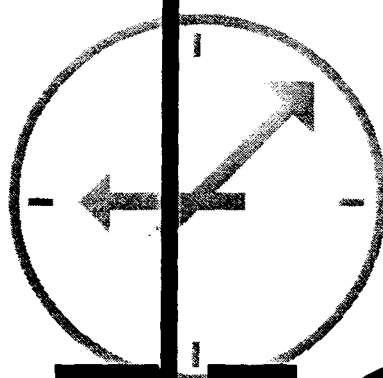
The time is NOW



Nancy

Alternative Federal Budget 1998

Canadian Centre for Policy Alternatives & Cho!ces: A coalition for social justice

CAW 567

THE TIME IS NOW:
THE 1998 ALTERNATIVE FEDERAL BUDGET

INTRODUCTION AND OVERVIEW

This year marks the 50th anniversary of the Universal Declaration of Human Rights, which outlines the fundamental social and economic rights that should be guaranteed for all people. Unfortunately, for several years public policy in Canada has undermined the realization of these rights for a growing number of Canadians.

The federal budget shapes the social and economic realities of our lives. It represents the government's basic values and priorities, and reflects political choices. For a single mother earning low wages with two children to support, or for an executive or professional with money to invest in the stock market, the budget's choices mean very different things.

For several years, each federal budget has brought more bad news for most Canadians. The government has protected the wealthy by pursuing low-inflation at any economic cost–throwing hundreds of thousands of Canadians out of work in the process. It has increased the misery and desperation of the unemployed by cutting UI benefits and income support programs.

In its lopsided battle on the deficit, the government has slashed funding for health, education, and other services that Canadians value and are prepared to support. It refuses to impose a fair share of the burden of deficit-reduction on those most able to pay–wealthy individuals and the increasingly profitable business community.

These choices dramatically reveal that **the values and priorities of this federal government are fundamentally one-sided.**

Since the first Alternative Federal Budget was released in 1995–the same year that Finance Minister Paul Martin began his "hell-or-high-water" war on the deficit–the federal government has cut annual program spending by $15 billion. Together with rising revenues and additional savings on government interest payments, this has allowed the federal government to eliminate the deficit faster than even the most optimistic observer could have predicted in 1995. **So where do we go from here, now that the magical "fiscal dividend" is about to arrive?**

Sadly, this year's federal budget promises little different from the ruling Liberals. Incredibly, program spending is scheduled to *be* ***cut*** by another $2.5 billion–with still more money taken away from social programs and other basic services. "New" federal initiatives are typically funded by cutting another needed program somewhere else. The result will be more pressure on the provinces to cut their own budgets, more public sector jobs lost, deepening poverty, and rising income inequality.

The Time is Now

Our lopsided, shaky, private-dominated economy is leaving millions of Canadians out in the cold. **The time is now** for government to correct the imbalance. The deficit was a phony but powerful excuse for government inaction. Now that the deficit is history, there are no excuses left. Governments must act, and act quickly. **The time is now** for the federal government to lead the way. The **Alternative Federal Budget** shows how this can be done in a fiscally responsible manner.

The time is now to:

- **sustain economic growth** at its recent pace (4% per year after inflation) for at least another four years, through low interest rates and injections of federal program spending;
- **rebuild federal program spending** in the first year of our budget to its pre-cutback level, and increase spending by another $8 billion in the second year;
- **maintain a balanced budget** in fiscal 1998, and target a small nominal surplus (of $1 billion) in subsequent years;
- **freeze aggregate federal taxes** at their 1996-97 level in fiscal 1999 and beyond, while taking significant measures to improve the fairness of the tax system;
- **reduce the federal debt burden** (measured as a share of GDP) below 60% (the European Community's Maastricht criteria) by the turn of the century, and below 50% by fiscal 2002;
- **reduce the official unemployment rate** to 5% or lower by the end of fiscal year 2001; and
- **reduce the poverty rate** by at least six points over the next four years.

Highlights of our fiscal and economic projections are provided in Table 1. A detailed breakdown of program spending initiatives is provided in Table 4.

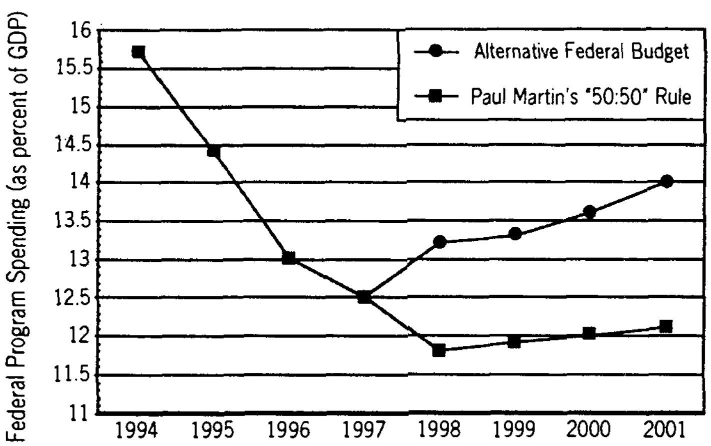
The 1998 Alternative Federal Budget is a blueprint for how the federal government can create the kind of country Canadians want. **The time is now** for a federal budget with a renewed vision and sense of purpose. **The time is now** for a federal budget that provides Canadians with the opportunity and well-being that we deserve—and can clearly afford.

Our Goals, and How we Get There

The 1998 Alternative Federal Budget is designed as an **integrated program for economic and social change**. By keeping interest rates low, we stimulate the economy and reduce debt-servicing costs, both of which free up resources for federal programs. Higher federal spending puts hundreds of thousands of Canadians back to work. Newly-employed Canadians will pay taxes instead of needing income support. Lower unemployment further reduces poverty. And fair taxation measures reduce income inequality.

We aim to direct and channel economic growth so that it is based less on the exploitation of our human and natural resources. Job-creation emphasizes "green" growth– environmentally sustainable work such as housing retrofits, park construction, and toxic clean-ups–and work that fulfills social needs (such as health care, child care, education and culture).

Program Spending: Paul Martin vs. Alternative Federal Budget



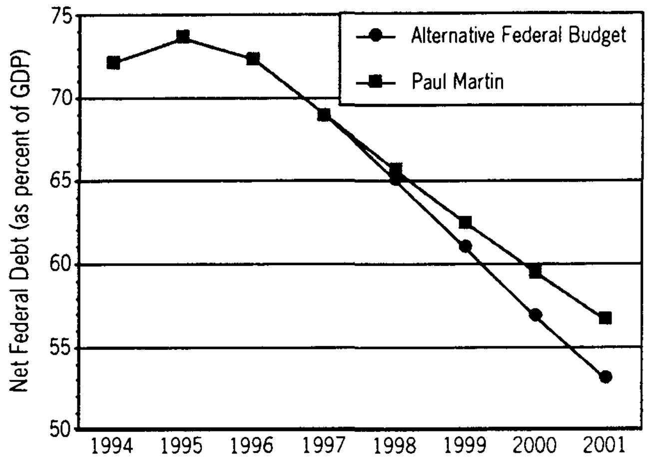
Special effort is made to direct government spending toward improving equity for the disabled, Aboriginal peoples, visible minorities, and youth. Our budget is meant to benefit women on an equal basis with men, and values both the paid and unpaid work that women contribute to Canadian society.

The Alternative Federal Budget describes an ambitious plan for rebuilding financial support for important social and public programs. Under our strategy, federal program spending (measured as a share of our GDP) would gradually recover about one-half of the ground that has been lost since 1994 **(see figure)**. In contrast, the Liberal government's "50:50" strategy for spending the fiscal dividend would lock in place the current atrophied state of federal programs.

Yet the Alternative Federal Budget is financially responsible. **We are committed to maintaining a balanced budget or small surplus** throughout our forecast period (barring a recession, in which case it is prudent for the federal government to tolerate temporary cyclical deficits).

And, by the most crucial indicator of fiscal stability–reduction of the government's debt burden–our emphasis on job-creation and social reinvestment pays off handsomely. Indeed, **the Alternative Federal Budget attains a *faster* pace of debt reduction than is expected under a "status-quo" Liberal strategy**, even one that allows for significant annual debt repayment **(see figure)**. Thanks to stronger economic growth, we are able to reduce the debt burden by 1.5 percentage points more than Paul

Reducing the Debt Burden: Paul Martin vs. Alternative Federal Budget



Martin over just the first two years of the Alternative Federal Budget.

In short, we show that our finances can be managed responsibly, without sacrificing social and economic equality and opportunity. The **Alternative Federal Budget** works towards: full employment; a more equitable distribution of income; the eradication of poverty; economic equality between men and women; the protection of civil, political, economic, social and cultural rights; protection of the environment; and strengthening social programs and public services.

These are the choices reflected in our budget—very different choices, indeed, from those of the Liberals.

This document encompasses the views of hundreds of participants in dozens of workshops, conferences, and priority-setting meetings across the country. It is supported by over 50 national social, community, and labour organizations—and by thousands more Canadians working at the grass-roots level to preserve, improve and reweave our social safety net. It is a budget that provides a blueprint for a more humane, more liveable Canada. **The time is now** to enact it.

Table 1: Alternative Federal Budget, Financial Projections ($ billions)

Fiscal Years	1997(fcst.)	1998	1999	2000	2001	2002
Budget Components:						
Revenue	148.2	160.2	167.3	179.0	191.6	205.0
Program Spending	105.8	118.7	127.1	139.7	153.1	167.4
Debt Service Charges	43.8	41.5	39.2	38.4	37.5	36.6
Total Spending	149.6	160.2	166.3	178.0	190.6	204.0
Surplus (Deficit)	(1.4)	0.0	1.0	1.0	1.0	1.0
Net Debt	585	585	584	583	582	581
GDP	849	900	958	1025	1097	1174
As Percent of GDP:						
Revenue	17.5%	17.8%	17.5%	17.5%	17.5%	17.5%
Program Spending	12.5%	13.2%	13.3%	13.6%	14.0%	14.3%
Debt Service Charges	5.2%	4.6%	4.1%	3.7%	3.4%	3.1%
Surplus (Deficit)	(0.1%)	0.0%	0.1%	0.1%	0.1%	0.1%
Net Debt	68.9%	65.0%	60.9%	56.8%	53.0%	49.5%
Annual Percent Change:						
Revenue	+5.2%	+8.0%	+4.4%	+7.0%	+7.0%	+7.0%
Program Spending	+1.0%	+12.2%	+7.1%	+9.9%	+9.6%	+9.3%

Ottawa, Quebec and the Provinces

The Alternative Federal Budget continues to subscribe to the historic view of progressive English Canada that the federal government should play a leading role in economic, social and cultural policy, in developing national cultural institutions, enforcing national standards for social programs, and building a strong national economy. However, such **a strong federal role should not infringe on the expression of Quebecers' national identity and social rights**. The key issue for English Canadians should not be the accommodation of Quebec's uniqueness, but the way that uniqueness is accommodated.

Until there is a resolution of the Quebec-Canada relationship, **the AFB's approach to federal-provincial fiscal relations recognizes the need for special arrangements with Quebec which may not be open to the other provinces**. We recognize that Quebec has primacy in its jurisdiction over social policy and the right to opt out of joint federal-provincial programs in this area; and, for the rest of Canada, we recognize joint federal-provincial responsibility, with a federal leadership role in funding social programs, as well as in setting and enforcing national standards. Common standards throughout the whole country, including Quebec, could be achieved through the negotiation of a social charter.

MACROECONOMIC AND FISCAL CONTEXT

Current Economic Environment

The state of Canada's overall economy has a crucial impact on the state of federal finances. **Relatively strong economic growth over the past year has greatly improved the government's fiscal position.** Thanks especially to lower interest rates, Canada's economy grew by close to 4% (after inflation) in 1997, creating almost 400,000 new jobs, and pushing the unemployment rate below 9% by the end of the year for the first time in over seven years.

This recent economic growth and job creation is obviously a welcome relief from the Depression-like circumstances of earlier in the 1990s. However, the economy still has a long way to go just to make up for ground lost during the years of recession and stagnation. Real living standards are lower for most Canadians than they were a decade ago, and millions of citizens remain unemployed, underemployed, and underpaid. A shocking 1.5 million *more* Canadians have fallen into poverty since 1989.

Worse yet, by accident or by design, **the continued strength of this badly-needed economic recovery is now very much in doubt**. And if the recovery evaporates, so too will the much-anticipated federal "fiscal dividend." Instead of debating how this dividend should be "spent," Canadians may be left scratching their heads about how the promise of better economic times managed once again to slip through their fingers.

Two factors in particular now threaten future economic growth and continued improvement in government finances:

First, the financial powers-that-be in Canada continue to express a near-hysterical fear of inflation–and continue to demand restrictive policies that will keep inflation as close to zero as possible, regardless of the consequences for the rest of the economy. These powerful vested interests (the banks, bond-holders, and other financial investors) successfully pressured the Bank of Canada to increase interest rates in 1997, despite ultra-low inflation and stubbornly high unemployment.

