CALEDON INSTITUTE OF SOCIAL POLICY

The Red-Ink Budget

by

Ken Battle, Sherri Torjman and Michael Mendelson

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ISBN 1-55382-340-0

Published by:

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Introduction

In an ironic twist of timing, the 2009 Budget was introduced one day after the Chinese New Year – a festival marked by celebration and redecoration for the year of the Fresh Start. Tradition involves the painting of doors and window frames – bright red. Customs include hanging red paper lanterns and distributing red packets of money to children. There is supposed to be a splash of red, everywhere. This year, Canada's federal Budget adopted the red theme in a big way.

For weeks, Canadians had been primed for a Budget awash in red ink. But in this case, the colour of luck brought no good fortune. It is the first Budget in more than a decade to fall below the break-even line and enter deficit territory. Canada has now returned officially to unlucky red – after years of being the only G8 nation to have landed in the black by vanquishing our deficit.

Going back to the red sea was not a decision taken lightly. But under current circumstances, it was the right thing to do.

While Canada's financial sector is among the healthiest of the developed nations, we are a trading nation. We live in the shadow of the major economies – especially the US. The economic news south of the border has been nothing short of dreadful. So far, so bad.

Canada cannot wait for the American juggernaut to right itself and float us out of recession. The 2009 Budget measures are intended to breathe life into our faltering economy – a challenge made all the more difficult by the fact that our country's economic fate hinges on our major trading partners.

Our shaky economy needs a strong jolt to stave off rising unemployment and compensate for the loss of consumer confidence sparked by massive losses in the 'shock market.' Only government can make such a large and badly needed fiscal injection. Caledon therefore supports the need for deficit financing during these rough economic times. Indeed, we predicted its inevitability and urged government to develop contingency plans in advance – even while the federal government itself was in denial [Mendelson 2005, 2008].

Our fiscal stimulus approach favours spending increases over tax cuts. Spending injections – if delivered through income security programs targeted to low- and modest-income Canadians and the unemployed – will put cash into the hands of families and individuals who are more likely to spend it right away and thus help stimulate the economy [Battle, Torjman and Mendelson 2008]. Income tax cuts, by contrast, are more apt to be saved or used to pay down personal debt, especially if the highest tax savings are enjoyed by those with high incomes. We also have advocated investment in infrastructure that creates jobs in the short term and helps build prosperous, strong and healthy communities in the long term [Torjman 2009].

Of course, a Red-Ink Budget that spends billions to shore up a flagging economy also opens the door to years of payout on a higher national debt. While posting a deficit was inevitable and appropriate (in fact it was a commitment at the recent G20 leaders' summit, as noted in the Budget), we should also now begin considering a careful and intelligent strategy to reduce the debt burden when the economy recovers.

We agree with those who call for a sensible strategy when payback time comes due. Ottawa's last round of deficit reduction, during the 1990s, landed squarely on the back of provincial social programs. In retrospect it is now clear that not all of the deep cuts in public programs were necessary, as was proven by the later huge reductions in taxes – suddenly affordable – over the last decade. Effectively, under the guise of attacking the deficit, the federal government cut benefits and services that mainly help low-income Canadians and then used income tax cuts to transfer the savings to high-income taxpayers. The majority of the reduction in debt burden over the last decade was, in any case, a consequence of growth in the economy rather than paying down debt. A rational, fair and planned approach to managing debt burden would be preferable to the corrosive onslaught of the last decade.

One of the major building blocks of the social safety net – the Canada Assistance Plan – was decimated and replaced by a new form of financing called the Canada Health and Social Transfer. We learned, in the transition from a cost-shared arrangement under the former to a block fund arrangement under the latter, that a dollar is not a dollar. The way in which funds are transferred between governments makes a big difference in terms of their capacity to intervene in problems – especially those exacerbated by the uncertainties of economic cycles. (The Canada Health and Social Transfer subsequently evolved into the Canada Health Transfer and the Canada Social Transfer.)

We call attention to these difficult days of the past for two reasons. First, never again should any deficit be repaid by slashing major elements of Canada's social safety net. Second, the chickens have come home to roost. The shift to block funding removed the counter-recessionary protection that was embedded in the Canada Assistance Plan cost-sharing arrangement.

Caledon raised concerns about *The Dangers of Block Funding* in recognition of the problems it was bound to create during tough times – and all the more so in deep recession [Battle and Torjman 1995]. We have been particularly vocal about helping the unemployed and those who face challenges even in the best of economic worlds. They are all the more vulnerable during mass layoffs. Canada likely would have been in a better position today to protect those at risk had we not destabilized the social underpinnings that had been in place until the mid-1990s.

While that was then, we hope that these lessons of history loom large when the time comes. In the meantime, a Red-Ink Budget is the only way to climb out of the current economic trough. But the 2009 Budget is clearly more than a set of fiscal measures designed to shorten the recession and cushion its effects. It embodies, equally importantly, an instrument of political survival for the reigning government. The larger sub-text explains, to some extent, the need for red ink.

The Budget effectively became a make-or-break moment for the Conservatives after their disastrous Economic Statement, which was panned not only by the Opposition parties but also by economic forecasters, social groups and the media. The political life raft extended by the Governor General in December 2008 rescued the government until Budget Day in January 2009.

A no-confidence vote in the House of Commons potentially could have translated into a no-comeback moment for the current government. It certainly would have triggered another visit to the Governor General with either an election or coalition result. The political warfare created a hostile climate for navigating an economic storm. The political underpinnings that usually anchor an uncertain economic and social situation had themselves become unmoored.

Economic uncertainty plus government instability are not a good formula for anything. The 2009 Budget was awaited with anticipation as a way to provide some answers to both these problems. The document could more accurately be described as a 'survival Budget' in the broadest sense of the term.

Having dissolved Parliament to avoid defeat on its November 2008 Economic Statement, the Harper government got a second chance with a brand new, completely overhauled Budget. Where the Economic Statement more or less ignored the onset of recession, the new Budget focused on the growing economic downturn. Where the Economic Statement contained trivial and partisan items, the new Budget more or less stuck to its economic narrative. Where the Economic Statement was widely perceived as fudging the books by presenting unrealistic forecasts, the new Budget provided more reasonable estimates for the current year, albeit overly optimistic estimates for future years. Where the Economic Statement claimed to balance the books, the new Budget unabashedly forecast a deficit of $34 billion and $30 billion in each of the next two fiscal years.

The 2009 Budget was designed explicitly to win Liberal votes in order for the current government to remain alive. The Conservatives needed the Red-party stamp of approval in order to live to see another day. The Budget did, indeed, receive the Liberal nod – albeit with an amendment regarding accountability for implementation. In fact, the ink on the Budget pages is so red, at least from a Conservative perspective, that the party is now engaged in deep soul-searching over who they are and what they represent [Laghi and Chase 2009: A4]. Here's why.

Working Income Tax Benefit

The 2009 federal Budget announced increased assistance to Canada's working poor. Ottawa will boost the Working Income Tax Benefit (WITB), a refundable tax credit launched in the 2007 Budget. This improvement will address two of the key weaknesses of the original program – its lean payment and its exclusion of full-time workers earning low wages. We have provided a detailed analysis of the Working Income Tax Benefit in an accompanying paper on tax and transfer changes in the 2009 Budget [Battle 2009].

The Working Income Tax Benefit has two major objectives – to reduce disincentives to work for Canadians stuck behind the welfare wall,[1] and to enhance incentives to employment among the working poor.

WITB aims at lowering the welfare wall by supplementing low earnings from employment to ‘help make work pay,’ to use the British term. The program is intended to help social assistance recipients make the often difficult move from welfare to work by topping up their typically low earnings.

The other aim of WITB is to increase incentives for people to join the workforce, keep working (even for low earnings), and not have to fall onto the tangled safety net of welfare. Some of these workers eventually will be able to climb the earnings ladder and escape poverty.

While promising in theory, the Working Income Tax Benefit launched in the 2007 Budget was geared more to the goal of helping recipients get over the welfare wall than helping low-income Canadians already in the workforce. Benefits were set at a low level and the program was targetted so far down the income scale that it excluded most of the working poor.

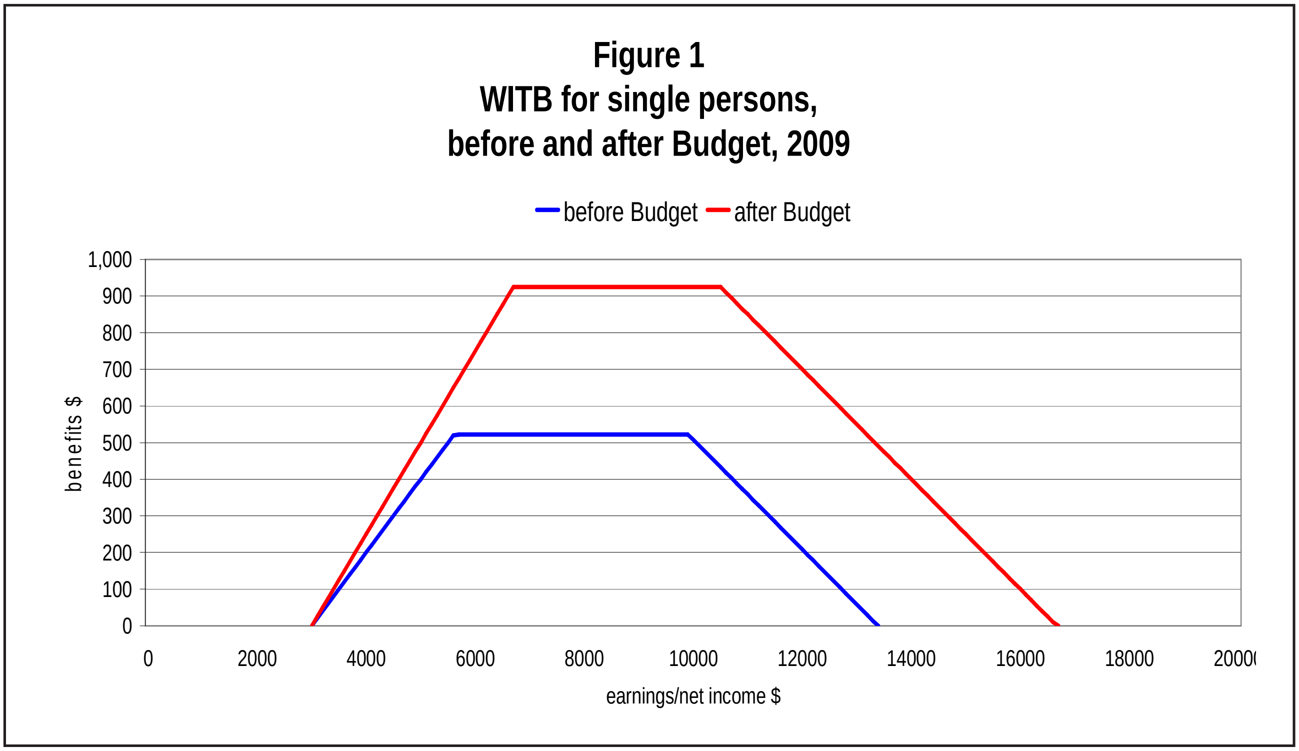
In 2008 WITB provided a modest $510 maximum payment annually to single workers with such low earnings that they could only be employed part time or part year. Benefits phased in above earnings of $3,000 at the rate of 20 percent, so that the $510 maximum was paid between incomes of $5,550 and $9,861 – meagre earnings indeed. Above $9,861 benefits were reduced at the rate of 15 percent, so that eligibility for WITB ended at the low level of $13,081 in net income.

