



FEDERAL BUDGET 2006 CUPE ANALYSIS

Introduction

The minority Conservative government's first budget is clearly designed to buy a majority in the next election. But Stephen Harper has squandered the opportunity to invest huge economic surpluses into Canada's future. Instead of "standing up for Canada", he has set the stage for the federal government to abandon its role in national programs and setting national standards.

The budget cancels Canada's national early learning and child care funding agreements, slashes funding for environmental and aboriginal programs and provides no increased funding for post-secondary education, cities and communities or health care.

Instead, the budget delivers tax cuts that provide limited, short-term relief. Further, with over \$21 billion in tax cuts in the next two years and more cuts planned, this budget endangers the federal government's fiscal health by cutting deeply into future revenue.

Tax incentives and individual allowances will not create child care spaces, increase public transit use or make sports and recreation more accessible. What the Canadian economy needs is sustained investment in public services, not hasty tax cuts.

What we needed for child care

- For the federal government to honour its commitment to families and to provincial and territorial governments to support early learning and child care and continue to provide funding for a national child care system along with accountability measures.
- Ensure that a new allowance for children is not clawed back from families receiving social assistance.
- Use the Canada child tax benefit as the delivery vehicle for new financial resources directed to families with young children.

What we got

- Cancellation of the child care agreements as of March 31, 2007, and immediate termination of the promised funding for early learning and child care on First Nations reserves and accountability.
- Introduction of a universal child care benefit of \$100 per month per child under six, subject to tax.
- Elimination of the young child supplement of \$249 that was provided mostly to lower-income families under the national child benefit.
- A five-year commitment of \$250 million each year for employers to provide child care spaces through grants and tax incentives for capital investments, but only starting in 2007, after consultations.

What it means

An allowance to parents is not an early learning program for children. The Harper government took \$3.6 billion away from Canadian communities for child care. We needed funding to expand early learning and child care options for families, improve access, particularly for low-income and rural families, and for children with special needs.

Harper's plan to build new child care spaces won't work. Early learning and care programs need operational support, not just funding for capital expenses. This method didn't work when other provinces tried it and it won't work today.

Handing parents \$1,200 per year per child under six will do nothing to build support for early learning and care programs. Tweaking tax measures will not lead to more and better programs for early learning and care for children.

What we needed for cities, communities and infrastructure

- A long-term funding framework developed to ensure that municipal taxation powers match program and service responsibilities and allow municipalities to plan for strong public services and strong communities.
- For the New Deal for Cities and Communities to be upheld, the proportion of the gas tax immediately increased to five cents a litre, and for this arrangement to be made permanent.

- The additional \$400 million per year targeted in Bill C-48, the 2005 budget amendment act, to improve public transit.
- Existing infrastructure programs renewed and agreements revised to remove incentives for privatization.

What we got

- Previously announced gas tax funding of \$7.1 billion over the next four years allocated to the New Deal for Cities and Communities agreements will be delivered. There is no new money that goes directly to city and community coffers, nor any long-term funding arrangements that strengthen their finances so they can plan and invest.
- \$5.5 billion in funding over five years for infrastructure, including \$2.4 billion over five years for a new highway and border infrastructure fund and \$591 million over eight years for Canada's Pacific gateway initiative.
- New funding of \$2 billion over four years for the existing Canada strategic infrastructure fund and \$2.2 billion over five years for the existing municipal rural infrastructure fund.¹
- A new public transit capital trust with a one-time investment of \$900 million – with funds taken from previous commitments under C-48.

What it means

This government is in pre-election mode. Short-term tax cuts put future generations at risk. Immediately increasing the gas transfer tax and making it permanent would have provided municipalities with long-term, predictable funding. When short-term solutions are adopted, it compromises quality and invites privatization through contracting out and public private partnerships. Accessible, quality public services, decent jobs and the environment will suffer.

What we needed for health care

- A federal government that will stand up for public health care, enforce the Canada Health Act, and make sure that federal funds are used exclusively for publicly delivered, timely, universally accessible and not-for-profit health care.

¹ The amounts add up to more than \$5.5 billion because some of the funding commitments are for more than four years.