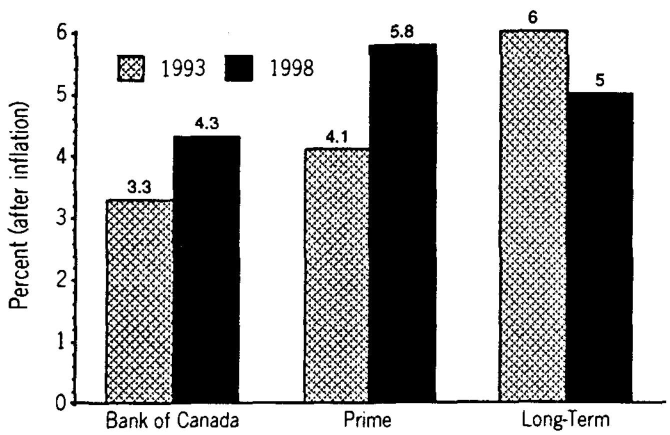
What was long-delayed good news for most Canadians–stronger growth and job-creation–set the alarm bells ringing in the corridors of Bay Street. The financiers demanded that the economy be deliberately slowed down, to ensure that unemployment didn't fall too low or Canadians' expectations rise too high.

Second, to make matters worse, Canada was caught in the crossfire of the **Asian financial meltdown**. This crisis is just the latest in a whole string of needless human catastrophes wrought by the power of unregulated global finance. **Asian workers are bearing the brunt of this crisis:** massive spending cutbacks by businesses and governments, layoffs, poverty, and deflation. But Canadians are at risk, too: our currency is falling as financiers rush to convert their assets into safe U.S. dollars, the Bank of Canada is increasing interest rates even higher, Canadian exporters warn of collapsing sales to Asia, and the confidence of average consumers is being rattled yet again.

In the wake of rising interest rates and the Asian crisis, mainstream economists have scaled back their forecasts of economic growth in Canada next year–from 4% initially to 3% or lower. If the Asian turbulence gets any worse, Canada's economy could be hit even harder. **Each point of slower growth removes at least $1.5 billion from the federal government's expected surplus; each point of higher interest rates does the same.** If the slowdown tips over into a recession, then the much-vaunted surplus is likely to disappear altogether.

We draw one obvious conclusion from the financial instability of recent months: contrary to the claims of financiers and budget-cutters, simply eliminating the deficit and reducing the debt burden are not going to solve Canada's financial problems. The high interest rates and financial instability we suffered before 1995 were not the result of deficits: they were the result of a deregulated, self-interested financial system run amok. Even though the deficit is now history and Canada is a "Nirvana" for bond-traders, **we will continue to be subject to the same financial pressures so long as we allow private financial markets to exercise such unrestrained and unaccountable economic power.**

Interest Rates: With and Without Deficits



Incredibly, most Canadian **interest rates are actually significantly higher now** (after inflation) than they were in 1993—which was, supposedly, when financial markets were so "spooked" by our debts and deficits that they "dictated" the huge cutbacks we have endured since then **(see figure)**. For example, the prime rate paid by the best private customers of chartered banks is almost two points higher, relative to inflation, than in 1993. The "tough medicine" of fiscal restraint has not brought us relief from the financial markets.

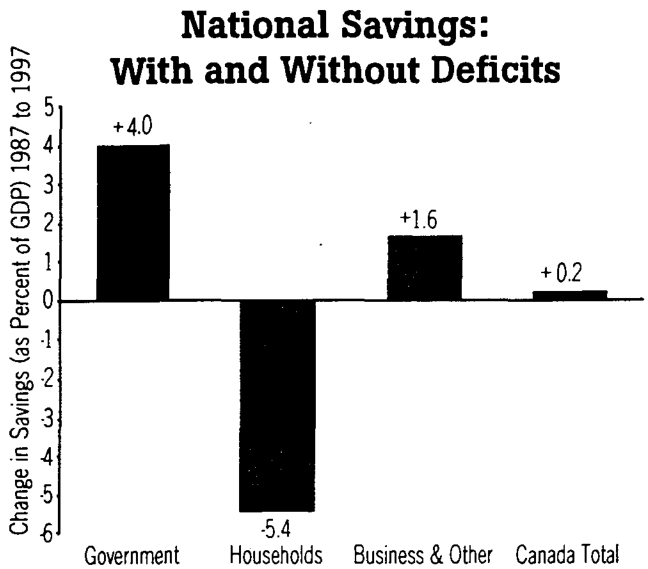
If we truly want low interest rates and financial stability, we will have to do much more than simply downsize government and then hope for the goodwill of the financiers. Rather, we must **reimpose some rational oversight on the financial sector**: maintain interest rates that make sense to Canada's real economy (rather than just the bond-holders), begin to regulate global financial flows, and make job-creation and real production the top priorities of our economic policies.

Our Macroeconomic Strategy

The response of the **Alternative Federal Budget** to the deceleration and instability that erupted at the beginning of 1998 is clear and decisive. **We will not allow this long-delayed recovery to be derailed, by accident or design, by the selfish actions of financial investors and speculators.** We reject the incredible argument that recent growth in Canada has been "too fast" or threatens our monetary stability. We commit ourselves to keeping interest rates at low, stimulative levels until the economy approaches genuine fully-employed capacity limits. And we will supplement that monetary stimulus with major inputs of new public spending power—creating jobs, restoring the economic confidence of average households, and reducing our vulnerability to the whims of private investors.

We will instruct the Bank of Canada to restore monetary conditions to roughly the same levels that prevailed in mid-1997. Depending on the value of Canada's dollar, this implies short-term interest rates of about 3.5%. (If the dollar remains low, thus stimulating Canada's exports, then interest rates do not need to fall as far.) Thanks to sustained low interest rates and a recovery in federal program spending, we thus expect to be able to **maintain real economic growth at its 1997 pace—about 4%—for at least another four years**.

This would be sufficient to reduce the official unemployment rate to 5% or lower by the end of fiscal 2001, coincident with the expected return to the labour force of just some of the hundreds



of thousands of discouraged workers who abandoned the work world since the last recession.

We need this kind of vibrant, sustained economic growth to finance an improvement in government finances and public programs. It is also the type of growth needed to repair the simultaneous damage that has been done to *household* finances by years of unemployment and stagnation. After all, **personal savings in Canada have fallen to all-time record lows** through the 1990s, while personal debts for credit cards and other loans continue to soar. In fact, the decline in personal savings more than offsets the improvement in public finances over the past decade **(see figure)**, with the result that national savings as a whole have not improved at all. By encouraging rising household incomes (through strong employment growth, higher wages, and better income security), we can help to ensure that future economic growth is balanced, stable, and beneficial for average Canadians.

As a consequence of strong growth and lower interest rates, **we expect the rate of inflation to gradually increase over the next three years to about 3%**. Moderate inflation in this range would be no higher than typical inflation rates in the U.S., and poses no danger to the well-being of average Canadians (especially in light of the expansion and indexation of social benefits that we also propose). **Interest rates would rise gradually with the inflation rate.** The Alternative Federal Budget would target after-inflation rates of over 1% on short-term bonds and 3-to-4% on long-term loans, both of which are in line with historical standards and represent a more-than-adequate return for investors in low-risk government bonds.

MEASURES TO SUPPORT A MADE-IN-CANADA INTEREST RATE:

- require commercial banks to reinvest a share of their assets in the communities where they operate;
- phase out the 20% allowable foreign investment of tax-subsidized pension and RRSP funds;
- develop alternative financial institutions (such as a National Capital Investment Fund) which keep their money in Canada;
- use the Bank of Canada to refinance 2% of the outstanding federal debt per year over the next five years (so that the government pays interest to its own bank, instead of a commercial bank); and
- work internationally towards a Tobin Tax and the establishment of global regulations on international financial flows.

Financial investors, of course, will complain about higher inflation: after all, each point of inflation eats away 1% of their paper wealth, and they will fiercely resist any macroeconomic strategy which elevates job-creation above inflation-control on the list of our economic priorities. **We will require the active cooperation of the Bank of Canada** in this shift in monetary policy; we expect that **the Bank's "target range" for inflation would be increased by one point** (to between 2% and 4% per year). And we will simultaneously need to develop and introduce a range of institutional and regulatory reforms aimed at insulating our financial markets from global pressures and protecting a made-in-Canada low-interest regime **(see box on page 8).**

Table 2 summarizes the macroeconomic assumptions and targets that are adopted by the 1998 Alternative Federal Budget.

TABLE 2: MACROECONOMIC & FISCAL PROJECTIONS

FISCAL YEARS	1996 (ACT.)	1997 (FCST.)	1998	1999
PAUL MARTIN'S OUTLOOK				
GDP (nominal, $billion)	$807	$849	$887	$927
Real GDP Growth Rate (%)	2.0%	3.7%	3.0%	2.5%
Inflation (% rise GDP deflator)	1.4%	1.5%	1.5%	2.0%
90-day Interest Rate (%)	3.73%	3.90%	5.25%	5.50%
Real Interest Rate (%)	2.34%	2.40%	3.75%	3.50%
Average Interest Rate on Federal Debt (%)	7.78%	7.50%	7.75%	7.75%
Employment (million)	13.71	14.08	14.36	14.58
Labour Force Participation (%)	64.8%	65.0%	65.0%	65.0%
Unemployment Rate (%)	9.7%	8.9%	8.5%	8.5%
ALTERNATIVE FEDERAL BUDGET OUTLOOK				
GDP (nominal, $billion)	$807	$849	$900	$958
Real GDP Growth Rate (%)	2.0%	3.7%	4.0%	4.0%
Inflation (% rise GDP deflator)	1.4%	1.5%	2.0%	2.5%
90-day Interest Rate (%)	3.73%	3.90%	3.50%	3.75%
Real Interest Rate (%)	2.34%	2.40%	1.50%	1.25%
Average Interest Rate on Federal Debt (%)	7.78%	7.50%	7.25%	7.00%
Employment (million)	13.71	14.08	14.50	14.94
Labour Force Participation (%)	64.8%	65.0%	65.25%	65.5%
Unemployment Rate (%)	9.7%	8.9%	7.9%	6.9%
Poverty Rate (%)	17.9%	18.0%	16.0%	14.0%

STARTING TO UNDO THE DAMAGE

We expect (like most other observers) that **the federal budget will be balanced during the current (1997-98) fiscal year**. (Final figures will not be released until October.) Indeed, by November 1997 the government had already recorded a rolling 12-month surplus—its first in almost 30 years–and the numbers are only getting better as the fiscal year progresses. Finance Minister Paul Martin will thus have balanced the budget a full two years ahead of his own original timetable (according to which the deficit would have been eliminated in fiscal 1999-2000).

Surprisingly, **the most important factor behind the faster-than-expected elimination of the federal deficit was *not* the historic cutbacks in program spending** imposed by the Liberals over the past three years (see box). More important was the combination of low interest rates and accelerating economic growth–which together account for almost 60% of the federal deficit reduction achieved between 1995 (when Paul Martin released his "hell or high water" budget) and 1997. This experience provides a dramatic verification of the Alternative Federal Budget's consistent claim that deficits could be eliminated in a humane fashion by lowering interest rates and stimulating growth.

How the War on the Deficit Was Won:

Sources of Deficit Reduction, 1995 to 1997

Pro-Growth Macroeconomic Policy (low interest rates, faster growth):	59%
Spending Cutbacks:	45%
Tax Increases:	10%
Cost of Increased Debt Burden:	-13%
Total Deficit Reduction ($30 billion):	100%

Source: 1998 Alternative Federal Budget Technical Paper #1, "Over the Rainbow".

Indeed, **Paul Martin's *initial* deficit-reduction timetable could have been surpassed without any program spending cuts whatsoever**–purely on the strength of the lower interest rates and stronger growth that have prevailed since 1995.

We continue to disagree strongly with the means that were followed to eliminate the federal deficit, and we stress the **dramatic increase in Canada's social deficit which has accompanied the decline in the fiscal deficit**. Nevertheless, we do not disagree that the budget had to be balanced, and we recognize that the federal fiscal outlook now looks considerably brighter in the wake of attaining that balance. With an end to chronic deficits, the federal debt burden (measured as a share of GDP) will decline rapidly, and hence the government's own interest payments will diminish in importance, since tax revenues rise in step with economic growth. And all of this **opens up significant room for new federal program spending initiatives, while still maintaining the balanced budget and even freezing tax levels**.

This is the so-called "fiscal dividend" that has been much-discussed in Canada over the past year. Three options are usually presented on how to "spend" this dividend: 1) cut taxes, 2) pay off some of the accumulated debt, or 3) reinvest in repairing the public programs and social infrastructure that were so badly damaged by the retrenchment of the 1990s.

We think that most Canadians reject the false promise of widespread tax cuts: they recognize that lower taxes must ultimately translate into continued deterioration of our health care, education, and other key services. Furthermore, most tax-cut proposals would offer the biggest benefits to high-income earners and businesses—hardly a good way to address the already significant and still-growing inequality in Canadian society.

