

Canadian Centre  
for Policy Alternatives

# Alternative Federal Budget 2011

*Budget in Brief*

**Re/**think,

**Re/**build,

**Re/**new.

A Post-  
Recession  
Recovery  
Plan



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# Introduction

Three years ago, the global economy collapsed into the worst recession since the Great Depression, forever changing the world as we know it.

At the time, citizens everywhere turned to their governments for immediate action to address the crisis. Those governments that moved quickly with stimulus investments and corporate bailouts — including Canada — incurred short-term fiscal deficits, but staved off an even deeper downturn and spared their citizens from a harsher fate.

The question of what comes next is the focus of this year's Alternative Federal Budget. It draws the best ideas from a broad cross-section of civil society to ensure that Canada will not only make it through its current fragile economic recovery, but move beyond the crisis into a more sustainable way of doing business.

A F B 2011 presents a comprehensive recovery plan designed to:

- get Canadians working in good jobs again;
- reduce record-high income inequality, strengthen Canada's middle class, and improve supports for Canada's poor and most vulnerable;

- protect public programs that all Canadians rely on — including public health care and public pensions;
- manage Canada's debt-to-GDP ratio without vital public program cuts;
- get serious about reducing greenhouse gas emissions; and
- launch a multi-pronged initiative to expand high value-added production in key sectors.

The A F B 2011 begins with a reckoning: There is no going back to the old way of doing things.

The global meltdown helped discredit a free-market system where governments turned a blind eye to lax regulations and let their citizens bear all the risks of a wild-west economy. Citizens around the world are still paying the price for that failed experiment.

Despite the rosy optimism of last year's green shoots of economic recovery and the ensuing political puffery that Canada had performed better than other countries, Canada's domestic economy remains shaken to the core.

Canada's GDP growth is tepid, kept alive by government and consumer spending while business investors remain skittish bystanders. It's time to get real.

Today, two years after the recession hit Canada, the pressing challenge for our federal government is still jobs. Too many Canadians remain jobless. Efforts to date have not been effective enough. Creation of full-time jobs remains Job One and is the first element of the AFB 2011 recovery plan.

About a year after recession struck Canada, the federal and provincial governments collaborated in an unprecedented effort to coordinate a nationwide stimulus program to save and create jobs during the worst of the global economic meltdown. The federal response — Canada's Economic Action Plan — continues to be trumpeted by the Harper government as a wild success. It did help some Canadians keep the lights on while the private sector sat things out and prevented Canada sliding into a deeper recession. But it arrived too little, too late, to spare hundreds of thousands of Canadians from unemployment.

At the peak of Canada's recession in mid-2009, more than 800,000 Canadians relied on Employment Insurance (EI) for support. Many more were turned away, left to fend for themselves by outdated EI rules that disqualify too many unemployed from accessing their own national insurance system in times of trouble. AFB 2011 improves Canada's EI program so that it truly serves as insurance for workers who lose their job.

Today there are still 1.4 million unemployed Canadians. The national unemployment rate in January 2011 stood at 7.8%, down from the recession peak of 8.6%. While private-sector forecasters expect unemployment to be 7.7% in 2011, TD Economics predicts unemployment rates as high as 8.1%.

Despite plans to wind down stimulus spending in 2011, the federal government has yet to resolve the ongoing problem of a private sector not yet ready to create jobs of its own.

Canada slid into recession in 2008 after sharp declines in business investment and exports — the traditional engines of Canadian economic growth. However, Canada's economic recovery — such as it is — has not come from these sectors.

Instead, it can be credited to two key players: consumers and governments. Despite recession, Canadian consumer spending remained strong, due especially to a short-lived housing boom and driven in part by record-high household debt (totalling \$1.41 trillion) that Bank of Canada Governor Mark Carney warns is unsustainable.

Both consumer and government stimulus spending were financed through increased indebtedness. In contrast, Canadian corporations paid off their own debt during the recession and have yet to re-invest in the economy and in job creation.

Without private-sector investment in good full-time jobs, Canada's economy will continue to be fragile. That leaves government as the only actor powerful enough to keep Canada's economic engine rumbling. AFB 2011 unleashes an investment plan that will create at its peak almost 300,000 jobs.

But it's not just the Canadian economy that is stuck in neutral; much of the world economy is still in bad shape.

The International Monetary Fund (IMF) calls the global recovery "unbalanced" and "fragile". Nobel prize-winning economist Paul Krugman warns that the world's advanced economies "seem set to experience a prolonged period — maybe even a lost decade — of weak growth, high unemployment and low interest rates."

While Canadians struggle to recover, an elite few have proven to be recession-proof: Canada's 100 best-paid CEOs breezed through the peak of the recession in 2009 with an average \$6.6 million in compensation. That's 155 times more than what a Canadian earning the average wage of \$42,988 earns.

In fact, the wealthiest Canadians haven't enjoyed this much income since the 1920s. The richer the Canadian, the bigger the bounty. The

richest 1% of Canadians doubled their share of income between the late 1970s and 2007; the richest 0.01% quintupled their share. Meanwhile, 80% of Canadian families with children earn a smaller share of income today than they did a generation ago. Average wages in Canada have remained stagnant for about 30 years.

The result is an anxious Canadian middle class — a broad swath of men and women who worry about losing their jobs, about being one or two paycheques away from poverty, about their ability to afford retirement, and about their children's future prospects.

The most recent poverty statistics for Canada were captured before the recession, in 2007. According to those numbers, one 1 in 10 Canadians — and 1 in 4 Aboriginals — lived in poverty. The recession has certainly exacerbated the problem. We know from past recessions that income inequality worsens during tough economic times, so Canadians can fully expect the gap between the rich and the rest of us to grow.

Income inequality is emerging as an unshakable political problem in search of leadership. AFB 2011 implements a range of initiatives to redress this issue.

To help keep a lid on growing income inequality in Canada, AFB 2011 implements a goodwill premium on the richest Canadians. This Legacy Tax represents a new federal tax rate of 32% on incomes over \$250,000 and a 35% tax on incomes over \$750,000. The AFB also closes tax loopholes for exercised stock options and capital gains, which will recapture needed revenues from those in the strongest position to contribute to our collective well-being.

AFB 2011 gets Canada's federal government back into the business of poverty reduction, helps provinces that have already committed to reducing poverty, and brings on board those provinces that haven't yet implemented a plan. The AFB also introduces funding for new affordable housing stock. This addresses the number one reason most Canadians find themselves liv-

ing beyond their means and taking on record-high household debt.

Last year's early signs of economic recovery emboldened some (including Canada's Prime Minister) to press for an austerity agenda to cut public services. However, signs that the domestic recovery is fragile, and the widespread social unrest that austerity plans unleashed in Europe, suggest that wading into this territory is economically risky and politically dangerous.

As reality sets in, it's becoming increasingly obvious that clearer thinking is in order. Therefore, the AFB 2011 recovery plan protects public programs from the political lure of indiscriminate cutbacks that leave Canadians with fewer public services and bigger user fees. It also introduces a national early learning and child care program that helps keep Canadians working and provides the best early start for our children.

AFB 2011 proposes a three-year spending program. It costs out a collaborative social and physical infrastructure program to help keeps jobs alive until the private sector does its part, and strengthens Canada's public programs and infrastructure such as roads, bridges, water mains and public buildings. These strategic investments have the upside of creating jobs, raising productivity and driving future GDP growth. During the darkest moments of the recession, all three levels of government proved they could work together in the best interests of Canadians. AFB 2011 promotes a collaborative process to help Canada move beyond the crisis.

AFB 2011 also launches a plan to reverse the regression of Canada's economy to raw resource (mainly oil) exporter status, and enhance value-added production and investment in key manufacturing and service sectors. It includes investment incentives, new controls on foreign investment, and new trade models.

The AFB 2011 also focuses on the government's deficit, but does so in a sustainable way. Given the tenuous nature of global economic recovery and the irresponsible corporate tax cuts



both now and in the future, Finance Minister Jim Flaherty's promise to wipe out the federal deficit by 2015–16 may prove fanciful at best, harmful at worst.

Since Spring 2010, Canada's economic recovery has been sluggish. After adjusting for population growth, Canada's per-capita expansion (at an annualized 0.9 percent) was the slowest of any G7 economy during the second and third quarters of 2010 — worse even than Italy and the still-depressed U.S.

While in the past the domestic economy has recovered from recessions as a result of increased exports to the United States, the Canadian economy faces a weak American economy, little export growth and slow related employment growth.

In other words, there will be no American post-recession coattails to ride on in 2011. In fact, the consensus among mainstream Canadian economists is increasingly one of slower growth for at least the next five years.

Despite these projections, the Harper government remains steadfast in its plan to cut taxes by a total of \$220 billion between 2007 and 2013 — which will likely continue the growing gap between Canada's wealthy and the rest of us, at a time when revenues are sorely needed to maintain cherished public programs such as health care, education, rebuilding outdated and aging infrastructure, and investing in a valued-added green economy.