The 2009 Budget took a step in the right direction by boosting the Working Income Tax Benefit’s payments and broadening its reach to help more of Canada’s working poor [Battle 2009].

For single workers, the maximum benefit will rise from $510 in 2008 to $925 in 2009 – a hefty real (i.e., inflation-adjusted) increase of 77.2 percent.[2]

Benefits will continue to phase in above earnings of $3,000, but will increase at the rate of 25 percent instead of 20 percent under the current design. The maximum payment, $925, will go to workers earning between $6,700 and $10,500. Above $10,500, benefits will be reduced at the rate of 15 percent (the same as before), ending at $16,667. The net income level where eligibility for WITB ends will increase from $13,081 in 2008 to $16,667 in 2009. (Note that the 2009 figures are subject to discussion with the provinces and territories.)

Figure 1 illustrates the pattern of WITB benefits for single workers before and after the Budget’s proposals. The ‘before’ scenario shows WITB for 2009 if the federal government had only indexed the 2008 figures to the cost of living. The ‘after’ picture refers to the above-inflation WITB increases as proposed in the 2009 Budget.

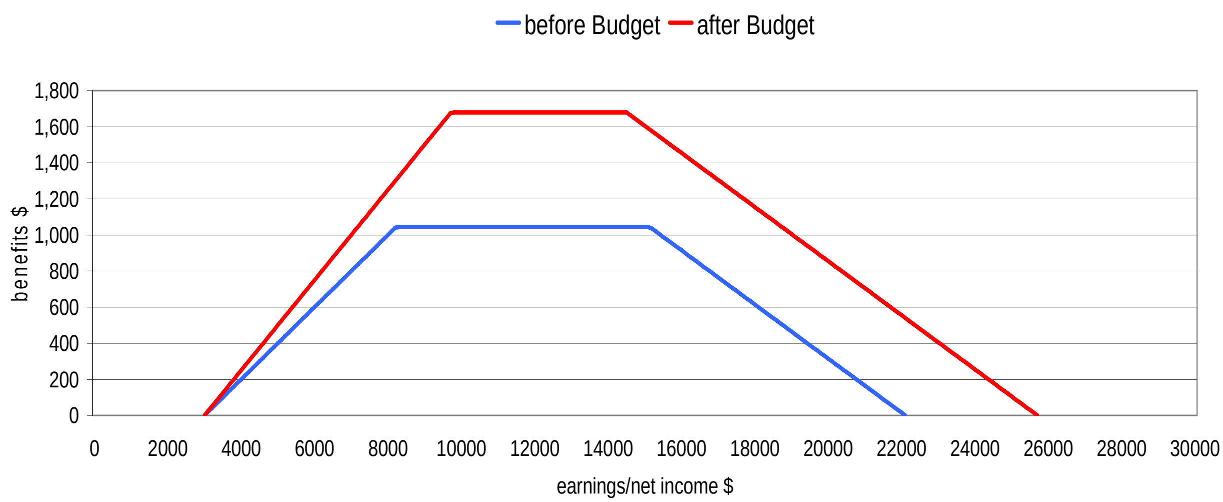


Two things stand out. Under the changes in the 2009 Budget, WITB will pay significantly more to most of its beneficiaries. And the program will add more recipients, namely workers earning between $13,389[3] and $16,667.

But even with these improvements, the Working Income Tax Benefit will not reach all working poor Canadians. Take the case of a worker living in Toronto whose earnings equal the after-tax low income cut-off, an estimated $18,670 in 2009. That amount is $2,012 above the $16,667 level where eligibility for WITB ends. To receive the maximum benefit of $925 from WITB in 2009, the most a worker can make is $10,500 – far ($8,170) below the $18,670 level for someone earning at the poverty line.

For single parents and couples, the maximum WITB payment will rise from $1,044 in 2008 to $1,680 in 2009, for a substantial real increase of 60.9 percent.[4] Benefits will continue to phase in above earnings of $3,000, but will be increased at the rate of 25 percent instead of 20 percent under the current design. The maximum payment, $1,680, will go to families earning between $9,720 and $14,500. Above $14,500, benefits will decline at the rate of 15 percent (the same as before), ending at $25,700. The net family income level above which eligibility for WITB ends will rise from $21,576 in 2008 to $25,700 in 2009. Figure 2 shows the distribution of WITB benefits for families before and after the changes made in the 2009 Budget.

Figure 2
WITB for families,
before and after Budget, 2009



The 2009 Budget's proposals to enhance the Working Income Tax Benefit – an important addition to Canadian social policy – are laudable. They strengthen both key aims of the program – helping welfare recipients get over the welfare wall, and supplementing the earnings of the working poor. The investment in WITB will foster economic stimulus by sending more money directly to more working poor Canadians – and most of that money undoubtedly will soon be spent. However, as was the case with the Canada Child Tax Benefit, Ottawa should implement further improvements to WITB over time so that it extends higher up the income ladder and becomes a substantial income support for Canadians who work but remain poor.

Canada Child Tax Benefit

The 2009 Budget made some positive but unsubstantial changes to the Canada Child Tax Benefit. The increases are too small to count for much as economic stimulus or significantly better support for families with children. We provide a detailed analysis of the distributive effects of these measures in the accompanying paper on the tax and transfer changes in the 2009 Budget [Battle 2009].

The Canada Child Tax Benefit is made up of two parts, each directed to one of the two basic aims of the child benefits system. The base Child Tax Benefit serves almost all – 9 in 10 – families and pursues the objective of helping parents with their childrearing expenses. For the current payment year (July 2008-June 2009), the maximum base Child Tax Benefit is $1,307 per child. The maximum amount is payable up to net family income of $37,885 – the same level as the income tax system's first tax bracket. Above this amount, payments for families with one child are reduced at the rate of two percent, which means that eligibility for benefits ends at a high $103,235 in net family income (even higher in terms of gross income). For families with two or more children, benefits are reduced at the rate of four percent above net family income of $37,885 and also end at $103,235.

The National Child Benefit Supplement (NCBS) sits on top of the base Child Tax Benefit and provides an additional benefit to low- and modest-income families. Currently, the maximum amount is $2,025 for the first child, $1,792 for the second child and $1,704 for the third and each additional child. Like the base Child Tax Benefit, the NCBS is income-tested, though more steeply. Above net family income of $21,287, the NCBS is reduced at the rates of 12.2 percent for families with one child, 22.7 percent for families with two children and 27.8 percent for families with three or more children. The net family income level where eligibility for the NCBS ends equals the income threshold above which the base Child Tax Benefit begins to be reduced. The National Child Benefit Supplement is aimed at the poverty reduction goal of the child benefits system though the base Child Tax Benefit paid to low-income families also contributes.

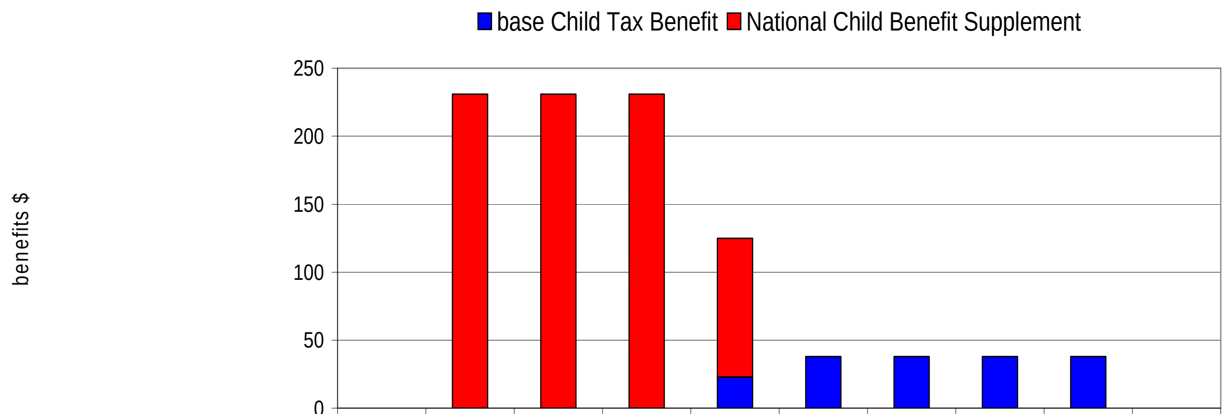
The net family income threshold above which the base Child Tax Benefit is reduced is set at the same level as the first income tax bracket in order to help integrate the federal tax and benefit systems. Because the 2009 Budget raised the bottom and second tax brackets above their normal indexation adjustment, then it also had to increase the income threshold for the base Child Tax Benefit to the same level as the first tax bracket and had to lift the income threshold for the National Child Benefit Supplement in the same proportion. These changes to the Canada Child Tax Benefit will take effect in the July 2009-June 2010 payment year.