The debt-repayment option is also doomed to political failure, we believe: Canadians are learning that the debt burden will fall quickly as a share of GDP simply thanks to ongoing economic growth, even without any budgetary surpluses. It would be politically impossible and socially destructive for a federal government to sock away billions for *extra* "debt repayment" each year, at the same time as Canadians are crying out for the repair of our social infrastructure.

The Alternative Federal Budget loudly and proudly comes down in favour of allocating the fiscal dividend in its entirety to starting to rebuild the important and valuable public programs that have been so badly damaged by the budget-cutting of the 1990s. We have designed a macroeconomic strategy aimed at maximizing the size of that "dividend"—by keeping interest rates low and sustaining growth. And we plan to spend every penny of it on necessary reinvestment in our social fabric.

Regarding tax levels, participants in the AFB exercise this year faced a genuine quandary. On the one hand, **the potential clearly exists in coming years for massive increases in program spending, even within the constraint imposed by existing tax levels** (which equalled about 17.5% of GDP in fiscal 1996-97). As the debt burden declines, the share of tax revenues wasted on government interest payments will steadily fall. These funds can then be reallocated to useful social programs, without increasing tax levels.

Together with policies aimed at lowering interest rates and accelerating economic growth, we estimate that **program spending could grow by more than $10 billion per year over the next several years, without any increases in the overall burden of taxation.**

On the other hand, however, we are also highly sensitive to the **growing emergency in Canadian social conditions** that is the legacy of the cutbacks of the 1990s. The frightening deterioration in our key social indicators—income levels, health, education, economic and political participation—cries out for immediate attention. **We cannot wait long for the arithmetic of the fiscal "dividend" to work its magic, before beginning to reinvest as strongly as possible in the repair of our tattered social fabric.**

The Alternative Federal Budget therefore adopts the following approach to fiscal policy. **In the medium-run (for fiscal 1999 and beyond), we will maintain the overall federal tax rate at its actual 1996-97 level: 17.5% of GDP.** New funds generated by ongoing economic growth and the falling debt burden will permit very substantial annual increases in program spending while still maintaining a balanced budget and unchanged tax levels.

In the first year of the Alternative Federal Budget, however, we must work faster to address the growing social crisis in our communities. We thus commit ourselves to an aggregate level of program spending in fiscal 1998 of $118.7 billion—exactly the sum spent by the federal government in 1994, immediately prior to the historic spending cuts implemented by Paul Martin. **We thus aim to undo, in a single year, the cumulative and unprecedented nominal spending cuts** engineered by the federal Liberals since the infamous "hell or high water" budget of 1995. This represents an increase of almost $13 billion over the actual federal program spending budgeted in 1997. Program spending will grow by another $8 billion in the second year, to some $127 billion.

Of course, in the wake of inflation and ongoing population growth, $118.7 billion will not replace the real value of the services that have been cut over the past several years. The budget bombardments of the 1990s have shattered Canadian public programs to such a degree that it will take years of rebuilding to undo the damage. But our aggressive stance in the first year of the Alternative Federal Budget marks a dramatic first step—a big down-payment on the rebuilding that needs to occur. This major injection of federal spending power into our economy will also go a long way toward ensuring that the current economic recovery maintains its momentum in the face of rising interest rates and global financial instability.

To restore program spending to its pre-cutback levels in a single year will require some additional tax measures, above and beyond the considerable sums freed up by lower interest rates, the falling debt burden, and ongoing economic growth. **The Alternative Federal Budget will thus increase aggregate federal taxes, *for one year alone*, by $3 billion** above the level that would be provided by the average tax rates that prevailed in 1996-97. Extra taxes will be targeted at super-profitable banks and other vested interests—those that have done so well during the 1990s, while other Canadians tightened their belts. **In the second year of our program (fiscal 1999), we will *cut* aggregate taxes by the same amount**, bringing the aggregate federal tax rate back to its 1996-97 level (17.5% of GDP).

Over the first two years, therefore, the tax package of the AFB is "revenue-neutral": all new taxes imposed on particular interest groups or industries are offset by targeted relief offered elsewhere in the tax system. And thanks to a sweeping reform of our income tax and tax expenditure systems, virtually every Canadian earning less than $60,000 will pay lower federal taxes. Three-quarters of the new revenue received by the federal government in the first year of the AFB is provided simply by economic growth, not by the one-time tax increase.

1998 Alternative Federal Budget Fiscal and Social Targets:

- Balanced budget in all years.
- Program spending rebuilt to 1994 levels in the first year.
- Aggregate tax levels frozen at 1996 levels, in 1999 and beyond.
- Official unemployment rate reduced by at least 1 point per year.
- Poverty rate reduced by at least 1.5 points per year.

Unlike the Liberals, we believe that deficits and debt are not the only economic and social indicators worthy of being targeted by federal budgetary action. Our budget also sets targets for reducing the unemployment rate and the poverty rate **(see box on page 12).** We hold these targets to be just as important as our fiscal targets, and we will adjust our fiscal and economic strategies mid-stream if it becomes necessary in order to meet these targets.

We expect to be able to **reduce the unemployment rate by at least one full percentage point per year,** to 5% or lower by fiscal 2001, while still allowing for some recovery in labour force participation (as formerly discouraged workers re-enter the workforce) toward its pre-1990 level. Partly thanks to falling unemployment, and partly thanks to the pro-active social policy measures outlined in this budget, we also expect to be able to **reduce the poverty rate by at least one-third** (to 12% or lower) over the same time frame.

Economic Growth and the Environment

The Alternative Federal Budget relies centrally on renewed economic growth to generate the revenues needed to rebuild social programs in Canada. We also think that stimulating and sustaining economic growth, together with appropriate interventions aimed at regulating the nature of that growth, is the best way to create jobs and generate badly-needed income for average households.

At the same time, however, we are acutely sensitive to the growing ecological constraints limiting traditional, resource-intensive, expansionary models of economic growth. We do not believe that strong growth and environmental sustainability are incompatible. In fact, the major investments that we collectively need to make in preserving our environment would be a major contribution to future economic growth. But we recognize that this growth will be a very different *type* of growth—and that we need to monitor and regulate it closely to cushion its ecological impacts.

By focusing on rebuilding public services as a major source of future economic growth and job-creation, we are immediately avoiding many of the environmental problems associated with private-sector, profit-led growth. Other of our job-creation strategies will carry environmental benefits **(see box).**

"Greening" the Alternative Federal Budget: Environmentally-sensitive job-creation initiatives

- Subsidies for energy-conservation retrofits of existing housing.
- Significant investment in improving Canada's environmental infrastructure: park construction, toxic waste clean-up, and support for environmental research and development initiatives.
- Two "green" tax reforms: a tax on fuels contributing to atmospheric warming, and the elimination of favourable tax treatment for oil and gas exploration and development.
- Green tax revenues are fully devoted to greenhouse-gas reduction projects across Canada and the conversion of fossil-fuel industries toward sustainable purposes.
- A Forest Investment Fund to finance intensive, sustainable forestry practices.

These measures alone will not be sufficient, obviously, to fully address the ecological issues raised by ongoing economic development. In particular, we view these measures only as a down-payment on our obligation to constrain greenhouse gas emissions in line with Canada's commitments in Kyoto. But by attempting to generate "greener" forms of growth and job-creation, while simultaneously providing substantial funding for environmentally-friendly projects, we think that we can move our economy toward a better balance with our natural environment.

PUTTING CANADA BACK TO WORK

A New Vision

Stronger economic growth brought some welcome relief to Canada's job market over the past year, generating close to 400,000 new jobs, and cutting the official unemployment rate to under 9% for the first time in seven years.

But this improved employment performance is too little, too late. **The official numbers hide important signs of continuing job weakness:** too many jobs are part-time, insecure, and low-paid. So-called "self-employment" constitutes a shocking proportion of all new jobs in Canada, typically offering poor income and lack of security. And the official numbers don't even count those Canadians who would work if jobs were available, but who have given up hope of finding work in the depressed 1990s.

Until recently, economic policy in Canada was rooted in the idea that unemployment had to be *deliberately* maintained at 8.5% or higher, in the interests of keeping workers economically disempowered, restraining wage increases, and maintaining ultra-low inflation. Most Canadians never accepted this policy of official unemployment (often called the "non-accelerating inflation rate of unemployment," or the NAIRU). But recent events have demolished its rationale once and for all.

By the end of 1997, the unemployment rate had fallen to 8.6%—just a hair above the former "natural" level. Yet inflation over the previous year had totalled just 0.7%: significantly slower than in recent years, and well below even the Bank of Canada's own stringent targets. As 1997 drew to a close, consumer prices in Canada were actually *falling*, raising the **spectre of deflation.**

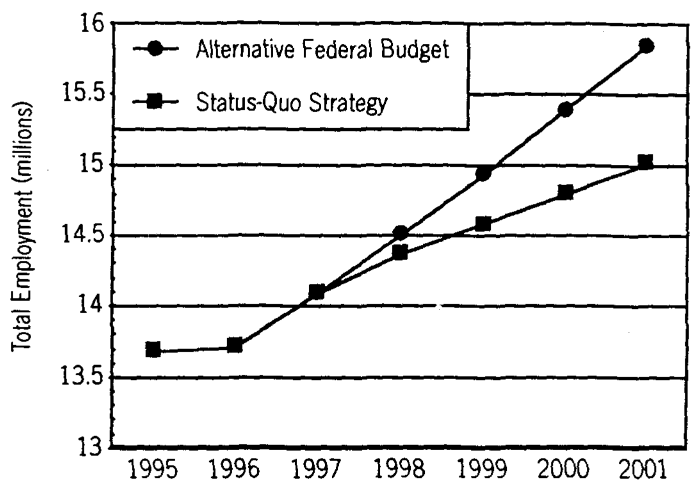
Clearly, the official model is discredited. **The Alternative Federal Budget rejects the notion that Canadians must be kept deliberately insecure in order to keep inflation close to zero, protecting the paper wealth of the financiers.** We aim to put as many Canadians as possible to work in productive, well-paying jobs. There is no "natural" rate of unemployment in Canada. There is plenty of room in our labour force for the economy to expand vibrantly for years to come, and in our view job-creation belongs at the very top of our list of priorities.

Our Plan for Jobs

Job creation is a crucial plank in our overall strategy to build a society based on security, cooperation, and solidarity. **We *can* afford a first-class social security system, even within our existing level of taxes—but only if we find well-paying jobs for more Canadians.** That way, fewer members of our society will need to fall back on the safety net, while simultaneously more of us are helping to pay for it.

As described in Section 2, we pledge to reduce the unemployment rate by at least a full percentage point per year over the next four years, reducing the official rate to 5% or lower by the end of fiscal 2001. **We achieve this target even though we expect labour force participation to recover** somewhat from its low 1990 levels, rising by a quarter-point per year in response to our rapid pace of job-creation.

Job Creation: Status-Quo vs. Alternative Federal Budget



The best job-creation program of all, of course, is a healthy, growing economy. But growth cannot be sustained without a commitment to an interventionist full-employment policy by our government and financial regulators. That's why our macroeconomic and fiscal strategy—combining sustained low interest rates and major injections of federal spending power—is the centrepiece of our job-creation program. Thanks to lower interest rates and rebuilt federal program spending, we expect to create 1.8 million new jobs over the next four years: 800,000 *more* than are likely under current macroeconomic policy **(see figure).**

At the same time, however, the federal government can play a more direct and interventionist role, both in directly creating jobs (rebuilding a stable and well-paying public sector component within the overall job market), and in regulating and tailoring the type of jobs that are being created, so that they are **better-paying, more secure, and more accessible** to those who have been hardest hit by the stagnation of the 1990s (young people, women, visible minorities, and persons with disabilities).

Here are several of the specific programs, described in more detail elsewhere in this budget, that will underwrite our job-creation targets, and help to ensure that work in Canada becomes more accessible, productive, and rewarding for Canadians. In all of these initiatives, special emphasis will be placed on opening up positions for people currently receiving social assistance or other forms of income support, and on ensuring that complementary training and personal supports are in place, so that our job creation strategies generate real opportunities for those groups traditionally excluded from the benefits of economic expansion.

Rebuilding Public Services: The AFB will double federal transfer payments to the provinces for health, education, and other social programs in just two years. Moreover, our "social investment fund" approach ensures that these funds will be spent in the targeted areas. Over $10 billion in new funding for provincial, municipal, and community services over the next two years will translate into some 100,000 new public-sector jobs in each year.

National Capital Investment Fund: By requiring the deposit of a very small portion (starting at 0.1%, rising to 0.3% over three years) of the assets of regulated financial institutions and tax-subsidized pension funds, we will establish an arms-length public investment bank to finance economic development projects (including non-profit and community economic development initiatives) in hard-pressed regions and industries across Canada. The fund, when fully established, will direct an estimated $4.5 billion in new capital to local communities. These funds will be further supplemented by voluntary private contributions to RRSP-eligible Community Economic Development Corporations.