The Liberals and NDP both oppose a continuation of the Harper corporate tax cut agenda when there is such need for public investment. A KPMG study cites Canada as the second-most tax competitive nation in the world, behind Mexico. Since there is no significant evidence that a decade of corporate tax cuts has led to increased job-creating business investment, it begs the question: Is this a competition we really need to win?

To help tackle the fiscal deficit, AFB 2011 restores the federal corporate income tax rate to

21% — its level in 2008 — instead of further cutting corporate taxes to 15%, which the current government plans to do. The AFB also eliminates tax loopholes for capital gains and corporate stock options, so this investment income is taxed at the same rate as employment income. And it introduces a tax rate of 28% on the highly profitable oil and gas industry to compensate for low royalty rates and declining tax rates in this sector.

By all accounts, taxation is fast becoming a make-or-break issue for this year's federal budget, and Canadians may find themselves heading to the voting booth once again. AFB 2011 puts forward an alternative that gives Canadians something to vote for (rather than against).

After several years of economic and political turmoil, Canadians have been through enough. They want good, collaborative governance. They sought it two years ago, when they endorsed government decisions to enter into deficit with public spending to save the economy. Recession may have shaken Canadians' confidence in the economy, but the expectation that our governments are elected to act in the best interests of the people has not wavered.

As the global economy inches toward economic recovery, neoliberal governments the world over are facing citizen resistance to efforts to simply press the reset button and continue supporting an agenda that puts the elite few first and the majority of people last. Here in Canada, as the Harper government experiences deep resistance to its own plan to cut corporate taxes with no guarantee of protecting public programs, the time for a re-think has clearly arrived. There is no going back to the old way of doing things. AFB 2011 lays down a plan that is proactive, do-able and sustainable. It looks beyond the crisis — the chief task for all political parties as they consider their position on what is turning out to be an election lightning rod: Canada's 2011–12 federal budget..

## Macroeconomic and Fiscal Framework

It's a year and a quarter into the "recovery," and Canadian economic growth is losing steam. As the country enters 2011 and stimulus spending winds down, as the public stimulus money dries up, the precursors for private-sector growth are much weaker than they were after previous recessions. There is only a weak recovery in exports to the United States, as the American consumer is languishing in a self-created deleveraging crisis that will likely drag on for years.

Public-sector job creation, driven by counter-cyclical stimulus spending, remains the one bright spot, largely keeping pace with Canada's growing working-age population (defined as people over 15 years of age by Statistics Canada's Labour Force Survey). But that source of job-market strength, and the overall economy, is at risk, as the federal government (and many provinces) switches to austerity mode and promises to cancel stimulus efforts that have been so important to Canada's halting recovery.

Canada's private-sector job creation has lagged significantly behind both public-sector employment and growth in the working-age population. Despite some deceiving drops in the official unemployment rate — which mostly

reflect the withdrawal of young Canadians from the labour market — private-sector job creation has been stagnant since mid-2010. Today, nowhere near enough new jobs are being created to absorb the growth in Canada's working-age population. Those jobs that have been created show a marked shift away from permanent full-time employment toward temporary and part-time work.

Despite these challenges, the federal government has chosen 2011 as the year to cut total program spending, thereby pulling the rug out from under what the finance minister himself describes as a "fragile recovery." His leap of faith is that the private sector will roar back to life despite its lacklustre performance to date.

The 2011 Alternative Federal Budget (AFB) seeks to move beyond stimulus and toward a more sustainable future. Instead of continuing tax cuts — especially for corporations — and downsizing social programs that Canadians value and need, the AFB focuses on building strong foundations for sustainable economic growth that will benefit all Canadians.

**FIGURE 1 Finance Canada Base Case**

<b>Macroeconomic indicators (\$mil)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Nominal GDP	1,616,000	1,682,000	1,770,000	1,861,000
Nominal GDP growth	5.9%	4.1%	5.2%	5.1%
Real GDP growth	2.9%	2.4%	2.8%	2.9%
Employed (000s)	17,500	17,763	18,090	18,402
Employment rate (as % of working age population)	61.9%	61.9%	62.2%	62.4%
Unemployment rate	8.0%	7.7%	7.3%	7.0%
Unemployed (000s)	1,522	1,482	1,425	1,385
<b>Budgetary transactions (\$mil)</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Revenues	232,500	246,300	261,200	277,700
Program spending	246,600	242,800	246,100	251,700
Debt service	31,300	33,400	36,400	37,500
Budget balance	(45,400)	(29,900)	(21,300)	(11,500)
Closing debt (accumulated deficit)	564,500	594,200	615,500	627,000
<b>Budgetary indicators as percentage of GDP</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Revenue/GDP	14.4%	14.6%	14.8%	14.9%
Expenditures/GDP	15.3%	14.4%	13.9%	13.5%
Budgetary balance/GDP	-2.8%	-1.8%	-1.2%	-0.6%
Debt/GDP	34.9%	35.3%	34.8%	33.7%
Effective interest rate		5.9%	6.1%	6.1%

**SOURCE** Update of Economic and Fiscal Projections (October 2010) and Author's Calculations

### Macroeconomic Base Case

The sluggish recovery, particularly in private-job creation, is painted against the backdrop of federal program spending actually declining in 2011-12 as a result of the end of stimulus programs. The \$3.8-billion decline projected for 2011-12 would be the second biggest spending decline (in dollars) since the 1950s, although on a GDP basis the fall is less dramatic.

Figure 1 represents the base case as reflected in the Update of Economic and Fiscal Projections of October 2010. The large deficits of 2009 and 2010 under the government's plan are slowly whittled down to \$11.5 billion by 2013, with the debt-to-GDP peaking at 35.3% in 2011 and then declining to 33.7% by the third year. The private sector predicts that 2011 will continue to experi-

ence weak nominal GDP growth of only 4.1% as unemployment averages 7.7% for the year.

Even large accounting firms that generally advocate for lower business taxes find that Canada ranks lowest in terms of corporate taxation. Canada has clearly won the global race to the bottom. Apart from larger deficits, it's unclear what the prize is.

### AFB Fiscal Framework: Beyond Stimulus

Budgets may appear to be about tables and numbers, but fundamentally they are about choices. In fact, budgets are one of the most important decisions a government makes. There is a choice this year, as every year, as to whether we want to exacerbate unfair taxation and inequality and lead in a global race to the bottom, or whether

FIGURE 2 AFB Case

	2010-11	2011-12	2012-13	2013-14
<b>Nominal GDP</b>	1,616,000	1,715,706	1,795,413	1,880,085
Nominal GDP growth	5.9%	6.2%	4.6%	4.7%
<b>Revenues (\$mil)</b>				
Base case	232,500	246,300	261,200	277,700
Net AFB revenue measures		18,299	36,871	44,557
Multiplier effect		4,890	4,579	5,247
Total	232,500	269,489	302,650	327,504
<b>Expenditures (\$mil)</b>				
Base case	246,600	242,800	246,100	251,700
Net AFB program measures		35,857	47,446	50,101
Total	246,600	278,659	293,548	301,803
Debt service	31,100	34,704	38,158	39,249
Budget balance (deficit)	(45,200)	(43,872)	(29,054)	(13,546)
Closing debt (accumulated deficit)	564,500	608,372	637,426	650,972
<b>Budgetary indicators as percentage of GDP</b>				
Revenue/GDP	14.4%	15.7%	16.9%	17.4%
Expenditures/GDP	15.3%	16.2%	16.3%	16.1%
Budgetary balance/GDP	-2.8%	-2.6%	-1.6%	-0.7%
Debt/GDP	34.9%	35.5%	35.5%	34.6%
<b>2010</b>				
AFB jobs created (000s)		295	292	218
Employed	17,500	18,058	18,381	18,620
Employment rate (as % of working age population)	61.9%	63.0%	63.2%	63.1%
Unemployed (000s)	1,522	1,244	1,220	1,256
Unemployment rate	8.0%	6.4%	6.2%	6.3%

we want to build useful programs like universal pharmacare and \$10-a-day child care.

The AFB focuses much effort up front, in the otherwise weak 2011-12 year. The private-sector forecast for nominal GDP growth for 2011-12 (Figure 1), is only 4.1%, with 7.7% unemployment. The AFB gets to work early, with much higher 6.2% nominal GDP growth in 2011-12 and much lower 6.4% unemployment.

While the AFB will take a year or two longer to balance the budget, the rewards are certainly

worth the wait. Unemployment drops fast, and Canadians can get jobs again. A wide variety of new programs (as reviewed in Figure 3) are implemented. People who have been left behind by economic growth are helped back to their feet. The environment is protected. Taxation becomes much fairer with everyone paying their fair share. Meanwhile, the overall financial picture remains relatively unchanged.

