ASSESSING THE FEDERAL BUDGET 2005:

What's In It For Women?

Prepared for the Canadian Feminist Alliance for International Action (FAFIA)

www.fafia-afai.org

Armine Yalnizyan
ayal@sympatico.ca
(416) 425-1527
March 4, 2005

This analysis is not offered as a comprehensive analysis of the Government of Canada's highly complex Budget Plan 2005. Nor is this a gendered analysis of the budget, i.e. an incidence study of the impact of tax or spending measures on men and women. After some general observations (page 2), this report addresses the following six questions:

Impact on Women: Spending (page 3)

What did Budget 2005 set out in areas of spending that specifically affects the daily lives of Canadian women? These include:

- the Canada Social Transfer, including funds for early learning and child care, which flow through the CST
- Employment Insurance benefits
- Canada Child Tax Benefits (income supports)
- Funding to improve access to affordable housing and legal aid
- Funding to improve services for immigrant women (settlement services, training and upgrading services, accreditation of vocational and professional qualifications)
- Funding to improve women's voice within government, or in building the capacity of women's groups to advocate for their needs

Impact on Women: Tax Cuts (page 8)

Are the benefits of the tax cut agenda "gender neutral", i.e. does the tax relief provided by Budget 2005 benefit women and men equally?

Assessing the Gender Impact of a Budget (page 12)

How would we know if budgetary measures have different impacts on men and women?

A Balanced Approach? (page 13)

What is the relative importance of spending, tax cuts and debt reduction in this budget?

Size Matters – Federal Spending as a Share of the Economy (page)

Did the array of new spending measures in Budget 2005 alter the commitment, since 1995, to "small government" at the federal level?

Size Matters – Federal Revenues as a Share of the Economy (page)

Does the tax cut agenda laid out in Budget 2005 affect future streams of federal revenues?

ayal@sympatico.ca Yalnizyan and Associates (416) 425-1527

1 General Comments

This budget is a "Contact-C" budget, a time-released economic plan whose impact slowly ramps up. Most elements of this complex package of spending and tax measures are back-end loaded. That means there is very little cost implication for 2005-6, leaving the most costly enhancements to occur in 2009-10. In essence, this Budget asks to be thanked (politically) today for things that aren't delivered until a distant tomorrow.

Does this five-year roll-out of $49 billion in new spending measures and tax cuts benefit the women of Canada? Imperceptibly, is the short answer.

While some women will find a few more dollars in their wallets from this Budget's changes to taxes and income supplements for the elderly, millions of women will see no monetary benefit at all, even in five years. This includes Canada's poorest working-age women and their children, most of whom are already tax-exempt. If every dollar of the $5 billion five-year initiative for early learning and child care was channeled into the provision of regulated child care, 130,000 new spaces could be created across the country. (See page 4) While this would be a welcome development, the simple transfer of funds doesn't guarantee such an outcome. Nor would this outcome fully address the need: There are already over 3 million children under 12 whose mothers are in the paid labour force, and only about 600,000 regulated child care spaces in this country.

Almost $10 billion has been made available for brand new initiatives such as green policy or a cities agenda. Budgetary measures also provide $14 billion over the next five years to redress or surpass past cuts in the areas of Defence, International Assistance and Regional Economic Development. But, aside from $1.5 billion for a trio of pilot projects for employment insurance, this Budget does nothing to reverse the retrenchment of state supports to individuals that took place a decade ago, despite the fiscal capacity made possible by eight back-to-back surpluses, and surpluses as far as the eye can see.

The federal government has virtually no response to the precarious conditions faced by millions of women and their families because of cutbacks triggered by federal actions. The cuts meant: less income support when unemployed; fewer options for training and upgrading; reduced access to safe and affordable housing; increasingly limited legal assistance or other forms of social assistance; and more rationed supports in the home and in the community for the care of young children, the disabled, the ill and the elderly.

This budget, along with its predecessor, largely ignores the poorest and most vulnerable women in Canada, and further delays needed progress towards a long-overdue *nationally* available program of early learning and child development. The effect of this Budget is negligible on most women's daily lives, and virtually non-existent for millions of women, a remarkable fact given that it unleashes almost $49 billion in new tax and spending initiatives over the next 5 years.

2. Impact on Women – Spending Measures in Budget 2005

Budget 2005 puts forward $35.8 billion in new spending initiatives over the next five years.[1]

Despite this there is not a cent for a national strategy to assure:

- Affordable housing, shelters for abused women and children, or transition housing [2]
- Facilitated access to legal aid
- More rapid transition into the labour market for immigrants, the under-employed and the unemployed[3]
- Alleviation of student debt or offsetting post-secondary tuition fee increases
- Continued progress towards the goal of reducing poverty, especially child poverty, through improvements to the Canada Child Tax Benefit

At $5 billion over the next 5 years, the package for **early learning and child care (ELCC**) is the single biggest spending initiative in this budget that could be considered a "women's" issue. It has the potential to affect the daily lives of families across the country; but that impact is not guaranteed, given how this transfer of funds is set up.

Most of the $5 billion will be transferred to the provinces through the Canada Social Transfer; $100 million goes to First Nations on-reserve programs over the five years, and another $100 million for "accountability" measures.

