



## BUDGET 2007 CUPE SUMMARY

Harper's second budget is clearly targeted as an election-ready budget aimed at strengthening their foothold in the middle: middle-income, middle of the country, and middle of the political spectrum.

But underneath the pretty packaging, the budget reinforces the Conservatives stealth agenda to weaken national social programs and diminish the role of public services in Canada. This approach aims to turn the federal government into little more than a tax collection and cheque-clearing agency for anything outside what they see as area of "core federal responsibility".

Even the federal government acknowledges that Canada is one, if not the most, decentralized country in the world. National governments in virtually all other countries in the world have much stronger general spending powers than our federal government does<sup>1</sup>.

Canada's federation has been able to evolve and modernize because the federal government has taken a leadership role in many areas in cooperation with the provinces – and has often changed our constitution to do so. If the federal government had not taken this leadership role in the past, Canadians would not have national Employment Insurance, Medicare, or Old Age Security and Pension programs.

These are three of the four cornerstones of individual economic security in Canada. The other cornerstone of individual income security – social assistance for individuals – remains a provincial matter and is widely acknowledged to have crumbled into poverty as result of federal cuts in transfers to the provinces, an absence of national standards, and provincial neglect.

CUPE welcomes the increased transfers to provinces for equalization, post-secondary education and social programs. But the funding is not nearly enough to bring us back to federal commitments from 15 years ago when adjusted for population and inflation. The increased funding comes with no conditions or strings attached. There are no guarantees that the funding will be used to improve education or social programs instead of provincial tax cuts or other purposes.

Harper's government uses the excuse of constitutional fundamentalism to focus federal spending on their areas of interest, which doesn't include improving national social programs. While Aboriginal Canadians are indisputably an area of core federal responsibility, this budget includes essentially nothing for them. But his government doesn't hesitate to intrude in areas of provincial jurisdiction to help business, restrict labour standards or to promote privatization of public services.

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<sup>1</sup> For more detail and references, see CUPE, September 2006: *Standing Up for Canadians: Restoring Fiscal Balance in Canada*. <http://www.cupe.ca/economics/fiscalbalance>

2007

# FEDERAL BUDGET



## *Fiscal fixer-upper abandons federal leadership....*

Budget 2007 provides increased transfers to provinces and territories of:

- An extra \$1 billion under the equalization program
- An additional \$800 million to provinces for post-secondary education, starting in 2008-9
- \$250 million for a child care spaces program, but not until 2008-9
- An extra \$687 million for the Canada Social Transfer in 2007-8, all of which goes to Ontario and Alberta.

However, none of this funding is conditional on any requirements that the funding actually goes to social programs, education, or public spending programs at all, even though this is what a majority of Canadians want as recent polls show. Only the Canada Health Transfer has conditions attached to it, and these are rarely enforced. There are vague promises of discussions to ensure reporting and accountability to Canadians for the funding, but it is highly unlikely that this will amount to any national standards or commitments.

The new equalization formula was pitched as the final word on this issue, but it still leaves many problems and inequities between provinces. In addition, the new formula for calculating provincial revenues excludes user fees, which will likely encourage provinces to increase these regressive forms of revenues.

## *Harper Math: Cuts to Funding = Stronger Social Programs...*

What's more, the additional funding for many of the transfers is actually a cut compared to what the federal government used to provide to provinces for these programs.

## *Education Transfers don't pass the grade*

Federal cash transfers to provinces for post-secondary education should be at least \$4.25 billion this year to restore funding to 1992/3 levels in real per person terms. Instead, federal transfers for education were only increased to a total of \$3.2 billion, and the extra \$800 million doesn't even kick in until 2008-09. This is \$1 billion less than provinces received in real dollars per person in 1992/93

## *More bulk delivery of "child care" services through the mailbox*

The Conservatives are providing \$250 million to provinces to support the creation of child care spaces, but this is a cut from the \$1.2 billion that was promised in 2005 for a national early learning and child care program.