FIGURE 3 AFB Program List (\$mil)

Program Name	2011-12	2012-13	2013-14
<b>Aboriginal Affairs</b>			
INAC elementary-secondary education program	304	310	315
INAC post-secondary education program	495	504	513
New schools construction for First Nations	150	153	156
First Nations language instruction	127	129	132
First Nations governance support	65	66	67
First Nations safe drinking water	1,000	1,019	1,037
Gender balance to economic development	30	30	0
Aboriginal maternal child health program	100	100	100
Sisters in spirit	5	0	0
Aboriginal healing programs for violent offenders	15	15	15
<b>Early Childhood Education and Care</b>			
Affordable child care	1,000	1,600	2,300
<b>Cities and Communities</b>			
Community economic development roundtable	0.5	0.5	0.5
Neighbourhood revitalization program	100	100	100
Building community fund	1,500	6,000	6,000
National clean water fund	1,000	1,000	1,000
Gas tax transfer indexed to 3%	62	122	185
Community support fund	1,000	0	0
<b>Culture and Arts</b>			
Audience and market development	40	40	40
Canada Council For the Arts	30	60	90
Training and internship/mentorship opportunities	1	1	1
National museum policy	50	50	50
Cultural statistics	1	1	1
Increase charitable tax credit	137	137	137
<b>Communications</b>			
Modernize rural broadband	400	500	600
National public access program	40	40	40
<b>Defence and International Development</b>			
Spending back to pre-9-11 levels	-1,400	-2,600	-4,000
ODA to increase to 0.7% of GNI	887	2,080	2,444
<b>Employment Insurance</b>			
Universal entrance of 360 hours	1,100	1,100	1,100
Continued support for long tenured employees	250	250	250
Extended training benefits	500	500	500
Additional 5 weeks of benefits	500	500	0

<b>Program Name</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
<b>Environment</b>			
Carbon tax	0	-5,855	-9,548
Provincial harmonization	0	2,927	4,774
Green energy tax refund	850	3,400	4,080
Conservation plan	10	10	0
National parks and conservation areas	50	50	50
Expand "Ecoenergy" home efficiency program	350	350	350
Air quality improvements	65	65	65
Global climate finance	400	800	1,000
Natural capital indicators	10	7	7
Label water efficient fixtures and appliances	5	5	5
Cancel tax subsidies for oil industry	-761	-761	-761
Cancel asbestos and nuclear power subsidies	-103	-103	-103
Equalize mining and recycling tax benefits	-65	-65	-65
<b>Health Care</b>			
Community health care	2,500	3,000	3,200
Dental health for children	50	100	150
National Pharmacare	3,390	3,830	4,000
Canadian health services research foundation	150	0	0
Health human resources innovation fund	10	10	10
Job-laddering for health care workers	200	200	200
Reduce tuition for health care programs	100	100	0
Medical students to aboriginal communities	50	50	0
Increase Canada Health Act division budget	6	6	6
<b>Housing</b>			
New affordable housing supply	1,500	1,500	1,500
Homelessness partnering strategy	135	135	135
Residential rehabilitation assistance program	128	128	128
<b>Immigration</b>			
Continue Foreign Credential Recognition program	25	50	50
Extend Wage Earner Protection program	40	30	30
Equity seeking group internships	50	50	50
Court Challenges program	3	3	3
<b>Post Secondary Education</b>			
Post-secondary provincial transfer to provinces	410	410	410
Deferred college and university maintenance	800	800	800
Reduce tuition to 1992 levels	799	1,590	2,390
Create new income tested grants	1,360	1,393	1,406
Cancel textbook tax credit	-42	-42	-42
Cancel scholarship tax credit	-38	-38	-38
Cancel tuition fee and education tax credit	-470	-470	-470

<b>Program Name</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Cancel RESP	-140	-160	-160
Cancel Canada Education Savings Grant	-670	-683	-696
Increase Canada Graduate Scholarships to 3000	25	25	25
<b>Poverty Reduction</b>			
Poverty reduction transfer to provinces	1,800	1,800	1,800
Increase CCTB to \$5,400/child	4,759	4,759	4,759
Double refundable GST credit	3,680	3,732	3,784
<b>Public Services</b>			
Reduce federal contracting out	0	-200	-350
<b>Sectoral Development</b>			
Sectoral development councils	50	50	50
Automotive recycling program	300	300	300
Green car levy	300	300	300
Green energy manufacturing tax credit	50	50	50
Green skills initiative	100	100	100
Sustainable forestry and skills	300	300	300
Sustainable farm income supports	650	650	650
Eliminate biofuel crop subsidies	-200	-200	-200
Capitalize canadian development bank	1,200	1,100	700
<b>Seniors</b>			
Increase singles GIS benefits by 15%	1,164	1,164	1,164
<b>Taxation</b>			
New income tax above \$250,000 (32%)	-2,064	-2,229	-2,400
New income tax \$750,000 (35%)	-1,200	-2,000	-2,100
Eliminate stock options deduction	-1,004	-1,100	-2,100
Fully tax personal capital gains	-2,356	-3,140	-3,500
Cap tax free savings accounts	-57	-114	-171
Limit RRSP contributions to \$20,000/year	-200	-220	-240
Fully tax corporate capital gains	0	-2,625	-3,500
Reinstate 2007 corporate tax rates	-5,400	-11,200	-13,400
Reinstate 28% rate on oil and gas and financial industries	-750	-3,000	-3,000
Eliminate meals and entertainment deduction	-300	-300	-300
Financial activities tax	-4,700	-4,800	-4,900
<b>Water</b>			
Hydraulic fracturing assessment	2	0	0
Map Canada's water sources and uses	3	0	0
Protect Canada's freshwater resources	675	675	675
Study trade deal effects on water exports	1	0	0
Improved mining environmental assessments	50	50	50
Study of climate change effects on water	5	0	0

Program Name	2011-12	2012-13	2013-14
<b>Woman's Equality</b>			
Create pay equity commission and tribunal	10	0	0
Support women's shelters	20	20	20



# Restoring a Fair and Progressive Taxation System

Many countries have increased taxes on high incomes and the financial sector so that those who caused the crisis and benefited from the subsequent government bailouts will also foot some of the costs.

In contrast, Canada's federal and some provincial governments are doing the opposite. Canada's federal government is relying almost entirely on spending cuts to reduce its deficits. Ottawa and the provinces are further reducing corporate income tax rates, with some provinces reducing tax rates for top incomes. Some provinces have further increased or shifted sales taxes from businesses onto consumers. The result of these policies will be a more regressive tax system, and greater inequality in both the tax system and income distribution.

A period of weak economic growth may seem like an inopportune time to increase taxes, but progressive tax hikes on high incomes and business are likely to have a less negative economic impact than spending cuts. In addition, many targeted and progressive tax measures reduce the incentives for risk that helped precipitated the financial and economic crisis. Unless posi-

tive tax reform is made in these areas, momentum for change will evaporate.

The AFB aims to restore fairness to Canada's tax system. It will eliminate tax loopholes and preferential tax rates for certain types of income and activities, and restore greater progressivity to the income tax system. It will reverse decades of growing inequality during which major tax changes mainly benefited the wealthy and contributed to an unstable economic system.

The AFB's 2011 tax proposals include:

- *Eliminating tax loopholes for capital gains and corporate stock options, so that investment income from these sources is taxed at the same rate as employment income.*
- *Capping and limiting other tax deductions that mainly benefit the highest-income Canadians, including tax-free savings accounts (TFSA) and RRSP deductions for those making over \$110,000.*
- *Restoring the federal corporate income tax rate to 21% — the pre-2008 rate — instead of reducing it to 15% as is currently planned.*

- *Introducing a tax rate of 28% on the oil and gas industry as well as the financial industry to compensate for low royalty rates, high profits, and declining tax rates in the sector.*
- *A Financial Activities Tax of 5% on profits and remuneration in the financial sector, as advocated by the International Monetary Fund.*
- *A new federal tax rate of 32% for incomes over \$250,000 and a rate of 35% for incomes over \$750,000.*
- *A minimum inheritance tax of 45% on large estates (in excess of \$5 million).*

There has been virtually no progress on major climate-change measures internationally, or at the federal level in Canada, for many years. Emphasis on complicated, unwieldy, ineffective

and politically thorny cap-and-trade systems has made progress difficult. To counter this,

- *the AFB will introduce a national Harmonized Carbon Tax (HCT) at a rate of \$30/tonne starting 1 July 2012. Half of HCT revenues will support a progressive green tax refund of \$300 per adult and \$150 per child annually, indexed to increases in the HCT rate. This will ensure that the HCT will benefit a majority of Canadians. The balance of HCT tax revenues will fund energy efficiency, renewable energy, climate change adaptation and transition measures.*

The AFB's tax measures will be introduced at pragmatic times, with HCT measures delayed a few years until the economy sufficiently strengthens.