- Public solutions to the problem of wait times. These include ideas like queue management, centralized wait lists and redeployment and expansion of facilities and human resources.
- A national pharmacare program. The federal government needs to address the problem of skyrocketing drug costs – a major expense in the health care system – by funding the start-up of a public pharmacare program. Our program for a national pharmacare strategy includes a national list of eligible drugs, bulk-purchasing arrangements, patent reforms, reference-based pricing and compulsory licensing.
- Federal funding for hospital infrastructure and technology. It is important that this funding be for public infrastructure, not public private partnerships.

What we got

- No new ideas – or any new funding to provinces – for health care in this budget. The budget was virtually silent on Canada’s most cherished social program.
- The Harper government is calling on the provinces to establish wait time guarantees, even though guarantees do nothing to improve the system or substantially fix wait time problems. And the federal government is offering no new money to help the provinces solve wait time problems.
- No funding for pharmacare or for a hospital infrastructure program.
- \$52 million per year for the next two years to Health Canada and the Public Health Agency for the Canadian Strategy for Cancer Control.

What it means

The Harper government has no vision for maintaining or expanding our public health care system. In fact, they seem committed to devolving health care completely to the provinces.

Wait time guarantees are a Trojan horse for privatization. For-profit providers will be invited to step in to help “solve” the problem. Allowing for-profit care to grow means higher costs, unequal access, and, ironically, longer wait times.

The additional funding for a cancer strategy does not represent a commitment to health care.

What we needed for post-secondary education

- An increase in the transfer for post-secondary education (PSE) to the provinces by \$3.9 billion over the next three years.
- More accessible, affordable, high-quality PSE by developing a separate stand-alone transfer to fund it, and introduction of a Canada Post-Secondary Education Act (modelled on the Canada Health Act).
- Reduction in tuition fees, and increased support to PSE funding over three years, making transfers conditional on provinces freezing tuition fee levels and initiating measures to reduce tuition fees over time.
- Improve accessibility by increasing support for need-based grants.
- Public support for infrastructure so universities can address the crisis in deferred maintenance.
- Substantial additional funding to Canada's three research-granting councils for university-based research.

What we got

- A \$500-million reduction in PSE funding promised by the previous government.
- Textbook tax credits for students – worth a maximum of \$12.50 per month and costing an estimated \$135 million in 2006.
- Full exemption of bursaries and scholarships for income tax purposes – costing an estimated \$50 million in 2006.
- Improvements to Canada student loan programs amounting to \$15 million – but not starting until 2007.

What it means

Prime Minister Harper has talked a lot about being inclusive. But he has all but ignored the provinces' call for substantially increased federal funding for post-secondary education.

Post-secondary education in Canada has been subjected to public funding cuts for the past two decades. This has led to increases in tuition fees and student debt load and has made higher education less accessible.

Income tax measures will mean little to undergraduate students and won't help make post-secondary education possible for more families.

What we needed for training and employment insurance

- Improvements to the EI system by lowering the number of qualifying hours, lengthening the duration of benefits and increasing the amount of benefits.
- Support for the workplace skills development commitments made in last November's economic and fiscal update. In particular, uphold the labour market partnership agreement with Ontario, Saskatchewan and Manitoba signed with the previous government.

What we got

- Maintained promised funding for immigrant settlement and integration for the next two years and funding for a foreign credential recognition agency.
- The \$3.5 billion promised for labour market partnership agreements with the provinces has been put in fiscal limbo.
- Introduction of a new apprenticeship job creation tax credit, with a maximum value of \$2,000 per apprentice. Employers can also apply for an apprenticeship incentive grant of \$1,000 for apprentices enrolled in the Red Seal program (subject to consultation with the provinces).
- A \$500 tax deduction for tools purchased by trades people in excess of \$1,000 per year.

What it means

The Harper government has once again substituted tax incentives and individual credit measures and taken away funding for direct programs. Despite the large federal surpluses and the billions that have been taken out of the EI account, this budget does nothing to improve the system or extend coverage and benefits.