Once again the big money for "child care" is in tax cuts because in the Conservative view, the best federal social program is always tax cut. There's a new non-refundable child tax benefit worth \$310 per child that is only available to those making about \$30,000 or more. This will cost about \$1.5 billion a year on top of the \$2.6 billion for the "Universal Child Care Benefit".

The Harper government is now spending more in tax cuts for "child care" than it would have cost to build a real national child care program for 3-5 year olds by this stage – and they still haven't created a single child care space.

### *Federal transfers for Social Programs: the poor cousin, and neighbour...*

Federal funding for the Canada Social Transfer will increase by \$687 million in 2007-8 as part of the move to equal per capita cash transfers. \$511 million of this is to be notionally allocated to social programs and \$176 million to post-secondary education. All this extra funding and more goes just to Ontario and Alberta. Saskatchewan, B.C. Yukon and Nunavut will lose out under the new formula, but in the short term their funding is maintained with a temporary floor payment.

The budget emphasizes “Renewing and Strengthening the Canada Social Transfer”, but is committing to increase funding by only 3% a year, which is far below the need. This is lower than the 3.3% growth that the federal government had previously planned to increase the CST to 2010-11. It is lower than the 4.5% increase recommended by the Council of Federations Advisory Panel and lower than the 6% increase for the Canada Health Transfer.

If federal transfers for *social programs* to provinces had increased at just the rate of population and inflation growth since 1992/93, they would have totaled \$10 billion in 2006/7 and \$10.6 billion in 2008/9. Instead, they will only amount to \$6.2 billion in 2008/9 – less than 60% of what they should be.

With the Canadian economy slowing down and housing costs escalating, pressure on social programs is bound to increase at more than 3%. Is it any wonder that the gap between the rich and poor in Canada is worse than it has been in over 30 years and that 1.2 million children still live in poverty?

The budget again emphasizes that the Harper Conservatives will limit the federal spending power to restrict the introduction of new national cost-shared programs and allow any province to opt out with compensation.

### *Health Care on Hold?*

The 2007 Budget provides only a scattering of new dollars for health care, and virtually all of it (over 96%) is just for one time funding, including \$400 million for the Canada Health Infoway, up to \$612 million to get provinces to commit to wait time guarantees and \$30 million for wait times guarantee pilot projects. There is also \$300 million for immunization against the Human Papilloma Virus (HPV), \$22 million for the Canadian Institute for Health Information and sustained funding for a new Canadian Mental Health Commission.

The new money for health is welcomed, but not if the wait times guarantee or health information spending is used as a ruse for privatization. The new funding has no ties to the non-profit delivery. The Harper government still has not responded to the sensible recommendations in the June 2006 final report of the Federal Advisor on Wait Times.

There is no new funding in the budget to strengthen public medicare through:

- a national pharmacare program to provide medically essential drugs to all Canadians
- a national home and community care program
- increased funding for health care infrastructure, including hospital, health care facilities and medical equipment
- a national strategy to combat health care acquired infections, with attention to staffing levels, occupancy rates and contracting-out.
- better training and workplace conditions for health care workers

### ***Labour Market Training being devolved?***

The Harper government is also planning to shift responsibility for most of its labour market training programs to the provinces. This budget proposes to transfer responsibility for \$500 million in federal labour market programs for youth, older workers, and persons with disabilities to the provinces and territories as part of their "New Labour Market Training Architecture."

In addition, the budget proposes to provide an extra \$500 million to the provinces starting in 2008-09 for new labour market training programs for those who can't access training under the EI program and to encourage employers to provide training for workers.

This funding will be provided on a per capita to provinces, instead of being based on regional or national needs. While local identification of needs and delivery is important, abandonment of a federal role makes little sense when Canada's labour market needs are increasingly national instead of local in scope.

There is some additional funding for an Aboriginal Skills and Employment Partnership, but all the funding is directed at large private companies in the oil and gas, forestry and mining industries.