# Securing Our Common Wealth

## Aboriginal Affairs

### **Jobs and the future:**

#### **Investing in First Nations education**

At the current rate, it will take 63 years to eliminate the income gap between Aboriginal peoples and the rest of Canada.<sup>1</sup> First Nations peoples and Canada cannot afford to wait this long. Investing in First Nations education is a forward-looking strategy to ensure healthy, prosperous, and safe First Nations communities and to reduce the ongoing cost to Canadians in lost productivity and increased support requirements for First Nations, which may now be reaching over \$12 billion per annum.<sup>2</sup>

Currently, the Government of Canada funds education for First Nations students, on average, \$2,000 less per student than it does for other Canadian students. First Nations education systems will require stable, predictable, and adequate funding.

*The AFB invests an additional \$304 million in INAC's Elementary-Secondary Education Program, an additional \$495 million in INAC's Post-Secondary Education Program, an additional*

*\$150 million in new schools, and \$127 million in First Nations language instruction.*

### **Root causes of economic crisis: transforming the fiscal relationship**

While First Nations are also affected by the recent global economic crisis, higher unemployment and lower incomes have been persistent features of life in First Nations communities for decades due to dispossession, the Indian Act, and the dysfunctional fiscal relationship between Canada and First Nations.

A new funding relationship is required. It must reflect the spirit and intent of Treaties and inherent jurisdiction,<sup>3</sup> be a mechanism to ensure parity with provincial funding rates, reflect the real costs of delivering services, and provide incentive for leveraging additional resources and maximizing performance standards.

*The AFB will invest a minimum of \$65 million in First Nations governments to address the shortfall in key governance support. This investment will be combined with fundamental structural changes.*

## **Environmental protection and sustainable community infrastructure**

First Nations communities in Canada, particularly those located in remote and northern regions, tend to feel the greatest effects of environmental degradation and climate change. Access to safe drinking water is another important issue for First Nations, as some 114 communities are under drinking water advisories. Housing and sustainable planning and building practices also require immediate attention, as there is a demand of an estimated 85,000 new units required to alleviate overcrowding and backlogs.

*The AFB invests an additional \$1 billion to address First Nations housing and water infrastructure needs.*

## **Aboriginal Women**

Although the Canadian government spends billions of dollars each year to fund Aboriginal programs and services, Aboriginal women often struggle to access these resources and continue to experience high levels of poverty, low educational attainment, high unemployment, family violence, poor physical and mental health, unequal citizenship rights, and inadequate housing. At the same time, Aboriginal women make a vital contribution to the economy and community as small business owners, health practitioners, educators, caregivers, political leaders and activists. Unfortunately, these contributions are often ignored or unrecognized and tend to be hampered by serious economic and social gaps between Aboriginal women and men.

In 2010, it was reported that Aboriginal women with a university degree were earning higher incomes — often higher than their non-Aboriginal counterparts. It is welcome news that many women and families are achieving higher educational outcomes and overcoming the challenges and cyclical impact of low income and socioeconomic disparity. However, the median employ-

ment income for Aboriginal peoples remains disturbingly low.

- *The AFB allots \$60 million over two years to honour a gender balance in Aboriginal economic development initiatives including women's entrepreneurship, financial literacy, asset-building and business networks.*

The overall health outcomes of Aboriginal peoples are continuously identified as a political priority. The focus of these reports is often on outcomes on-reserve for First Nations peoples. However, significant disparities in health status, and inadequate resources for basic infrastructure to improve health, manifest themselves in different ways, and in different communities from coast to coast to coast.

- *The AFB invests \$100 million per year for the next five years to building culturally specific programs in disease prevention and maternal child health programs.*

The experience of violence for First Nations, Inuit and Métis women is far more common than for non-Aboriginal women in Canada. There are nearly 600 known cases of missing or murdered Aboriginal women in Canada, which exceeds by seven times the rate of disappearance and violent death by in the rest of the Canadian population.

- *The AFB allots \$5 million a year for the Sisters In Spirit initiative, and \$15 million annually in culturally specific healing and re-integration programs for Aboriginal men and women in prisons.*

In every case, funding agreements must go beyond temporary solutions. A pan-Aboriginal, gender-neutral approach to programs, policies and funding fails to take these significant challenges into account.

## Early Childhood Education and Care

High fees, low wages, and unmet demand should be a wake-up call to governments about the fundamental inequality of their longstanding market-based approach to child-care services. The evidence-based response should be a publicly managed and publicly funded system that blends early childhood education and child care, and prioritizes equality in both access and service provision.

At least three-quarters of Canadians support a national child-care program and consider the lack of affordable child care to be a serious problem. Fortunately, the solution is clear and powerful: a consistent body of evidence shows that building a public system of early childhood education and care is not just the right thing to do for parents and children, but the smart thing to do for Canada's economy.

It is encouraging to note the recent and growing provincial and territorial interest (among governments, families, advocates, experts, etc.) in using public education systems to deliver 'early childhood education and care' (ECEC) services. Most countries that have implemented effective systems have done so through education rather than social services ministries.

In the past, federal governments have promised more than they've delivered on child care, but the current federal government has gone one step further by abandoning all responsibility for the file. At the height of Canada's economic success in the 2000s, the federal government terminated Canada's sole significant national child-care initiative. Federal transfers in 2007–08 were reduced by 37% from 2006, and by 61% from the previous government's commitment for 2009. Canada's public spending on ECEC programs is only 0.25% of GDP — about one-third the OECD average (0.7%) and far short of the international minimum benchmark of 1% of GDP.

To protect and promote the public interest, the AFB provides significant funding support to

provinces and territories that commit to building public systems of early childhood education and care. *The goal of the AFB's early childhood education program is to reach 1% of GDP by 2020, starting this year with a \$1-billion investment that escalates over the next 10 years.* This new ECEC program will be guided by the following policy framework:

1. public plans;
2. public expansion;
3. public funding;
4. public monitoring and reporting.

## Cities and Communities

### A long-term commitment

A lesson learned from rolling out infrastructure stimulus funds since 2009 is that when the federal, provincial, and municipal governments work together, they are efficient and effective.

- *The AFB commits to continue work with all three orders of government in 2011 to support local communities and plan a long-term infrastructure funding strategy for 2012.*
- *The AFB commits to more equitable distribution of tax revenue in 2012 to replace the current 8 cents-per-dollar that Canadian municipalities now receive.*

### Community renewal

Recovering from the economic crisis requires the government to support Canadian communities with a strategy that supports community and local economic development.

- *The AFB endorses a Community Economic Development (CED) approach to poverty alleviation and economic renewal. This will be encouraged through the development of a Federal CED Policy Framework, and investment in a roundtable and*

*an outreach strategy to promote the development of public policy with all levels of government. (Cost: \$2.5 million a year over 5 years.)*

- *The AFB establishes a Neighbourhood Revitalization Fund as part of a federal Neighbourhood Revitalization program. (Cost: \$100 million per year over 5 years.)*

### **Building Community Fund**

The greatest economic and environmental challenge of the 21<sup>st</sup> century is climate change. Our cities and communities are on the front lines in a transformation that requires Canadians to fundamentally reconsider how their communities will operate in the future.

- *The AFB provides annual funding equivalent to 1% of the GST or approximately \$6 billion annually. Funding through this initiative will support environmentally sustainable municipal infrastructure and programs; will be restricted to projects owned and operated by the municipality; will require a high level of transparency and accountability; and will begin January 1<sup>st</sup>, 2013.*

### **Urgent community support**

- The AFB recognizes that federal contributions for social housing will begin to expire in the next few years, and will include measures to ensure these funds will continue to be directed toward maintaining and upgrading our existing social housing stock.
- The AFB establishes a National Clean Water Fund to fund the infrastructure upgrades necessary to meet new, more stringent wastewater regulations. These upgrades will be cost-shared with federal, provincial, and municipal governments

and require a federal commitment of \$1 billion a year over 20 years.

- The AFB will index the federal gas tax to keep pace with inflation and national population growth, by a rate of 3% per year. (Cost: \$62 million in the first year, increasing over time.)
- *The AFB allocates a one-time, \$1-billion infusion to a Community Support Fund to bridge the funding gap, as the government negotiates a more equitable share of tax revenue for cities. (Cost: \$1 billion funded in the 2011–12 budget year.)*

### **Culture and Arts**

#### **Budget changes for federal departments, agencies and crown corporations**

Future strategic reviews will present a greater burden on federal ministries and Crown corporations. Until now, agencies under review were able to re-allocate the 5% of their budget identified as low-priority into higher-priority areas. From now on, they must eliminate that 5% from their budget. Also, in the short term, federal expenditures will be frozen. This means that the Department of Canadian Heritage, Crown Corporations and Agencies must pay for increased salaries and operational expenses using internal resources.