Figure 3 shows the impact of the changes to the Canada Child Tax Benefit – the base Child Tax Benefit and the National Child Benefit Supplement – for families with one child. The poorest families, with incomes below $21,000, will see no improvement in their child benefits. The large majority of families, with low, middle and high incomes, will see very modest increases in benefits ranging from a mere $38 for those with incomes of $45,000 and above to $231 for modest-income families between $25,000 and $35,000. No benefits are payable over $107,000.

Figure 4 presents the results for families with two children. While the amounts differ, the overall pattern is the same as for families with one child. The poorest families see no gain, modest-income families enjoy the largest improvement (though still small relative to their total child benefits) and middle- and upper-income families receive tiny increases.

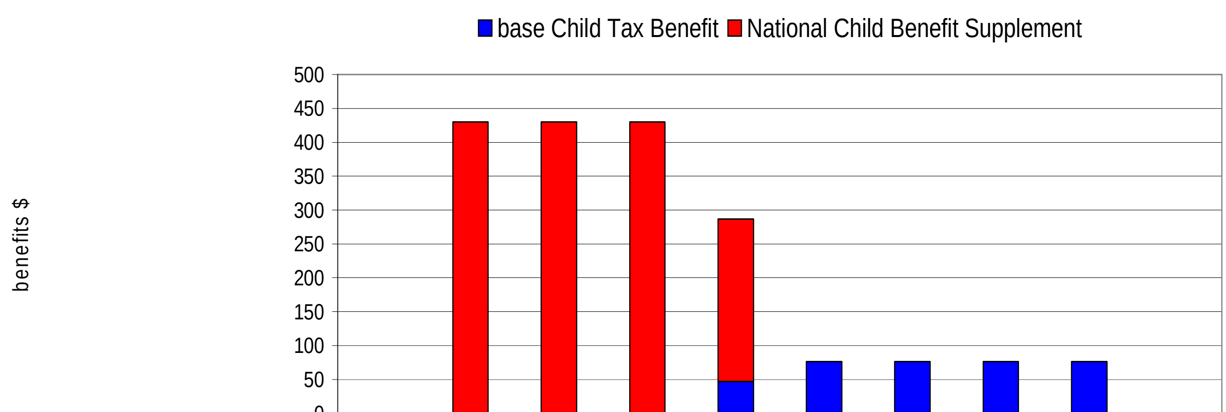
While fairly small and limited in scope, the increases in the Canada Child Tax Benefit for lower- income families will enhance the poverty reduction objective; on the other hand, the poorest families gain nothing. The miniscule increases for middle- and high-income families constitute only a symbolic improvement in the child benefit system's capacity to help parents with their childrearing costs.

Figure 3
Change in Canada Child Tax Benefit as result of Budget, families with one child, July 2009-June 2010



	$20K	$25K	$30K	$35K	$40K	$45K	$50K	$75K	$100K	$110K
National Child Benefit Supplement	0	231	231	231	102	0	0	0	0	0
base Child Tax Benefit	0	0	0	0	23	38	38	38	38	0

Figure 4
Change in Canada Child Tax Benefit as result of Budget, families with two children, July 2009-June 2010



	$20K	$25K	$30K	$35K	$40K	$45K	$50K	$75K	$100K	$110K
National Child Benefit Supplement	0	430	430	430	240	0	0	0	0	0
base Child Tax Benefit	0	0	0	0	47	76	76	76	76	0

The federal government currently spends $9.5 billion on the Canada Child Tax Benefit, $2.1 billion on the Universal Child Care Benefit (net of federal income tax) and $1.5 billion on the non-refundable child tax credit, for a total of $13.1 billion.

The measures taken with the Canada Child Tax Benefit in the 2009 Budget will cost an estimated $230 million in 2009-10 and $310 million in 2010-11. It is clear that their fiscal stimulus power will be negligible. In truth, the increases in child benefits are simply consequential technical amendments in light of the income tax changes, which are discussed below.

Tax cuts

The Budget made much ado about its measures to reduce income taxes for low- and middle-income Canadians, as well as seniors. In reality, the amount of tax relief for any household is modest. Moreover, upper-income taxpayers not only share in the tax savings, they enjoy the largest amount [Battle 2009].

The 2009 Budget raised the basic personal amount, spousal and common-law partner amount and eligible dependant amount from $9,600 in 2008 to $10,320 in 2009. The age credit amount went from a maximum $5,276 in 2008 to $6,408 for 2009. The Budget also raised the first income tax bracket from $37,885 in 2008 to $40,726 in 2009, and the second tax bracket from $75,769 in 2008 to $81,452 in 2009.

The Budget's claim of "tax cuts for low- and middle-income taxpayers" is deceptive: The poorest Canadians will see no tax relief since they are already below the taxpaying threshold and pay no federal income tax. Lower- and middle-income taxpayers will get very small tax cuts, while those in the upper-income range will enjoy the largest tax breaks. But the amounts are so modest as to call into question their fiscal stimulus contribution, even if one believes that taxpayers will run out and spend their tax savings rather than bank them or pay down debt.

The increase in the basic personal amount, related amounts and the first and second tax brackets benefit not only lower- and middle-income taxpayers, but also those in higher-income levels. The well-off claim the basic personal amount just like everyone else, and also will see tax savings on the amount of their taxable income in the first and second tax brackets – again, just the same as taxpayers in the other income groups.

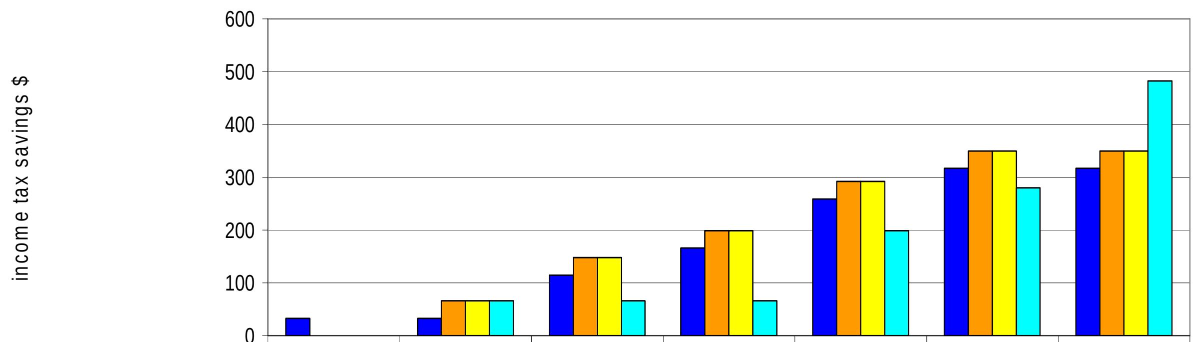
Moreover, the progressive nature of the income tax system means that high-income taxpayers, who pay more income tax, will enjoy larger tax cuts in absolute terms. In relative terms, the tax breaks are so small as to be the proverbial drop in the bucket for all taxpayers, whatever their income.

The tax savings for single persons range from zero for those with income of $10,000, who are below the taxpaying threshold, to $33 for those with incomes of $20,000 or $30,000, $115 for those at $40,000, $166 at $60,000, $259 at $80,000 and $317 for taxpayers with incomes of $100,000 and $150,000 [Department of Finance Canada 2009: 308]. The amount of tax break increases as incomes rise.

At all income levels, the tax reductions are very small relative to total income – less than one percent. They range from a low of .11 percent for single taxpayers at $30,000 to a high of .32 percent for those at $80,000 and $100,000.

The numbers differ but the overall pattern of results is the same for single parents with one child, one-earner couples with two children and two-earner couples with two children. Income tax savings rise with income, and represent a tiny fraction of total income. Figure 5 illustrates the results.

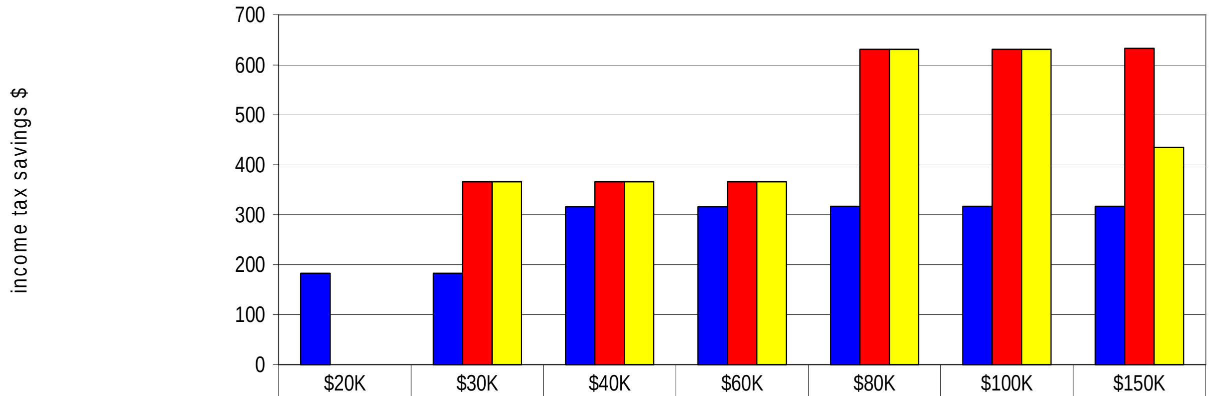
Figure 5
Income tax savings from Budget,
taxpayers under 65, by household type and income, 2009



	$20K	$30K	$40K	$60K	$80K	$100K	$150K
single persons	33	33	115	166	259	317	317
single parents, 1 child	0	66	148	199	292	350	350
one-earner couples, 2 kids	0	66	148	199	292	350	350
two-earner couples, 2 kids	0	66	66	66	199	280	483

The results for seniors are similar overall, though the federal income tax savings are generally larger than for the non-elderly because the elderly benefit from the increase in the age credit in addition to the other tax changes. Figure 6 shows income tax savings for three elderly households – single seniors, one-pension senior couples and two-pension senior couples – at different income levels.