In terms of labour market policy, the Conservative government is putting more emphasis on its business-friendly approach of expanding the temporary foreign guest worker program with an extra \$51 million.

It is also strongly promoting the Trade, Investment and Labour Mobility Agreement (TILMA). This will severely restrict the ability of local and provincial governments to improve health, safety, social, environmental and economic development standards.

### ***Budget ignoring pressing needs of communities and local governments***

While this budget provides billions more in unconditional transfers to provinces (which are all expected to register surpluses this year) to "fix the fiscal balance", it has ignored the dire fiscal circumstances of municipalities.

Local governments have suffered the most from a real fiscal imbalance, with proportionately about about \$5 billion less in transfers compared to a decade ago. This will mean more pressure on regressive property taxes and user fees for local residents and continued cuts to municipal services.

The Harper budget doesn't increase by a cent the annual federal transfers for municipalities and only extends the already committed gas tax funding for another four years. This means that the real value of federal transfers to municipalities will shrink and shrink over time. There is no plan to reduce the municipal infrastructure deficit, to develop a national public transit plan, or to help with immigrant settlement and training.

Not only will municipalities receive less funding from the federal government every year in real dollars, but they will now be forced to spend more to get federal funding as part of Harper's highly misguided public-private partnership program.

### *P3 Bribery for Infrastructure*

Municipalities and provinces will be forced to show that they have fully considered public-private partnerships as a condition of receiving any funding from the new “Building Canada” fund and from the gateways and border infrastructure fund, which amount to \$11 billion over 7 years. The Building Canada Fund doesn’t include any additional funding, but is just a repackaging of currently planned infrastructure funding.

The only real increase in direct funding for infrastructure is an extra \$325 million per year to be divided equally between each province and territories, or \$25 million each. For Ontario, this adds up to less than \$2 for each resident.

Provinces and municipalities aren’t getting much more in funding, but their costs will increase because they will have to, at the very least, undertake detailed analysis even where they know that public delivery is more cost efficient and accountable.

As if this isn’t enough, the Harper conservatives are creating a new Fund for P3 (Public-Private Partnership) projects with over \$1.25 billion during the next seven years to essentially bribe governments to start “innovative public private projects” by providing 25 per cent of their cost to be awarded on a merit basis (p. 166).

This funding is a perverse acknowledgement that P3 projects clearly can’t stand on their own merit.

The federal government is stooping so low to support their business friends that they are planning to spend over \$1.25 billion of the public’s money to bribe local and provincial governments to privatize public services.

### *Primary Education*

School boards across Canada are facing increasing budget pressures, particularly in Ontario, where they are dependent on local property taxes for their revenues.

CUPE has repeatedly urged the federal government to provide a full 100% rebate of the GST to school boards, just as the federal government provides to municipalities, but this wasn’t included in the budget.

### *Environment*

The relative lack of attention in this budget to the environment and climate change, one of the top concerns of Canadians, is a concern. The Conservatives are probably planning to roll out more with their Green Plan.

But real progress on climate change will require the federal government to put a price on pollution through carbon taxes or emission charges, which should be in a budget.

The new initiatives include:

- a tax on gas guzzlers and rebate for energy efficient vehicles, but these affect only 10% of all cars
- a program to get older high-emitting vehicles off the road
- tax incentives for ethanol and biodiesel
- accelerated depreciation for clean energy generation
- extra funding for Sustainable Development Technology Canada
- additional funding for a range of smaller conservation measures, with most going to the Nature Conservancy of Canada

There is no new money for public transit, energy and building retrofits, a green jobs strategy or the wide range of other investments that are needed to put Canada’s economy on the path to a greener, more sustainable, more competitive and efficient future.

### *National Water Strategy*

The 2007 Budget includes a commitment to develop a National Water Strategy. This is something that CUPE has long pushed for in order to clean and protect our precious lakes, rivers, oceans, water ecosystems and to improve and protect water quality.