A $700 million trust will be shared among the provinces to the end of 2005-6 (Table 4.1 page 120 Budget Plan 2005) on a per capita basis. The Budget acknowledges there is as yet no framework in which these dollars should be spent. This is similar to the way the CHST (Canada Health and Social Transfer) "Health" Supplement was offered to the

[1] Some portion of this amount is financed through the reallocation of expenditures, taking money from existing programs and putting it into new initiatives. Expenditure review, as it is referred to, has identified $11 billion in "savings" over the next five years. Table 1.2 of the Budget indicates only $7 billion in new budgetary initiatives – both tax and spending related – are funded from these savings.
About $5 billion of the almost $36 billion in new initiatives was previously announced (in previous budgets or in the fall 2004 economic update).

[2] There is $295 million promised over the next five years for on-reserve housing, as part of the initiative to strengthen Aboriginal communities. There is no other housing allocation in this Budget.
On Sunday March 6, 2005 the Toronto Star reported that the Finance Minister announced at the Liberal Policy Convention that he will provide an additional $1.5 billion for housing over five years once a deal has been negotiated with the provinces, and once the first billion earmarked for social housing has been used. (Les Whittington and Andrew Mills, "$1.5B boost for social housing", page A10) The "first billion" has been announced and re-announced in various iterations since Budget 2000. As of Budget 2004 $500 million has been allocated, but there is no verification through public accounts if it has been spent yet, partly due to the inability of the federal and provincial governments to come to an agreement on how to spend it. The only indication that allocated funds have actually been spent on social housing is a memo that accounts for $88 million used by 2002-3 in B.C. and Quebec.

[3] With one exception: this budget allocates $75 million over five years to evaluate the skills of foreign-trained health professionals.

provinces, ostensibly for health but provided with no questions asked. Like the "health" deals of the past five years, the new money is essentially unconditional, simply a transfer of funds to the provinces for a good purpose. What they do with it is their business. That means there are no guarantees that this money will be used to create one more opportunity for quality-regulated, cost-subsidized, high quality early child development and learning in 2005-6, though there is every guarantee that the money will be used.

The profile of how the money gets sent is also instructive. In year two of the plan the transfer to the provinces for ELCC drops by $50 million. Together, the provinces receive $650 million to advance the provision of early child development and learning. Year three sees the funding increase to $1.15 billion, and it stays at that level for the next two years. It is important to place this "full-implementation" amount in the context of what currently exists, and what the need is.

In the most populous province in Canada this enriched transfer will provide just under $450 million annually from 2007-8 to 2009-10. In 1998, Ontario had just over 121,000 regulated child care spaces for children aged 18 months to five years, for which provincial government expenditures were $744 million. (There has been no new creation of regulated child care spaces in years.)

Using the Cleveland/Krashinsky costing of $8,500 per child for children aged 2 to 5 years of age[4], the new federal transfers could finance almost 53,000 spaces if the province dedicated the use of the funds to this end. Across the country almost 130,000 high quality, affordable child care spaces could be created.

Still, there are no conditions to ensure that such a result will materialize. For example, of the $2.2 billion made available to the provinces over 5 years for Early Child Development in the September 2000 federal-provincial-territorial agreement only 8% was used in 2000-01 for the creation of new child care spaces, and not one of those spaces was in Ontario.[5]

The $5 billion for Early Learning and Child Care is the only cash infusion to the Canada Social Transfer, which is also responsible for supporting post-secondary education, social assistance, child welfare supports such as children's aid, and a range of other social services. These social programs and services receive no further federal assistance in this Budget.

Improvements to **elderly benefits,** in particular the Guaranteed Income Supplement (GIS), will cost an additional $2.7 billion over the next five years. Single seniors will

[4] Gordon Cleveland and Michael Krashinsky, "The benefits and costs of good child care: the economic rationale for public investment in young children", Department of Economics, University of Toronto at Scarborough, March 1998.

[5] Yalnizyan, Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budgets, 1995 to 2004, Ottawa: Feminist Alliance for International Action, January 2005, p.68.

have $18 more a month staring in January 2006 ($29 for a couple). By January 2007 single seniors in receipt of GIS will be receiving $36 more a month ($58 for a couple). These increases are portrayed as particularly beneficial to women: 1.6 million seniors will benefit from these enhancements, of which 1 million are women. While any improvement in support is welcome, it should be recalled that the cutbacks in 1995 to 1997 did not touch elderly benefits. Instead the transfers to individuals that were most affected were unemployment insurance benefits.

Consequently it is important to see how the other potentially significant spending issue "for women" in this budget was improved: **Employment Insurance benefits.** Budget 2005 announced an additional $1.5 billion over 5 years would flow in new benefits. Again, while any increase is an improvement, the amount of expansion needs to be placed in context.