Figure 6
Income tax savings from Budget,
taxpayers 65 and older, by household type and income, 2009



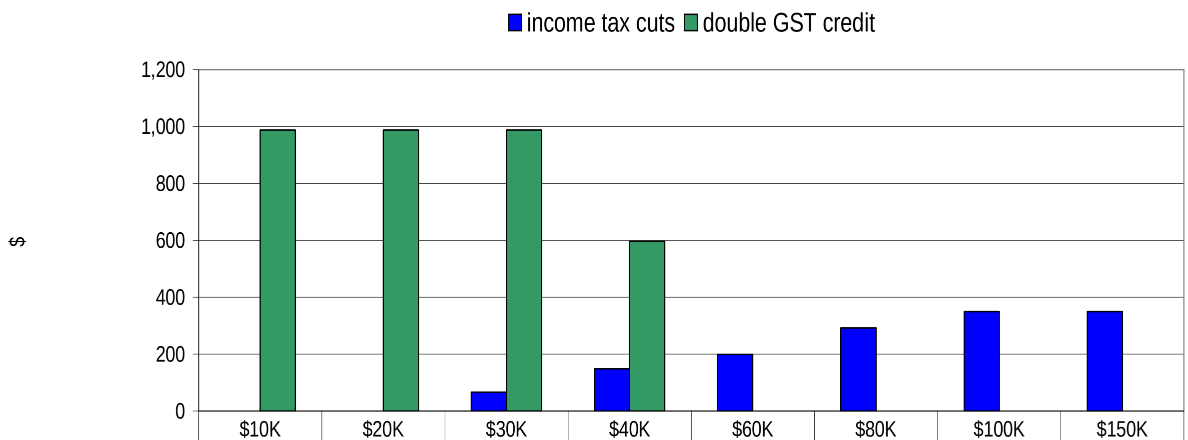
	$20K	$30K	$40K	$60K	$80K	$100K	$150K
single seniors	183	183	316	316	317	317	317
one-pension senior couples	0	366	366	366	631	631	633
two-pension senior couples	0	366	366	366	631	631	435

While the income tax breaks in the 2009 Budget are very small relative to Canadian taxpayers' incomes, the total cost to the federal treasury in lost revenue is considerable, at a forecast $2.2 billion in 2009-10. Some of the cost reflects inflationary indexing, but the remaining cost is still significant. These tax cuts will do nothing to ameliorate the effects of the recession on individuals, since the largest amounts are perversely going to those with the highest income. We discuss in a later section the stimulative impact of these tax cuts and their fiscal prudence.

In our pre-Budget statement, *The Forgotten Fundamentals*, Caledon proposed an alternative to income tax cuts – doubling the GST credit, a refundable tax credit geared to low- and modest-income Canadians who are most likely to spend any extra money they receive [Battle, Torjman and Mendelson 2008]. Figure 7 compares the 2009 Budget's tax cuts with the Caledon proposal to double the GST. The contrast is striking. Boosting the GST, a program geared to those in need, would pack a much bigger stimulus punch than income tax cuts that most benefit affluent taxpayers.

The Canadian Centre for Policy Alternatives estimated the cost of doubling the GST credit at $3.3 billion [Canadian Centre for Policy Alternatives 2009: 12]. That compares to $2.2 billion for the income tax changes announced in the Budget. For the same cost as the income tax measures, the federal government could fund a smaller but still substantial GST credit. Moreover, it likely would be easier politically to return to the current benefit after the recession

Figure 7
Income tax cuts versus double GST credit,
single parent with one child, by income, 2009



	$10K	$20K	$30K	$40K	$60K	$80K	$100K	$150K
income tax cuts	0	0	66	148	199	292	350	350
double GST credit	988	988	988	596	0	0	0	0

if it was decided to make the larger GST credit temporary. Reversing the income tax changes after the recession would be virtually impossible politically.

In short, there is an alternative to the income tax cuts that is the same cost, much more efficient as an economic stimulus and more fiscally prudent.

Training

The 'enforced idleness' resulting from a significant increase in unemployment can be put to good use through effective education and training. A more highly educated workforce will position Canada to take better advantage of the upturn when it comes. The Red-Ink Budget does provide a moderate boost to training funds, although less than first meets the eye.

As with past periods when unemployment has risen, rather than take their chances in a tough labour market, many young adults will decide to stay in school or go back to school. Consequently, we can anticipate an increase in enrolment in postsecondary institutions, including both colleges and universities. Most young adults will make do with the existing array of assistance programs, if they are available.

The Budget provides some additional assistance to young adults to go on to graduate school, with an additional $87.5 million over three years to temporarily expand the Canada

Graduate Scholarships program. But there is nothing to make existing programs such as Canada Student Loans more readily available and more adequate. As well, there is no mention of the problem of ‘supply’ – that is, the capacity of colleges, universities and other training and education centers to meet increased demand.

As challenging as it may be for young adults to continue their education, it is much harder for older adults – especially those who have spent several years in the workforce and are supporting families – to take further education and training. Many older adults have unavoidable financial responsibilities, such as mortgages and car payments, not to mention feeding their children. These are the people who are being laid off and who could get the most out of high quality training and education opportunities. During the economic downturn, Ottawa should especially help long-time workers reskill and upgrade their education.

The Budget announced a new two-year Canada Skills and Transition Strategy supposedly worth $8.3 billion in total. This looks like a very big number, but $4.5 billion of this $8.3 billion is attributable to the decision to freeze Employment Insurance premium rates. We discuss the freeze on Employment Insurance rates later; however, the premium rate freeze clearly has no impact on training opportunities for laid-off workers.

Of the remaining $3.8 billion in the Canada Skills and Transition Strategy, $1.9 billion or one-half will pay for improvements to Employment Insurance (EI) benefits. Most of this money will finance an extension of regular EI benefits for an additional five weeks; this and other changes to the program’s income benefits are discussed later. In respect of training, some of the changes to Employment Insurance income benefits will have an impact: $500 million has been earmarked to extend EI payments for workers who have been employed for a long time but are now laid off and need significant periods of training to acquire new skills.

This leaves about $1.9 billion over two years in the Canada Skills and Transition Strategy for the cost of training and related initiatives (but not financial assistance for those taking the training). More than half of this money – $1.0 billion over the next two years – will be added to current funding for training that is delivered and funded through Employment Insurance. Most provinces have Labour Market Development Agreements under which the province is the direct deliverer of almost all training programs, including those paid for through Employment Insurance, so in most instances these funds will be administered by the province or territory.

Whoever administers these new training funds, only persons eligible for Employment Insurance will be able to access the $1.0 billion enrichment in training support. Similarly, only those eligible for Employment Insurance will be able to take advantage of the added $500 million in benefits to provide financial support for persons taking longer-term training. The linking of training to eligibility for EI is a major problem for much of the country being hit hard by layoffs, especially Ontario. Only a minority of workers in Ontario and the West is eligible for Employment Insurance, so most of the unemployed west of Quebec will be unable to access these new training funds. In the later section on Employment Insurance benefits, we show the percentage of jobless who are eligible for Employment Insurance in the provinces and cities.

The Budget does go some way to rectifying the shortcoming of providing training only to those eligible for Employment Insurance, through another $500 million over two years to be paid for training workers who do not qualify for EI. Thus, outside of Employment Insurance, a relatively modest $250 million a year is added to the general capacity for training. The details of the programming supported by this financing will be worked out with the provinces under the terms of their Labour Market Development Agreements. Given that the provinces are also under significant fiscal pressure, it will be important to ensure that the federal money does not just substitute for funds the provinces would have otherwise spent, which would further erode the incremental impact of this funding.

Paradoxically, the state of training capacity in Canada is such that even the relatively modest increase in funds announced in the 2009 Budget may be difficult to absorb. No matter what the demand for training, there also has to be supply of facilities and teachers to undertake the training – or to train on the job. It is far from certain that there is sufficient training capacity today to use these new training funds effectively. Quality needs to remain a foremost concern in this quantity-driven environment.

There are also several useful, although smaller, initiatives. These include funds for summer jobs, for older workers, for apprenticeship and two-year $50 million financing to develop a “national foreign credential recognition framework in partnership with provinces and territories” [Department of Finance Canada 2009: 18]. There are also some important initiatives targeted at training for First Nations, Inuit and Métis. These are discussed below in the section on Aboriginal programs. All of these initiatives will bear watching both to ensure their effectiveness and their incrementality over and above existing sources of funding.

Caledon has joined the voices of other organizations in supporting the recognition of credentials acquired offshore. Despite high overall levels of education and skills, many new Canadians face barriers to work because their knowledge and experience acquired abroad are not recognized in this country. The Budget’s support for offshore credential recognition is welcome but, as noted, this area is almost entirely within provincial jurisdiction, so one way or another the funds will only flow in partnership with the provinces and territories. We hope that there will be immediate cooperation so that funds can as quickly as is reasonable make their way to the groups and organizations that already have been breaking down barriers in various professional fields, and for whom the additional financing will enable accelerated work.

We note, however, the absence of any explicit reference to the training of persons with disabilities, which is a training area in which the federal government has traditionally retained direct responsibility outside of the Labour Market Development Agreements. Canadians with disabilities have an especially difficult time participating in the paid labour market; this problem can only be magnified in the recession. Few unemployed persons with disabilities are eligible for Employment Insurance. We hope that at least part of the funding outside of EI can be specially targeted for persons with disabilities. Their training needs typically go beyond those of other workers in terms of technical aids and equipment, modified transportation, additional supervision or time for completion of tasks, and personal supports to get to and remain at work throughout the day. Special efforts must be made to ensure the inclusion of Canadians with disabilities.