#### **Cancellation of the long-form census**

Governments at all levels, and Canada's cultural organizations, directly or indirectly use the long-form census to help design policy, plan, and evaluate programs. An understanding of the changing demographics of individual communities and neighbourhoods is essential when planning cultural programs, designing cultural infrastructure and more.

Unfortunately, no voluntary survey, such as the government's proposed Canadian Household Survey, can replace the long-form census. The vol-



untary survey will under-represent a number of Canadians including First Nations, the poorest and richest of Canadians, and the self-employed, a group that includes a huge number of artists and creators. As a result, important data on the cultural workforce will be lost.

### **Employment Insurance for self-employed workers**

Budget 2010 gave self-employed individuals the option to register in the Employment Insurance (EI) program to receive maternity, parental, sickness and compassionate care benefits. Given the high degree of self-employment in the cultural sector, the change may benefit some workers. For others, however, the program may not be advantageous. If artists who are not actively creating work draw on EI benefits, any income they receive for past works will reduce their EI benefit. In addition, once registered, workers cannot opt out.

AFB action items for the arts and culture sector include:

- An increase to the base budget of the Canada Council for the Arts by an additional \$30 million per year beginning in 2011–12, with a target goal of \$300 million by 2015.
- An additional \$1 million for the Department of Canadian Heritage (PCH) to develop and maintain a satellite account for culture at Statistics Canada, as is done for tourism and the voluntary sector.
- A commitment of \$40 million in new money to expand capacity for market development nationally and internationally for Canadian artists, cultural institutions and industries.
- Mandating the Department of Human Resources and Skills Development (HRSDC) to expand access to EI training support for the self-employed, and dedicate \$1 million per year for five years

to foster the professional development of cultural workers through internships and mentorships.

- An additional \$50 million to promote Canada's national heritage, exhibit Canadian stories and preserve our culture, including the development of a National Museum Policy.
- To increase the flow of charitable gifts from Canadians, support for Imagine Canada's suggestion for a "stretch" tax credit that increases the federal charitable tax credit by an additional 10% on all new giving up to \$10,000.

### **Communications**

#### **Recognizing "effective" connectivity as an essential service**

To return Canada to a leadership role in the availability and use of new communications technologies, effective broadband, supporting a wide range of communications applications, must become a vital part of federal policy and programs.

- *The AFB recommends that access to 1.5 Mbps broadband should become part of the "basic service" definition for telecommunications providers in Canada.*

#### **Developing a national broadband plan**

The AFB proposes a comprehensive national consultation about Canada's digital future that will include discussions about the environmental sustainability of increased use of digital devices. We will implement a transparent consultation process before September 2011, and present a comprehensive plan based on these discussions to Canadians by April 2012.

- *The AFB allocates \$250,000 to fund a broad national consultation to modernize communications policy in Canada.*

### **Creating jobs via next-generation broadband networks**

Modernizing communications infrastructure creates jobs and builds communities, especially in rural and remote areas. A 2009 study by the U.S. Department of Agriculture showed that rural counties that embraced broadband adoption at the start of the millennium enjoyed access to more jobs than counties that did not. Their residents also earned more money than their less-connected counterparts.<sup>1</sup>

Starting in 2012–13 the AFB invests up to \$1 billion per year in a pan-Canadian infrastructure project that will bring broadband to all Canadians. Given that this is a major commitment of public funds, Canadians will retain majority ownership of the resulting infrastructure.

- *The AFB ramps up to \$1 billion per year over a period of 10 years to modernize Canada's digital communications infrastructure.*

### **Building capacity and generating demand with a National Public Access program**

National programs that provide access, education and support to ensure effective community use of Information and Communication Technology (ICT) are an essential part of a digital strategy. Canada already has such a national program in the form of a country-wide network of 3,500 community technology centres that help more than 100,000 people per day<sup>2</sup> incorporate new technologies into their lives. This network must not be allowed to collapse in the current telecom policy vacuum. Support for existing centres must expand and a program to resume funding for new centres needs to be established.

- *The AFB will allocate \$40 million to support new and existing National Public Access sites in the 2011–12 budget year.*

## **Health Care**

### **Pharmacare: Time for a universal, publicly insured drug plan**

The AFB will initiate a National Pharmacare Program to replace private spending on prescription drugs and significantly reduce public expenditures. It allocates \$2 billion plus 10% of private expenditures, or \$1.39 billion, in 2011–12 towards a National Pharmacare Plan for a total expenditure of \$3.39 billion. In 2012–13, the AFB increases the allocation by 13% for a total of \$3.83 billion. Future savings will offset the program's start-up costs.

### **Community-based and dental services**

The AFB will re-designate federal transfers for continuing care services (nursing homes, residential care, etc.) ramping up to a cost of \$100 per capita, or \$3.4 billion, to improve access for the elderly and people with disabilities to home care, long-term care, and community-based health services.

Through the AFB, the government will offer \$90 per capita to any province undertaking a school-based dental-care program that will reach all children aged 5 to 14. A national program would cost the federal purse \$280 million. The AFB allocates \$50 million for program start-up and doubles that contribution in the next two years.

### **Health human resources (HHR)**

Good health care means making sure Canadians needs are met by the right person, in the right place, at the right time.

The AFB allocates \$150 million to the Canadian Health Services Research Foundation to identify innovations that have improved productivity and to test new approaches to service delivery within the health system.

The AFB allocates a further \$10 million annually for a Health Human Resources Innovation Fund to test, evaluate, and replicate effec-



tive retention strategies. Another \$200 million is dedicated in each of the next three years to pilot a job-laddering program for health care workers who need to further develop their skills to access other professions within the health care system.

In each of the next two years, the AFB allocates \$50 million to post-secondary institutions for Aboriginal students in health education programs who choose to work with Aboriginal communities.

### **Enforcement of the Canada Health Act**

The AFB increases the annual budget of the Canada Health Act Division to \$10 million, to enable it to develop sources of information in every province that include, but are not limited to, provincial ministries of health. Funding will also support a more robust and comprehensive reporting system through the annual Canada Health Act report.

### **Housing**

Since its 2009 budget, the federal government has made substantial financial pledges to address Canada's critical need for more affordable housing, but most of the funding has been directed to those who need the help the least. Meanwhile, too many low, moderate, and middle-income Canadians continue to wait for the promised housing help. Today, a record 1.5 million Canadian households — more than four million women, men, and children — find themselves in “core housing need.”<sup>74</sup> The federal government has created a patchwork of funding and programs in recent years as political pressure has mounted for an effective response to growing homelessness. However, despite these measures, significant problems remain:

Much promised, little delivered: Only 3% of the federal housing investment promised over the past 15 months has been committed to new or renovated homes.

Eroding value of federal housing investments: The federal government's commitment to social housing (expressed as a ratio of spending to GDP) dropped from 0.24% in 1989 to 0.15% in 2009.

No national housing framework: Unlike other developed countries, Canada lacks a national housing framework for the quick and orderly flow of funding from governments to the affordable housing sector.

To counteract the growing crisis in home affordability in Canada,

- *the AFB will commit \$1.7 billion annually to the affordable-housing sector. This will double the allocation for both the federal Homelessness Partnering Strategy and the Residential Rehabilitation Assistance Program and provide significant funding for new home construction. It will also support maintenance of the existing stock of affordable housing.*

### **Immigration**

In June, 2010 the Government of Canada passed Bill C-11, a new law for refugee determination. To partly justify the new law, the Minister of Citizenship and Immigration wrongly suggested that each failed asylum claim costs Canadian taxpayers \$50,000. No actual data supports this figure.<sup>1</sup> The government has created a new bureaucracy of refugee hearing officers to make first-level decisions and added two permanent positions to the federal court. The current Immigration Refugee Board (IRB) will continue to adjudicate appeal cases. The government set aside \$540.7 million for the new system, but critics argue that the money could be better spent on strengthening human-rights conditions in countries that produce claimants in the first place.

In December, 2010, the federal government cut \$53 million in funding from settlement agencies and programs across Canada, excluding Quebec. Ontario will incur more than \$43 mil-

lion of the cuts, which will force the closure of some of these agencies and result in hundreds of job losses. The government justifies the action by suggesting that Ontario now receives 63% of settlement funding but only 55% of Canada's 250,000 new arrivals each year, but the funding formula ignores the untold number of secondary migrants who move to Ontario from other provinces and the years of chronic federal underfunding in the province for immigration needs.<sup>2</sup>

After a sluggish year in 2008 and 2009 with the economic slowdown, employer's demand for temporary foreign workers is expected to remain strong in the next few years. Overall, since 2004, admissions of people with TWP have increased by 71%. Meanwhile, in its annual report, CIC quietly removed the spending estimates for the Interim Federal Health (IFH) program for the next two years, anticipating cost increases. The report suggests that CIC will review the IFH and related policies and sign a new claims-administration contract with medical providers. It's unclear whether the new arrangement will reduce coverage or cancel medical coverage for refugee claimants.