Over $40 billion in surplus (more premiums paid in than benefits paid out) was created in the EI account in the period 1995 to 2004. Benefits fell from a peak of $19 billion paid out in 1992-93 (at the peak of a recession) to just over $12 billion in 1996-97, well before the recession was over and reflective of the massive reductions to entitlements in the four rounds of "reform" from 1990 to 1996. The $1.5 billion that will be used to enhance benefits over the next five years should be placed in the context that benefits have been stripped by billions of dollars *a year.*

Though Budget 2005 announced spending on benefits would be increased by $300 million a year, no particulars were provided. In an unusual move, the same day the budget was released, the Minister of Human Resources and Skills Development announced through a press release the specifics through which the $300 million a year will be used. This is in the form of three pilot projects targeted to regions of high unemployment (over 10%). According to the Minister's document, they will "test the labour market impact of:

- enabling individuals new to the labour market or returning after an extended absence to access EI benefits after 840 hours of work (rather than 910) when linked with EI employment programs;
- calculating EI benefits based on the *"best 14 weeks"* of earnings over the 52 weeks preceding a claim for benefits. This will mean that for individuals with sporadic work patterns, EI benefit levels will better reflect their full-time work patterns; and
- increasing the working-while-on-claim threshold to allow individuals to earn the greater of $75 or 40 percent of benefits in an effort to encourage people to take work without a reduction in their benefits.

In addition, the pilot project introduced last year providing workers with five additional weeks of EI regular benefits in regions of high unemployment (10 percent or more) will be continued for a second year. The pilot project is designed to help address the annual income gap faced by workers with limited work alternatives."

This means there is no general easing of restrictions for eligibility, which will keep the vast majority of the unemployed paying into a program from which they will never see benefits. As reviewed in other documents, this is particularly injurious to women, and especially immigrant women.[6]

Expanding benefits in a meaningful way is very expensive. As a point of reference, the cost of doubling the parental leave provisions - a long-awaited initiative that affects only a tiny fraction of EI recipients - cost the EI program $900 million a year. These pilot projects will clearly benefit only a handful of the unemployed, and in a time-limited way.

A final point on the expansion of benefits relates to where the money is coming from to do this. One could assume such expansion would be part of the Government's desire to "eliminate" the long-standing surplus in the Employment Insurance fund. In fact the $300 million a year is being financed by cuts elsewhere in the EI program.

The expenditure review process will take $1.5 billion out of EI payments through a process that will "reduce overpayments", and a further $1.5 billion out of the administrative costs of EI, i.e. by streamlining and cutting staff in the delivery of EI benefits. Of a total of $3 billion in EI "savings" only half will be returned to improve the program's benefits. It is not clear if the savings in administration will make it more difficult to appeal instances of *under*-payment of benefits.

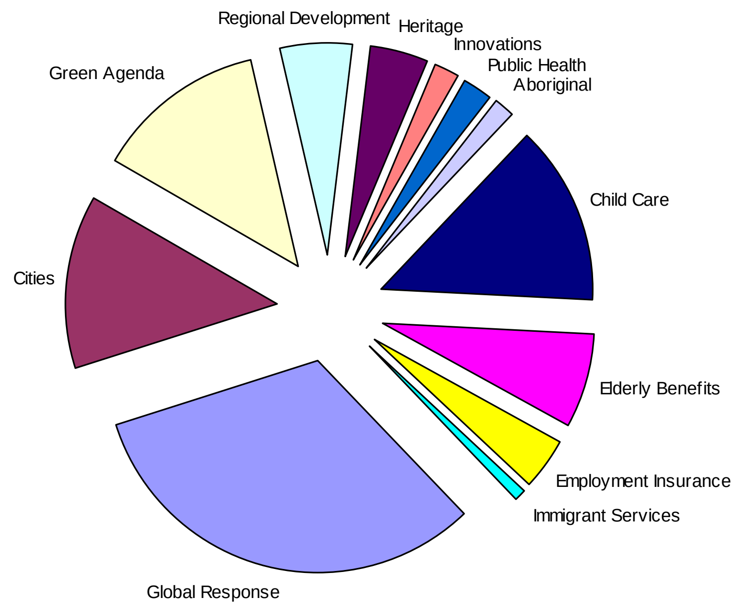
Of almost $36 billion in new spending initiatives, $300 million has been found over the next five years to improve **immigrant settlement services.** A further $100 million will be spent over this time to integrate client service delivery for immigrants. It is unstated in the budget what services will be enhanced and with what service delivery will be integrated, though undoubtedly it will occur through the plans for the development of Service Canada, the one-stop shopping centre being planned to provide all federal government services for the individual. and where the money will flow, but it is emphasized that the purpose is to integrate immigrants into the labour market.

New funds for **early learning and child care, employment insurance, elderly benefits, and services to immigrants are the four elements in this Budget that could directly impact the lives of women**, though it must be emphasized that none of these initiatives were specifically developed for or targeted to women. In total, **these programs account for $9.5 billion of the new $35.8 billion in new spending initiatives.**

So where did the rest of the new money go?

[6] Armine Yalnizyan, Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budgets, 1995 to 2004, Ottawa: Feminist Alliance for International Action, January 2005, pp. 35-36; Letter dated February 9, 2005 to the Honorable Lucienne Robillard, Minister of Human Resources and Skills Development Canada, from the Canadian Labour Congress, noting that only 19% of unemployed immigrant women are in receipt of unemployment insurance benefits, compared to 30% of unemployed non-immigrant women. Both statistics signify tragically inadequate income support for the unemployed.

