CALEDON
INSTITUTE OF SOCIAL POLICY

The Skilled Budget

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Ken Battle, Sherri Torjman and Michael Mendelson

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Caledon Institute of Social Policy
1354 Wellington Street West, 3rd Floor
Ottawa, ON K1Y 3C3
CANADA
Phone: (613) 729-3340
E-mail: caledon@caledoninst.org
Website: *www.caledoninst.org*

Skills and training comprise the centerpiece of the federal Budget 2013. It is all about matching jobs to people and people to jobs. Skills training is the mantra of Budget 2013.

Yet the training of Canadians has actually been going on for years. Ottawa has been drilling home the message loud and clear in many different ways and in diverse venues. We have been duly prepared and the mindset is set. It goes like this:

Canada is a nation in deficit. Canada is a nation in debt. We can do only so much right now in terms of tackling our pressing national issues.

For months, the Finance Minister had been warning in speeches and news clips that the cupboard will be bare for the 2013 Budget. Several provincial budgets preaching an austerity message – including cuts in once-booming Alberta – helped pave the federal Budget road.

The purpose of creating a scarcity mindset is to set the stage for the actual Budget announcements. The ground work was so carefully laid this time that Canadians were primed to expect doom and gloom. As a result, any positive announcement is hailed as nothing short of miraculous.

Many of this year's Budget initiatives are actually welcome. We acknowledge these and highlight them below. At the same time, the hoopla surrounding the new measures can detract from some serious problems in the country that remain unaddressed or unresolved.

First, the good news

On the positive side, there are significant areas of spending related to manufacturing, community infrastructure, Aboriginal Canadians, social housing and employment measures for persons with disabilities.

Because of lack of detail in the Budget, however, it is impossible to know how much of the proposed spending is 'new' money as opposed to how much has been diverted from other programs. We don't know what the impact will be on the areas that will take the hit in order to 'free up' funds for these purposes. The net result may look quite different than what the Budget suggests – once we have a better understanding of the financial shifts required to make possible new initiatives. The references to new money could well be reallocations of existing expenditure.

i. tax breaks for manufacturing

As part of its jobs and economic growth agenda, Ottawa put forward a set of measures designed to support manufacturing in Canada. Budget 2013 announces tax relief in the form of a two-year extension of the temporary accelerated capital cost allowance for new investment in machinery and equipment in the manufacturing and processing sectors. The purpose of this initiative is to bolster employment in the manufacturing sector, which has taken a huge hit in Canada.

We note this measure because of our concern about the disappearance of good jobs in Canada. The decline of manufacturing has meant the loss in the past 10 years of more than 700,000 better-paying jobs that typically came with decent benefits and pensions.[1] Its demise has contributed to the hollowing out of the middle class not only in Canada but throughout the developed world. We hope that the new manufacturing tax breaks will provide badly-needed support for higher-quality employment in this country.

ii. community infrastructure

A second positive development: Budget 2013 introduces a Building Canada Plan worth a total $53 billion, including $47 billion in new funding over 10 years. The Building Canada Plan includes a Community Improvement Fund worth $32.2 billion. It consists of an indexed Gas Tax Fund and the incremental GST Rebate for municipalities to build roads, public transit, recreational facilities and other community infrastructure across the country.

A new Building Canada Fund worth $14 billion will support major economic infrastructure projects that have a national, regional or local significance. It will help close the gaping infrastructure gap that plagues municipal governments. An additional $1.2 billion for a renewed P3 Canada Fund will be directed toward infrastructure projects that involve public-private partnerships.

iii. Aboriginal Canadians

The Budget announced several measures for Aboriginal Canadians.

These include $155 million over 10 years for First Nations infrastructure on reserve from the new Building Canada Fund, plus allocations from the Gas Tax Fund. The Budget affirms that this level of funding will be at least as much as was allocated under the 2007 Building Canada plan. The First Nations Infrastructure Fund focuses on improving First Nations energy systems, broadband connectivity, garbage disposable, road and bridge projects and building community capacity for infrastructure planning.