Overall, the Canada Skills and Transition Strategy has lots of 'transition,' mainly in the form of EI premium increases that did not happen, but not all that much in the way of 'skills' in light of the scale of unemployment now confronting Canada.

Employment Insurance: benefits

Unemployment insurance should act as an automatic economic stabilizer in a modern economy such as Canada's. It must fulfill a dual role during an economic downturn. It should provide income support by replacing lost wages for the growing ranks of the unemployed. And, by injecting money into the economy, it should help sustain businesses that rely upon consumer spending.

Unfortunately, Canada's unemployment insurance program – in Orwellian fashion renamed Employment Insurance back in 1996 – was seriously weakened by a series of cuts in the 1990s. Employees had to work longer in order to qualify for benefits when they lost their jobs; payments were lowered; and the maximum duration of benefits was reduced [Battle, Mendelson and Torjman 2006].

Employment Insurance's coverage of the unemployed has been decimated, as indicated in Figure 8. Only an estimated 44.0 percent of unemployed Canadians qualified for benefits under this so-called 'social insurance' at last count (2007).

Women fare worse than men, and the gender gap has widened in recent years. Only 39.2 percent of unemployed women received regular Employment Insurance benefits in 2007 as opposed to 48.0 percent of jobless men. Coverage for men fell from 50.7 percent in 1996 to 48.0 percent in 2007, but dropped even more for women from 47.0 to 39.2 percent during the same period, so that the gender gap grew from 2.7 percentage points in 1996 to 7.8 points in 2007.

The Employment Insurance coverage figures vary enormously from one province to another, but there is a clear divide between the west and the east.[5] The proportion of the unemployed receiving regular EI benefits is below the national average (44.0 percent) in Ontario and the four western provinces, ranging from a low of 23.8 percent in Alberta to 29.0 percent in Ontario, 37.7 percent in Manitoba, 38.1 percent in BC and 42.6 percent in Saskatchewan. Coverage is above the national average from Quebec eastward – Quebec (56.1 percent), Nova Scotia (71.0 percent), PEI (97.6 percent), New Brunswick (102.9 percent) and Newfoundland (119.5 percent).[6] Figure 9 illustrates the variation in EI coverage.

Employment Insurance coverage is generally low in the major cities where most Canadians live. Figure 10 shows that EI coverage of the unemployed in the majority of cities is below the national average of 44.0 percent. The numbers are incredible – for example, only 18.9

Figure 8
Percentage of unemployed Canadians receiving regular Employment Insurance benefits, by gender, 1976-2007

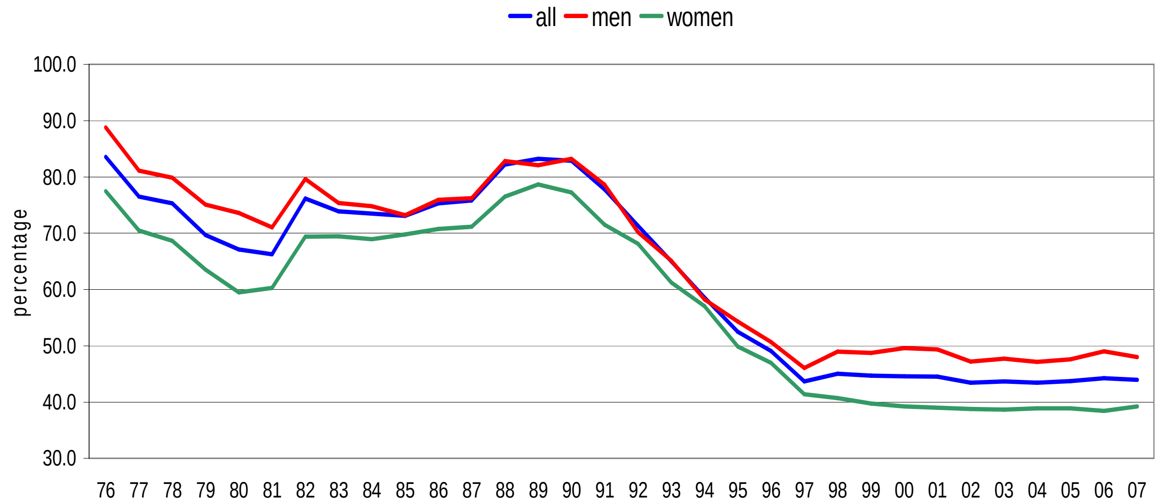
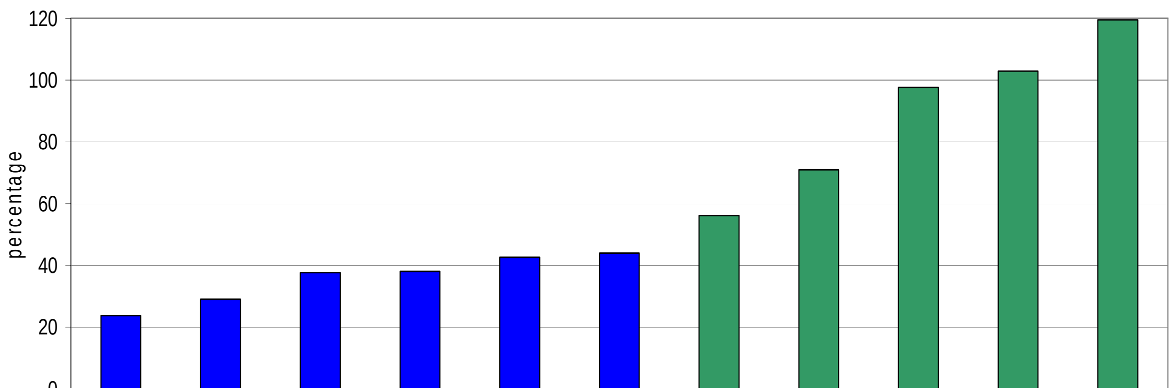


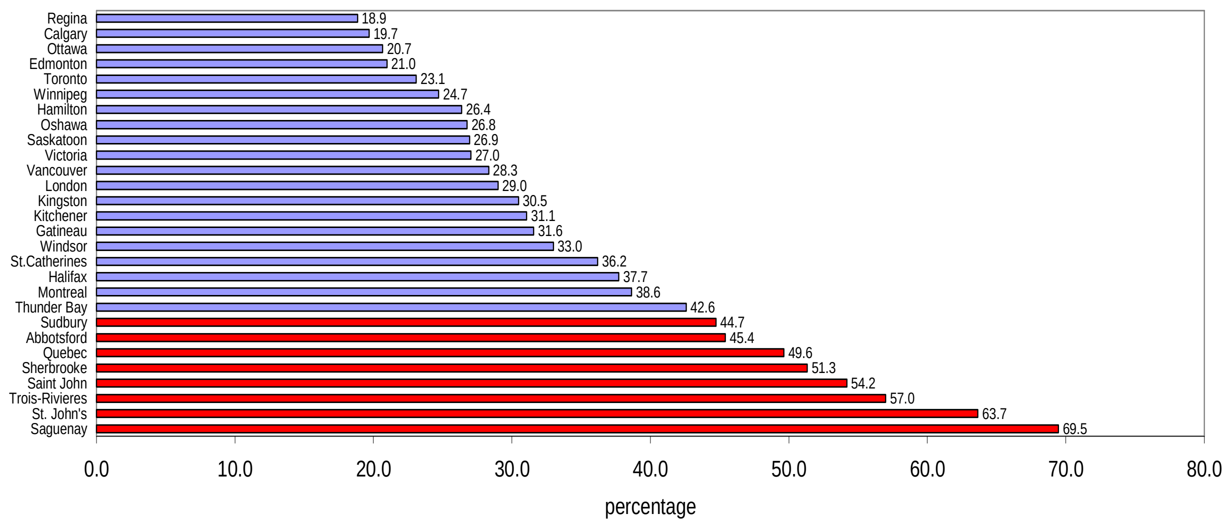
Figure 9
Percentage of unemployed receiving regular Employment Insurance benefits, Canada and by province, 2007



	AB	Ont	Man	BC	Sask	Canada	Que	NS	PEI	NB	Nfld
%	23.8	29	37.7	38.1	42.6	44	56.1	71	97.6	102.9	119.5

percent in Regina, the lowest in the country; 19.7 percent in Calgary; 20.7 percent in Ottawa; 23.1 percent in Toronto; 28.3 percent in Vancouver and 38.6 percent in Montreal. Figure 10 illustrates the results for 27 Census Metropolitan Areas across Canada. Cities in blue rank below the 44.0 percent national average, while those in red are above the average.

Figure 10
Percentage of unemployed receiving regular Employment Insurance benefits, by Census Metropolitan Area, 2007



A feature of Employment Insurance that leads to serious inequities is its ‘Variable Entrance Requirement’ component. There is wide variation in work requirements (from 420 to 700 hours for most applicants) and maximum duration of benefits (from 14 to 45 weeks) depending on the program’s 58 regional unemployment rates. Thus an unemployed Canadian living in a region with a high unemployment rate will receive more benefits than another unemployed Canadian with the same earnings living in a low-unemployment region. In fact, it is possible that one jobless person in a high-unemployment region would qualify for EI benefits while another jobless person who worked the same number of hours but lives in a low-unemployment region would not qualify for any benefits at all!

Employment Insurance tends to exclude the long-term unemployed, recent immigrants, the underemployed, new workers, part-time workers (including persons with disabilities and Canadians working part time due to family care responsibilities) and workers in precarious jobs. Most low-wage workers cannot qualify for EI. The program does not cover the self-employed or those who are self-employed as ‘independent’ contractors.

Despite a growing clamour from across Canadian society to bolster and expand Employment Insurance, the 2009 Budget chose only to temporarily improve matters for the minority of the unemployed who meet existing work requirements. Current EI beneficiaries, and those who lose their jobs over the next two years and meet the eligibility requirements, will draw benefits for an extra five weeks, up to a maximum of 50 weeks. The estimated cost of this change will be $1.15 billion over the next two years.

