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The Tory Budget: Business as Usual

The January 26 budget was delivered when the Canadian economy was slipping into a potentially deep and protracted recession. We needed, therefore, significant economic stimulus to counteract the cumulative impact of rising unemployment and declining incomes. As well, it has long become evident that the problems in the financial and real economies had their origins in the ongoing dismantling of the core institutions of the mixed economy, together with the significant growth in inequalities of income and wealth. Any corrective measures must consider these pre-existing inequities that were deepening throughout Canadian society. We can learn a lot from history about how these conditions arose, and how to fix them.

The Impact of Inequality

The Great Depression of the 1930s was caused in large measure by the massive inequality in the distributions of income and wealth that characterized the era following the First World War and reached a peak in 1929. These inequalities were moderated appreciably during the Second World War and through to the 1970s as a result of important institutional changes, most notably, the rise of trade unionism and collective bargaining, the establishment of a highly progressive income tax system and important social welfare programs (unemployment insurance, family allowances, Medicare, the Canada Pension Plan), and a pervasive expansion in the size and role of the public sectors.

Since the 1980s, however, there has been a relentless regression in the political economy that is especially pronounced in Canada, the United States and Britain. In all of these countries, society was subordinated to the market as a consequence of a shift to right-wing, slogan-based policies that stressed the virtues of free enterprise and the genius of entrepreneurship. This transformation was achieved through deregulation of markets, a restructuring of public sector programs (most notably the gutting of unemployment insurance and the Canada Assistance Program) and a shift to a more regressive tax system, the privatization of important public sector enterprises, and legislative changes designed to undermine the rights and power of workers and unions.

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In recent years, the Canadian Centre for Policy Alternatives has documented the "Growing Gap" between the incomes of people in the top 10% of the income distribution and everyone else. Armine Yalnizyan's research on this issue has shown that: "The majority of Canadians – 80% of families raising children under 18 – are taking home a smaller share of the economic pie they helped grow. Only the richest 10% of Canadian families raising children saw their incomes improve compared to the previous generation." Similarly, Hugh MacKenzie has revealed the dramatic, indeed obscene increases between the compensation of the highest paid CEOs in Canada and the average worker. His results show that in 1995 "the average total compensation of the 50 highest paid executives in Canada was 85 times the pay of the average worker." By 2007, the top 50 were getting 398 times as much as the average worker. From 1998 to 2007, the multiple for the top 100 CEOs in relation to the average worker went from 104 to 259.

It is significant that this growth in the income gap has coincided with other developments, suggesting that our policies are undermining the health of our society. For example, we now have increasing numbers of people who are dependent on food banks, are homeless and living on the streets or in shelters, and growing numbers of alienated youths who see gangs and the illegal drug economy as the route to financial security and a sense of belonging. The draw of these illegal activities should be of no surprise as our children witness case after case of individuals and corporations accumulating huge fortunes by embezzling funds from individuals trying to get their piece of the pie.

Ensuring Long-term Growth

The lesson we learned from the Great Depression is that shovelling wealth to the top of the income distribution produces results that are detrimental to the long-term sustainability of the economy. As we struggle to get this crisis behind us, we should be creating institutional arrangements to ensure that all of us have the opportunity to contribute to and share in the gains from economic progress.

Many provinces have recently introduced poverty-reduction strategies designed to drive down poverty rates. While taking immediate steps to improve such things as the incomes of social assistance recipients and the minimum wage is critical, it should be noted that at one time, the federal government took a leadership role in these and other important policy areas. They established rights and standards for people on social assistance through the 50-50 cost sharing Canada Assistance Plan and put in place a minimum wage for workers in the federal jurisdiction. The Chrétien government jettisoned both policies in their rush to embrace neo-liberal measures in the labour market. The federal government must establish and enforce basic rights for working people and strengthen the social safety net. Restoring these programs, along with reforms to improve access and benefits under the EI system would be a good place to start.

In addition, the federal government must implement policies to ensure that all citizens of Canada have access to the infrastructure and supports that are needed to function effectively in contemporary society. Amongst other things we need: (i) a new national housing program designed to promote improvement expansion in the stock of social housing; (ii) a national publicly-funded child care system that is accessible, affordable and provides high-quality services to all families and their children; (iii) the inclusion of drugs and basic dental and eye care under the Medicare program; (iv) an expanded leadership role for the federal government in promoting and protecting worker rights and benefits in all jurisdictions; and (v) the restoration of a more progressive income tax structure as a means to both reduce inequalities in the after-tax distribution of income and to generate the revenues required to fund new national initiatives.

Finally, it is vitally important to push forward with a program to address the enormous deficits in economic and social resources that have trapped First Nations and other aboriginal peoples in deplorable circumstances.

The 2009 budget gave the Conservatives the perfect opportunity to introduce policies to address the above issues, but unfortunately they did not seize the moment.

The January 26 Budget: Light on Stimulus – Heavy on Tax Cuts.

The preamble to the budget acknowledges the gravity of the current economic situation and declares that: "Budget 2009 will help Canada to meet the challenges of our times. It aims to protect our country from an immediate economic threat while providing the solutions we need to secure our long-term growth and security."