Community Reinvestment Act: We will further require private financial institutions to reinvest a share of their assets in the communities where they do business.

Social, Environmental and Physical Infrastructure: The federal government will provide up to one-half of the funding for a three-year joint program with the provinces, municipalities, and public-sector and community organizations for investments in public housing, municipal services, parks, environmental clean-up, and construction. Projects will be proposed by lower levels of government or by community sponsors. Funding for these infrastructure initiatives will total $1 billion per year over the next two years.

National Youth Job Strategy: Some $350 million per year will be devoted in the first two years of the AFB for pilot projects aimed at employing young people, aged 16 to 29, in long-term community development initiatives. Projects would be designed and proposed by youth, both single-job initiatives and group projects. After a two-year phase-in, the fully-implemented project would generate an estimated 50,000 youth jobs in the third and subsequent years.

Canadian Atmospheric Fund: All the proceeds from two "green" tax reforms (a new tax on greenhouse-gas fuels and the elimination of tax preferences for oil and gas development, generating total revenues of $1 billion per year) would be allocated to this fund, with significant job-creation benefits. The Canadian Atmospheric Fund will support community-based climate change initiatives across Canada, which typically have a high labour content; additional measures will support efforts to re-employ workers displaced from traditional fossil fuel industries.

Working Time Reduction: The reduction of average hours of work can play a significant role in reducing unemployment. AFB initiatives in this area include changes to the Canada Labour Code to facilitate shorter worker hours in areas of federal jurisdiction, facilitating voluntary leaves and early retirement through changes to UI and pension legislation, and working towards a restructuring of the UI and CPP premium structures to eliminate their present distortionary impact on hours of work.

Research and Development/Industrial Policies: The AFB contains numerous initiatives intended to strengthen Canada's traditionally poor R&D record, especially in public or non-commercial areas. Budgets for both internal research and external granting councils are substantially increased in several federal departments, including Natural Resources, Industry, and Agriculture. We significantly increase federal support for research and technology diffusion through the successful IRAP program of the National Research Council. And we establish sector-based training and procurement councils to facilitate labour force and market development in key Canadian industries.

PROGRAM SPENDING INITIATIVES

Once again this year, the Alternative Federal Budget's priority is to restore federal government support for vital social programs and public services. Total program spending of $118.7 billion in the first year **will restore in a single year the nominal cuts Paul Martin has made since 1995.** But after adjusting for inflation and population growth, real per capita program spending in the first year of our program is still significantly lower than was the case four years ago. Our initiatives are thus only a first step towards social and economic equality.

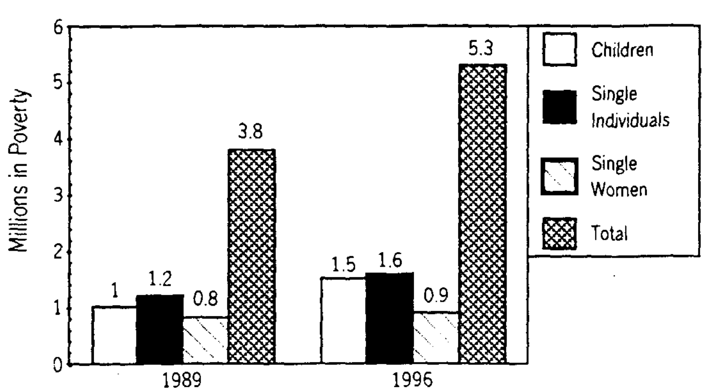
While our focus is on reinvestment, we do more than simply restore spending levels. We propose some new ways of thinking about how to meet our fundamental goals. We set new priorities which focus government attention on addressing poverty, creating jobs, sustaining our environment and natural resources, and building a common sense of community and shared citizenship within Canada and globally. Details of our program spending budget are provided in Table 3 on Page 28.

ZERO TOLERANCE FOR POVERTY

The contrast between the winners and losers in the federal government's war on the deficit is stark. While a fortunate few—bankers, bondholders and shareholders—have become immensely richer, **many more Canadians are suffering poverty and deprivation**. Over the last eight years, 482,000 more children and one million more adults have been plunged into poverty **(see figure)**. The incomes of the wealthiest 20% of Canadians increased on average by $2,000 in 1996, while the incomes of the poorest 20% of Canadians, on average, **fell** by $500. On average, the incomes of our 1.1 million poor families with children are close to $9,000 below the poverty line. The average income of single-mother-led families is just $14,998. **At last count, over 2.5 million Canadians depended on food banks to survive.**

The AFB recognizes the multiple causes and faces of Canadian poverty. Our solutions, therefore, are also multiple. Our economic strategy stimulates the Canadian economy and helps create balanced growth through low interest rates, job creation initiatives, and a combination of fair taxation measures and government spending. **It is our goal to reduce the number of poor Canadians from 18% of the population to 12% over the next four years.**

Growth in Poverty



Reducing unemployment is clearly essential to reducing poverty. For every percentage point drop in the unemployment rate, poverty also falls by one percentage point. Our employment targets will begin to reduce poverty by creating quality jobs for young people, the disabled, Aboriginal peoples, and other marginalized communities.

Job creation is supplemented with programs to alleviate poverty immediately, by providing income assistance and a range of supportive services, providing the poor with the opportunity for full economic and social participation. The programs necessary to lift the burden of poverty, especially from the shoulders of women and children, are listed in the adjoining box.

MEASURES TO REDUCE POVERTY

Reinstating funds cut from income support: $1.9 billion
National Drug Plan: $0.65 billion
Enhanced Child Benefit: $4.4 billion
Child Care Investment Fund: $0.5 billion
National Advance Child Maintenance System: no cost
Increased tax benefits for people with disabilities: $290 million
Increased retirement benefits: $0.6 billion
National Housing Fund: $0.4 billion
Higher Unemployment Insurance benefits: $1.0 billion
National Youth Employment Strategy: $350 million
Additional funding for Aboriginal health: $0.4 billion
Reduction in taxes on low incomes: $2 billion
Increase in low-income GST credits: $720 million

Our approach to social spending and job creation will reduce poverty by one-third over the next four years. These measures are a combination of compassion, social justice, and common sense. An Anti-Poverty Commissioner will be appointed and directed to make an annual report to Parliament on the government's anti-poverty initiatives, on their impact on women, and on their success or failure in meeting the poverty reduction targets.

NATIONAL SOCIAL INVESTMENT FUNDS

The Chrétien government will be remembered as the government which destroyed a set of social programs which took more than a half century to construct. The Canada Assistance Plan is gone, unemployment insurance has been cut savagely, and Old Age Security and the Guaranteed Income Supplement are to be replaced. Medicare is struggling under the impact of massive federal spending cuts and rapid privatization. Post-secondary education is becoming less accessible as tuition fees skyrocket.

The AFB's National Social Investment Funds offer a real alternative to the cuts to federal spending implemented by the Canada Health and Social Transfer (CHST), reversing federal offloading and the erosion of national standards. **We propose to replace the CHST with a set of seven Na-**

tional Social Investment Funds, separately funded and with national standards attached to each. The need for national standards in Canada is clear. Students in New Brunswick, for example, pay tuition fees twice the level of students in Quebec. Social assistance rates vary widely across the country. Canadians are not guaranteed the same level of quality in home care across the country.

Our Investment Funds begin a process of reinvestment in Canada's greatest asset, its people. Our strategy will create thousands of badly-needed jobs in the public sector, while returning a measure of economic stability to millions of Canadians.

I. The Health Care Fund

The National Health Care Fund will immediately restore federal health care transfers to the 1995 levels of $6.7 billion. Funding in future years will increase in line with growth in the economy, and will be equalized so that poorer provinces can maintain health care systems on par with wealthier regions. **Increased federal funding is essential in order to prevent the creep of for-profit health care, as is the enforcement of strong national standards.**

The AFB will introduce legislation which will restrict privatization occurring through public-private partnerships, and will create an organization (arms-length from government), to collect and publicly disclose information on for-profit health care in Canada.

We will initiate a public review of health care funding models—comparing alternative methods such as the public health insurance model (which describes our current system) and a public health delivery model (under which government directly delivers health care programs).

We will also introduce a National Drug Strategy, to make pharmaceutical drugs fully available to all Canadians. First, the AFB will phase-in a National Drug Plan, allocating $650 million to the initiative this year, and $1.3 billion in 1999. Second, a series of measures will make drugs cheaper and ensure the safety of our food and drug supply. Bill C-91, the Act which excessively protects the patent rights of pharmaceutical manufacturers, will be repealed. The purchasing of drug supplies for federal and provincial governments will be coordinated through one agency. The budget of the Health Protection Branch will be restored to its 1993/94 level of $237 million.

Equal access to quality health care is a priority for the AFB, and we introduce several measures to improve equity. Provinces will be required to provide home care as a public service within their health care plans, thereby greatly improving the lives of the disabled, the chronically ill, and the elderly, who are heavily reliant on quality home care services. We will increase funding to the National AIDS strategy by $8 million this year, and by another $25 million in each of the following five years. The AFB also implements the recommendations dealing with health in the report of the Royal Commission on Aboriginal Peoples, with an increase in funding of $50 million this year, and another $20 million in 1999.

II. The Post-Secondary Education Fund

The AFB will increase access to post-secondary education (PSE) for students from all socio-economic backgrounds. **Tuition fees in Canada are the third highest of all OECD countries,** having increased by 45% since 1993. At a time when average full-time earnings for young people are falling, students are experiencing ever-higher debt loads upon graduation.

A National Advisory Council on Post-Secondary Education and Research will ensure that community needs are met by the PSE system. The Council will be headed by a federal Minister, and will bring together representatives from the education and research communities, students, constituency group representatives, faculty, support staff, administration and government, democratically elected or selected by their peers.

The AFB also provides for the passage of a National Post-Secondary Education Act, and the creation of a corresponding Post-Secondary Education Fund, to guarantee all Canadians the right to a quality post-secondary education. All provinces (with the right for Quebec to opt out) will adhere to standards of public administration, full accessibility, comprehensiveness, transferability of credits, and mobility with regards to student grants and awards.

The federal government has cut $2.3 billion from PSE funding since 1993. The PSE Fund will be set at the 1995 level of federal government transfers to the provinces ($2.1 billion) and will grow with the national economy, providing an additional $80 million in 1999. This funding increase will total $760 million over the next five years, and should **significantly reduce tuition levels across the country** and improve the quality of PSE.

The second strategy for improving access and reducing student debt is the National Student Grants Program. It replaces the current system of loans, loan interest relief, and loan remission with direct grants to institutions and students–a more effective and equitable way of delivering federal funding. **The National Student Grants Program will provide grants based solely on need,** and specifically acknowledge students with special needs, such as disability, or regional differences in cost of living. Actual spending on grants in 1998 will total $400 million, rising to $575 million in 1999. Funding for First Nations' education will be increased to $21 million this year, and to $23 million in 1999.

The AFB's job-creation initiatives will include a Student Employment Program to help provide students with quality jobs during the summer months. It will form part of the National Youth Job Strategy.

III. The Income Support Fund

In 1996, 5.3 million people in Canada were living below the National Council of Welfare's poverty line. One out of every five children lives in poverty, and one-quarter of these children have at least one parent who works full-time but earns inadequate wages. The National Council on Welfare has calculated that the total amount needed to raise all Canadians to an acceptable level of income is $16.3 billion per year. In reality, the measures proposed in the AFB for income support for poor Canadians are modest and only a step in the right direction. Even if our plan were implemented, the elimination of poverty in Canada would still be far off.

When the Chrétien government ended the Canada Assistance Plan, the right of Canadians to income support on the basis of need alone was eradicated. **A climate of scapegoating the poor for joblessness has led to social assistance benefits being cut** by 21% in Ontario and by 17% in Alberta, among other provinces. Poor people are treated as criminals: they are fingerprinted and forced to work for welfare in several provinces.

The AFB reverses the federal government's abandonment of the poor, increasing federal transfers for income support to $7.2 billion, just above the 1995/96 level of funding for the Canada Assistance Plan. The Fund will be boosted again in 1999 by an estimated $700 million. In both years, income support programs will have additional resources because base social assistance costs will decrease as a result of our ambitious job-creation program.

Our National Income Support Fund, a cost-shared federal-provincial program, is based upon the following standards:

- Funding, based on real costs of daily living, must be determined through an **open, public process** that includes low-income persons, and is regularly updated.
- All who declare they are in need are guaranteed a **fair assessment and adequate support**.
- Assistance must be **needs-based only**, and not discriminate on the basis of employability, age, type of disability, or other factors.
- There must be an **appeal system** with client representation, due process, and reasonable timetables.
- **No residency requirements** are permitted, and the originating province will pay the first year's support after a client relocates.
- There can be **no work or training requirements** for obtaining assistance, and it cannot be subject to repayment or garnishing of assets.
- **Extraordinary measures** not required of other citizens (e.g., fingerprinting and workfare) cannot be imposed.
- Recipients must be allowed to **retain their homes** and a reasonable amount of assets and earned income.