What we needed for the environment

- For climate change and greenhouse gas emissions (GHGs) to be addressed as key priorities. The \$10 billion over five years from the previous budget must be delivered to help meet Kyoto targets.

- A continued commitment of the \$900 million targeted for public transit and energy retrofits in Bill C-48.
- Funding for public sector research and development in green energy production and transmission on a not-for profit basis.
- An update to Canada's national water policy with funding behind it to ensure that national standards for drinking water quality are developed and enforced.
- A national renewable energy expansion program and a phase-out of the \$1.4 billion in public subsidies to the oil and gas industry.

What we got

- Recommitment of \$1.3 billion in support of public transit capital investments. Of this amount, \$400 million will be made available to provinces and territories and \$900 million will go into the public transit capital trust to be allocated on a per capita basis over three years.
- A tax credit for purchase of monthly transit passes effective July 2006.
- Accelerating the capital cost allowance for forestry bio-energy.
- Cancellation of a \$500-million housing retrofit program for low-income households.
- Cancelling climate change initiatives designed to meet Kyoto targets with funds redirected to a "Made in Canada" climate change program currently in development.

What it means

Replacing long-term spending with short-term thinking puts our environment at risk. The authors of the budget admit, "The effectiveness of (the public transit tax credit) will depend on transit authorities to boost ridership through quality service and low fares." Yet the budget provides nothing to encourage this.

Opting out of the Kyoto Accord sends a strong signal. The Harper government is abandoning its role in setting national standards and providing leadership on climate change, threatening human and environmental health.

What we needed on taxes

- A fair tax system that will effectively raise revenues for public services.

- A progressive tax system that will reduce poverty and the tax burden of lower income Canadians.
- Closing tax loopholes to increase revenues raised from corporations and those with higher incomes.

What we got

- Total tax cuts of over \$21 billion over two years, including a 1 per cent cut in the GST, costing over \$5.2 billion per year, providing a tax cut worth an average of \$270 per family.
- An *increase* in the lowest personal income tax rate to 15.5 per cent from 15 per cent and a reduction in the basic personal allowance from what was promised last November, leading to a tax increase of about \$200 per person.
- A new Canada employment tax credit of \$250 in 2006 and \$1,000 in 2007 for work-related employment expenses. Also, a proposal to proceed with the previously announced working income tax credit.
- New tax credits for transit passes, students' textbooks (up to \$65 per month), tool expenses for trades people (up to \$500 per year), children's fitness and organized sports programs (up to \$500 per year), and exemption of scholarship and bursary income from tax.
- Increases in the pension income credit (to \$2,000) and the child disability tax benefit, and increased tax benefits for donations of securities and ecologically sensitive land to public charities.
- Accelerated cuts to the corporate income tax rate and the small business tax rate, elimination of the corporate surtax and the federal capital tax, and reduction cuts to the minimum taxes levied on banks and financial institutions.
- Allowing the \$500,000 capital gains exemption for people employed in fishing and reintroduction of the mineral exploration tax credit for flow-through shares.

What it means

The budget is fast-tracking all the corporate tax cuts proposed by the Liberals and then some, while at the same time reversing \$7.5 billion in program spending commitments made over the past year.

Individuals will pay less in sales and income tax, but those with higher incomes will benefit much more than lower- and middle-income earners.

In keeping with the Conservatives' ideological opposition to public programs, Harper's budget has substituted a wide range of tax cuts and tax credits for effective public programs. The scale of the tax cuts – over \$10 billion a year and growing – will inevitably mean deeper spending cuts in years to come.

Working families would benefit much more from general and minimum wage increases than from these tax cuts. But cuts to public spending will make better wages for public sector workers harder to achieve.

What we needed for women

- An increase to the budget of the women's program of Status of Women Canada to \$100 million annually.
- A transparent and accountable Canada social transfer for social assistance and services.
- Designated funding for social assistance and several other services, including civil legal aid, shelters for battered women and women's centres.
- Honour the arrangements for early learning and child care.
- An increase in payments from the public pension system.

