FEDERAL BUDGET 2008
"RESPONSIBLE LEADERSHIP"
LOWER THAN THE LOW EXPECTATIONS

Finance Minister Jim Flaherty set very low expectations for the Harper government's third budget – and managed to deliver even less.

There is nothing in this budget for public health care, childcare, poverty or homelessness, very little for the environment or for Aboriginal Canadians, nothing for the unemployed, working Canadians, nothing for women, nothing to improve public pensions, no long-term solutions for the municipal infrastructure deficit, and nothing for culture.

To fill the void of any significant positive initiatives, the budget contains dozens of different measures, re-announcements and repackaging of existing programs.

It also provides dozens of new tax breaks, virtually all for corporations and investors but with nothing to benefit working Canadians. The promotional centrepiece on the tax side is a new Tax-Free Savings Account, which provides yet another tax shelter for investment income. This will soon amount to billions in lost revenues – all in aid of the most affluent.

It is not only the tax side that shows an absence of support for ordinary Canadians: new spending is overwhelming directed to business interests or to defence, policing and surveillance in all areas. For example:

- For the environment, the Budget provides an extra $669 million over two years for "ensuring a cleaner, healthier environment", but of this amount, 95% is to subsidize business in various forms, 4.7% is for enforcement and only 0.3% is for "promoting conservation and sustainable development". Providing only $2 million for conservation and sustainable development may have been some bureaucrat's idea of a cruel and ironic joke, but it is also a stark reflection of this government's priorities. There is nothing else in the budget for environmental concerns, penalties for pollution, other measures to address the climate crisis or help doe households, communities or workers to adjust. Not a core responsibility.

- For the vulnerable, the budget provides $406 million for "supporting the vulnerable". What this amounts to is $282 million in support to survivors of war veterans, $110 million for mental health demonstration projects, $10 million to protect elders from abuse and $3 million for medic alert bracelets. There is nothing to reduce child or adult poverty, nothing to reduce homelessness, nothing to help exploited foreign workers, nothing to increase minimum wages, and nothing more for the world's poorest. Even the working poor lost out on a widely expected increase to the working income tax benefit. Not priorities.

Harper budgets always say that the federal government should focus on its core responsibilities. This budget makes it clear just how narrow their view of that is: defence and policing, tax cuts, and support to a select group of profitable corporations. And nothing else – and especially nothing more in the social realm.

Even in an area such as Aboriginal affairs, which are undeniably and constitutionally entrenched as a federal responsibility, the Harper government is trying to relinquish these responsibilities to the provinces.

The 2008 Budget includes an extra $270 million over two years to "Strengthen Partnerships with Aboriginal Canadians", but what this mostly involves is funding to integrate First Nations and Aboriginal programs with the provinces and territories.

The budget also includes a ramming forward with the Harper government's privatization agenda, with the incorporation of PPP Canada Inc., a federal office set up to privatize federal public assets and to force provinces and local governments to engage in P3s and to privatize public services. Apparently privatization, including of provincial and local government public services, *is* a core federal responsibility.

For the Harper government, "Responsible Leadership" really means abandoning federal responsibility for the well being of Canadians to business, free markets and, at most, lower levels of government.

With just four simple revenue measures, the federal government could have raised enough revenue to show positive leadership in rebuilding Canada's economy and society. These progressive revenue measures and the positive programs they could finance are outlined below.

The following includes a brief summary of areas not addressed in the accompanying specific issue sheets.

Fiscal outlook: will tax cuts and poor economic policies force a deficit and "starve the beast"?

This budget and the fall economic statement sport a seven to one ratio of tax cuts to new spending for the next two years. This ratio is bound to grow even higher in future years as the growing corporate tax cuts take effect.

The federal "tax burden" – federal revenues as a share of the Canadian economy – is projected to drop to 15.3% in two years and to keep on falling, soon to reach the lowest level in fifty years.

Fortunately, this election-ready budget didn't slash federal program spending – yet. Overall program spending is forecasted to grow pretty much in line with economic growth for the next two years.

But they have clearly served notice that deeper spending cuts may be on the way. Budgets for the next two years provide almost no cushion in terms of a surplus: only $2.3 billion in 2008/9 and $1.3 billion in 2009/10, compared to $10 billion in 2007/8.

This means that the lower revenues could easily wipe out the surplus if the economy grows just a touch slower than expected. As this government would rather commit hara-kiri than raise taxes or run a deficit, any slowdown would mean spending cuts. This is a familiar Conservative strategy: Ronald Reagan's budget advisor called the strategy of using tax cuts to create a deficit and force spending cuts "starving the beast".

The government expects to put relatively little against the debt in future years, with total debt reduction totaling $12.6 billion over the next five years. But even if the federal government didn't pay one more cent off the federal debt, our debt ratio as a share of GDP would drop from 29.9% today to 24.3% in five years as a result of economic growth.