The Budget allocates $9 million over two years for the expansion of the First Nations Land Management Regime to create further opportunities for economic development on reserve through the development, conservation, use and possessions of reserve lands. This money will add 33 First Nations to the current 61 across Canada, including 8 announced earlier this year, which are participating in the Land Management Regime.

There will be $4 million over two years to increase the number of mental health wellness teams serving First Nations communities. The Public Health Agency of Canada will reallocate $2 million to improve data collection and reporting of mental illness and mental health. These investments build on the more than $100 million currently supporting Aboriginal mental health programs and services.

iv. social housing

Budget 2013 signals its intent to renew the Affordable Housing Agreements when these expire in 2014. This is very good news. This investment will help alleviate housing need by funding the provision, construction and repair of affordable housing. The Agreements are renewed for five years at current funding (unfortunately not indexed) of $253 million per year.

The Homelessness Partnering Strategy, which has enabled communities to invest in responses to homelessness, is renewed for five years at $119 million per year. The funds are being targeted toward a Housing First approach. These monies will continue the support for the work of the Mental Health Commission of Canada's At Home/*Chez Soi* project, which provides people who live with mental illness with housing and support services tailored to their needs.

An additional $100 million over two years is earmarked for new housing construction in Nunavut.

The announcement of a renewed commitment to social housing was long awaited and will bring some stability – at least for the near future – into this field, which is continually plagued by insecurity and funding vulnerability. The certainty is as important as the cash.

v. employment measures for persons with disabilities

The Budget has committed to extend for another year the current federal-provincial/territorial Labour Market Agreements for Persons with Disabilities, to permit a period of negotiation with the provinces and territories on ways to make these Agreements more effective. This is welcome, especially in contrast to the unilateral announcement regarding the Labour Market Agreements, discussed below. We call upon the federal, provincial and territorial governments to give stakeholders – especially groups representing individuals with disabilities – an opportunity for substantive input into these negotiations.

The Opportunities Fund for Persons with Disabilities currently provides regional and national organizations with grant funding for programs to assist persons with disabilities better integrate into the labour market. The Budget proposes to renew the program, but beginning in 2015-16, it will be made more 'demand driven' – which presumably means more responsive to labour market needs. With the promise of stakeholder involvement in designing the new program and more than a year for consultation, there is time to make this good program even better and more effective.

The Budget also includes two smaller but significant initiatives for person with disabilities. Seed money will be provided to assist the nascent Canadian Employers Disability Forum in becoming fully established. A similar Forum in the UK has been an important contributor to advancing the participation of persons with disabilities in the labour market. The Budget will also provide a boost in funding to the Social Sciences and Humanities Research Council for research related to the employment of persons with disabilities.

While these initiatives are modest, they demonstrate the government's ongoing commitment to improved programming for Canadians with disabilities.

the not-so-good news

Beneath the many positive announcements lies some not-so-good news. A federal Budget guided by a scarcity mindset can result in questionable responses. A Budget shaped by a scarcity mindset can be scarce in the wrong places. A scarcity mindset can leave unresolved some fundamental problems facing the country.

i. questionable responses

The Budget's centerpiece on training is a proposal for a new program called the 'Canada Job Grant.' Funding for the Canada Job Grant is to come from reallocating $300 million from the $500 million annual Labour Market Agreements with the provinces and territories.

Under this proposal, the federal government would make up to $5,000 per trainee available to employers for "short-duration training," which would be matched by $5,000 each from the employer and the province or territory – for a total $15,000. The Budget says that the detailed design of the new program will be negotiated with the provinces and territories, in consultation with stakeholder groups, over the next year.

Good luck on the negotiations: For most of the provinces and territories, this proposal is close to a declaration of open war.