New Federal Spending Initiatives Budget 2005 ($36 Billion)



- The single biggest draw of new funds is the "**global response**" set out in this Budget, accounting for **$12.2 billion**. [All figures are over 5 years.] Defence is the big winner ($7 billion), followed by international assistance ($4.1 billion) and more security at the border ($1 billion). In combination with previous budgets, these funds restore funding cuts to Defence and International Assistance from a decade before and put both on a growth trajectory (relative to other areas of federal spending)
- Two other "big ticket" items are the transfer of a portion of gas tax to **cities ($5 billion**) and the **"green" agenda ($4.8 billion**).
- **Regional and sectoral development** received **$2.1 billion**.
- **Heritage Canada** received **$1.6 billion**, for culture, history and sports. (Status of Women Canada, which reports to this Ministry, received no new funds.)
- **Health** received **a further $800 million** over five years, mostly for public health and health human resources initiatives.
- The **Innovations** thrust established with the 1998 Budget was continued with a further **$800 million** for supports to research and development.
- Finally, Canadian **Aboriginal communities** received **$635 million** for on-reserve improvements to housing, education and child/family services.

3. Impact on Women – Tax Measures in Budget 2005

Women are in the majority in Canada (52% of the population) so it is not surprising that there are more female tax-filers (11.6 million) than men (11.2 million).[7] Yet, just as in past years, **the tax cuts offered in Budget 2005 will benefit more men than women.**

Furthermore, Budget 2005's array of tax cuts does nothing for people whose incomes are already so low as to make them non-taxable. About 7 million people will get no benefit from this package. Most of them – 4.6 million – are women. That means **40% of women who file taxes see nothing from the tax relief on offer in this budget,** and they are presumably the people who could most appreciate some extra money.

This is because none of the tax cuts in this budget are in the form of refundable tax credits or increased "negative" taxes, like the Canada Child Tax Benefit. The budget simply offers more tax credits, deductions and exemptions on taxes owing.

Budget 2005's tax agenda is laid out as a "something for everyone" menu. All personal income taxes are lowered by raising the taxable level, and corporate income taxes are lowered through reducing the rate of taxation. There are some added benefits for those who can afford to put away more than $16,500 a year in savings until they retire, and anybody who buys jewelry can look forward to the elimination of the 10% excise tax for these items.

The price tag of the tax cut package in Budget 2005 is $13.2 billion. [Again all figures are over 5 years.] The four main measures are:

- $7.1 billion to increase the amount for which an individual does not pay federal income tax to $10,000 by 2009 (it is currently $8,000) – Affects about 15.5 million people of whom 7 million are women

- $610 million to raise the limits for tax-sheltering savings through RRSPs and RPPs to $22,000 a year (currently at $16,500) - Pertains only to those earning more than $100,000. This affects about 693,000 people (3% of tax-filers) of whom 144,500 are women (1% of female tax-filers)

- $4.4 billion to eliminate the corporate surtax ($3 billion) and reduce the general corporate income tax rate to 19%, down from the current 21% ($1.4 billion)

- $500 million to accelerate capital cost allowances (depreciation)

[7] All data on tax-filers are from Canada Customs and Revenue Agency, Income Statistics, 2004 (based on 2002 returns)

There are two other smaller measures

- $355 million for enhancing tax fairness, which primarily to extend eligibility for disability tax credits, expanding the supports that qualify as tax deductible, doubling tax credits available for medical and disability expenses to $10,000 (can be claimed by the disabled, the ill, or their caregivers), and introducing a new tax credit to permit the deduction of up to $10,000 of the costs of adopting children. All measures are effective immediately.

- $300 million to eliminate the 10% excise tax on jewellery (no kidding) over five years. This tax currently raises about $100 million a year.

Raising the Taxable Threshold

The greatest impact for women comes through the increases to the threshold at which personal income becomes taxable, but on an individual basis these benefits are quite small, despite the fact that over time the cuts will cost the system over $7 billion in revenues.

In 2005, no-one will see any benefit, unless people are claiming medical/disability or adoption-related credits. The threshold for tax-exempt income rises by $100 in 2006, $100 in 2007, $400 in 2008 and $600 in 2009. By 2009, the first $10,000 of income is tax-free at the federal level, up from about $8,000 at present.

[The scheduled increases in the threshold amount are over and above the increases to the threshold which occur every year because the personal income tax system is indexed (i.e. takes inflation into account)]

Because the change is occurring at the point at which one begins paying taxes, the value of the tax break is the amount of the change times the rate of taxation of the first bracket, which is 16%. The value of the tax break is the same for all taxpayers.

What does this mean for the individual? In 2005 there is nothing. **In 2006, every Canadian taxpayer gets a tax break of $16 on their annual taxes.** In 2007, they get to keep $32. **In five years** the tax-cut package provides **$100 a head, or just over $8 a month. Seven million women will receive these amounts.**

Pitched as a measure that is especially advantageous for low and middle-income Canadians, raising the tax threshold actually does nothing for those who are really poor, the 32% of tax-filers who were already not paying any taxes. (See chart on next page)

Who Benefits? The Distribution of Tax-filers

	Men	Women	Total	*Per Cent* Men	Women	Total
All Tax-filers	11,187,840	11,665,820	22,853,660	100%	100%	100%
Taxable	8,423,180	7,092,990	15,516,170	75%	61%	68%
Non-taxable	2,764,650	4,572,830	7,337,480	25%	39%	32%
All Tax-filers						
Under $10,000	2,056,030	3,467,500	5,523,530	18.4%	29.7%	24.2%
Less than $15,000	3,127,550	3,833,390	6,960,940	28.0%	32.9%	30.5%
Less than $20,000	4,059,500	4,411,350	8,470,850	36.3%	37.8%	37.1%
Less than $25,000	4,884,280	5,001,350	9,885,630	43.7%	42.9%	43.3%
Less than $30,000	5,688,050	5,706,390	11,394,440	50.8%	48.9%	49.9%
Over $100,000	548,130	144,480	692,610	4.9%	1.2%	3.0%

Source: Canada Customs and Revenue Agency, Income Statistics 2004 (based on 2002 returns)

Raising the taxable threshold to $10,000 over two years is a costly measure, but it's cost is not due to the number of people who fall under that threshold, even though they are surprisingly numerous. **At last count there were 5.5 million tax-filers (24% of all tax-filers) with incomes of $10,000 or less. Most were women**, and women with incomes less than $10,000 account for 30% of all women who file taxes.