Employment Insurance Account Off the Books

The budget creates a new independent crown corporation to manage Employment Insurance Funds and to set EI rates. The *Canada Employment Insurance Finance Board* will have responsibility for managing the EI Funds in a separate account, setting rates, and maintaining a cash reserve, funded initially at $2 billion. The Board will have to set rates to break even over time on a "go-forward basis", subject to an annual maximum change in EI premiums of 15 cents.

The current Worker and Employer EI commissioners will continue to function and will be consulted about appointments for this new board, but the appointments will be made by the minister on a "merit basis" with no set number of seats guaranteed for labour or business.

This change separates the EI Fund from other government revenues, but eliminates any possibility of workers recovering the rest of the $57 billion EI surplus that has been built up and in now buried in the federal government's consolidated revenues.

The EI program has provided benefits for less than half of the unemployed for some time. CUPE, other unions, the unemployed, the NDP and other organizations have advocated for an expansion of benefits and eligibility that could have been funded with some of this surplus.

***A Better Choice:* the federal government could have vastly improved the EI program by:**

- increasing access with a uniform 360 hour of work entrance qualification
- increasing the benefit rate to 60% of earnings, based on best 12 weeks of earnings
- increasing the benefit period to 50 weeks

These improvements would cost about $2 billion a year, which could be financed by raising the maximum insurable earnings threshold and not cutting premium rates further. Further improvements could be financed using the EI surplus.

Tax Measures: more tax cuts for corporations, nothing for working Canadians or the poor

The 2008 Budget includes two dozen different tax measures. Virtually all of these only provide benefits to investors or corporations. They include:

The new *Tax-Free Savings Plan* which will provide those who have extra investment income with another tax shelter. This new tax loophole – advocated for years by the C.D. Howe Institute – will overwhelming benefit the rich, who have maxed out on their RRSP contributions. It will provide an annual $5,000 contribution room to shelter investment income, with this cap indexed to inflation. There is no tax deduction for contributions, but investment income will be sheltered from tax. Each individual's contribution room will carry forward indefinitely. Withdrawals can be made for any purpose and they create new contribution room. The initial revenue loss for this is not massive, but the annual costs will quickly escalate – they will amount to billions of lost revenues in a few years.

Other measures on the personal side include:

- extension of the contribution and termination period for Registered Education Savings Plans.
- a 10% increase in the value of the Northern Residents Deduction.
- extension of the Medical Expense Tax Credit to cover some new treatments, and restrictions so it covers only prescription drugs.

The budget also provides additional measures for investment income:

- extension of the Mineral Exploration Tax Credit
- expansion of the capital gains exemption for donations to cover unlisted securities
- limits to the Dividend Tax Credit to make it consistent with lower corporate tax rates

The Budget includes a larger number of changes for businesses:

- Limited extension of the rapid write off for manufacturing and processing investment.
- Extension of the rapid write-off for investments in clean energy generation equipment to include heat pumps, biogas production equipment and waste-to energy equipment. This will provide a tax benefit to businesses investing in these technologies – and could also provide tax benefits to private waste management businesses in this area.
- Increase in the tax depreciation rate for CO2 pipelines.
- Loosening tax rules that apply to non-residents for their capital income in Canada.
- Increases to investment tax credits for scientific research and experimental development (SR&ED Program). This includes expansion of this program to provide tax benefits for research *carried on outside* of Canada – a change that appears truly backward.

Canada already has one of the most generous tax benefits of this kind in the world, but it has done little to boost R&D investment by business. These additional tax measures are unlikely to change this. Increased public sector research and development has been shown to provide greater benefits.

The budget also contains a number of changes for the GST applying to both health services and long-term care residential facilities:

- Expansion of GST exemption to cover training for those with autism or other disabilities.
- Exemption of GST for nursing services, wherever the services are provided.
- Zero-rating of GST for all prescription drugs that are prescribed by health professionals, not just medical practitioners.
- Exemption of GST for health services supplied through a corporation.
- Expansion of the GST property rebates provided to operators of long-term residential care facilities.

These different GST changes add up to a total of $30 million a year – not massive in the context of total GST revenues – but they do contribute to creeping privatization of health care.

CUPE has strongly advocated for all parts of the public sector, including public schools and health care facilities, to receive a 100% rebate for the amounts they spend on GST, just as municipalities now receive.

A Better Choice: the federal government could have reversed the course towards greater inequality and funded positive public programs with four simple revenue measures. These could provide funds for all the *Better Choice* measures outlined here.