This is a positive move, although the funding – \$93 million over two years – is little more than a drop in the proverbial bucket.

### *Another Trail of Tears: Aboriginal Canadians excluded again*

Even though the Canadian Constitution clearly states that First Nations and Aboriginal Canadians are a core federal responsibility, unfortunately they don't fit into the really important core area: Harper's target group of family-friendly suburban voters.

There is little to no money in this budget to honour the federal government's responsibilities and commitments to First Nations, to reduce poverty in Aboriginal communities, and to provide young aboriginal Canadians with the same opportunities and hope as other Canadians.

The only program of any significance for Aboriginal Canadians in this budget is \$300 million to develop a private housing market in First Nations communities. This may be much more of a benefit for the financial industry than it is for First Nations. According to the patronizing Conservatives, reserves suffer not enough private property ownership and "personal accountability", suggesting that this is at the base of their problems. Perhaps if there is more private property, more Aboriginal Canadians will become private property owners and fit into the core group that really matters: potential Conservative voters.

Instead of improving the conditions for First Nations communities and Aboriginal Canadians, the Conservatives clearly want to instigate another silent, but more deadly Trail of Tears: an exodus from their communities and culture to escape poverty, lack of opportunity, and no hope for the future.

### *Social Housing Sold Out*

Outside of the program to own private property on First Nations reserves, there is nothing in the budget directed to homelessness and affordable housing. There are no new funds to repair or replace

housing on reserves, there is no new funding to reduce homelessness, or to increase the supply of affordable homes.

Amazingly, despite widespread concern over the cost of housing, climate change and energy efficiency, there is nothing new in this budget to promote energy retrofits of homes and buildings. Harper and Flaherty clearly see housing as a federal responsibility and they have even suggested that they might privatize the profitable Canada Housing and Mortgage Corporation. This would mean a loss of \$1 billion a year in revenue for the federal government and even less support for social and affordable housing from the federal government.

### *Canada's Commitment to the World's Poorest is Withering*

Federal budget 2007 promises increased support for international assistance to help the world's poorest. The only new money in this budget for international assistance is \$200 million for development assistance in Afghanistan and a previously announced \$115 million contribution with the Gates Foundation to develop a pneumococcal vaccine. Private corporations also benefit from enhanced tax incentives to donate medicine.

In reality, Canada's development assistance is slipping further and further away from our commitment of 0.7% of our national income. It will drop from 0.34% in 2006/7 to 0.31% in 2007/8, less than half of what many other wealthy countries are providing.

### *The Myth of the Big Spender*

Business lobby groups have criticized this budget for increasing public spending, but in reality, while there are a lot of new promises, federal program spending is slated to fall from 13.7% of GDP in 2004-5 to 13.2% of GDP in 2008-9. This is much lower than for any year from 1961 to 1995.

While there are promises of increased social and program spending, the actual results speak for themselves. Behind the scenes, federal support is being severely restricted: in 2006/7 direct program spending was 3%

lower (\$2.7 billion) than what they promised just last fall.

Despite the promises of more funding for different programs, tight spending controls and the highly bureaucratic *Federal Accountability Act* will lead to billions more in these type of “savings” in future years.

Of the total new initiatives, this new budget includes an extra \$6.4 billion in tax cuts for the next two years, \$5.1 billion in additional transfers, and only \$3.2 billion in new spending on federal programs. Much of the new federal spending is in one-year temporary spending for farmers, developing vaccines, defence spending and for the commercialization of research.