First, the measure as it is constructed would see the provinces and territories allocating an additional $300 million a year on their matching grants over and above what they currently spend on training. Perhaps with the exception of Saskatchewan, all the provinces and territories are struggling with their own deficit problems. When the federal government proposes a 'new' initiative with zero new money of its own, it is in effect asking the provinces and territories to come up with substantial money to pay for a *federal* program. The likelihood of this happening is approximately zero.

Second, from a provincial and territorial prospective, all of the current $500 million is being deployed to provide training and employment preparation, much of it for social assistance recipients. Cutting out two-thirds of this money means mass firings, including at community colleges, and eliminating almost all employment programs aimed at persons not eligible for Employment Insurance (in Ontario and the West, this is the majority of unemployed). If this were not to happen, the provinces and territories would have to come up not only with the $300 million matching grants in the new federal program, they would have to find an entirely new $300 million to continue funding existing programs under the current Labour Market Agreements. In other words, the real potential cost to the provinces and territories is likely closer to $600 million annually.

Third, outside of a few booming sectors, employers in Canada have shown little willingness to pay for training. Canadian employers have among the lowest expenditures on in-employment training of any developed country. Employers may or may not pay lip service to this proposal, but it would be astonishing to see them come up with real money to pay one-third of training costs when they have until now shown not the least interest in such training.

Fourth, and perhaps most important, research shows that most effective training for increasing long-term employment is that which results in a recognized credential, not short-duration training. Where is the data to show that this program is needed and would be effective?

Where and why the federal government came up with this scheme is perhaps one of those secrets of Budget-making which we do not really want to know. But we have no doubt that it will encounter serious headwinds as it blows its way into the provinces and territories.

Another questionable announcement in Budget 2013 involves the newly-announced ‘training-fare’ on reserve. The Budget proposes a new First Nations Job Fund of $109 million over five years. As part of this proposal, any income assistance paid to young people would be tied to participation in this program “as per current practice in their province of residence.”

For social assistance recipients living in a city or town, we believe that it is not unreasonable to expect active job search, or that they will take advantage of sensible and potentially rewarding educational opportunities. But we object to the attempt in this Budget to make participation in a training program a condition for receipt of social assistance on reserve – not necessarily because of the conditionality, but rather because it is wrong and counterproductive for the federal government to make these kinds of unilateral policy pronouncements without consultation, agreement and consent by First Nations.

It seems that First Nations may have the choice as to whether or not to participate. But given the way that this initiative was announced, it is unlikely that there will even be discussion of the content. This is a shame and a missed opportunity for both the federal government and First Nations: The initiative includes about $48 million a year of new money for training and employment infrastructure, which really is desperately needed in many First Nations. But Ottawa must learn that the days when it could just announce a new policy for First Nations and expect it to be implemented are over.

If and when anyone gets around to talking about the actual program, there are many substantive questions. Will a First Nation be able to use these funds to pay for post-secondary training, say in a community college? According to the Budget, "Income Assistance benefits will depend on participation in training as per current practice in their province of residence."

But provincial practices are not that clear-cut and are subject to many interpretations. If a province does not require participation in training as "per current practice," does that imply no First Nations in the province can obtain any of the federal funds? What about remote and rural reserves where training is not readily available or much too expensive to access or simply not sensible? What about First Nations that are self-governing and get an unconditional grant that includes funding for all social programs?

This initiative could have begun differently. The federal government could have announced instead that it wanted to assist willing First Nations convert from passive social assistance to active programs, and that it was ready to make a substantial investment to do so. Ottawa could have indicated its commitment to consulting with First Nations as to whether this is a goal they share and, if so, how it could be best achieved.

Moreover, given that almost all training is under their jurisdiction, provinces and territories should also have been engaged in policy development. Perhaps this process would take longer and, realistically, would also not be without conflict. But we suspect that it would turn out in the end to be a more efficient process and result in better policy.

It is not too late. If Ottawa is prepared to take a more flexible, consultative approach with the attitude that it does not have all the answers, we predict that First Nations and provinces/territories could be brought into meaningful cooperative discussions, possibly on a tripartite regional basis rather than a national basis.