The reason for the cost of the measure is that benefits will flow to *all* tax-filers, 15.5 million of them, not just the poor.

Budget 2005 trumpets that 860,000 people will be removed from the tax rolls by 2009. Further discussion with Finance Canada reveals that roughly the same number of people would have stopped paying income taxes simply through the impact of indexation on the threshold over the same period. In total, **about 1.7 million more people won't be paying income taxes in 2009 compared to today.**

While some hail this as progress, over time it may raise tensions over who is perceived as carrying the load for society. A quick review of tax statistics shows that the share of the population paying income taxes is likely to shrink more quickly under this Budget Plan.[8]

The result of Budget 2005's measures is to continue raising the proportion of citizens paying no income taxes, from 30.7% of all tax-filers in 2000 (when the first tax cut agenda was launched) to 37.4% in 2009.

The question arises, **at what point does the balance between tax-payers and non-taxpayers become politically unsustainable**? When 40% of society pays no income taxes? Half of the population?

Raising the threshold at which income tax is payable is not a measure that benefits "the poor". It simply fans the fire for further tax "relief" on the part of those who are still paying income taxes, whose numbers are ever dwindling.

Raising the RRSP/RPP limits

Currently people can save, up to certain limits, in plans that are sheltered from taxes until retirement. For the Registered Retirement Savings Plans (RRSPs), annual contribution limits are up to 18% of earnings with a ceiling of $16,500 in 2005. For those in employer-sponsored registered pension plans (RPPs), the ceiling is $18,000 in 2005.

Budget 2005 lifts the ceiling to $22,000 a year, by 2009 for RPPs and by 2010 for RRSPs. This measure will affect only those earning more than $100,000 in 2005 for the RPP change, and only those earning more than $91,666 in 2005.

Only 1% of all female tax-filers – about 145,000 women – are in an income category that could gain from the new savings limits. About 550,000 men, or about 5% of male tax-filers, could benefit from these increases.

Those earning over $100,000 account for 3% of all tax-filers.[9] **The tax relief provided this elite club is worth $70 million in 2005-6. That's the same amount as the 15.5 million Canadians who pay taxes will keep as a result of the tax-exempt threshold by 2006.**

[8] The methodology for these calculations is as follows: Between 1998 and 2002, the number of tax-filers increased by 1.7% a year, on average. During the same period, the annual rate of growth in the number of non-taxable returns averaged 2.2%. To err on the side of caution, growth rates are projected at 1.3% for all returns until 2009, and 2% a year for non-taxable returns between 2002 and 2004, simply the rate of inflation. Finance estimates of 1.7 million fewer income taxpayers are added to this estimated 2004 base.

[9] Not everyone who is eligible to do so will actually be able to put aside *more* than $22,000 a year, there-by sheltering this additional income from taxes until retirement. It should be remembered that 43% of Canadians live on incomes of less than $25,000 a year.

4. Assessing Gender Neutrality in Budgets

On February 7, 2005, in response to a question in the House, the Finance Minister said that the Government of Canada was in the process of assessing the initiatives in Budget 2005 with a gender analysis.[10]

The Budget Plan does not provide a gendered analysis of the impact of its fiscal initiatives, i.e. the incidence of benefits accrued to men and women from new taxation and spending measures announced in the budget.

The Budget Plan refers to the impact of budgetary policies on: domestic demand, business profits, the disabled, the Inuit, the business cycle, short-term competitiveness, tax liabilities of corporations, tax revenues, and the budgetary balance.

It does not use the term gender or gendered at all. The only reference it makes to different experiences of males and females is in respect of life expectancy, in the overall discussion about the costs of an aging society.

The only time the Budget mentions its specific impact on women is with respect to the fact that elderly women will especially benefit from the proposed improvements to the Guaranteed Income Supplement (1.6 million seniors will receive improved benefits, of whom 1 million are women).

Women are also referenced in the context of the needs of working women with pre-school aged children, ("…while seven of ten women with children under age six are in the labour force, there are only enough regulated child care spaces for 20 per cent of young children") though the benefit of the budget's measures with respect to child care are not spelled out.

Finally, women's experiences are mentioned as distinct from men in the context of historic trends in their labour force participation rates and the changes that might be expected given the wave of retirements about to hit the labour market.

There is an absence of gender-based analysis in this Budget. In discussion, Finance officials believe budgets should be gender-neutral documents, however there is no publicly available attempt to assess if this is the case.