The Budget announced some other changes to Employment Insurance. As noted in the section above on training, Ottawa will spend $500 million over two years to extend EI benefits for persons participating in longer-term training; the target is individuals who have lost their job after working many years in one industry or for one employer. Work-sharing agreements, intended to avoid layoffs by providing EI benefits to qualified employees willing to work a reduced work-week, will be extended from their current maximum of 38 weeks to 52 weeks, at an estimated cost of $200 million over two years; the aim here is to allow more employers to avoid layoffs while the industry recovers. The Wage-Earner Protection Program guarantees payment of wages and vacation pay owed to workers by a non-paying employer following bankruptcy, up to an amount equaling four weeks of maximum insurable earnings (currently $3,254); the Budget will extend this benefit to also cover severance and termination pay, at a cost of $50 million over the first two years (which hints that it may become permanent).

Welcome as the Budget's measures are, they fail to address the Achilles heel of Employment Insurance – its for-the-minority (4 in 10 unemployed) coverage. These temporary improvements will help workers who qualify for Employment Insurance, but they will do nothing at all for the majority of jobless Canadians, who do not receive EI now and still will not get it after the Budget's changes. This is the major shortcoming of the Budget in respect of offsetting some of the most serious consequences of the recession for ordinary Canadians. If unemployment levels climb much higher, substantial numbers of the unemployed will have no other option than welfare – a much worse program than Employment Insurance.

The Budget fails to redress the gross unfairness caused by its regionalization feature, whereby weeks worked required to qualify, and the maximum duration of payments, vary according to 58 unemployment regions. There is no reason to assume that, for example, an auto body specialist working for a now closed car dealership will have an easier time finding a job in Toronto (a lower-unemployment region) than in high-unemployment regions of New Brunswick. In fact, given the number of skilled workers who are experiencing or threatened with layoffs, it may be *more* difficult to find new employment in the major centers.

The measures in the 2009 Budget will worsen the imbalance in the current Employment Insurance system, by improving matters somewhat for the minority who qualify for benefits while continuing to do nothing for the majority of unemployed Canadians who will remain excluded from the program. The Budget should have levelled the playing field on qualifying rules and duration of benefits for Employment Insurance. Ensuring that unemployed workers across the country could, on an equal basis, access Employment Insurance was the most critical reform needed to make the program a more effective tool during the recession. This the Budget failed to do.

Redressing its poor coverage is the priority for fixing Employment Insurance, but there are additional ways to bolster its capacity. The program's earnings replacement ratio, which determines the amount of benefits beneficiaries receive, has fallen over the years – from 66 percent of maximum insurable earnings to 60 percent in 1979, from 60 to 57 percent in 1993 and from 57 to 55 percent in 1994, where it stands today. Currently the maximum regular EI payment is $447 per week or a $22,350 in total taking into account the Budget's increase in the maximum duration of benefits. Caledon has called upon the federal government to increase this level to 70 or 75 percent. Needless to say, the Budget was silent on this issue.

The Budget also established "an Expert Panel that will consult Canadians on how to best provide self-employed Canadians with access to EI maternity and parental benefits" [Department of Finance Canada 2009: 100). This undertaking does not stem from the anticipated recession. Instead, it is a response to a well-intentioned but impractical promise in the last election; namely, that self-employed workers would be permitted to enrol voluntarily for maternity and parental leave benefits in Employment Insurance.

That promise proved unworkable because the only self-employed Canadians who would voluntarily enrol are those planning to have a child. Contributions therefore would constitute a fraction of the cost of a program for the self-employed, effectively requiring all other workers to subsidize these benefits. This problem is called 'adverse selection' in the economic jargon and it explains why voluntary individual insurance plans are so much more expensive than mandatory group plans.

Nevertheless, providing funded maternity and parental leave for more Canadian families would be a meaningful addition to Canada's social security system. While it may not be possible within Employment Insurance, it is possible outside of Employment Insurance – as Quebec has demonstrated with its system. Ottawa should study carefully Quebec's experience with its reform. We look forward to progress on this consultation and hope that it will be included in the reports to Parliament that are to be required as a consequence of the Budget amendments.

Employment Insurance: financing

In 2005, Bill C-43 revised the financing of Employment Insurance so that premiums would be set annually to be sufficient to cover the costs of benefits in the coming year. The premium rate from 2008 onwards was to be set by the Employment Insurance Commission rather than directly by the government. However, the premium was constrained to change by no more than .15 percent in any given year (i.e., the premium was not to go up or down by more than 15 cents of every $100 of insurable earnings).

Had this premium rate setting mechanism remained in place over the next several years, the result would have been a continuing series of increases of .15 percent in premiums for the foreseeable future. These premium hikes would have offset the economic stabilization role of Employment Insurance by removing money – the large sum of $4.5 billion in the next two years – from the economy when unemployment is increasing. The rate setting rules for Employment Insurance were apparently devised under the startling assumption that Canada would never again experience a surge in unemployment, and that it was perfectly sensible for premiums to go up when more people were unemployed and down when the economy was booming!

Bill C-43 provided the government with an 'out' by permitting the Cabinet to override the premium rate setting mechanism and announce its own rate. The government did this in the 2009 Budget by freezing premium rates for the next two years. Ottawa trumpeted this unavoidable *ad hoc* arrangement as a $4.5 billion 'stimulus.'

This approach opens up whole new vistas for government stimulus of the economy: Just announce a 100 percent increase in all taxes and then decide not to implement it. Voila! A $236 billion 'stimulus' in the form of tax increases that did not occur. But aside from the exaggerated claims of fiscal largess, Ottawa did what it had to. While there is dispute about the effectiveness of tax cuts as a means of stimulating the economy, there is 100 percent agreement on the reverse: Tax increases are contractionary and completely unacceptable during a recession.

The problem is that we are now left with no rate setting mechanism at all for Employment Insurance. In the Budget the government stated that it will return to setting premium rates at a break-even level in 2011. But why would anyone believe that a policy which has proven unworkable since it was first introduced in 2005 would finally become workable in 2011? As the Parliamentary Budget Office has pointed out: "The fiscal track assumes the Government will raise Employment Insurance (EI) premium rates while the economy remains well below estimates of its potential capacity" [Office of the Parliamentary Budget Officer 2009: 1].

The Budget also promised to respond to a recent Supreme Court decision (the CSN-Arvida case) to ensure "a new and transparent rate-setting mechanism" by 2011 [Department of Finance Canada 2009: 106]. However, this action contradicts the undertaking to return to the existing rate setting policy. The Budget's contradictory promises well represent current confusion (perhaps 'delusion' might be a more appropriate term) about the future financing of Employment Insurance. We would urge that a truly new financing mechanism be established that can actually function in the real world. This is not a policy where the premiums are set to 'break even' every year; rather, it is a mechanism where premiums go up when unemployment goes down, and go down when unemployment goes up.

The existing legislated rate setting mechanism has proven to be impossible. Until there is a viable rate setting policy, we are once again in the world of Cabinet deciding every year what the rate will be. This practice inevitably politicizes the rate decision and further removes Employment Insurance from operation as a true arms-length social insurance program funded by workers and employers. When combined with the extensive benefit and entitlement reductions of the previous decade, which have disenfranchised the majority of unemployed from the system, Ottawa effectively has reneged on its social insurance contract with working Canadians. All employees have to pay premiums to finance Employment Insurance, but fewer than half of the unemployed qualify for benefits.

The link between contributions and benefits has been broken, both at the macro-level of the Employment Insurance program as a whole and the micro-level of the individual contributor. The link needs to be restored to create a viable social insurance plan for Canada's unemployed.

Affordable housing

Investment in affordable housing is a centerpiece of the 2009 Budget. The government announced a one-time $1 billion injection over the next two years for renovation and energy retrofits to improve the quality and energy efficiency of up to 200,000 social housing units throughout the country. The Budget calls for this federal spending to be matched 50-50 by the provinces and territories, presumably as a condition for their accessing the funds.

The Budget states that the new $1 billion federal investment builds on the $1.9 billion investment over five years that the federal government announced in September 2008 to extend housing and homelessness programs for low-income Canadians. These programs include the Affordable Housing Initiative, Homelessness Partnering Strategy and housing renovation programs, such as the Residential Rehabilitation Assistance Program.

In a recent media interview, however, the Minister of Human Resources and Skills Development reinforced the one-time nature of the government investment in social housing. She emphasized the economic stimulus purpose of the money and cautioned that it did not represent a policy shift to a larger federal role in social housing [Greenaway 2009].

In addition to these general investments, the Budget set aside amounts for specific populations over the next two years – $400 million for new housing and retrofit of existing accommodation on First Nations reserves, $400 million for the construction of social housing units for seniors, $200 million for social housing in the North and $75 million for the construction of social housing units for persons with disabilities.

The Caledon Institute supports the increased funds for affordable housing, having long made the case – along with many other organizations – for this critical investment. We have pointed out in numerous reports that too many Canadians live in substandard housing which seriously threatens their physical and mental health.

The availability of high-quality, affordable housing is an essential element of poverty reduction. While the Budget made no reference to poverty or to a badly needed poverty strategy like the ones in which several provinces are now engaged, it at least provides support for a critical weapon in the wider war on poverty.

There are several ways to improve the availability of high-quality, affordable housing. The most common approach is to enhance its supply, which usually involves increasing the number of reasonably priced housing units in any given neighbourhood or community. A related approach involves the repair or retrofit of current housing stock. This option is important for protecting heritage property and preserving existing neighbourhoods. The federal funds announced in the Budget provide for investment in both routes – new construction and retrofit of existing property.

The renewal of the Affordable Housing Agreements and the commitment of new funds are welcome announcements. They will help respond to the pressing need for affordable housing throughout the country, especially among vulnerable groups. The funds also create an employment dividend for those who will be carrying out the actual construction and renewal. And the money will help build higher-quality communities over the longer term.

But there are several important caveats worth noting. We cannot understand why the funds intended for housing for persons with disabilities are so much lower than those designated for other high-need groups. Persons with disabilities have disproportionately higher rates of poverty compared to other Canadians, and there were no other measures in the Budget that provide any additional assistance to this group – other than an increase in the small supplement for low-wage workers with disabilities included in the Working Income Tax Benefit.