Budget 2013 makes reference to a federal *First Nations Education Act*. An Act remains the only way that Parliament can set out requirements for this government and future federal governments to support good schools on reserves. An Act is also an essential instrument for Ottawa to implement its Treaty obligations for education. Caledon therefore has been and remains a strong supporter of a *First Nations Education Act*, although this does not mean we support *any First Nations Education Act*. We are uncomfortable with the unilateral and coercive aspects of the *Education Act* as proposed in the recent federal discussion paper.

The Budget's commitment to seek First Nations' input into draft legislation is welcome. We hope that once the draft legislation is tabled, the discussion can turn from the process to a more productive debate about substance.

ii. Misplaced scarcity

Canadians have been led to believe that this country's resources are limited. When it comes to natural resources, this is absolutely the case. Ottawa should be concerned with how best to protect the precious resources that comprise our collective wealth. The federal government instead has brought in measures in recent years that both reduce and remove protections for these natural resources. The most obvious and egregious recent examples include the dismantling of the freshwater research station in Northern Ontario and the changes to the *Navigable Waters Protection Act* that limit federal protection for waterways to only 62 rivers, 97 lakes and three oceans.

Rather than turning its attention to natural resources that are indeed in relatively short supply, Ottawa has focused instead on scarce fiscal resources. Canadians have been told there are few available funds to tackle tough problems. Yet miraculously, money just happens to be found when it comes to supporting the government's pet projects.

Ottawa persists with its get-tough-on crime agenda, despite declining crime rates in Canada. Over its first six years in office, the federal government has spent $548.6 million on its advertising budget to let Canadians know how well our tax dollars are being spent.[2]

Budget 2013 also lauds the introduction in recent years of a number of targeted tax breaks, including the Children's Fitness Tax Credit, the Children's Arts Tax Credit, the Family Caregiver Tax Credit, the Volunteer Firefighter's Tax Credit and the Public Transit Tax Credit. These may sound like worthy activities to encourage with a tax break.

But the tax system is not necessarily the best delivery vehicle to encourage such behaviour, especially since many people who benefit from these tax measures were already engaging in that behaviour and don't need a relatively modest tax cut – e.g., $75 for the Children's Arts Tax Credit and the Children's Fitness Tax Credit – to keep doing it. Yes, these tax cuts recognize the value of arts and culture as well as fitness activities in contributing to the well-being of children, their self-esteem and positive development, and the expression of their identity.

But it is low-income children – excluded from the Children's Arts Tax Credit and Children's Fitness Tax Credit because their family's income is too low to qualify for non-refundable credits – who would benefit most from arts and fitness programs because they typically do not have access to various personal enrichment activities. These families simply cannot afford what might be considered a 'frill' when they struggle daily with the choice of paying the rent or feeding the kids. Better to invest in services that provide fitness and arts and culture opportunities for all children, the poor in particular – not simply for those whose families already can afford to buy access to these services in the first place.

The Budget also pats itself on the back for the pension income splitting provision, a very expensive ($920 million) and regressive tax break introduced in 2007 that favours wealthy senior couples. A senior couple with a modest private pension of $20,000 a year will realize a grand total of $310 in federal income tax savings as a result of income splitting. For a couple with $30,000 in pension income, the savings increase to $802. However, a well-to-do couple with $100,000 in pension income will see a tax reduction of $7,280 – more than nine times that of a couple with $30,000 in pension income, and more than 23 times that of a couple with $20,000 in private pension income.

Ottawa also continues its 'war agenda' in both practice and history. Last year, for example, the federal government spent millions refighting the War of 1812 when it should, instead, have been fighting the War against poverty of 2012. The most recent figures, for 2010, show that 8.2 percent of Canadian children – 550,000 or one in every 12 – still live in poverty despite the 1989 all-party House of Commons resolution to move toward the eradication of child poverty by the year 2000.

We appear to have lost sight of the real war against poverty and inequality in this nonetheless affluent nation. Ottawa has some powerful policy levers it could use to reduce poverty and inequality.