[10] See appendix

5. A Balanced Approach? Tax Cuts, Spending, Debt Reduction

Budget 2005 is the first budget tabled by a minority government in a quarter of a century. The last budget, tabled by a Conservative minority, brought down the Government of the day. This one didn't.

Called "an election if necessary, but not necessarily an election" budget by the Finance Minister himself, it has been both applauded and chastised as a left-leaning spending-heavy budget, or as a sop to Conservatives with its emphasis on new broad-based tax cuts.

Budget 2005 includes $48.9 billion in new tax cuts and spending initiatives over the next five years.

While many billions are allocated to both tax cuts and new spending in this complex document, new spending outranks the costs of tax reductions. This does not tilt the balance towards a new era of expansion. The Liberals maintain their credentials as a fiscally conservative bunch, maintaining a tight grip on the expansion of spending, as we shall see in the next section. **Debt repayment is the real sleeper in this budget**, using up the single largest chunk of the available new revenues over the coming years.

Tax cuts account for $13.1 billion. The remaining $35.8 billion is in new spending measures. Of this amount $5.1 billion has been earmarked before this Budget, $2.2 billion in previous budgets, and $2.9 billion in the fall 2004 Economic Update.

Expenditure review and re-allocation has identified $11 billion in "savings" over the next five years. (Table 7.1, page 245) Table 1.2 of the Budget (page 26) shows seven billion of this amount goes to offset the package of initiatives in this Budget, bringing the net new cost to public coffers $41.8 billion. The Budget Plan does not explain where the other $4 billion of expenditure review gets allocated.

Since the project is called *expenditure* review and re-allocation, the full $7 billion is presumably used to reduce the net new costs of the spending initiatives announced with this budget, bringing net new costs of spending initiatives to $28.8 billion. Table 1.2 also notes that previous budgets account for $2.2 billion of this amount, so the net new expenditures to $26.6 billion over the next five years.

The amount of debt reduction that is planned is not specified in this document, though unlike Budget 2004 this document leaves no doubt that the debt-to-GDP ratio will be brought down not just by the growth of the economy but also by debt repayment. Budgetary surpluses exist at the federal level for as far as the eye can see, but the size remains difficult to predict until public accounts have closed the books on all expenditures and all revenues, about six months after the end of the fiscal year.

If Budget 2005 is taken at face value, between $15 billion and $31.5 billion will go to debt repayment over the next five years. Contingency budgets of $3 billion a year have traditionally been exceeded in every budget since 1998. The "prudence factor", which starts at $1 billion and ramps up in value every year, is another cushion that can be used for debt payment. Finally, there is the potential for under-estimating revenues or over-estimating expenditures that has been the hallmark of every budget in the past eight years. This latter possibility cannot be determined until all the government's books have been audited and Public Accounts are tabled.

Given that $61 billion has been spent on debt reduction in the previous 7 years, it is safe to guess that something greater than $15 billion will go to debt reduction in the next 5 years. The budget lines for contingency and prudence are ways of earmarking public resources that will go to debt reduction if not used for anything else. The budget is designed in such a way that the only way these amounts would be touched is in the case of absolute disaster that could affect the stream of revenues available to the Government of Canada. To put the scale of disaster into context, it should be remembered that these funds were not touched even in 2003, a year in which Canadians faced massive fires and floods on both coasts, electric blackouts for days in the country's industrial heartland, the SARS epidemic, and the eruption of BSE, or mad-cow disease, in the prairie provinces. In short, even in a year that witnessed calamity after calamity, contingency budgets were not needed, such was the strength of economic growth over the course of the year.

If the entire amounts in the contingency and prudence factors are included, we can count on $31.5 billion of our projected surplus (taxes paid and not yet spent) to go to debt reduction.

This means that the net new costs of this package are:

- **$26.6 billion in spending (37% of new federal resources available over the next 5 years)**
- **$13.1 billion in tax cuts (18% of available new resources)**
- **$31.5 billion in debt reduction (44% of available new resources)**

That is a total of $71.2 billion. Budget 2005 shows, in Table 7.6, the projected increase over 2004-5 levels of revenue over the next 5 years. Cumulatively these increases total $118.1 billion. It is not clear what accounts for this discrepancy. It is possible that even more money will go to debt reduction in this case. This has been the chosen route to keep the commitment to small government, a commitment made in Budget 1995.

6. A Steadfast Commitment to Small Government – Federal Spending as a Share of the Economy

Budget 1995 promised to reduce the size of federal government as a way of waging war on the deficit. It made good on that promise, cutting spending by many billions over a three year period.