The fund will have two levels. Level I will provide those in need with income no less than 60% of Statistics Canada's Low-Income Cutoffs (LICOs), and the AFB will raise this level to 75% over the next five years. Level II of the fund will meet special needs, such as those of the disabled, for support services. This funding will cover, for example, counselling, emergency funds, or relocation costs.

The AFB also provides an Enhanced Child Benefit which will provide important financial support to poor families. A year ago, the Liberals announced their national child benefit scheme. Today, it is still being negotiated with the provinces. The proposed scheme would pay $605 for the first child, $405 for the second child, and $330 for each additional child. However, many families receiving social assistance will not receive a net increase in income, because the Liberal child benefits may be deducted from their social assistance.

We regard the government's program as inadequate and discriminatory. **Our Enhanced Child Benefit will total some $1,400 per child, rising to almost $1,600 in year two.** It will not be deductible from provincial social assistance. Funding for the program will total $4.4 billion in this year's budget, and $5.4 billion in 1999. This initiative should produce a significant reduction in child poverty.

The economic security of children living in poor families will be further improved through **an Advance Maintenance System, which guarantees that custodial parents will receive their maintenance support from non-custodial parents**. The program will use the income tax system to collect maintenance payments, and pay them out to parents. This will not require additional program spending, but will greatly increase compliance for child maintenance.

IV. The Child Care Investment Fund

While income measures like the Enhanced Child Benefit help to achieve a better quality of life for children, they alone are not enough. Social services and supports, such as child care, are also required. Experts agree that quality child care, particularly in the early years of life, enhances healthy child development. **Investment in early childhood education gives maximum return**, alleviating the damage done by child poverty. Quality child care is also essential to advancing women's equality, since women still bear the greatest responsibility for raising children and head most single-parent households.

Federal spending for child care has fallen by 33% over the last four years. The AFB's National Child Care Investment Fund integrates existing programs (child care funding formerly covered under the Canada Assistance Plan, Aboriginal Headstart, and others) into one fund, and provides **$500 million in additional funding for child care** this year, increasing by another $500 million in 1999. Programs will be negotiated between the federal and provincial governments, and Aboriginal peoples.

V. The Housing Investment Fund

Housing needs in Canada are pressing. One out of every four renters and 40% of mother-led lone-parent households are in housing need, living in substandard accommodation, or paying unaffordable rents, or both. There are as many as 250,000 homeless people in Canada.

Non-profit and cooperative housing is the best way to meet these needs. The AFB begins by guaranteeing current federal spending on existing non-profit and co-op housing projects, and proposes that **the management of federal housing programs be transferred to these community organizations**. In addition to the $1.9 billion currently allocated to the Canada Mortgage and Housing Corporation, $300 million in new funding will be directed towards the **construction of 10,000 new non-profit or co-op housing units** this year.

An additional $200 million will be targeted to a National Housing Retrofit Program, with priority given to funding community housing project retrofits ($100 million of this funding will be allocated from the Atmospheric Fund and the Infrastructure Fund, described below). The program will create an estimated 3,750 jobs.

Both of these programs are expected to leverage significant resources from other levels of government and community organizations, and will significantly boost the construction industry.

The AFB also establishes a National Information Centre for Housing Alternatives to communicate innovative housing strategies.

VI. The Retirement Fund

Paul Martin's proposed Seniors' Benefit, based on level of income, will replace the Old Age Security and Guaranteed Income Supplement programs, along with the age tax credit and the tax credit for private pension income. In effect, the public Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS) are to be abolished for a scheme that operates like the present punitive and demeaning welfare system. The Seniors Benefit will discriminate against elderly women by making their pension eligibility dependent upon total family income.

Instead of undermining the economic stability of Canada's seniors, **we will improve financial support for the elderly**. GIS benefits will be increased by 5%. The OAS payment will be indexed to wages, not prices. This will ensure that **benefits maintain a constant relationship to earned income** in replacing pre-retirement earnings. These changes will ensure a universal, public basic level of pension protection for all Canadians.

We will further ensure that changes to the second level, the Canada Pension Plan (CPP), will not negatively interact with the first level to allow Canadians to fall between the cracks. We do not support changes to the CPP which reduce benefit levels and tighten eligibility for people with disabilities, as is being proposed by the federal government. We are additionally concerned about the negative impact the proposed CPP reductions will have on workplace pension plans.

Our changes will ensure that all Canadians have basic income protection when they retire, and will not be as dependent on private pension schemes. Many workers simply do not qualify for private pensions, nor can they afford them. An increasing number of citizens in non-standard work have no private pension coverage and little capacity to save for Registered Retirement Savings Plans. The AFB commits the federal government to undertake a **thorough review of the tax treatment of private retirement savings** to determine changes that would address the income needs of the future elderly, taking into account changing labour market conditions, coverage of workplace pension plans, interaction of the various elements of the system, and a gender analysis of the proposed changes.

The third level of the pension system–tax-subsidized individual pensions–should be more fairly designed. Therefore, **contribution room on RRSPs will be limited to $10,800, and the present RRSP tax deduction will be converted into a credit**. These changes will reduce tax breaks for individuals earning more than $60,000 a year. Tax dollars saved will be allocated toward enhancing the credit for low-income earners.

The AFB will increase the OAS and GIS pensions by $600 million, thereby decreasing poverty–especially among the 51% of elderly women who live below the poverty line.

VII. The Unemployment Insurance Fund

The Chrétien government has perverted the purpose of the unemployment insurance system, turning a program intended to provide income security against the risk of unemployment into a lucrative additional revenue source for balancing the budget. The fact that unemployed workers now have less than a 40% chance of qualifying for unemployment insurance benefits means that **working Canadians are now paying premiums for insurance that they likely won't have access to** should they need it. Even for those who are eligible, the reduced duration of benefits means that over a million Canadians exhaust their insurance before they find work again.

These changes undermine unemployment insurance eligibility for all those who do not have full-time, long-term attachment to the labour market: the seasonally employed, and part-time workers, notably women and youth. The Atlantic provinces, Northern regions, and communities with cyclical or seasonal industries have been left without income protection and stability.

The AFB reverses this perversion of the original purpose of the Unemployment Insurance program, but rebuilding the UI system after the massive attacks by this and previous federal governments will take several years. **Over the next four years, eligibility will increase to 70% of unemployed Canadian workers, and benefit levels improve to 60% of previous insured earnings.** We will add $1 billion to expected UI benefit payments in each of the next two years.

Due to the AFB's emphasis on job creation elsewhere in the budget, this money will be spread among about 100,000 fewer unemployed. Thus an even greater overall improvement in UI benefits should be possible. Targeted job creation will help workers in regions with high rates of seasonal unemployment to requalify for coverage in the program.

We will work toward adjusting the UI benefits and premiums structure so as to **discourage overtime and provide incentives for shorter work weeks.**

As part of our Equity Participation Foundation, the AFB will fund advocacy organizations for unemployed Canadians to fight arbitrary disqualification from unemployment entitlements and ensure access to training and readjustment programs.

Finally, the AFB will undertake a major review of the persistence of high levels of unemployment in Canada. A Commission of Inquiry will assess the real socioeconomic costs of unemployment.

Human Resources and Training

Nowhere are the federal Liberal government's policies more shortsighted than in its withdrawal of support and its reduction of scope for education and training. The government's training policies have focused almost exclusively on providing additional training to those with recent attachment to the labour force to improve their short-term employability. This policy ignores Canadians trying to enter or re-enter the labour market for the first time, or re-enter it after a longer break.

By turning training over to the provinces, the government has abdicated its role in ensuring Canadians an equal opportunity to acquire long-term skills for long-term jobs. The fact that Quebec has negotiated special arrangements for resources and provincial control of training is not an excuse for the federal government to hand off training to all provinces recklessly, regardless of their level of commitment to it.

While training is not a substitute for jobs, it should be an entitlement regardless of employment status, and it must be available to those historically under-represented in the labour market: women, people with disabilities, visible minorities and Aboriginal peoples.

The Alternative Federal Budget revitalizes the federal role in training, while continuing to support particular arrangements for Quebec and flexible arrangements for First Nations and other provinces. This is done through the creation of:

- a **skills bank** establishing universal entitlement to life-long learning;
- a skills renewal fund paid for through an **Employer Training Levy**, set at 1% of payroll up to a ceiling of 40 hours of training for every worker, and refundable to employers who provide this training in-house (similar to the program in Quebec);

- a Pan-Canadian **roster of employment services**, linking federal and provincial training and labour adjustment programs and services for all unemployed Canadians regardless of their unemployment insurance eligibility;

- an increase of $200 million for **training for social assistance recipients**; and

- strengthened infrastructure to support training for life-long employment through the **Canadian Labour Force Development Board**, to monitor and analyze labour market trends, promote industry sector councils and community training agreements, and to negotiate Pan-Canadian standards.

The AFB will fund Human Resources and Development initiatives at a total level of $4.3 billion. This will include training programs currently funded through the UI program. (The Vocational Rehabilitation for Disabled Persons, Canada Student Loans, and the Children's Special Allowance programs are taken out of this heading in our budget.) Our budget also includes support for the National Youth Job Strategy.

Industry / Research and Development

The budget for Industrial, Regional, and Scientific-Technological Support Programs will rise in the Alternative Federal Budget to $4.4 billion. **New resources will support a $1 billion infrastructure program, and $100 million in support for community economic development initiatives** (see the Job Creation section). The core Industry budget–which the Liberal government plans to cut by $500 million in the coming year (on top of the termination of the Canada Infrastructure Works program) will be stabilized in year one of our budget, and increased by 3% in year two. This will improve the research capacity of agencies such as the National Research Council, the Natural Sciences and Engineering Research Council, the Social Sciences and Humanities Research Council, and Statistics Canada. Regional economic development initiatives will also be sustained.

Table 3: Program Spending Details ($ millions)

	1997-98 (likely actual)*	1998-99	1999-2000
National Social Investment Funds			
Health Care Fund	6,664	9,407	10,500
Post-Secondary Education Fund	2,273	3,137	3,600
Income Support Fund	5,562	7,500	8,200
Child Care Investment Fund	350	896	1,500
Housing Investment Fund	1,863	2,263	2,500
Retirement Fund	22,300	23,497	24,700
Unemployment Insurance Fund	13,200	14,200	15,200
Sub-Total: NSIFs	**52,212**	**60,900**	**66,200**
Departmental Spending and Other			
Equity Participation Fund		100	150
Disabilities - VRDP	168	198	204
First Nations	4,308	4,808	5,308
Common Security	13,138	12,808	12,628
Agriculture	1,505	1,555	1,600
Industry (incl. Infrastructure)	3,837	4,337	4,600
Environment	517	1,550	1,570
Natural Resources	696	846	981
Fisheries	1,077	1,127	1,161
Transport	1,753	1,753	1,805
Immigration	652	887	913
Human Resources & Training	3,544	4,195	4,321
Justice	3,270	3,275	3,368
Culture	2,524	2,825	3,004
Veterans' Pensions	1,921	1,840	1,840
Equalization	8,300	8,400	8,600
Transfers to Territories	1,100	1,196	1,232
Govt. Services & Other	5,278	6,100	7,615
TOTAL PROGRAM SPENDING	**105,800**	**118,700**	**127,100**

* Actual federal spending in 1997-98 on the CHST and subsidiary health, PSE, and income support programs is allocated between these three categories based on pre-CHST proportions.

DEMOCRACY AND HUMAN RIGHTS

WOMEN'S EQUALITY

Economic hardship is concentrated among women and children, who constitute 70% of Canada's poor. Federal policies have done little to address the reality of gender inequality in Canada; in fact, federal policies have served to deepen it. The wage gap between men and women has begun to widen again, after a period of progress towards equality. Women have lost relatively well-paying public sector jobs, and bear the burden of caring for their families and communities as services are reduced.

The Chrétien government has failed to create a national child care program. The elimination of the Canada Assistance Plan (CAP) and cuts to income support marginalize poor women and children and cause severe deprivation. The federal government has also refused to implement pay equity for women in the public sector, and has introduced changes to public pensions that will hurt women. And it has eliminated the Canadian Advisory Council on the Status of Women, and cut funding for women's organizations and research into gender issues.

The social and economic policies in the AFB are built on the recognition of women's inequality, and a commitment to gender equity. We will reinvest in the social programs so crucial to women's equality. Our job creation strategy is designed to benefit women, employing affirmative action where necessary.

To facilitate women's access to the political process, the AFB will create a special Women In Democracy Fund (modelled on the Fair Share Funding Campaign, "A twooney for every woman and girl child in Canada") to promote women's participation in the democratic process, at a level of $30 million. **Targets will be set to increase women's representation** in government agencies, committees, public administrative entities, the judiciary, and other bodies. As a first step, an inventory will be taken to determine the current representation of women. In addition, the Equity Participation Foundation (described below) will also support women's advocacy organizations. Funding of $50 million will be allocated to women's centres, shelters and services for combatting violence against women. Finally, the AFB also sets aside resources to implement long-overdue pay equity in the federal public service.