The federal government could bolster the Canada Child Tax Benefit, a proven poverty fighter which delivers monthly cash payments to 90 percent of Canadian families with children and pays the highest amount to the poor.

There is money available for this improvement. Some $3.6 million a year currently is spent on the Universal Child Care Benefit and non-refundable child tax credit – two programs introduced by the federal government in 2006 and 2007, respectively. These schemes are flawed and wasteful; they should be scrapped and their funding redirected to the Canada Child Tax Benefit, a well-designed program that is fair, fully-indexed, non-taxable and progressive.[3]

The maximum amount under our proposal, payable to low-income families, would be $5,300 per child annually, up $1,718 from the current maximum payment of $3,582 for a first child. Benefit increases should be phased in incrementally, over several years, as was done when Ottawa grew the Canada Child Tax Benefit.

In addition to high rates of poverty among some groups, such as Aboriginal Canadians, recent immigrants and people with low education, inequality between rich and poor has been rising. Over the past quarter-century, the average incomes of wealthy Canadians increased by 16 percent, while those of the poor dropped by 21 percent. Even the OECD has raised a red flag on Canada's performance in tackling this growing problem. Yes indeed, there are limited fiscal resources in this country – for persons living on low incomes.

There are few measures in this Budget to tackle poverty and inequality other than the renewal of the social housing agreements. The only initiatives mentioned are changes that have been introduced in past Budgets.

iii. Unresolved problems

Budget 2013 introduces a new Building Canada Plan worth a total $53 billion. The new Building Canada Plan will help tackle the massive backlog that com-munities currently face in repairing and upgrading their hardware. An innovation economy needs the basic platforms – including public transit, sewers, roads and other components of their physical plant – to be in good shape.

While the announced funds are crucial, their delivery remains questionable. Communities will have to apply for a grant to receive the funds. They will have to get in a very long and competitive line, and may or may not be successful in acquiring necessary funding.

Moreover, Canada's major cities should be invited to go to the head of the line. Major cities drive Canada's economy. Larger cities are the hotbeds of innovation. Cities house 80 percent of Canada's population.

There must be explicit recognition of this reality and greater investment in larger centres if Canada is to be a real player on the global stage. While important, fixing the roofs of 10 community centres in towns and villages throughout the country will not have the same economic and social impact as a significant investment in, say, public transit in Toronto.

It will be also be essential to ensure that an impartial panel is involved in making decisions regarding the selection of projects. These funds cannot be used to support work in 'selected' ridings throughout the country. There must be a guarantee that these projects do not become part of the next pre-election ad campaign for the current government.

Far more important to resolve, however, is the need to fundamentally overhaul the existing grant relationship and for Canadian cities to have their own independent sources of revenue. Cities currently have limited revenue-generating capacity. With about 50 percent of total budgets coming from property owners, Canadian cities rely heavily on property taxes with the remainder coming from various fees, licenses and parking tickets (!). The revenues of cities are well out of sync with their large and growing responsibilities.

Canadian cities need access to ongoing and stable revenue sources, such as a percentage of federal or provincial income taxes. Additional forms of revenue would help reduce reliance on property taxes, which are regressive and inherently flawed as an instrument for funding cities' long-term needs. The infrastructure money is both welcome and crucial but unfortunately leaves untouched the underlying fiscal architecture – itself in desperate need of repair.

Endnotes

1. Curry, B. and S. Chase. (2013). "Budget 2013: 'Action plan' rebooted with tax break for manufacturers." *Globe and Mail*, March 21. *www.globeandmail.com*

2. Cheadle, B. (2013). "Feds spent $21M on Economic Action Plan ads in 2011-12: annual report." *Calgary Herald*, March 11. *www.calgaryherald.com*

3. Battle, K. (2008). *A Bigger and Better Child Benefit: A $5,000 Canada Child Tax Benefit*. Ottawa: Caledon Institute of Social Policy, January.