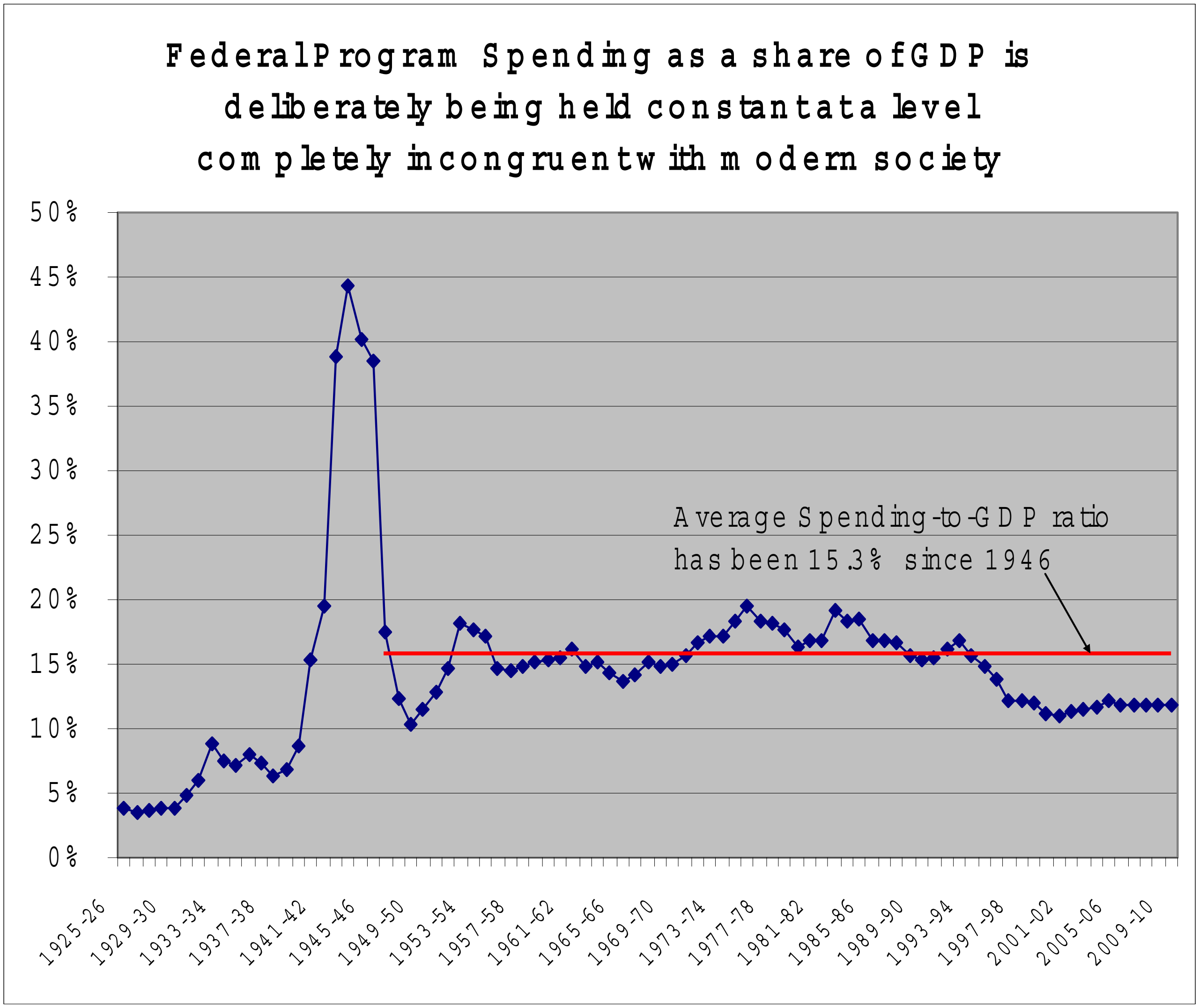
The size of federal expenditures (which is for the elderly, for the unemployed, to provinces for major social programs like health, for defence and transportation and training and a host of other directly federally provided services) fell from 16% of the economy in the year before the Liberal Government came to power (1993-4) to 12% in 1998-99. It has not risen above the 12% mark since then.

In 1995, the Budget also introduced a permanent revolution to the way governments decided what they would, and would not, do. It was called Program Review then. Today it is called Expenditure Review. It is meant to cull "old" approaches and re-allocate resources to new government priorities. It helps keep the line on expenditure growth.

Despite its billions in new spending, Budget 2005 maintains the commitment to small government.

Over the next 5 years, overall spending does not increase faster than the rate of economic growth, thanks in part to the contribution of expenditure reallocation.

Federal program expenditures as a share of the economy are deliberately controlled to remain at just below the 12% mark for the foreseeable future. This has never occurred in federal fiscal history.



Sources:
To 1960-61 is from an unpublished Historical Series provided by the Department of Finance
1961-62 to 2003-4 is from the Fiscal Reference Tables 2004, Table 2
Estimates for 2004-5 to 2009-10 from Budget 2005 p.258