What we got

- \$1-million increase in the main estimates to the grants and contributions.
- Changes to address the fiscal imbalance without any standards to ensure that social programs meet the needs of women.
- Cancellation of the national agreements with the provinces on early learning and child care.
- No increase to benefits under the public pension system.

What it means

Women in particular rely on a strong system of social programs. These programs have been undermined by successive governments in favour of tax cuts.

Women also need affordable, accessible, not-for-profit early learning and child care, strong welfare and income support, legal aid for family law, protection from abuse and violence and many other things. This budget did not address their priorities and needs.

What we needed for Aboriginal Canadians

- At a minimum, the federal government needed to honour the \$5.1 billion commitment made by the federal government to Aboriginal Canadians last November in the Kelowna accord. These funds are urgently needed to improve the housing, water, education, health and economic development conditions in Aboriginal communities.

What we got

- As previously announced, the federal government is setting aside \$2.2 billion, pending final agreement, in compensation for the victims of residential schools.
- The budget allocates funds previously committed under Bill C-48 for affordable housing, with \$300 million going to Aboriginal off-reserve housing and another \$300 million for northern housing.
- There is also another \$150 million in 2006/7 and \$300 million in 2007/8 allocated for education, water and housing, and women, children and families, with details to follow.

What it means

While the Conservative government says it is committed to the targets agreed with national Aboriginal leaders, they are substituting more discussions for the \$5 billion committed in the Kelowna accord. With this budget, a \$25 million on-reserve child care program from the last federal budget was also cancelled.

Other issues

Pensions

The budget includes proposals to:

- Extend solvency funding payments for federally regulated pension plans from five years to 10, subject to buy-in by members and retirees; permit fund sponsors to use letters of credit for the extension of the payment period; and, provisions to consolidate solvency payment schedules.

- Increase the deduction for eligible pension income to \$2,000 from \$1,000 (applying to registered retirement savings plans and employer pension plans, but not to the Canada Pension Plan or the Old Age Security program).
- Apply a portion of unanticipated federal surpluses in excess of \$3 billion to the CPP/QPP funds.

Proposals to extend solvency payments for pension funds from five years to 10 are largely welcomed, although allowing companies to substitute letters of credit for real contributions is a concern. Applying additional funds to the CPP is unnecessary and the money would be better directed to improving pension benefits or other social programs.

Affordable housing and homelessness

- The budget is putting \$800 million into a trust fund for affordable housing, with another \$300 million for off-reserve housing and \$300 million for northern housing, all to be allocated over three years.
- This total of \$1.4 billion in funding for affordable housing is a cut from the \$1.6 billion provided for affordable housing under Bill C-48. The federal government has also signalled that it doesn't think it should maintain funding programs in areas such as housing and homelessness in the future.

International development assistance

- The budget has promised up to \$320 million in further funding for international development aid, contingent on the 2005/6 surplus being greater than \$2 billion. Most of these funds are to go to global initiatives to fight AIDS, tuberculosis, malaria and polio.

These funds are taken from (and are lower than) the \$500 million included in last year's Liberal-NDP budget agreement. It is also less than the \$425 million pledged by the Conservatives during the election campaign. The budget also lacked a timetable to meet the Conservatives' own promises for aid spending increases.

The aid spending was dwarfed by the \$5.3 billion increase to military spending provided in the budget. It also falls far short of the target of 0.07 per cent of gross domestic product for development assistance that CUPE has supported.

What can you do?

We need to continue to push the federal government to provide ongoing funding of at least \$1.2 billion per year for a national child care and early learning program. Support our partners at the Child Care Advocacy Association of Canada, sign the open letter and keep updated at www.buildchildcare.ca.

Stand up for public health care. Join your provincial health care coalition. Go to www.healthcoalition.ca for contact information and for ways to get involved.

Contact your local member of Parliament. Tell them that tax cuts are no substitute for social programs and tell them what you don't like about the budget.

Participate in the CUPE gathering on post-secondary education October 12-14, 2006. Locals should watch for an invitation to this meeting and plan to send delegates.

Work with our coalition partners, the Canadian Federation of Students, on their campaign to make post-secondary education truly accessible (www.cfs-fcee.ca).