### Tax Breaks

Budget 2007 reinforces the Conservative approach that the best social program is a tax cut:

- Instead of a national child care program, the budget provides a \$2,000 child tax credit, which sounds impressive, but amounts to less than \$1 a day per child for those who qualify (generally families with an income of at least \$30,000). It also provides a 25% tax credit for businesses (but not for non-profits) to create child care spaces for their employees and others, but no guarantee that federal funding to provinces will create child care spaces.
- Instead of ensuring that the cost of post-secondary education and tuition remains affordable, the Conservatives have put more money into the inequitable RESP program. Less than 20% of low income households have any money in RESPs, while over 60% of higher income households have RESPs.
- The new Working Income Tax Benefit provides a refundable tax credit with a maximum of \$500 per adult for low income workers. This is a positive measure, although it is

only half the amount proposed when this program was first promised in 2005. Instead of focusing on subsidizing low wage employers, Harper should have demonstrated national leadership by re-introducing a national minimum wage at \$10 an hour, which would have eliminated poverty-level wages for about 2 million Canadians.

- Instead of providing increased funding for a national disability supports program that would be available to all, this budget introduces a registered disability savings plan that only families with enough income will be able to use. The budget further individualizes assistance for disabilities with the new Canada Disability Savings Grants and Canada Disability Savings Bonds (which will be available to lower income families). This is in direct opposition to what disability advocates and advisors have directly told the federal Finance Minister: “priority should be given to expenditure rather than tax measures to target new funding where the need is the greatest”<sup>2</sup>
- Instead of increasing the value of public pensions for all seniors, the Conservatives are extending age limits for making RRSP deductions, which will benefit only those who can afford them. Last October, they provided \$1 billion a year in tax cuts for seniors by increasing the age deduction and allowing pension income splitting. Most of these benefits will go to those with higher incomes, with nothing going to the poorest seniors.
- Budget 2007 restores funding to some arts and culture programs, but there is a much stronger emphasis on leaving support for arts and culture to the private sector: tax

<sup>2</sup> Recommendation 5.1 of *Disability Tax Fairness: Report of the Technical Advisory Committee on Tax measures for Persons with Disabilities*, p. 113, December 2004.

<http://www.disabilitytax.ca/English.pdf>

breaks for charitable contributions to private foundations amount to \$150 million over two years, as much as the increase in direct support.

- This budget restores some of the funding cut from women's programs just last fall, but puts more than \$250 million a year into increasing the spousal tax credit – a benefit that will only go to one-earner families making over \$30,000 or more. The budget does very little for women, with no real child program and its emphasis on tax breaks that will benefit so-called “traditional families” with a stay at home spouse. While funding has been restored to Status of Women Canada, the Harper government continues to ban funding for advocacy and most forms of research. Uppity women need not apply.
- The 2007 Budget extends the public transit tax credit, but doesn't provide any direct additional funding for public transit – nor does it move forward with a national public transit plan, which municipalities have repeatedly called for.
- This budget proposes to eliminate the wasteful \$1 billion plus tax subsidy that companies in the oil sands benefit from, but it won't be completely phased out until 2015.
- The budget provides temporary tax benefits for the manufacturing sector, in the form of faster write-offs for investments in machinery and equipment and allowing more rapid

depreciation for tax purposes. But there is nothing in terms of targeted public investments for this sector and the new tax incentive only lasts for less than two years. This means that this new incentive will end long before the tax subsidies for oil sands investment are phased out.

- Although the budget didn't include a broad-based capital gains tax cut, which would have massively benefited the rich, it did include tax breaks to individuals and corporations for a wide range of other areas:
  - up to 80% tax write-off of meal expenses for long-haul truckers;
  - tax exemptions for 2010 Olympic athletes;
  - extension of mineral exploration tax credits;
  - GST rebates to visitors on tour packages or for foreign conventions;
  - cuts to corporate taxes for foreign investment;
  - lower taxes for companies that own stock market exchanges.

Finance Minister Flaherty Budget Speech spouted grand rhetoric about Canada standing as a “shining beacon” for the rest of the world. But this budget illustrates the shallow poverty of the Conservative government's vision for Canada.

This is a government that is abandoning the leadership necessary to improve and strengthen national social programs and improve the quality of life for hard-working Canadian families.

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