1. The Short-Run Stimulus

Counter-recessionary fiscal stimulus should direct money so as to provide the quickest and biggest impact on aggregate spending. Harper and Flaherty (and presumably Ignatieff and McCallum) must know that the most effective way to provide a direct stimulus is through increases in benefits to the unemployed and transfer payments to the poor, simply because they spend everything they get in local economies. US economist Mark Zandi estimates that a one-dollar increase in EI benefits results in a GDP increase of $1.63. Therefore, organized labour's recommendation to reform the EI program to allow greater access to benefits, raise weekly benefits to 70% of earnings from the current 55% and extend the period of eligibility is compelling. Yet the stimulus package only provides for an increase of five weeks in entitlement benefits and an extension of the maximum benefit period to 50 weeks from 45 weeks for a period of two years. (In defence of these miserly reforms to EI, Diane Finley, Human Resources Minister, explained that her government "has no interest in increasing EI payments and making it 'lucrative' for jobless workers to sit around the house.") Furthermore, 40% of workers who pay into the EI system are still not eligible to collect EI, in spite of calls to loosen requirements.

Zandi estimates that infrastructure spending also has a powerful impact on GDP, with a dollar increase in spending boosting GDP by $1.59. Provincial premiers, the Federation of Canadian Municipalities and First Nations supported major increases in infrastructure spending. The federal government responded with $11.8 billion in immediate infrastructure spending over the next two years (which represents 30% of the total $40 billion stimulus package). A further $7.8 billion (19% of the total) is earmarked for housing, which includes $2 billion to municipalities for housing infrastructure. Spending on infrastructure projects is likely to have a positive impact on employment and incomes and will add important assets to communities across the country. However many projects may be unduly delayed by red tape (which includes, for example, the bizarre requirement that P3 arrangements be considered for carrying out proposed projects) and others shelved because some municipalities may not be able to raise the funds required for their one-third share of project funds.

There are other pieces in the fiscal stimulus package that will have a lesser impact on the economy but may nevertheless have positive economic and social effects, such as increases in funding for training and the working income tax benefit. However, other strategic spending – such as on childcare – is missing altogether.

There are, as well, adjustments in taxes that won't contribute to economic stimulus in the present, and, contrary to what the government suggests, are likely, over the longer term, to accentuate the negative trends that have dominated the development of the economy over the past three decades and contributed in a fundamental way to the present crisis.

2. Tax Cuts as Stimulus?

The bulk of the permanent changes included in the budget are tax cuts. While these changes include improvements to the child tax benefit and the working income tax benefit that will benefit parents and workers of modest incomes, the cumulative cuts (2006-2009) arising from adjustments to income tax brackets and personal amounts plus GST cuts will confer roughly the same percentage benefits in relation to income across the entire distribution of income. However, the largest absolute benefits accrue to people at the top of the distribution. For example, an individual earning an income of $150,000 gets $3,768 dollars of relief which is 10 times more than individuals earning $15,000.

Corporate taxes are also cut in the 2009 budget. In 2007 the corporate income tax rate in Canada was 34.1%. Except for the UK with a rate of 30%, this is the lowest rate of the G-7 countries. The current budget cuts the corporate tax rate in Canada to 27.2% which will be the lowest in the G-7 and assuming no change in the U.S. rate, a full 12 percentage points below their statutory rate. One may make an argument for lowering taxes in recessionary times (although the stimulus effect is less than spending), but the other side of the coin is raising taxes again when the recession is over. Unfortunately, 30 years of neoliberal ideology has tried to convince the public that all taxation is bad, making it politically difficult to raise taxes when necessary. With taxes set at permanently rock-bottom rates, the government will have to cut social programs to restore revenues.

Putting it All Together

When all of the items in the 2009 stimulus package and budget are brought together it is evident that the intention of the Tory government is to resume the downward trajectory of program expenditures in relation to GDP in 2010-11. Specifically, the main impact of the stimulus package is expected to come in 2009-10, at which time expenditures will increase to 14.7% of GDP from 12.9% in 2008-2009. Thereafter, the percentage is projected to decline continuously through to 2013-14, when it will be 13.1% of GDP.

In the concluding statement to Chapter 4 of the budget the government makes it clear that once the economy is through the immediate crisis it expects to generate budget surpluses that will be used "first of all to repay the deficits expected in the upcoming four years."

In short, the message in the 2009 budget is that the Conservative government wants to ride out this crisis and then return to business as usual. Indeed, some of the spending is delivered in such a way as to further weaken the social contract between employers and labour (and citizens and the state) that working people fought so hard for. For example, the loans granted by the Canadian and American governments to the auto sector are contingent on management extracting large concessions from labour, even though labour had nothing to do with the problems facing auto makers. And although the current crisis was triggered by an unregulated financial sector, this government is intent on forcing public works grants through a P3 process, ensuring that more of our public assets are controlled by the private actors in this unregulated financial sector. To add insult to injury, Harper supports the U.S. view that we must avoid hasty and substantive changes to regulations in the financial sector or we could disrupt the processes driving globalization. At the same time, the government has signalled that it is preparing a list of crown corporations that can be sold off to help reduce deficits. All of these measures, combined with the significant tax cuts to the wealthy and private-sector enterprises, means that it will also be business as usual for the working people, the poor and the marginalized of this country.

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