EQUITY PARTICIPATION FOUNDATION

Strong social advocacy organizations are necessary to a healthy democracy and play an essential role in opening public debate about important issues, such as the environment, AIDS, breast cancer, disability, human rights and equity, violence against women and children, poverty, and international development. The withdrawal of public funding for advocacy organizations has forced many to shut their doors or limit their activities, thereby stifling debate on important social issues.

The potential for equity for women, visible minorities, gays and lesbians, the disabled and Aboriginal peoples is jeopardized, and efforts to obtain redress for discrimination and equality are threatened, in the current neoconservative climate. **The AFB acknowledges the crucial role of advocacy and activism in achieving social change**, and will support this valuable work through an Equity Participation Foundation, which will receive $100 million in funding this year, and $150 million in 1999. The Foundation will provide stable funding for organizations that work to give marginalized Canadians a voice.

RACISM AND IMMIGRATION

The AFB will establish community-based programs to improve the awareness of government and the public about the role immigrants play in the Canadian society and economy, and to combat racism. A Centre of Excellence for Immigration will be created. The Canadian Immigrant and Refugee Centre, a board of community representatives, will provide research and policy advice. A similar Canadian Anti-Racism Centre will be established. Funding for immigration and settlement services will be restored, reversing cuts to training programs, ESL and FSL. **The AFB will abolish the immigration "head tax."**

CANADIAN HUMAN RIGHTS COMMISSION

Increased funds ($0.5 million) will be given to the Canadian Human Rights Commission, and its mandate will be changed from a complaints-based system to one based on the acknowledgment of systemic discrimination.

A Centre of Excellence for Gay and Lesbian Issues will be established, with start-up funding of $1 million. All federal laws and statutes which discriminate against same-sex couples will be amended to allow equal access to government benefits for gays and lesbians.

CANADIANS WITH DISABILITIES

The popular conception that the needs of disabled persons are met through social programs is incorrect. Almost one-half of disabled persons are unemployed, and far too many live in severe poverty with annual incomes under $10,000. Equality for persons with disabilities demands that the government consider the needs of disabled persons in all aspects of policy. Health and education programs, employment programs, taxation, and other areas of the AFB attempt to achieve this attention to the needs of the disabled.

The AFB **restores funding to employment-related programs for disabled persons** to $195 million. We also allocate $30 million to improve disabled access to mainstream educational institutions. Grants will be provided for local businesses and municipalities to purchase wheelchair-accessible vehicles.

A Social Audit of services for the disabled across provinces will be conducted, to ensure that minimum national standards are met. Research, through Statistics Canada Census projects, will improve our understanding and awareness of the needs of disabled people across the country.

On the tax side, a refundable Disability Tax Credit (which cannot be deducted from provincial social assistance) is established. A base refund will be available to all who apply, with additional refunds given where receipts for purchased goods and services are provided.

ABORIGINAL PEOPLES

Canada has not honourably or appropriately compensated Aboriginal peoples for the lands and resources which were obtained from them. Far too many Aboriginal people experience unemployment, poor health services, and lack of access to adequate housing. The AFB recognizes that Aboriginal people have never surrendered their powers of self-government. We also recognize an obligation to provide Aboriginal people with the opportunity to enjoy the same standard of living as non-Aboriginal people.

In addition to restoring the cuts to services which resulted from the creation of the Canada Health and Social Transfer, **the AFB will provide funding for negotiating and implementing self-government** with Aboriginal people ($500 million), in line with the recommendations of the Royal Commission on Aboriginal Peoples, and increase funding for Friendship Centres and Women's Programs within Aboriginal communities. New funding for Aboriginal health is also included in the Health program of our budget.

Other AFB proposals on housing, child care, education, health, income support and employment creation will have a positive impact on the standard of living of Aboriginal people.

ENVIRONMENT AND NATURAL RESOURCES

Recent federal budgets have concentrated on economic growth as the only goal of social and economic policy, neglecting the need for environmental protection. Cuts to Environment Canada (amounting to over $170 million since 1994) and the decentralization of environmental powers to the provinces reveal the federal government's lack of commitment to the nation's environment.

We address the need for environmental protection with a balance of policies: regulation, ecological tax reform, green job creation, and a program of just transition for workers affected by environmental change. **We will establish a $1 billion Canadian Atmospheric Fund**, on the strength of revenues generated by two "green" tax reforms: a tax on the carbon content of energy fuels, and the elimination of existing tax subsidies for oil and gas exploration. Just over half of the fund will be invested, with the proceeds supporting climate change measures–projects such as **energy retrofits, street lighting retrofits, composting programs, and loans to purchase energy-efficient vehicles** for public and private vehicle fleet owners.

These kinds of programs have proven highly effective at reducing greenhouse gas emissions; we estimate that these projects will generate up to 15,000 new jobs. The remainder of the Atmospheric Fund will be dedicated to transition funding to support workers displaced from traditional fossil-fuel or chemical industries. In such cases, workers in the affected industries will be protected through income and benefit maintenance, access to new jobs, education assistance, and other support for affected communities.

The AFB also proposes a national program of pollution prevention to deal with pollution and waste. A **pilot corporate chemical taxation scheme** will lead into the financing of this program. Among the chemicals to be targeted for this tax are mercury, ozone depleters, perclorethylene, dioxins and furans.

The base budget of Environment Canada will be increased to $550 million.

The Agriculture budget will promote sustainable environmental farming practices and support family farming in Canada. We replace the GRIP and the NISA, both of which disproportionately benefit large farming operations, with a new $300 million Family Farm Support Program. An additional $150 million will fund the Beginning Family Farmer and Resettlement Program. These programs will provide **income support for existing and new family farms**, and help repopulate rural Canada. Rural Community Support Programs, including infrastructure development, housing, and community economic development, are part of the AFB's programs in those particular areas.

The research and inspection capacity of Agriculture Canada will be renewed and redirected with an additional $50 million in funding. This will allow the department to support the development of sustainable farming systems.

The AFB increases Natural Resources departmental spending by $70 million. **Our priority is the forestry sector**, where the federal government's withdrawal from forestry management has put our forests and the jobs that rely upon them in jeopardy. Due to a 50% reduction in the forestry budget since 1994, federal forest development programs, including reforestation, are now mostly defunct.

We will promote greater sustainability in forest practices through a Forest Investment Fund. This Fund will ultimately receive annual revenues equivalent to 1% of the forest sector's total contribution to our economy (or about $200 million). This funding level will be achieved gradually over the next four years, starting with a $50 million budget this year.

The federal government can also play a role in protecting biodiversity by establishing new protected areas, especially in regions where national parks do not exist to protect the environment. To this end, we establish a **$30 million Protected Area Fund**. The research budget of the Canadian Forest Service will be restored to $151 million, its 1994 level, over the next two years.

Forestry employment will be increased through the above measures, and through industrial policy initiatives that encourage value-added production.

The Fisheries department budget will be maintained at its 1997/98 level of $1.08 billion, and we will add $50 million in research and conservation funding. Funding for the the Atlantic Groundfish Strategy (TAGS) program will also be maintained. Long-term solutions to the ecological and human crisis facing fishing communities must be found—solutions which put the needs of people and the environment first.

Culture

A crisis faces Canada's cultural production, due to massive federal funding cuts, international trade and investment agreements which erode cultural sovereignty, and the concentration of ownership in media and cultural industries. Despite this crisis, the federal government plans to cut cultural spending by $380 million over the next two years, and is pursuing policies such as the Multilateral Agreement on Investment (MAI) which would further limit our collective ability to support the diversity of culture in Canada.

As in previous years, the AFB makes a strong commitment to supporting the cultural sector, and to that end will increase federal spending by $350 million over the next two years. Our reinvestment will include an **immediate increase of $125 million to the CBC**.

Other measures include the restoration of the tax on split-run magazines, and the Postal Subsidy Program—both measures essential to support Canada's indigenous magazine industry. We also **eliminate the GST on magazines and books**. Legislation will limit media concentration and encourage worker-owned and cooperative ownership of media through our Community Economic Development strategy. A National Universal Access Fund will be set up to allow affordable public access to new information and communication technology.

As part of our taxation policy, cultural producers will be allowed to average their income over a three-year period, which is a fairer way to tax the income of artists.

Canadian Foreign Policy and Common Security

The link between more equitable and sustainable solutions at home and abroad is fundamental to the Alternative Federal Budget. **An ethic of global citizenship rejects a vision of Canadian foreign policy based exclusively on short-term commercial and political imperatives**, in favour of the goals of sustainable human development and an ethic of global citizenship and partnership. An expansion of trade and investment without guarantees for human rights, labour standards, social well-being and concern for the environment will have substantial costs for human welfare and sustainable ecosystems.

Repeated cuts to Canadian Official Development Assistance (ODA) are ethically indefensible in light of the growing number of people living in poverty around the world. The AFB will restore a positive outlook for sustainable human development by reversing the planned $150 million cut to ODA for the coming year, and by **increasing ODA each year for the following seven years, reaching a target of 0.40% of GNP by 2005.** Canadian aid programs will be reformed, targeting the needs of the poorest countries and the poorest people.

Aid plays an important role in the struggle to eliminate poverty, but alone it is not enough. Debt forgiveness for the highly indebted poor countries is also essential. Canada will play its part by **forgiving outstanding official loans** to these countries, at a cost of $800 million over the next three years. We allocate $170 million to this goal this year.

A **restructured and more specialized defence force** (directed to peacekeeping, search and rescue, and emergency assistance to domestic authorities) will allow for a reduced Defence budget over the next two years. We will also allocate financial and human resources to the Mines Action Fund, in support of the Land Mines Convention of December 1997.

General and Other

Under the category General Government Services and Other, the AFB will allocate sufficient funding to provide pay equity for the federal public services, as well as some room for improvements in public service wages and benefits.

WORKING TOWARD A FAIRER TAX SYSTEM

TAX RELIEF FOR THOSE WHO NEED IT

From its inception in 1995, the Alternative Federal Budget has focused on the macroeconomic and taxation policies needed to **rebuild the capacity of the federal government to pay for the public programs we need**. We have argued that the main driving forces behind the growth of the deficit in the first place were macroeconomic—high interest rates and high unemployment—and that reversing these policies was the key to an alternative, progressive budgetary direction. Indeed, more amenable macroeconomic conditions since late 1995 (lower interest rates and accelerating growth) have been the main factors in the rapid elimination of the federal deficit.

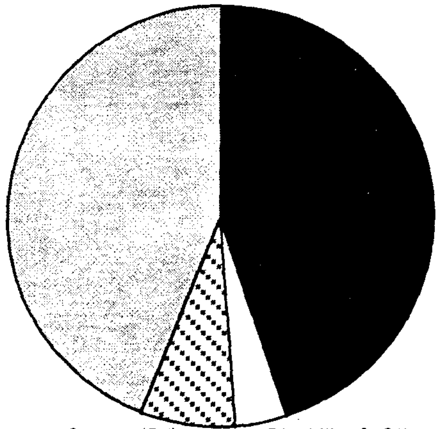
This sea-change in federal finances has important implications for the AFB's tax policies as well. Reduced interest rates and higher economic growth have already done much of the job of rebuilding Canada's fiscal capacity. And our macroeconomic strategy of sustained low interest rates and economic growth will generate even more fiscal room for rebuilding public programs in the coming years, without running deficits and without increasing taxes.

As a result, **we can now begin to focus on improving the fairness of the tax system, without worrying so much about needing to increase the total revenues** generated by that system. In past years, we promoted significant up-front increases in taxes (aimed especially at profitable businesses and high-income households) to pay for badly-needed up-front reinvestments in social programs. But this year, since we are starting with a balanced budget and relying on low interest rates and sustained economic growth, we can go a long way towards rebuilding federal programs without imposing major tax increases.

At the same time, however, the growing social emergencies of our communities are so pressing that **we feel obliged to do as much as possible in the first year** of our program to undo the damage that has been done during the 1990s. We are therefore pledging to immediately increase federal program spending in fiscal 1998-99 back to the same nominal level ($118.7 billion) that prevailed in 1994 prior to the historic spending cuts imposed by Paul Martin in his 1995 budget. **This will require a modest one-time increase in the total tax take of the federal government**. Beyond the revenues generated by faster economic growth, therefore, the AFB will need a one-year tax increase of $3.1 billion. This tax increase will be aimed especially at super-profitable banks and other interests which have profited immensely from the lopsided economy of the 1990s.

The one-time increase in the aggregate level of federal taxes will be *reversed* in the second year of our budget. For fiscal 1999 and beyond, therefore, we will maintain the ratio of aggregate federal taxes to the size of Canada's economy at exactly the same level—17.5 % of GDP—that was experienced in 1996. **With lower interest rates and sustained economic growth, we can indeed**

Relief Where It's Needed



Total Targeted Tax Relief, 1998: $9.7 Billion

rebuild our valued network of public programs in the coming years, without deficits and without increasing taxes.

