than $40 billion in federal subsides over the last three decades. Current annual federal subsidies to the oil and gas sector are estimated at about $1.5 billion.[10] The mining industry also receives substantial tax-assisted subsidies from the federal government. Current annual federal subsidies to the mining sector are estimated at more than $400 million, a portion of which are tax-assisted subsidies.[11]

These subsidies are going to a sector that is experiencing record profits and strong demand for its products. These products, which use up scarce non-renewable resources, should instead be taxed at a higher rate in order to promote conservation. The tax preferences also help to subsidize poor environmental practices that threaten our health—and also do little to promote productivity improvements in these sectors. By subsidizing the fossil fuel sector, the government also accelerates greenhouse gas emissions, contrary to its Kyoto commitments.

The AFB will reduce the tax-assisted subsidies to these sectors, saving an estimated $200 million in year 1, rising to $750 million in year 3.

Public Transit Tax Exemption

The government allows employers to provide employee parking as a non-taxable benefit, while employer-provided transit passes are taxable, which encourages people to pollute by driving to work. The AFB will treat employer-provided transit passes as a non-taxable employee benefit.

This measure will cost the federal government about $20 million in the first year, rising to $40 million in the third year.

Endnotes

1 Campaign 2000 (2004). *Pathways to Progress: Structural Solutions to Reduce Child Poverty*. Toronto: May 2004. pp. 51, 69.

2 Andrew Mitchell and Richard Shillington (2004). *Federal tax relief for low income people*. National Anti-Poverty Organization Discussion Paper. Ottawa November 2004. http://www.napo.ca/en/issues/tax%20cuts.htm

3 Finance Canada (2004). *Tax Expenditures and Evaluations 2004.* Ottawa: 2004. http://www.fin.gc.ca/toce/2004/taxexp04_e.html

4 Rene Morissette et al (2002b). *The Evolution of Wealth Inequality in Canada, 1984-1999.* Statistics Canada, February 2002, p. 20.

5 Human Resources Development Canada (2003). *Disability in Canada: A 2001 Profile.* Ottawa: 2003, p. 37. http://www.sdc.gc.ca/asp/gateway.asp?hr=en/hip/odi/documents/PALS/PALS000.shtml&hs=pyp

6 *Disability Tax Fairness Report*. http://www.disabilitytax.ca/report.html

7 Keven Milligan, Jack Mintz and Thomas Wilson (1999). *Capital Gains Taxation; Recent Empirical Evidence.* University of Toronto. 1999.

8 Other countries make this adjustment for inflation and there are no practical reasons why it is not feasible to do in Canada. For the purpose of our revenue estimates, it has been estimated that this would lead to an average inclusion rate of 70% but as the measure works to encourage longer-term investments, then the average inclusion rate could drop.

9 To compensate for not allowing inflation-related losses, the inclusion rate would be less than 100%.

10 Amy Taylor (2005). *Government Spending on Canada's Oil and Gas Industry: Undermining Canada's Kyoto Commitment*, Pembina Institute

11 Mark Winfield and Joan Kuyek (2002). *Looking Beneath the Surface: An Assessment of the Value of Public Support for the Metal Mining Industry in Canada*, MiningWatch Canada, Pembina Institute.

AFB Tax Fairness Package Estimate Table — Summary Table

($millions)

	2005/6	2006/7	2007/8
Greater Equity			
Increase the Canada Child Tax Benefit to $4,900 over 3 years	(4,000)	(7,000)	(9,978)
Increase tax rate on high income earners	660	1,385	2,077
Increase the value and threshold of the GST credit by 25%	(1,200)	(1,236)	(1,273)
Increase the corporate income tax rate by two percentage points	0	500	2,200
Reduce maximum RSP/RPP deduction	330	578	610
Implement disability tax fairness proposals	(100)	(105)	(110)
Make the disability tax credit refundable	(100)	(104)	(108)
Education tax savings changes	1,365	1,390	1,416
Redesign CPP tax credit		(500)	(525)
Tax Fairness			
Increase the inclusion rate for capital gains, personal	756	1,544	1,576
Increase the inclusion rate for capital gains, corporate	907	1,904	2,000
Meals and entertainment expense deduction	413	429	446
Employee stock options	500	500	500
Close loophole for Barbados corporations & foreign affiliates	332	349	490
Income averaging for artists and partial exemption of copyright income	(12)	(14)	(16)
Environmental Tax Initiatives			
Pollution dividend on fossil fuels	To be phased in		
Toxic substances tax	To be phased in		
Reduce polluter subsidies	200	440	750
Public transit tax exemption	(20)	(30)	(40)
Total	30	29	13