- Tax Capital Gains and Stock Options at the same rate as wage income. *Capital gains and executive stock options are taxed at half the rate as normal wages. Over two-thirds of the value of this $11 billion loophole goes to the top 4% of tax filers, who make over $100K a year. This loophole is a major reason that the super-rich pay a lower rate of tax than middle-income Canadians.*
  - *This would raise more than $9 billion a year in extra revenue and $28.4 billion over three years.*

- Reverse Corporate Tax Cuts. *Corporate profits escalated to another record last year: a whopping $262 billion – equal to $17,500 for each and every household in Canada. Profits have grown by over 10% a year for the past 8 years – more than doubling in value. During the same period business investment in machinery and equipment has increased by only 3% a year, productivity has been stagnant and workers wages have only increased by an average of 2.7% a year. Clearly they are not putting much of their profits back to work in Canada – nor are the benefits trickling down.*
  - *Reversing the Harper government's corporate tax cuts would raise $16 billion over the next three years.*

- *Put a Price on Carbon Pollution.* The federal government needs to take serious steps to reduce Canada's greenhouse gas emissions. Putting a price on carbon pollution is one step. Other necessary measures include: progressive tax refunds so lower and middle income Canadians don't suffer, retrofit programs, support for worker transition, green investment fund to help industry retool, and a large-scale green jobs investment program to invest in public transit and make our public infrastructure more efficient and environmentally-friendly.
  - *Extra Revenue:* $7 billion a year from a $30/tonne carbon tax from transportation, heating, residential, commercial and institutional and up to $10 billion a year from a carbon tax or emissions permitting and trading system for large industry emitters.

- *Restore the GST to 6%*. If this was provided as a full transfer to local governments, it could be used to rebuild local and community public services, eliminate the infrastructure deficit, relieve pressure on local property taxes and user fees and reverse the push to privatization.
  - *Extra revenues* for local governments: $18 billion over three years.

Income Security for Seniors: would you like fries with that?

With the exception of extra funds for survivors of veterans, there is nothing new in terms of income support for seniors. There is an extension of the existing Targeted Initiative for Older Workers (TIOW), which provides employment activities for unemployed older workers to help them stay in the workforce.

The main new initiative is an increase in the exemption for employment earnings that lower income seniors can claim from the Guaranteed Income Supplement benefits. This budget increases the exemption from the existing maximum of $2,500 based on 20% of earned income to a full exemption for the first $3,500 of earnings.

This change will help low income seniors who have to work – but it would be better if we had the decency to provide our seniors with enough to live on without forcing them to work past retirement.

The budget also allows those with small holdings of up to $22,450 in their locked-in pension Life Income Funds to convert to tax-deferred savings plans or to withdraw funds in instances of financial hardship.

A Better Choice would have been to improve public retirement benefits through an overall increase to the Guaranteed Income Supplement benefits, which help the poorest. An 8% increase to GIS benefits would cost about $1.8 billion over 3 years.

Labour Markets and Training – Outsourcing the Federal Role?

Outside of extending the older worker program, this budget is pretty much silent about labour market training, having worked to devolve those programs to the provinces.

The federal government appears to increasingly see one of its main roles in the labour market area as expediting the use of temporary foreign workers and the entry of skilled workers for Canadian businesses. Recent changes have massively expanded use of the exploitative temporary foreign worker program without providing protections and support to the workers and created a new Canadian Experience Class for immigration.

This budget provides an extra $22 million over the next two years to expedite the processing of temporary foreign workers and student visas, rising to $37 per year in five years. The budget also proposes to expedite processing of permanent residents by managing future growth in the inventory. This sounds like it will involve tougher restrictions so applications are reduced and geared much more closely to job opportunities.

Once again, the budget provides no money to help temporary foreign workers understand their labour rights – or to monitor and force employers to comply with laws and regulations.

A Better Choice: the federal government should take a leadership role in providing workplace skills and labour force development, including literacy programs. The EI system should also be enhanced to provide training benefits for employed and unemployed workers. A Just Transition strategy would help with retraining and adjustment of workers affected by the transition to a more sustainable economy.

First Nations and Aboriginal Canadians – Relinquishing Federal Responsibilities

Canada's First People – First Nations, Inuit, and other Aboriginal Canadians – have called this budget a "bitter disappointment" – and for good reason.

After years of waiting, and seeing progress through the Kelowna Accord derailed by the Harper government, this budget contained little in the way of new initiatives for First Nations, and relied on re-announced programs and re-profiled spending. Inuit leaders also called attention to the absence of a concrete plan to deal with climate change and to the Budget's "Vision for a New North" that appears to exclude Inuit and other Aboriginal Canadians.

The budget promises $330 million for the next two years for "Strengthening Partnerships with Aboriginal Canadians". This money is to go to a range of different programs for First Nations and Aboriginal Canadians in health care, education, economic development and child and family services, but most of this money seems to be going to integrating these services with provincial and territorial systems. In effect, they are devolving responsibility for these services.