At the same time as capping the overall level of federal taxes (relative to our economy), **we take dramatic measures to improve the fairness of the tax system**. This "tax fairness package" is designed in a revenue-neutral way: the revenues gained by closing loopholes for businesses and high-income earners are offset by progressive tax credits offered to low-income households. **The AFB contains a total of close to $10 billion worth of tax fairness** measures (see figure): tax relief for those Canadians who really need it, financed by closing loopholes and other tax increases for those who can and should be paying more.

In sum, our ambitious program of public service renewal and job creation (including the immediate restoration of program spending to 1994 levels) can be funded with an aggregate tax increase of only 0.3% of GDP, imposed for one year only. The dramatic reduction in the amount of new revenue needed to fund the AFB makes it possible to shift the focus of our tax policy towards providing tax relief for Canadians who really need it. **We expect that most Canadians earning less than $60,000 per year will see their federal taxes decline.**

The tax proposals of the Alternative Federal Budget are summarized in Table 4.

Table 4: Alternative Federal Budget Tax Package (change in $million)

	1998-99	1999-2000
Tax Expenditure Reform:		
Full Inclusion of Capital Gains in Income	+$1.180 million	
Eliminate Dividend Tax Credit	+$640 million	
Integrate Corporate & Personal Tax for Small Business	+$346 million	
Capital Gains Exemptions		
Restrict $500,000 farm assets exemption	+$153 million	
Restrict $500,000 small business exemption	+$548 million	
Eliminate Capital Gain Freeze, Family Trusts	+$300 million	
Disallowance of Certain Deductions		
Meals & entertainment (corporate & personal)	+$305 million	
Lobbying expenses	+$50 million	
Salary in excess of 10 times average wage	+$50 million	
Restrict Eligibility for Scientific Research Credit	+$508 million	
Restore Non-Resident Withholding Tax to Treaty Rates	+$411 million	
Introduce Minimum Tax on Profitable Corporations	+$400 million	
Extend GST to Brokerage & Other Financial Services	+$190 million	
Restore Tobacco Taxation to Pre-1995 Level	+$495 million	
Increase Tax Credits for Families & Individuals		
Increase child benefit by $700 per child in 1998, $170 per child in 1999	-$4,400 million	-$1,040 million
Increase GST adult credit by $60	-$720 million	
Increase Disability and Related Medical Credits	-$290 million	
New GST Exemptions		
Books and magazines	-$49 million	
Transit passes	-$25 million	
Income and Wealth Tax Reform:		
Wealth Transfer Tax, Estates Over $1 Million	+$2,925 million	
Elimination of 3% Federal Income Surtax	-$2,220 million	
Income Tax Rate Changes		
Cut bottom rate to 16% from 17%	-$2,050 million	
Increase top rate from 29% to 30%	+$510 million	
Add new brackets at $100,000 and $150,000	+$775 million	
Sub-Total: Income & Wealth Tax Reforms	**+$32 million**	**-$1,040 million**
Green Taxes:		
$4 per Tonne Carbon Fuel Tax	+$500 million	
Eliminate Tax Preferences for Oil & Gas Development	+$500 million	
Temporary Revenue Measures:		
Temporary Surtax on Private Financial Institutions	+$1,500 million	-$1,500 million
Enhanced Enforcement of Tax Regulations	+$600 million	-$600 million
Total Change in Taxes:	**+$3.1 billion**	**-$3.1 billion**

Components of the Alternative Federal Budget tax program:

- Freeze the overall level of federal taxes in 1999 and beyond at 1996 levels.
- Significantly increase tax credits for families with children, offset by reallocating tax expenditures away from corporations and high-income individuals.
- Provide income tax relief for low- and moderate-income individuals and families, offset by a combination of a tax on wealth transfers (in excess of $1 million), the cancellation of tax preferences for income from capital, and the introduction of two new tax brackets for the highest-income individuals in Canada.
- Create an Atmospheric Fund of $1 billion supported by revenue from a modest carbon tax and the savings from cancelling tax preferences for the oil and gas industry.
- Increase general revenue for one time only in 1998 through a temporary surcharge on bank profits and a one-time increase in revenue from tougher enforcement of existing tax laws.

TAX CREDITS

The Child Benefit will be increased by $700 per child in 1998, to a total of about $1,400, and by another $170 per child in 1999, to a total of close to $1,600. The GST Credit will be increased by $60 per adult. This will provide **substantial tax relief for low-income individuals and for families with children** well into the middle-income range. This substantial increase in tax expenditures directed towards low-income individuals and families with children will be offset by the proceeds of a sweeping reform in Canada's tax expenditure system.

Beginning in 1998, the AFB will make substantial **changes in the tax treatment of capital gains**. The special exemptions from capital gains taxation for farms and for small businesses will be replaced by measures better targeted to their objectives. For farming, a rollover of capital gains will be permitted when a farming property is transferred to a family member as a going-concern farming operation. In addition, a portion of the capital gain from the sale of farming assets will be eligible for a tax-free rollover into an RRSP. This special RRSP provision will also be available to owners of small business assets.

In addition, **capital gains will be made fully taxable** (in both the personal and corporate tax systems), ending the 25% tax preference given to this unearned income. And the **dividend tax credit will be eliminated** and replaced with measures similar to those in the United States for integrating personal income and personally controlled private corporations. As it stands, this tax preference applies only to shares held directly by individuals; it does not apply to shares held by individuals through mutual funds or RRSPs, and hence the vast majority of Canadians derive no benefit from it.

Preferential tax treatment for small business will be limited to the equivalent of that provided to taxpayers in the U.S. tax system; we will ensure that there is no advantage to earning income through a personal corporation rather than directly as an individual.

The deduction from both personal and corporate income for **meals and entertainment expenses** will be reduced from 50% to zero.

The **corporate income tax credit for scientific research and economic development** will be restricted so as to reduce its cost to Canadian taxpayers by one-half.

And the provision of Canadian tax law that exempts non-residents from the withholding taxes provided for in our tax treaties with other nations will be eliminated. The effect of this measure is to transfer tax revenue from Canada to other countries.

The **GST will be extended to brokerage fees and other financial services,** and tobacco taxes will be restored to their pre-1995 levels.

Tax expenditures will be increased in three areas: the GST will be eliminated on sales of books and magazines; the disability and disability-related income tax credits will be increased by 50%; and employer-provided transit passes will be made tax-exempt.

TAX RELIEF FOR LOW- AND MODERATE-INCOME TAXPAYERS

New revenues from a tax on transfers of accumulations of wealth in excess of $1 million will be directed to **targeted personal income tax relief**. The income tax rate structure will also be changed to promote a more progressive income tax system. Our tax relief package includes the following measures:

- The current 17% lowest rate of personal income tax will be reduced to 16%.
- The current 29% top rate of personal income tax will be increased to 30%.
- Two new tax brackets will be added: 33% of taxable income in excess of $100,000; and 35% of income in excess of $150,000.
- The 3% surtax on federal taxable income will be eliminated.

The combined effect of the income tax rate changes and the elimination of the surtax will be to reduce the bottom rate of tax to 16% from an effective 17.51%; and the middle rate to 26% from an effective 26.78%. The current top rate will be essentially unchanged, rising from an effective 29.87% to 30%. Even for many taxpayers in the current top tax bracket (those earning up to about $75,000 annually), the elimination of the 3% surtax will outweigh the increase in their top marginal rate.

The combined effect of these two sets of measures will be to reduce taxes substantially for low- and moderate-income families and individuals, and to shift the balance in the personal income tax system away from middle-income individuals toward those at the top of the income scale.

Temporary revenue measures for 1998-9

The bulk of the revenues needed to fund the AFB's program of social reinvestment are provided by ongoing economic growth and lower interest charges. For the first year of our budget, however, modest additional revenues are needed to fund program improvements in the short term. These measures will be limited and targeted, and are designed to ensure that those who have benefited most from the policies of the federal government over the past few years will bear the bulk of the burden. **These one-year revenue measures will allow us to restore in a single year the cumulative nominal spending cuts imposed by the Liberals since 1994.**

Much of the required $3.1 billion in additional revenue will come from a **one-time-only 40% tax on excess profits (profits in excess of a 10% rate of return on equity) of banks and other private financial institutions**. This tax will raise an estimated $1.5 billion, and will be imposed only for the first year of the Alternative Federal Budget. The Canadian financial sector continued to pile up record profits throughout the recession of the 1990s, and has profited mightily from the same economic and fiscal conditions (high interest rates, economic stagnation, government indebtedness) that have crippled government programs. **This sector can well afford a one-time-only levy to maintain fiscal balance as we rebuild public services.**

In addition, the Alternative Federal Budget will begin immediately to **intensify the administration of our tax laws** so as to draw down the unacceptably high value of unpaid taxes. The most unfair tax is one that is not appropriately collected when it is due, because it penalizes taxpayers who pay their taxes voluntarily and rewards those who cheat. The Auditor General estimated in 1995-6 that $6.6 billion remained uncollected in the personal income tax system alone.

While stepped-up enforcement efforts have stemmed the increase in uncollected taxes, it is unlikely that they have reduced the backlog to any significant degree. And no action has been taken on **widespread theft of GST revenues by merchants** who collect the tax from their customers but do not remit it to the government. We plan to collect 10% of these outstanding taxes in the first year of our budget. Further collection efforts will be undertaken in subsequent years, but are conservatively excluded from our budget projections.

Green taxes

Finally, the Alternative Federal Budget will also introduce two new tax measures to be used to provide the revenue base for our proposed $1 billion Atmospheric Fund. A tax based on the **carbon content of fossil fuels** used for the production of energy equivalent to $4 per tonne will provide one-half of the necessary revenues to establish this fund. The tax will be designed to exempt industrial uses of carbon-based fuels as a process input (in steel and cement manufacturing, for example) and to offset the additional impact of energy taxes on residents of northern and remote areas.

The remainder of the necessary funding will be generated by the savings from **eliminating special tax measures for oil and gas production**. These measures currently bias the tax system in favour of non-renewable energy production.

The introduction of the two green taxes will contribute toward the $3.1 billion in additional revenues required to fund our program spending in fiscal 1998. Unlike the financial institution excess profit tax and the revenues from intensified tax collection, however, both of our green taxes will be retained in subsequent years. For fiscal 1999 and beyond, their $1 billion cost will be offset by the second-stage increase in the child benefit–increasing this benefit by another $170 per child, to a total of almost $1,600. By 1999, therefore, even the introduction of the green taxes does not compromise the overall "revenue neutrality" of our tax package, according to which the overall federal tax rate is maintained at no higher than 1996 levels.

Conclusion

Middle- and lower-income Canadians were victimized most by the unfair tax "reforms" of the Mulroney years. They also were hurt the most in the 1991-93 recession. And they have borne the brunt of the massive cuts in public services set in motion by the policies of the Liberal government. The median family income in Canada–before tax–is lower in real terms than it was in 1975. **It is small wonder that middle- and lower-income families are asking for tax relief.** They need tax relief. But they do not need the tax relief of the Reform Party: one which steals from public programs and gives to the well-off.

The 1998 AFB provides tax relief to those who need it most, by re-balancing the tax system so that those who benefit most from our economy pay a greater share of the costs of maintaining it.

Components of the Alternative Federal Budget tax program:

- Freeze the overall level of federal taxes in 1999 and beyond at 1996 levels.
- Significantly increase tax credits for families with children, offset by reallocating tax expenditures away from corporations and high-income individuals.
- Provide income tax relief for low- and moderate-income individuals and families, offset by a combination of a tax on wealth transfers (in excess of $1 million), the cancellation of tax preferences for income from capital, and the introduction of two new tax brackets for the highest-income individuals in Canada.
- Create an Atmospheric Fund of $1 billion supported by revenue from a modest carbon tax and the savings from cancelling tax preferences for the oil and gas industry.
- Increase general revenue for one time only in 1998 through a temporary surcharge on bank profits and a one time increase in revenue from tougher enforcement of existing tax laws.

The *time* *is* NOW

Budget in brief

Alternative Federal Budget 1998

The time *is* now. For a budget and a government with a vision.

Paul Martin says we've got our economic house in order, but it's falling apart for millions of Canadians. We want a house with a strong foundation -- not one that looks good from the outside (to international speculators) but is crumbling on the inside (with a widening gap between rich and poor, a falling standard of living, and weakened health and education systems.)