The Minister has also voiced concern that immigrants — particularly from India and China — use marriage to a Canadian as a ticket to come to Canada. He has promised to invest more money to screen potential “marriage fraud” cases and implement measures such as “conditional visas” to discourage people from entering into fake marriages. However, such measures may penalize couples in genuine relationships, and cause sponsored immigrant women who fear deportation to remain in abusive relationships.

Finally, the Government has hurriedly introduced Bill C49,<sup>3</sup> which if passed, will enable the government to hold refugee claimants in detention centre for extended periods and deny them the right to permanent resident status for five years. Apart from the potential violations under the *Canadian Charter of Rights and Freedoms*, the bill will cost Canadian taxpayers — to lock

up asylum seekers, and in lost tax revenues by putting more people in “status limbo” and delaying their integration into the Canadian society.

To address challenges faced by new Canadians and those on racialized communities, the AFB will:

- *repurpose some EI training funds to help new Canadians gain recognition for their international credentials;*
- *amend the Wage Earner Protection Program (WEPP) from 4 to 8 weeks maximum;*
- *collect from employers who regain their financial stability any moneys paid out under WEPP;*
- *provide paid internships for recent graduates from equity seeking groups;*
- *reinstate the Court Challenges Program;*
- *reform the Temporary Foreign Worker's program;*
- *require all government ministries to collect, track and disclose disaggregated data for racialized groups.*

## Post-Secondary Education: A Necessary Investment

Investing in post-secondary education is a necessity that will pay substantial dividends for the economy and ensure that everyone in Canada, including Aboriginal peoples, can benefit from higher education. With an annual investment of \$2.7 billion, the federal government can create a more accessible and affordable system and halt the shift towards the privatized, user-pay model that is becoming more common in Canadian universities.

Also, in cooperation with the provinces, the government should implement a federal Post-secondary Education Act (PSE) modelled after the principles of the Canada Health Act, accom-

panied by a dedicated cash transfer with funding allocated to:

- *immediately restore per-capita funding to 1992 levels;*
- *over three years, reduce tuition fees to 1992 levels;*
- *over five years, eliminate deferred maintenance at Canada's colleges and universities.*

Creation of new PSE transfer: \$0

Increase to PSE transfer: \$410 million

Addressing deferred maintenance: \$800 million for five years

Reduce tuition fees to 1992 levels: \$799 billion (amount to increase to \$1.59 billion in year two, and 2.39 billion in year three, and for every year thereafter)

The federal government should increase the value and number of non-repayable grants available to students by redirecting funds allocated to education-related tax credits and savings schemes to the Canada Student Grants Program. It should also permit graduate students to qualify for grants under the program.

The federal government should increase the number of Canada graduate scholarships to 3,000 — consistent with average growth in the program since 2003 — and distributed grants proportionally among the research councils according to enrolment figures.

- *Increase the number of Canada Graduate Scholarships to 3000: \$25 million*
- *Increase in grants (less savings from eliminated tax credits and savings schemes): \$0*

## Poverty Action and Income Inequality

Between 1997 and 2007, the Canadian economy enjoyed its most sustained period of robust growth since the 1960s. It also witnessed unprecedented growth in income inequality. To address

this growing gap, the AFB includes a bold plan to dramatically reduce poverty, homelessness and inequality. Doing so is a both wise investment and a moral and human rights imperative.

A meaningful poverty-reduction plan requires clear legislated targets and timelines. The benchmarks for the latter must be sufficiently concrete and frequent to hold the government accountable for progress within its mandate. To that end, the AFB adopts the following key targets:

- To reduce Canada's poverty rate by 25% within five years, and by 75% within a decade.
- In two years, ensure that every Canadian's income is at least 75% of the poverty line.
- In two years, ensure that no one must sleep outside, and in ten years eliminate homelessness by ensuring all homeless people have appropriate, good-quality housing.

To achieve these targets, the AFB supports action in the following key policy areas:

- *Pass Bill C-545 to mandate (1) "the establishment of a Government of Canada strategy to eliminate poverty and promote social inclusion"; and (2) "establishing the Office of the Poverty Elimination Commissioner independent of Government."*
- *Provide adequate and accessible income supports*
  - Legislate minimum national standards for the adequacy and accessibility of provincial income assistance.
  - Double the refundable GST credit.
  - Increase the Canada Child Tax Benefit to \$5,400 per child.
- *Improve the earnings and working conditions of those in the low-wage workforce*

- Re-establish a federal minimum wage (set at \$11 and indexed to inflation).
- *Address homelessness and the lack of affordable housing*
  - Pass and implement Bill C-304 — a National Housing Strategy (see the *AFB Housing chapter*).
- *Provide universal publicly funded child care*
  - Within one year, develop a comprehensive plan and timeframe for the implementation of a high-quality, universal, publicly funded Early Learning and Child Care program. Initial phase-in should start immediately (see the *AFB Child Care chapter*).
- *Provide support for training and education*
  - Immediately increase the availability of post-secondary grants for low-income students (see the *AFB Post-Secondary Education chapter*).
  - As part of a Green Skill Initiative, provide apprenticeship training
- *Reduce Inequality*
  - Establish a federal Task Force to investigate the role of the federal tax system in offsetting continuously rising income and wealth inequality among individuals and assessing tax fairness between individuals and corporations.

The AFB also introduces a new federal transfer payment to the provinces, tied to helping them achieve their poverty-reduction goals and helping them meet new minimum national standards. This innovative transfer will be worth \$1.8 billion a year, over and above the costs associated with the federal measures outlined above. It is specifically designed to assist provinces and territories to meet clear poverty reduction targets and timelines.

Committing to a bold plan makes a dramatic reduction in poverty and homelessness within a few short years a perfectly achievable goal.

## Seniors and Retirement Security

The federal government needs to act unilaterally to eliminate poverty among elderly Canadian residents by making changes to the Guaranteed Income Supplement (GIS) and Old Age Security (OAS) that are within the exclusive jurisdiction of the federal government.

Further, the federal and provincial governments urgently need to act together to expand the Canada Pension Plan (CPP) to deal with the failure of workplace pension plans and private-sector options such as Registered Retirement Savings Plans and the recently proposed Pooled Retirement Pension Plan, to be administered by private financial institutions such as banks and insurance companies. Changes to CPP contribution rates and benefits require the consent of the federal government and two-thirds of the provincial governments representing at least two-thirds of the population of Canada.

The AFB will:

- *immediately increase GIS benefits by 15% to improve the quality of life of the poorest Canadian seniors;*
- *link increased CPP, OAS and GIS benefit increases to wage increases rather than the Consumer Price Index;*
- *amend the Canada Pension Plan to increase the employer and employee CPP contribution rate from the current 4.95% of earnings (9.9% total) to a total of 7.8% each (15.6% total) over seven years to provide pensioners with a replacement rate of 50% of pre-retirement earnings.*

## Women's Equality

The AFB recognizes that women are not a special interest, but half of the Canadian population who share the same aspirations as the other half—namely, for a secure, prosperous, and sustainable future for all Canadians.

Canada's Economic Action Plan, focused on short-term stimulus spending and investment in physical infrastructure, but contained no parallel investment in social infrastructure. The result of this strategy has been more than just a missed opportunity to support the equal participation of women and men in the country's economy. It has increased the gap between men and women.

According to Statistics Canada, many women, especially single women and single mothers who rent their homes, experience housing affordability problems. *The AFB invests \$20 million annually in adequate housing supports so that no woman fleeing intimate-partner violence will be forced to return to the same household for lack of an alternative — and affordable — place to live.*

Women and girls living in poverty currently rely on welfare incomes so low that the National

Council of Welfare has called them “cruel”. Under the existing scheme, provinces and territories receive money ostensibly for social assistance through the Canada Social Transfer (CST). There are no conditions. Cuts to welfare rates, and erosion of the value of benefits through inflation, have had a harsh impact on women in need. The AFB attaches common standards of adequacy for social assistance to the Canada Social Transfer.

Women are still highly concentrated in a small number of traditionally female occupational categories including health care, teaching, clerical, administrative, and sales and services jobs. Women overwhelmingly predominate in the lowest-paid sectors, such as child care, retail, and food services. *The AFB implements the recommendations of the Pay Equity Task Force and allots \$10 million on pro-active measures including the creation of both the Pay Equity Commission and Tribunal.*

The AFB will fully implement the budgeting recommendations of the 2009 Report of the Auditor General on gender-based analysis.<sup>1</sup>

# Protecting Our Climate, Nature, and Water

## Environment

The AFB will preserve the federal government's capacity to protect the environment, nature, and Canadians' health. This protective capacity includes species at risk protection, scientific programs that safeguard biodiversity, and the core of the Clean Air Regulatory Agenda — including the EcoEnergy programs and the Chemicals Management Plan — both of whose funding is set to end in March 2011.