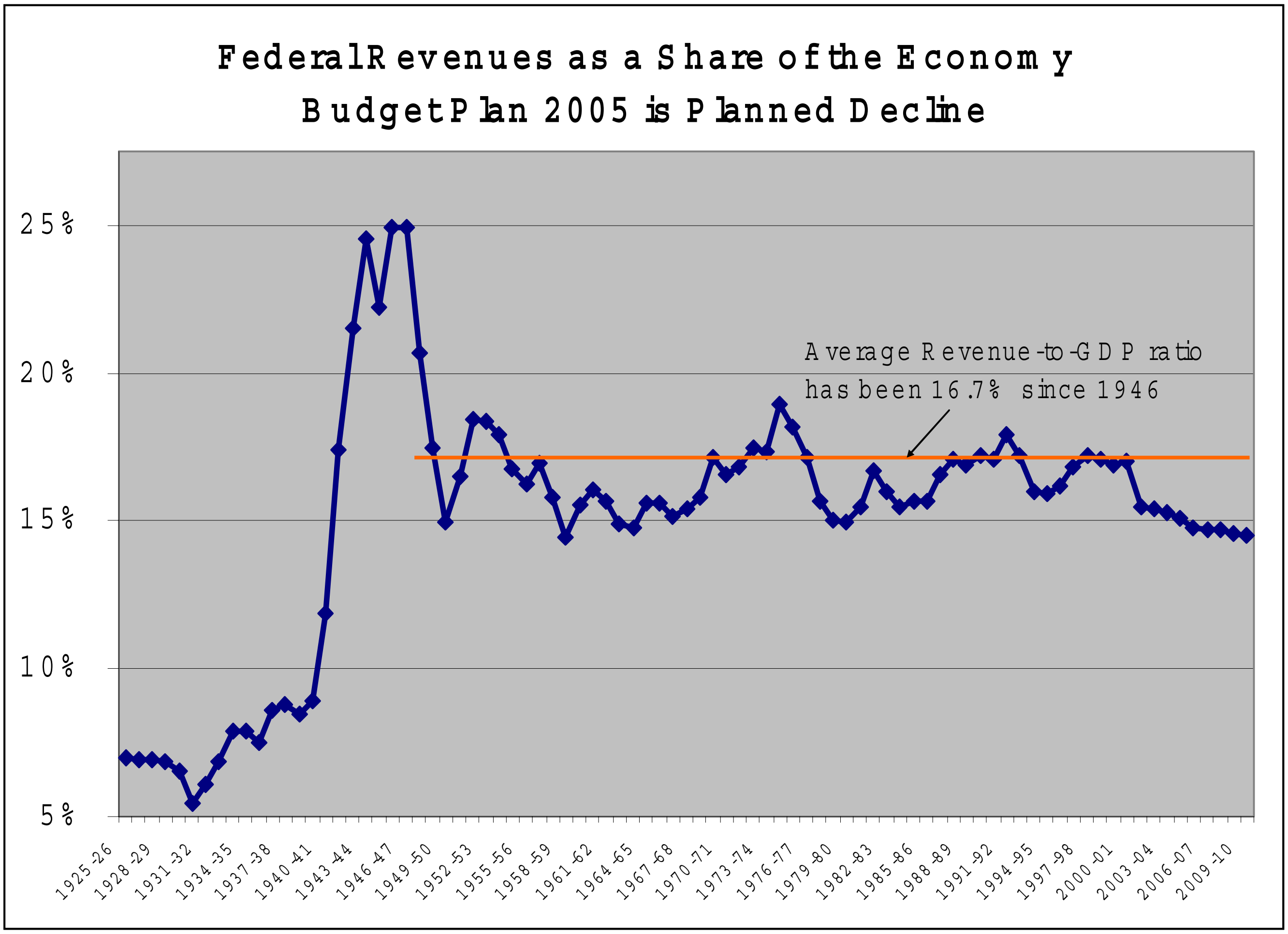
7. Honey I Shrunk My Income - Federal Revenues as a Share of the Economy

The tax reductions implemented in Budget 2005 are more than tax relief. They are a planned decline in the share of taxation in the economy.

While declines have occurred before, apart from the reductions in taxation immediately after the Second World War, these have only come about from surges in the rate of growth of the economy. There is no precedent in Canadian fiscal history for this kind of trend.

The Canadian economy is projected to expand from $1.2 trillion this year to more than $1.52 trillion by 2009. (This calculation is based on private sector forecasts for growth, average just under 5% a year, page 62 of the Budget.)

Canada has never had greater economic capacity to draw on to finance our collective needs for maintaining and expanding the infrastructure we all rely on. But the Budget plans to reduce its share of this capacity over time. Revenues will grow, but at a rate lower than average economic growth over the period.



Sources:
To 1960-61 is from an unpublished Historical Series provided by the Department of Finance
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APPENDIX

From Hansard, February 7, 2005
Taxation Question

Ms. Paule Brunelle (Trois-Rivières, BQ): Mr. Speaker, economist Armine Yalnizyan has examined the federal budgets for the past 10 years. The study shows, with figures to prove it, that women were unduly penalized during the years Ottawa posted deficits and that they have been generally ignored since the federal government started showing a surplus.

What explanation can be offered to women for the fact that the Liberal government's budgetary decisions have always been made at the expense of women and social programs? Is the Prime Minister not ashamed of this situation?

[English]

Hon. Ralph Goodale (Minister of Finance, Lib.): Mr. Speaker, with the greatest of respect, the government has worked very hard on issues related to gender equity. For example, when we have analyzed policy proposals coming forward for the budget that I am now in the process of putting together, I have asked my officials to give me an analysis with that material in each case to demonstrate that gender factors have been taken into account. It is very important that we establish that kind of principle in government decision making.

¸ (1440)

[Translation]

Ms. Paule Brunelle (Trois-Rivières, BQ): Mr. Speaker, I am pleased to learn that there will be an analysis that promotes gender equity. Still, can the Minister of Finance assure the House that the commitments made by the Ottawa government at the Beijing Conference in 1995 will be respected in the coming budget?

[English]

Hon. Ralph Goodale (Minister of Finance, Lib.): Mr. Speaker, I will do my very best to respect the principles of gender equity in the preparation of this budget and indeed every budget going forward. I am very pleased that the government has taken the lead on issues like the child tax benefit for example, the commitment toward child care, and a range of other initiatives that demonstrate that we take gender issues very seriously