The 1998 Alternative Federal Budget provides a blueprint for a different kind of budget. One that focuses not on the bankers' bottom lines, but on creating the kind of country Canadians want – one based on principles of equality, fairness, and sustainability,

Canadian Centre for Policy Alternatives & Cho!ces: A coalition for social justice

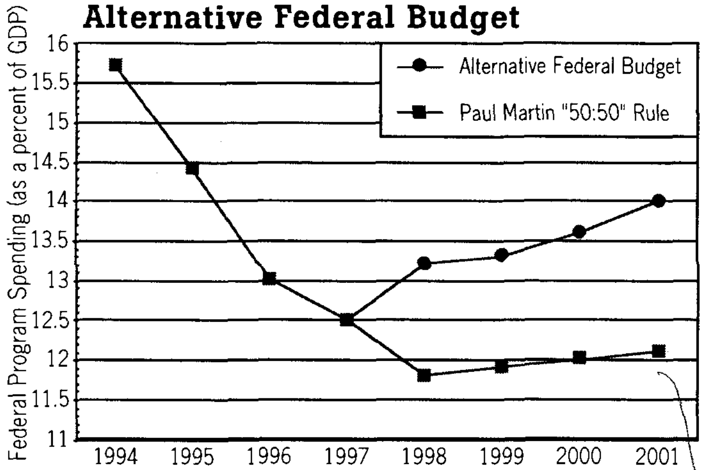
Time to spend more money on the top priorities of Canadians.

We desperately can and should reinvest billions of dollars in the things that Canadians have identified in poll after poll as their top priorities. The time is now to begin to address the looming social disaster that is the legacy of years of budget-cutting.

The fiscal dividend can and should be spent. We need -- and the majority of Canadians want -- reinvestment in health care, in education, and in the environment. By reinvesting heavily in these and other areas, we can take on (youth) unemployment, poverty, and make sure health care and education remain accessible and reliable.

At the same time, this reinvestment will put money back into the economy, and into people's pockets, stabilizing domestic production and demand.

Program Spending: Paul Martin vs. Alternative Federal Budget



smaller dividend, due to commitment to high interest rates
also 50/50 rule

The 1998 Alternative Federal Budget proposes allocation of the entire budget surplus to reinvestment.

- Reinvest $13 billion, rebuilding program spending to $118.7 billion for 1998.

While this may sound like a lot of money, these increases will only start to make up for the money that has been cut, and the damage already done. Over half of the money goes to priority areas:

- Reinvestment in health care: $2.8 billion
- Reinvestment in education: $900 million
- Reinvestment in fighting poverty $ 1.9 billion
- Reinvestment in environmental protection and infrastructure: $2 billion

Time to act on job creation.

There's no mystery to job creation. First, you need a federal government that's willing to make job creation a central goal of the economy.

The 1998 Alternative Federal Budget proposes to make economic growth and, therefore, job creation, the top priority of the federal government and the Bank of Canada.

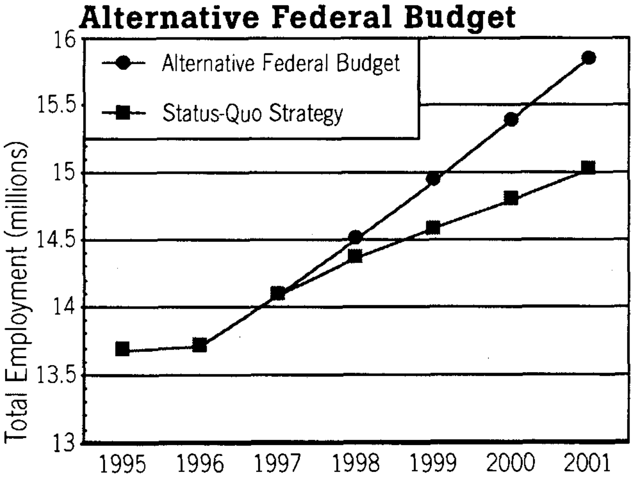
It's time, too, for direct government reinvestment to play its part. If we can employ people to clean up after the ice storm, we should be able to employ people to clean up after the social mess created by the cuts of the last 10 years.

The 1998 Alternative Federal Budget creates good jobs through its reinvestment plan – jobs in important areas such as health care, education, and environmental protection.

Through a combination of lower interest rates and reinvestment, our job creation strategy would:

- Reduce official unemployment to 5 percent or lower by the end of 2001.
- Create 1.8 million new jobs over the next 4 years, 800,000 more than likely under current policy.
- Help reduce the poverty rate by 6 percent in four years.

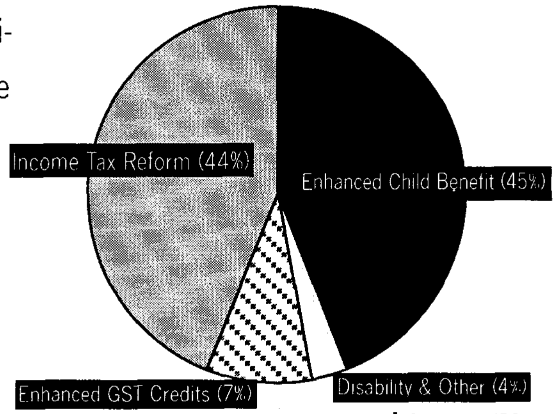
Job Creation: Status-Quo vs. Alternative Federal Budget



Time to re-balance the tax system.

Another legacy of the war on the deficit that needs to be corrected is that thousands of Canadians are paying more tax for less and worse government services and programs. The majority of Canadians feel taxes are too high, while at the same time supporting increases in taxation to pay for social spending they know is desperately needed.

Tax Relief where it's needed



Total targeted Tax Relief: $9.7 billion

The federal government can begin to restore fairness in the tax system, asking those who have done well in the last 10 years to pay more.

The Alternative Federal Budget outlines the specific changes the federal government could make right now to pay for the reinvestment Canadians want while making the tax system more fair. Changes proposed would:

- Take significant measures to improve fairness in the tax system, including significant tax relief for people earning

$60,000 or less a year.

- Freeze the total federal tax intake to 1996-97 levels starting in 1999.
- Increase tax credits for families with children, offset by reallocating tax expenditures from profitable corporations and high income earners.
- A $1 billion "green tax" package to pay for a Canadian Atmospheric and Climate Change Transition Fund.

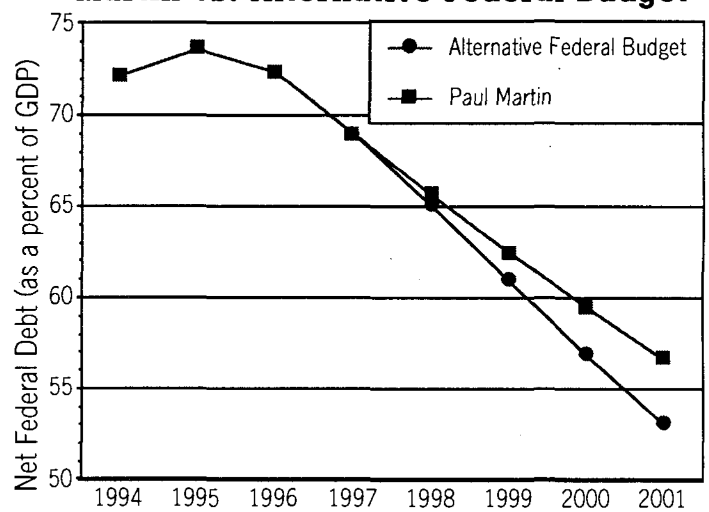
Time to regain control over the economy.

Canadians want to reduce the burden of the national debt. The Alternative Federal Budget shows how we can do this, not by further damaging our economy through more spending cuts, but through growing our economy to provide more economic opportunities for people. We can have a much reduced debt burden by taking back some control of our economy.

The 1998 AFB shows how we can have a much reduced debt burden through our "Made in Canada" interest rate policy, and our reinvestment plan. With these changes, Canada could:

- Sustain economic growth at 4% per year (after inflation) through a combination of lower interest rates and reinvestment.
- Balance the budget in 1998.
- Target a nominal surplus of $1 billion in subsequent years.
- Reduce the federal debt burden faster than planned by the federal government, to 60% of Gross Domestic Product by the year 2000.

Reducing the Debt Burden: Paul Martin vs. Alternative Federal Budget



The Alternative Federal Budget is co-ordinated by the Canadian Centre for Policy Alternatives and Cho!ces: a coalition for social justice. For more information on the AFB, please call the CCPA at (613)563-1341 or visit their web site at www.policyalternatives.ca.

THE ALTERNATIVE FEDERAL BUDGET AND ITS IMPLICATIONS FOR BRITISH COLUMBIA

Federal fiscal and economic policies pursued by both the Mulroney and Chrétien governments have had a decidedly negative impact on British Columbians. The sustained and deliberate macroeconomic slowdown of the past fifteen years has slowed growth and increased unemployment. High unemployment has reduced tax revenues and increased expenses for income support programs, putting continuing pressure on the government's finances. Meanwhile, federal funding for social services, health care and education has been dramatically reduced. Compounding these problems is the fact that higher real interest rates have inflated provincial borrowing charges.

If enacted, the 1997 Alternative Federal Budget would have begun the task of reversing this damage. While it is difficult to determine its precise impact, the AFB clearly would provide many immediate benefits for British Columbians. The AFB would increase funding for health care, social services and education. It would lead to the creation of more jobs and higher real incomes for British Columbians. Lower real interest rates would reduce the provincial government's debt servicing charges. Taken together, these measures would have a positive effect on the economy and on the province's finances.

- **Social Investment**

The AFB rejects the federal deficit-cutting strategy which has seen drastic cuts to social programs and the offloading of these costs to the provinces. The introduction of the Canada Health and Social Transfer in 1996, which cut funding for provincial social programs, has placed severe pressure on British Columbia's health, education and social services budgets. Federal cash transfers to British Columbia under the CHST have declined from more than $2.2 billion in 1995/96 to under $1.6 billion in the current fiscal year—a drop of nearly 30 per cent.

Federal Transfers to British Columbia, 1995-96 to 1997-98
($millions)

	1995/96	1996/97	1997/98
CAP/EPF	2,220	-	-
CHST	-	1,780	1,580

Under the proposals contained in last year's AFB, however, federal cash transfers to British Columbia, assuming they were allocated on a per capita basis, would have been up to $1 billion higher in the current fiscal year and would continue to rise in future years. The AFB would eliminate the CHST and introduce dedicated funds to help finance the province's health care system, post-secondary education, and income support services.

Federal Transfers to British Columbia – Alternative Federal Budget ($millions)

	1997/98	1998/99
Health Care Fund	1,219	1,353
Post-Secondary Education Fund	375	407
Income Support Fund	975	1,066
TOTAL TRANSFER	**2,569**	**2,826**

- **Job Creation**

The AFB would increase total employment in Canada by an additional 150,000 to 200,000 jobs each year. Between 19,000 and 26,000 of these new jobs created *each year* would be located in British Columbia, helping to bring down the provincial unemployment rate. Due to increased employment and economic growth, the AFB would result in an increase of up to $400 million in provincial income tax revenues per year.

- **Lower Debt Charges**

The creation and maintenance of lower interest rates proposed by the AFB would have reduced British Columbia's annual interest charges on the debt by nearly $19 million in 1997-98, and more in future years as the debt is refinanced.

Improved Provincial Finances

In total, British Columbia's finances would be improved by up to $1.4 billion dollars if the 1997 AFB had been implemented.

Produced by the BC Office of the Canadian Centre for Policy Alternatives

CAW 567

Impact of AFB 98 Tax and Transfer measures

The AFB 1998 contains changes in the tax system and the child benefit that, taken together, result in a significant increase in disposable income for low- and middle-income families in Canada.

The changes, over two years, proposed in AFB 98 are:

- An increase in the child benefit by $870 per child, from $1,020 per child to $1,890 per child,
- An increase in the adult portion of the GST credit by $60 per adult,
- A restructuring of the income tax rate system by:
  - eliminating the 3% surtax on Federal Tax;
  - reducting the bottom rate of income tax from 17% to 16%;
  - increasing the current top rate of income tax from 29% to 30%; and
  - adding new rates of 33% for income between $100,000 and $150,000, and 35% for income over $100,000.

We have analyzed the impact of these proposed changes on Canadians with various family types, using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M).

This analysis demonstrates a substantial combined benefit from these changes, throughout the lower- and middle- ranges of family incomes.

For example, a single-parent family with two children and an income of $25,000 would receive an net benefit of $1,960 – a $1,740 increase in the child benefit, from $2,500 to 4,240; a $120 increase in the GST Credit; and a tax reduction of $100.

A couple with two children and a family income of $35,000 wouldbenefit by $2,140 – $1,740 from the child benefit, from $2,100 to $3,840, $120 from the GST Credit; and $280 from the tax changes.

A couple with two children and a family income of $50,000 would see their disposable income increase by $2,250 – $1,740 from the child benefit, which increases from $1,318 to $3,058; $40 from the GST Credit; and $480 from the tax changes.

A couple with three children and a family income of $50,000 would see their disposable income increase by $3,100 – an increase of $2,610 in the child benefit, from $2,700 to $5,310; a $55 increase in the GST Credit; and a tax reduction of $435.

A couple with no children and a family income of $75,000 would save $500 from the tax rate changes.

Suite 804 - 251 Laurier Ave. West Ottawa ON K1P 5J6
Tel. (613) 563-1341 www.policyalternatives.ca