The government also served notice that it will develop a new framework for Aboriginal economic development programs by the end of 2008 that will be "partnership-based and opportunity-driven … to ensure benefit from viable economic opportunities". It will also concurrently develop a successor approach to the Aboriginal Human Resources Development Strategy in 2009, based on a similar approach.

There is $330 million over two years to extend the federal government's Plan of Action for Drinking Water in First Nations Communities (addressed in the Water issue sheet)

However, the federal government has reallocated $390 million from existing aboriginal programs to fund these new areas – so the new money for Aboriginal initiatives amounts to just $270 million.

A Better Choice: the federal government should meet its commitments to First Nations by fully funding Kelowna accord commitments in health care, education, housing and economic development. This would cost $4.2 billion over 3 years.

Suffering Sectors Suffer Some More

Hopes of support for suffering manufacturing and forestry sectors of Canada's economy were raised slightly when the Harper government put $1 billion towards a Community Development Trust in January, despite problems with the per capita formula in that program. But this budget did little to reach those low expectations.

The budget provides $50 million a year for five years to develop innovative, greener and more fuel-efficient vehicles in Canada. This a fraction of the public investments needed. The budget also extended the rapid write-off for manufacturing investments, but only at the full amount for one more year and then at a reduced rate for two more.

The forest sector fared even worse: receiving only $5 million a year for Natural Resources Canada to promote Canada's forest sector overseas "as a model for environmental innovation and sustainability". The new money is all for promotion: there are no new measures to actually help or require the sector become such models of innovation and sustainability.

A Better Choice: the federal government needs to show real leadership to reverse Canada's industrial and economic regression. To do this it needs to foster higher value-added activities through pro-active sector strategies and funding to make our manufacturing and forestry sectors more efficient, environmentally friendly and competitive. Cost $5.2 billion over 3 years.

International Assistance

The 2008 Budget states that Canadians are a compassionate and generous people when it come to international assistance– but then doesn't provide a cent more in funding for the world's poorest. In fact, the budget plans cuts to existing CIDA and IDRC programs to fund previously announced commitments in this area.

A Better Choice: Putting international development assistance on track to reach 0.7% within 10 years could be achieved with $2.5 billion over 3 years.

Defence, Security and Policing

The one area where the federal budget doesn't skimp is in the area of defence and policing.

Harper already announced that defence spending will automatically increase by 2% a year starting in 2011-12, up from 1.5%. This increase in the escalator adds up to an extra $12 billion over 20 years. In addition, this budget provides:

- $43 million more for the Communication Security Establishment to improve its spy technology;
- $29 million for Security and Prosperity Partnership initiatives
- $75 million more for border agents
- $29 million for high security passports, drivers licenses and the NEXUS program
- $26 million for a biometric program to screen foreign nationals – a faulty and troublesome technology
- $15 million for marine security
- $400 million more for a police officers recruitment fund – once again in provincial jurisdiction
- $122 million for jails
- $106 million for drug prosecutions, crime prevention – and an extension of the waiver on firearms renewal fees, and even an extra $100 million for the Afghan police and National Army

Privatization and P3s

The Harper government is ramming through its privatization agenda. The budget announced the recent incorporation of a federal P3 office – PPP Canada Inc. – together with program parameters for the $1.25 billion P3 Fund. There are no details on whether or how this office and fund will be accountable or transparent in its operations. The office was established under the Canada Development and Investment Corporation, which is under the jurisdiction of Finance.

There is an interim board of directors, but officials couldn't inform as to who they are or whether there are any parameters for who will be ultimately appointed, except that they will be political order in council appointments. Staff will not fall under the public services act or be considered direct public servants and so can be provided "more competitive" salaries. The program parameters for the P3 Fund have been defined. They involve investments in the same areas as the Building Canada Fund and include loans and loan guarantees as well as contributions. Loans may not be subject to the same access to information provisions as direct contributions.

The Budget also specifically announced further privatization and divestments of federal public services, including:

- a plan to divest or sell off a large number of the federal government's recreational and fishing harbours to local governments, non-profit groups or First Nations. As these have involved on-going federal subsidies, this measure will put more pressure on the new operators, or else lead to increased user fees and commercialization or privatization.
- A plan to privatize some recreational facilities in National Parks through Parks Canada over the next two years – expected to offload over $9 million.

A Better Choice: the public – and taxpayers – lose out from P3s and privatization of public services. The P3 Agenda, P3 Fund and P3 Office are little more than a mechanism to privatize public services and enable private corporations to make private profits from public assets and revenues. CUPE is campaigning together with other unions to halt the sale of public assets, shut down the federal PPP Office, eliminate the $1.25 Billion P3 Fund, stop forcing other governments to privatize, introduce full disclosure and accountability for government contracts, and to provide adequate funding to support public services. The P3 office should instead be turned into a Public Assets office, which would work with communities to maximize the benefits of public services.

For more information, visit www.cupe.ca/budget
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