To take the most important step for providing current and future generations of Canadians with a healthy environment,

- *the AFB will put a price on greenhouse gas emissions by introducing a national Harmonized Carbon Tax in July 2012, combined with strategic measures to protect Canadians and vulnerable trade sectors from adverse financial impacts.*

The AFB will also implement these priority environment and conservation measures:

- **A Conservation Plan for Canada:** The AFB will allot \$10 million annually

for two years to develop an ambitious, integrated Conservation Plan for Canada aimed at protecting Canada's remarkable ecosystems, wildlife, and wilderness heritage. The AFB will also provide \$50 million per year to continue progress on currently proposed national parks, marine conservation areas, and other federal protected areas, while this plan is being developed.

- **Energy Efficiency:** The AFB will renew and expand the ecoEnergy home energy-efficiency program, and give priority to a national green homes retrofit strategy including low-income support and easy access to capital for efficiency upgrades. Cost: \$1.75 billion over 5 years.
- **Air Quality:** The AFB will sustain funding for the development and implementation of regulations to improve air quality in Canada and complementary research and monitoring initiatives. Cost: \$65 million per year.
- **Renewable Energy:** The AFB will create jobs and spur growth in the clean-energy



sector by committing \$42 million per year for 3 years, followed by \$25 million for the next 2 years, to Canada's solar hot water industry and to mapping Canada's geothermal resources. The funds will also support hybrid wind systems in Arctic and remote communities.

- **Global Climate Finance:** The AFB will support climate action in developing countries, as committed under the Copenhagen Accord, with a commitment of \$400 million in 2011, with yearly increases.<sup>1</sup>
- **Natural Capital Indicators:** To provide better information to federal decision-makers, the AFB will commit \$9.5 million for first year, and \$6.5 million in each of the following 2 years, to expand the existing indicators of Canada's natural capital.

To help finance the above recommendations, the AFB will save more than \$800 million annually by ending counterproductive subsidies to the oil and gas and nuclear industries, harmonizing tax benefits between primary resource extraction and recycling, and ending support for the Chrysotile Institute, which promotes the use of chrysotile asbestos, a known carcinogen, around the world.

## Water

### Pollution

Despite a dearth of information about the effects on groundwater of hydraulic fracturing—a water-intensive process used in natural-gas drilling that can pollute local water sources—several provinces still allow the practice without adequate environmental-impact oversight.

- *The AFB commits \$2 million to conduct a nationwide environmental assessment on hydraulic fracturing and calls for a*

*moratorium on the practice until the assessment is completed.*

The Great Lakes face significant threats including pollution, extraction, wetland loss, and invasive species. In 2010 the federal government allocated \$16 million to Environment Canada for Great Lakes protection over two years, but this amount is insufficient.

- **Freshwater Resources:** Using \$1 billion in existing funding from the Building Canada and Green Infrastructure Funds, plus \$3.375 billion in new funding over 5 years, the AFB will invest in cleaning up areas of concern and *zones d'intervention prioritaire*, and protecting Canada's waterways from invasive species.
- **Water Efficiency Product Labelling:** The AFB will institute a labelling program for water-efficient fixtures and appliances, similar to the US WaterSense program. Cost: \$5 million over 5 years.

### Over-extraction

Without solid information about how much water Canada has or uses, governments across the country are approving plans for hydro-fracking, water withdrawals for bottled-water and other industries, and bulk water exports to the U.S.

- *The AFB allocates \$3 million to identify and map Canada's groundwater sources and coordinate a strategy to prioritize water use, introduce stricter regulations on bottled water, and ban bulk water exports.*

### Commodification and privatization

Reduced infrastructure funding in Canada has led to the privatization of several public water-related facilities. Water privatization violates the public's right to water and results in decreases in water quality, price hikes, and job losses. Further, international trade agreements such as the Comprehensive Economic and Trade Agreement

(CETA) with Europe may force some Canadian municipalities to privatize water and wastewater services.

- *The AFB ensures that water is excluded from CETA and allocates \$1 billion for municipal water and wastewater infrastructure (see AFB Cities and Communities chapter). A further \$1 billion is allocated for water and wastewater infrastructure for First Nation communities (see AFB Aboriginal chapter).*

Canada's first water market is functioning in the South Saskatchewan River Basin. In 2009 the Alberta government recommended that the highly regulated water-allocation market in southern Alberta be expanded to the entire province and that much of the public oversight of transfers be removed.

- *The AFB allocates \$1 million to study the potential trade implications of the North American Free Trade Agreement and other international agreements of an expanded market-based water allocation system.*

### **Poor governance**

The approval of several high-profile industrial mining projects in British Columbia and Newfoundland have demonstrated the frequent inability of federal and provincial environmental assessments to protect Canada's waters. Further, there is little research on the potential impacts of climate change on Canada's water resources.

- *The AFB commits \$50 million to mandate thorough environmental assessments for all energy and mining projects. This funding will also facilitate the inclusion of First Nation governments in decision-making processes.*
- *The AFB allocates \$5 million to develop a comprehensive analysis of the impacts of climate change on Canadian waters, availability of water in Canada, and a detailed strategy to address the effects of climate change on water.*



# Canada and the World

## Defence and Development

Canada is among the 15 top military spending nations in the world, and the sixth largest military spender among the 28 members of NATO. Our military spending is now higher than it has been in more than 60 years — higher even than it was during the Cold War.

Despite tremendous spending, the federal government has announced its desire to purchase 65 F-35 Lightning II Joint Strike Fighters for \$9 billion. This purchase would be the largest military purchase in Canadian history. Once maintenance costs are included the total bill will sky-rocket to \$18 billion or more.

The AFB will:

- *refocus the Canadian military on the areas that Canadians are proud of, especially peacekeeping;*
- *shrink the defence budget by \$6 billion over five years, returning it to pre-9/11 levels of funding;*
- *double development spending to reach the 0.7% of GNI target over the next 10 years.*

*This will mean increases of 14% a year on the present overseas development budget to reach that goal and keep up with the growth in the Canadian economy;*

- *cancel the F-35 deal and establish a commission to determine military needs and competitively source the needed equipment.*

## Foreign Policy

The International Labour Organization (ILO) estimates that the millions of jobs eliminated by the global recession won't be recovered before 2015 — and, because of the global shift toward fiscal austerity, the recovery may take longer than that. The organization reports that worldwide wage growth has slowed dramatically and wages have declined in many countries.

The AFB endorses the following international initiatives:

- *further international stimulus measures that don't compromise climate-change abatement efforts;*

- *effective mechanisms for international policy coordination that go beyond the G20 to include more representative institutions such as the United Nations;*
- *efforts to abolish tax havens and tax evasion;*
- *a global tax on financial transactions;*
- *reform of the international dollar-denominated currency system;*
- *encouraging countries to implement controls on short-term capital inflows;*
- *the creation of a new agency to provide ongoing regulation of systemic financial risk; and*
- *restructure decision-making at the IMF to give greater powers to emerging and developing countries.*

Trade between Canada and the EU is already relatively free, but Canada has a trade deficit with the EU. The current Comprehensive Economic and Trade Agreement (CETA) negotiations are more likely to limit Canadian regulations and flexibility than enhance Canada's social programs.

The federal government is also working to create a common perimeter with the United States that could require Canada to align its immigration and refugee policies with those of the U.S. The agreement is unlikely to achieve its goal of allowing the free flow of goods between the two countries, but it will almost certainly limit Canada's sovereignty.

# The Changing Nature of Work and the Economy

## Employment Insurance

Today, less than half of Canada's 1.5 million unemployed workers collect Employment Insurance (EI) benefits, even though the national unemployment rate is almost 8%. Special EI measures introduced in the 2009 federal budget have expired — long before a real labour market recovery. The number of regular EI beneficiaries is falling faster than the number of unemployed workers as some workers exhaust benefits and as those being laid off from precarious jobs fail to qualify for EI.

The AFB provides an additional five weeks of benefits in all regions through at least 2011 and 2012, when the unemployment rate is expected to remain high. Currently, benefits can be exhausted after just 14 weeks, and typically last for only about 26 weeks in regions with unemployment rates equal to the national average. Yet, one in four of all unemployed workers has now been jobless for more than six months. Based on the experience of the Economic Action Plan and the modest fall in the unemployment rate, the AFB's extension of benefits would cost approximately \$500 million in 2011, but help to

stimulate hard-hit communities and the overall economy.

The AFB provides an additional benefit extension to long-tenure displaced workers who face the most difficulties finding new jobs, and often experience large income losses due to a permanent layoff. The government's own Expert Panel on Older Workers recommended special EI measures to support this group as a permanent feature of the EI system.

The AFB continues extended training benefits under EI for unemployed workers. The Economic Action Plan provided special training benefits to 12,000 long-tenure unemployed workers under programs that have now expired.