Compounding their struggle to live on a low average income is the fact that many Canadians with disabilities incur additional costs related to their disabling condition. Many must make essential home repairs. While the new Home Repair Tax Credit introduced in the Budget may be of assistance to some, the purchaser must have money in the first place to pay for the renovations. Many persons with disabilities are simply unable to put up the required cash.

Moreover, there is growing attention throughout the world being paid to the notion of 'visitability' – the design of single-family or owner-occupied housing in such a way that it can be lived in or visited by people who have trouble with steps or who use wheelchairs or walkers. A house is visitable when it meets three basic requirements: one zero-step entrance, doors with 32 inches of clear passage space and one bathroom on the main floor that is accessible by wheelchair.

The entire housing stock throughout the country is woefully deficient in meeting the needs of people with mobility impairments. Their numbers are only expected to grow with an aging population, which will make accessibility and visitability essential considerations in the design, construction and repair of any form of housing. The Budget's funds intended for persons with disabilities – and more generally for retrofit and repair for visitability purposes – could have been at least on par with the other social housing allocations, if not higher in light of the growing demographic pressure.

Another concern arises from the fact that investment in social housing takes some time to work its way through the system. Plans must be drawn up, permits obtained and tendered, and so on. It is often not possible to conceive, plan, get permits and complete construction of new housing in two years. To ensure that the funds get to where they are supposed to be going (and soon), Ottawa must work expeditiously with provinces/territories and municipalities to get these dollars out the door fast, if at all possible. Governments themselves must turn to the groups and organizations that already have assessed local needs and developed solid proposals to respond to housing affordability concerns. Where there are not pre-planned projects, especially for housing for seniors, persons with disabilities and in the North, it might not be possible actually to spend this newly announced money within the two years constrained by the Budget.

On the other hand, it should be possible to undertake renovation and energy upgrading of existing stocks of social housing, but here the requirement for provincial/territorial cost-sharing can complicate matters and require a long negotiating lead time before funds actually flow. Moreover the Budget does not say how these federal funds will be allocated among the provinces and territories. Will they be distributed according to share of existing national social housing stock or according to population? How will the federal government assure itself that the cost-matching funds are actually paying for new projects and not simply saving provinces and territories money that they were planning to spend anyway? These are the kind of difficult questions that can befuddle negotiations and lengthen the time it takes to get a program up and running.

The housing sections of this Budget are among those most prone to implementation problems and delays. Parliament should be particularly vigilant about monitoring progress and associated expenditure in this area – both from a quality and a time perspective. Better and sooner should be the watchwords for investment in affordable housing.

Infrastructure

Investment in infrastructure figured prominently in the 2009 federal Budget. In addition to the monies allocated for social housing, close to $12 billion was announced for new infrastructure stimulus over the next two years. Funds will be directed throughout the country toward roads, bridges, clean energy, broadband internet access and electronic health records.

In 2005, we predicted that there would be a severe recession within two or three years and urged governments to begin creating contingency plans. Among our recommendations was that:

> *Governments should begin now to prepare a list of necessary capital projects that will provide jobs and improve our physical and social infrastructure. A recession is the perfect time to catch up on our backlog of postponed public works, whether they are unglamorous necessities – such as sewers that need repairing – or flashy new public transit facilities. With tens of thousands of construction workers*

unemployed, a recession would be the right time to build the social housing most of our cities and towns desperately need. However, it takes years to get a capital project planned and ready to proceed. If needed public works are to be built during a recession, an active inventory of viable projects has to be created now and brought to a status where such projects can be rapidly initiated [Mendelson 2005].

The Caledon Institute supports these investments, having called over the years for infrastructure financing. There are two major benefits to this form of stimulus – immediate creation of jobs, especially for so-called ‘shovel-ready’ projects, and long-term economic and social gains that derive from renewing the vital foundation of Canada’s cities and communities.

We had noted in our own work that the discussion on infrastructure was fairly narrow, concerned mainly with roads, sewers, water systems and basic elements that comprise its physical plant. Renewal and environmental upgrading of these elements are essential. However, we urged a broader definition to include other core components of infrastructure on the social side of the equation – affordable housing, schools, libraries, recreation centres and museums that contribute immeasurably to community well-being but often get overlooked in the mix [Torjman 2009].

Another important form of social infrastructure is early learning and child care, critically important for families with children and today’s labour market. Countless studies in Canada and throughout the world have documented the value of good child care for the healthy growth and development of children. High quality early childhood education and child care contributes fundamentally to their physical, emotional, social, linguistic and intellectual development [Battle and Torjman 2002].

Accessible and affordable child care is also a smart investment in a competitive economy. Without it, parents cannot participate fully in the labour force. Good child care enables and supports education, training and working. It is vital to promoting women’s equality by enabling them to train for paid work, find work and keep working.

Public investment in high quality early childhood programs benefits not only parents and children. Society as a whole reaps significant social and economic benefits. By increasing labour force participation, child care enhances economic growth and employment income, which in turn raise tax revenues and reduce expenditures on social supports such as welfare, health and social services. Quality child care is also an essential element of antipoverty policy, both in enabling parents to climb the welfare wall by training and working, and in lessening the learning and health risks faced by poor children (which can limit their opportunities when they grow up).

Despite the crucial importance of good quality, affordable and accessible early learning and child care both to families and the economy, Canada (with the exception of Quebec) has one of the worst systems among advanced nations. Among 25 OECD countries surveyed recently, Canada ranked last along with Ireland on a set of internationally applicable benchmarks for early childhood care and education [UNICEF 2008: 2].[7]

An expansion of child care now would create many jobs quickly, and would also allow many parents to take advantage of educational and training opportunities that may otherwise be impossible when household income is stretched. When the economy recovers, an enhanced child care network would be of great value in creating a more flexible and competitive labour force and in assisting parents and children.

In its string of stimulus measures, the Conservatives' 2009 Budget could have provided support for this badly needed component of economic and social infrastructure, but instead missed the boat yet again. In this case, ideology trumped investment – unfortunately, mainly at the expense of the many Canadian families who cannot find decent, affordable child care.

The call for infrastructure spending – at least 'hard' infrastructure – clearly was heard in Budget 2009, with investments over and above those announced for social housing. The Budget established a two-year, $4 billion Infrastructure Stimulus Fund to enable provinces/territories and municipalities to repair, renew and upgrade infrastructure. A sum of $1 billion over five years was allocated to the Green Infrastructure Fund to support projects related to sustainable energy. A maximum $2 billion has been set aside for the repair, retrofit and expansion of postsecondary educational facilities.

Up to $500 million over the next two years was announced for infrastructure in smaller communities whose resource-dependent economies are being hit hard by the recession. An acceleration of up to $1 billion in payments over two years will help expedite 'ready-to-go' projects. Two new agencies – for northern economic development and for southern Ontario – are being created to bolster economic activity in these regions.

We were pleased to see the announcement of $500 million over two years to build and renew community recreation facilities across Canada. Caledon had called for this type of investment over a previous budgetary measure that took the form of a designer tax break for participation in fitness programs – which benefits primarily middle- and higher-income Canadians (and for so few dollars in tax savings, a princely $75, that it makes no real difference). Nor can such puny tax cuts for individual taxpayers possibly substitute for the significant investments required to upgrade, repair and renew community spaces, such as recreation facilities.

In short, the substantial funding for infrastructure was welcome from the perspective of short-term employment and long-term investment in the quality of life in communities. The true test of these measures, of course, will be in the execution.

The problem, if past practice is any barometer, is that funds earmarked for infrastructure spending have barely left the door. While dollars are announced with press releases and associated fanfare, the actual funds never seem to be (entirely) delivered. They are either lacking or late. Various political and regulatory barriers invariably get in the way of expeditious spending. The latter is crucial given the explicit purpose of infrastructure measures – to counter rising unemployment through the immediate creation of jobs.

The Budget itself revealed that nearly $8 billion in unspent infrastructure funding has accumulated on the federal books. In 2007-08, the lapse – the amount of funding appropriated by Parliament but not spent by government departments – reached its highest level in recent years at $7.6 billion, or about 9 percent of appropriated funds. The Federation of Canadian Municipalities estimates that the federal infrastructure fund allocated less than $300 million of the $1.5 billion announced in its first two years of budgeted spending [Brennan 2009].

Another problem looms large if these funds do not get spent quickly. Delays in implementation mean that the monies could go into the economy at a time when (hopefully) it will be growing again.

As in the case of social housing, the funds announced in the Red-Ink Budget must be spent with immediacy and intelligence. The accountability process upon which the Liberals insisted can help ensure that these principles are respected. In the meantime, provinces/territories, municipalities and community groups will have to act as watchdogs to make certain that the shovels get working as soon as possible.

But while the government will have to move expeditiously, it must also ensure that the projects supported through these new funds do no harm to the environment and, ideally, protect it. Economic stimulus must never equate with environmental sacrifice – despite the pressing need for immediate action.

Aboriginal peoples

The under-realized human potential of so many Aboriginal people is Canada's largest social and economic failure. The good news is that many more Aboriginal persons are acquiring skills that enable them to take positions of educational, business, artistic and governmental leadership both within their own cultures and in society as a whole. We are at the beginning of a renaissance of First Nations, Inuit and Métis cultures.

The 2009 Budget contained a number of positive initiatives to help this revitalization of Aboriginal peoples in Canada. These measures represent an investment in our future and are especially important in the Prairie provinces, whose future prosperity is bound up with the prosperity of Aboriginal peoples.

The Budget renewed the Aboriginal Skills and Employment Partnership (ASEP) with $100 million over three years. This is a fund that works with employers, mainly but not solely in the resource industry, to train and employ Aboriginal workers on major projects. It ensures that Aboriginal people get at least some of the employment benefits of new projects, many of which are located on their traditional territories. ASEP has been an effective tool for increasing the employment of Aboriginal peoples, so its renewal and enhancement is welcome news.