Extended income replacement is especially needed by displaced workers who lack the literacy and numeracy skills needed to enter vocational skills training programs. As recently emphasized by the OECD, there is a danger that the long-term unemployed will lose touch with the job market and current skills and become permanently unemployed. This would be deeply regrettable in both human and economic terms, given that few new workers are projected to en-

ter Canada's workforce in the years ahead as the baby-boom generation retires.

The AFB also introduces a Pilot Project to establish a uniform national entrance requirement of 360 hours. Well under half of all unemployed workers now qualify for regular EI benefits, partly due to the rapid growth of temporary and part-time jobs. The annual cost of a national 360-hour entrance requirement has been estimated by the Parliamentary Budget Officer to be \$1.1 billion. The Pilot Project will allow the government to judge whether concerns about the labour-market implications of a lower entrance requirement are well-founded. The lower entrance requirement should also apply to new labour force entrants and re-entrants, who now must jump over a 910-hour hurdle.

### Sectoral Development Policy

The rationale for sector development policy has been a constant theme in the history of Canadian economic development policy. Since Confederation, policy-makers have been concerned with overcoming Canada's traditional reliance on natural-resource exports.

Since the neoliberal shift of the 1980s, Canada's economy has regressed in structural, qualitative terms. Increasingly, Canada presents the structural features of a "Third World" economy characterized by resource dependence, very high foreign control, and chronic current account deficits. This structural regression casts a pall over Canada's future economic prospects, limits the ability to create "good jobs" in tradable industries, undermines national productivity growth, and pigeon-holes the country into a narrow and unsustainable niche in global trade. For all these reasons, visioning and implementing a progressive, pro-active sector development strategy must be a crucial element of an overall alternative economic program.

The AFB will:

- *Establish a system of Sectoral Development Councils (\$50 million/yr): These councils will be established in a range of goods- and services-producing industries that demonstrate characteristics including technological innovation, productivity growth, higher-than-average incomes, environmental sustainability, and export intensity.*
- *Take immediate efforts to enhance value-added production and investment in key sectors such as:*
  - *Green Manufacturing Tax Credit (\$50 million/year);*
  - *Automotive Recycling (\$300 million/year) paid for by a new car levy that raises \$300 million/year;*
  - *Aerospace and Defence, where offset agreements must ensure dollar-for-dollar Canadian content;*
  - *Sustainable Forestry and Skills Development (\$300 million/year); and*
  - *Sustainable Farming income supports (\$650 million/year) partially paid by eliminating biofuel crop subsidies (\$200 million/year).*
- *National Green Skills Initiative (\$100 million/year) to support college and on-the-job training for Canadian workers to perform in green industries.*
- *Control non-renewable energy development, especially in the Alberta tar sands.*
- *Replace the Investment Canada Act for foreign take-overs.*
- *Reduce the Canada-U.S. exchange rate.*
- *Create a more balanced model for Canadian trade negotiations.*
- *Establish a Canadian Development Bank (\$1 billion/yr to capitalize).*

## Strengthening Public Services

The AFB recognizes the importance of accountable and transparent public services. However, federal budgets delivered by Canadian governments over the last two decades have undermined public services, increased inequality, and jeopardized the health and welfare of future generations. The ability to make important choices about demographic changes, social options and the environment has been undermined, sacrificed to the short term goals of corporate interests and investors.

Privatization, through the growth of public-private partnerships (P3s) and the increase in contracting out is undermining the financial capacity of future governments by quietly privatizing long-term debt and squandering existing government funds on non-transparent contracting arrangements.

The AFB eliminates PPP Canada, the Crown Corporation created to promote P3s in the municipal, provincial and federal sectors, and creates a Public Assets Office. The office will examine the long-term debt incurred by existing federal, provincial and municipal P3 projects that the government funds in full or in part, publish the results, and compare the costs to in-house delivery. Projects will be cancelled where it makes good financial sense to do so. A plan to promote and create good “green” jobs, training for green” industries, and funding for public green infrastructure will be developed.

The AFB also sets aside funds to examine the consequences of bilateral trade agreements, particularly the Comprehensive Economic Trade Agreement (CETA) with the European Union. These monies will fund significant transparent public consultation, allow an examination of all publicly available research on the impacts of existing trade negotiations, and establish public bodies to analyze and report on that research.

An oversight committee consisting in equal parts of government trade experts, business, labour, and civil society will examine and report on all free-trade impacts to Parliament and Canadians before any new trade deal is signed. Notice will be given to cancel trade agreements that are not in the public interest.

Contracting out is widespread in the federal public sector. The AFB allots funds for a complete and intensive audit of federal contracting out that will consider the overall and long-term costs to the public, workers, other levels of government, and the democratic structures of government. A committee made up of equal parts government, business, labour, and civil society will oversee the audit’s ongoing work and final results. All government contracts will be examined on the basis of price, quality, and social and environmental criteria. *The AFB will commit to cutting federal government outsourcing by \$200 million in 2012–13 and \$350 million in 2013–14.*

The AFB sets aside funds to extensively audit the impacts of the Cabinet Directive on Regulation, deregulation, the impact of foreign investment and trade on regulations, and the appropriate role within the regulatory framework for Safety Management Systems (SMS). Accepting the precautionary principle of protecting the health, safety, environmental, and economic welfare of all Canadians, the audit will solicit the views of a broad array of Canadians and determine what Canadians want regulations to do and what resources are needed to properly enforce regulations. The audit and its recommendations will be overseen by a committee made up of equal parts government, business, labour, and civil society.

The funding required for these initial steps is minimal, but necessary to address the growing lack of transparency that characterizes government decisions in these areas and restore accountability in federal policy and spending.

# Notes

## Aboriginal Affairs

<sup>1</sup> Wilson, Daniel and David Macdonald. (2010). *The Income Gap Between Aboriginal Peoples and the Rest of Canada*. Ottawa: Canadian Centre for Policy Alternatives, 3.

<sup>2</sup> Canada. (1996). *Report of the Royal Commission on Aboriginal Peoples (Vol 5, Chap 2)*. Ottawa: The Commission.

<sup>3</sup> Cornell, Stephen and Joseph Kalt (eds.). (1992). *What Can Tribes Do? Strategies and Institutions in American Economic Development*. Los Angeles: American Indian Study Centre.

## Communications

<sup>1</sup> Lasar, Matthew. (2009) "Rural broadband = more jobs, better salaries." *Ars technica* Aug.20. <http://arstechnica.com/tech-policy/news/2009/08/rural-broadband-more-jobs-better-salaries.ars>

<sup>2</sup> This network was built under the Industry Canada Community Access Program (CAP) and its companion Youth Initiative Program (CAP-YI). *Telecommunications Policy Review Panel. (2006) Final Report. Chapter 8. Industry Canada*. <http://www.telecom-review.ca/epic/site/tprp-gecrt.nsf/en/rx00055e.html>

## Housing

<sup>1</sup> "A household is said to be in core housing need if its housing falls below at least one of the adequacy, affordability or suitability, standards and it would have to spend 30% or more of its total before-tax income to pay the median rent of alternative local housing that is acceptable [according to the following criteria]:

- Adequate housing are reported by their residents as not requiring any major repairs.

- Affordable dwellings costs less than 30% of total before-tax household income.

- Suitable housing has enough bedrooms for the size and make-up of resident households, according to National Occupancy Standard (NOS) requirements."

From: [http://cmhc.beyond2020.com/HiCoDefinitions\\_EN.html#\\_Core\\_Housing\\_Need\\_Status](http://cmhc.beyond2020.com/HiCoDefinitions_EN.html#_Core_Housing_Need_Status)

## Immigration

<sup>1</sup> Janet Dench, "Forget the Refugee Claimants, It's the Canadian citizens we can't afford" Canadian Council for Refugees (<http://ccrweb.ca>), October 1, 2010

<sup>2</sup> <http://www.thestar.com/news/article/911205--funding-axed-for-toronto-immigrant-agencies> (Accessed Dec 23, 2010)

3 Preventing Human Smugglers from Abusing Canada's Immigration System Act.

### **Women's Equality**

1 [http://www.oag-bvg.gc.ca/internet/English/parl\\_oag\\_200905\\_01\\_e\\_32514.html](http://www.oag-bvg.gc.ca/internet/English/parl_oag_200905_01_e_32514.html)

### **Environment**

1 According to the World Bank, Canada's GDP in 2009 was \$1.3 trillion. The Third World Network reports that G77 countries and China are calling for Annex

1 countries to commit at least 1.5% of GDP annually toward G77 climate-change mitigation by 2020. Others estimate that global South countries will need up to 6% of Annex 1 countries' GDP annually to adapt to the effects of climate change. Using these estimates, Canada would need to allocate between \$20 and \$80 billion for Global South Climate Financing. The UN Department of Economic and Social Affairs' 2009 UN World Economic and Social Survey estimated that \$500–\$600 billion annually in public funds is needed for adaptation and mitigation in developing countries.