The 2009 Budget committed $75 million to a two-year Aboriginal Skills and Training Strategic Investment Fund. It appears that the new fund will be a replacement for the Aboriginal Human Resources Development Strategy, which is also continued with a $25 million commitment until the new program is ready.

In health and social services, the Budget announced $305 million over two years to improve health outcomes for First Nations and Inuit individuals, and $20 million towards improving child and family services on reserves. Perhaps most important, there is almost $1 billion dedicated to housing, schools, water and other infrastructure needs on First Nations reserves.

The 2009 Budget represents an impressive commitment to Aboriginal peoples. While there is much more to be done, especially in achieving parity in educational outcomes, the new measures mark an important step towards renewal and reconstruction.

The financial sector

Canada has been fortunate in maintaining a well-regulated banking sector. We owe no thanks to the banks for this. Most of the big banks have been lobbying hard for the last several years to reduce their 'regulatory burden.' The first step in a more relaxed regulatory regime would have been bank mergers, leading to large debts to finance takeovers and massive layoffs. Had the banks won their political battle, many Canadian banks today may have ended up in a similar unenviable position as those in the US, the UK and other countries.

Despite being restrained from getting too far into the morass, our financial sector has not been wholly unaffected by the global meltdown, as the sector has experienced big write-downs and consequent increased capital requirements. In response, Ottawa and the Bank of Canada have found ways to provide the financial sector with huge amounts of capital, outside of the government's ordinary budget and largely under the media radar. The main rescue package has been the "purchase of up to $75 billion in insured mortgage pools from Canadian financial institutions through the Canada Mortgage and Housing Corporation" [Department of Finance Canada 2009: 37].

Put simply, the government lends the Canada Mortgage and Housing Corporation (CMHC) money to buy pools of CMHC-insured mortgages from the banks. This takes the mortgages off the banks' books and provides them much needed capital – lots of capital. In theory, this transaction costs taxpayers nothing because the pools of insured mortgages are sold by auction with a minimum CMHC bid equivalent to the borrowing cost of the Government of Canada. (However, it appears that the price CMHC is paying is above the market price, since there is no private sector money demanding to purchase the mortgages at these prices. Consequently there may be a sizable implicit public subsidy to the banks – even half a percentage point amounts to $375 million.)

There is no added risk to taxpayers because these mortgages were already insured by CMHC. If the mortgages go sour, CMHC – and through it presumably the Government of Canada – has to pay anyway since it has insured the mortgages. Because there is no budgetary cost to the transactions, there is no need for a budgetary allocation and no addition to government net debt since the new government borrowing is offset by the value of the new assets purchased.

All of this raises questions of why we need the banks to play a role in the mortgage market in the first place. Would not homeowners' costs be much lower if so many intermediaries did not sell and resell mortgages, all with a hefty profit attached? Why, instead, cannot consumers get their mortgages directly from the institution that will ultimately own the mortgage (CMHC) and save all the extra costs? As well, since the banks can sell most of their mortgages to a government-backed agency, does this process not raise the spectre of the same kind of moral hazard that arose in the US, where the organization negotiating the mortgage loans did not bear the cost if the mortgage did not perform?

Given these and many other questions, the CMHC mortgage repurchase program and the several other programs in place to assist the financial sector could benefit from greater Parliamentary and media scrutiny, if for no other reason to ensure that no one gets carried away with an excess of creativity in the future. At least partly because the transactions do not seem to cost government any money and do not require a budgetary allocation, they tend to be ignored. Unfortunately, the current financial crisis demonstrates that it is precisely this kind of seemingly harmless and safe borrowing that can suddenly blow up. We should recall that it was apparently only the intervention of our previous Bank of Canada governor, David Dodge, which stopped CMHC from going full-force into the 'no-money-down-40-year-amortization' mortgage business that would undoubtedly have collapsed in today's economic climate.

Notwithstanding the need for greater diligence, the measures taken to date in the financial sector appear to be performing well and have allowed Canada to get by so far without the kinds of interventions and nationalizations we have seen elsewhere. More scrutiny is desirable; nevertheless the initiatives have been both necessary and in the public interest at this time. Accordingly, the Budget announced a number of expansions of various financial sector supports, most importantly another $50 billion purchase of CMHC-insured mortgages from the financial sector.

Perhaps one initiative that merits extra caution is the proposed $12 billion Canadian Secured Credit Facility, which would allow financial institutions to sell to government the loans they have made to businesses and consumers for the purchase or lease of vehicles and other equipment. Unlike the CMHC program, there does appear to be additional taxpayer risk associated with this proposal since, in contrast to the CMHC-insured mortgages, vehicle and equipment loans are not insured by a government-backed agency. If these loans go bad, taxpayers would be stuck with a whole new cost for which there is no existing loan loss provision.

Economic and fiscal policy

The central narrative of the 2009 Budget is that it is an attempt to provide an economic stimulus while also preparing Canada for economic recovery. Unfortunately, it is not easy to calculate the stimulus in this Budget, partly because it is confounded by the inclusion of the foregone premium increase in Employment Insurance (discussed above), tax cuts and spending restraint measures previously announced, and leveraged funds from other orders of government.

With respect to leveraging of funds from other levels of government, it is not reasonable to include the full 'leverage' effect as part of the Budget's overall fiscal stimulus because it is not at all clear that the provinces and territories can and will actually spend more than they had intended. Instead, they may just redirect funds from other areas or accept federal cost-sharing on plans already in place as a way of reducing their own costs. The real result will likely be somewhere between a full leveraging effect and none at all – less than the 100 percent seemingly assumed in the Budget and more than 0 percent. However, our guess is that leveraging will likely turn out to be closer to the latter than the former, given the fiscal constraints other governments are also experiencing.

The Parliamentary Budget Officer provided a neutral analysis of the Budget stimulus that excluded leveraging, previous cuts and the foregone Employment Insurance premium increases. He concluded that "the total 'net' stimulus could be 20% smaller (at $31.8 billion) than reported in Budget 2009 over 2009-10 and 2010-11" [Parliamentary Budget Officer 2009: 2]. Recalculating the total fiscal stimulus in the Budget according to the Parliamentary Budget Officer's analysis of the net stimulus, the stimulus is approximately 1.3 percent of GDP in 2009-10 and 0.8 percent in 2010-11.

This quantity of fiscal stimulus in the 2009 Budget falls somewhat short of the International Monetary Fund (IMF)-recommended 2.0 percent of GDP (in one year), but it does seem significantly larger than the fiscal efforts of major European countries. Indeed, it seems larger than just about any other developed country except the US and China. As a small trading nation, Canada cannot stimulate its own economy out of the recession unless our trading partners, especially the US, succeed as well. Canadians should definitely be wholehearted supporters of coordinated international efforts to restart the world economy, but if the majority of our partners are not going far enough we need not be the only boy scouts on the block. In this light, Caledon does not have a disagreement with the *quantity* of the federal stimulus. We do, however, have a disagreement with the *quality* of the fiscal stimulus.

Not every dollar of deficit is equal in its fiscal impact. Much of the stimulus in the 2009 Budget could have packed more economic punch for each dollar if it had been better directed. The most prominant example of misdirected policy is the income tax reductions. As we showed in the section on tax cuts and in the accompanying detailed analysis [Battle 2009], the largest tax breaks will (once again) be going to those with higher incomes, not to those with low and moderate incomes as the Budget claimed. There is as close to a consensus among economists as one will ever find that such tax cuts are relatively ineffective as a fiscal stimulant because higher-income taxpayers tend not to spend tax cuts but rather bank them or use them to pay down debt. Instead, Caledon would harness major federal income security programs to pump cash into the economy through spending by low- and middle-income Canadians and the unemployed.

We are also skeptical about the capacity of the federal government to get much of the infrastructure and housing money out the door within the two-year time frame proposed by the Budget. This requirement is especially problematic due to the demand for cost-sharing and the assumed federal engagement in picking and choosing projects. This will require negotiation and creative paper work (for provinces and territories to make up stories about incremental spending). Moreover the rush to spend will not necessarily encourage great wisdom in the choice of projects.

Both the present and the previous governments failed to undertake adequate or, more accurately, any, contingency planning for the 'lean years' during the 'fat years' – a failure which will now impede our capacity to recover from the current recession and to spend our infrastructure funds wisely. Perhaps, as part of its post-recovery plan, Ottawa – in co-operation with the provinces, territories and municipalities – could establish an autonomous Center for Infrastructure Coordination which could keep an accurate inventory of projects, coordinate and trade experience, and enable an expedited response to future recessions or other opportunities.

A further issue regarding the effectiveness of the stimulus package is the introduction of Tax Free Savings Accounts (TFSAs) on January 1st of this year. Although this was a measure from the previous Budget, it is just now coming into force. The TFSAs were planned when the economy was in an expansionary period, but they are being implemented during a contraction. To the extent that TFSAs are an effective incentive to create added savings, they will be an additional contractionary force in the economy – contrary to the astounding claim made that they are a stimulus. The government deficit will also have to offset the added withdrawal of spending from the economy, if any, due to TFSAs.

Paradoxically, we might be fortunate in that TFSAs will likely be ineffective in actually creating incremental savings. Most likely, they will merely allow people who were already saving money to salt away $5,000 of it in a non-taxed account. The result will be one more windfall mainly for high-income earners, with little effect on the overall savings rate.

Assessing the effectiveness of the stimulus is one side of the coin in the Red-Ink Budget: the other side of the coin is planning on an eventual return to fiscally prudent Budgets. The 2009 Budget helpfully presented a five-year fiscal projection and the major economic assumptions upon which it is based. The federal Budget is projected to return to a small surplus by the end of the forecast period – 2013-14. Due mainly to projected growth in GDP, the debt burden will begin to fall even earlier, in 2011-12, and attain levels below those of 2008-09 by 2013-14. The fiscal and economic forecasts are set out below in Table A.

On the face of it, these projections seem unrealistically optimistic. Projected growth in 2010 of 4.3 percent is entirely dependent upon US growth, and there is nothing at present to suggest that the US will spring out of its current slump within the year. When recovery occurs, it will lead to rapid growth, but the nature of this recession implies that it may be deeper and longer than these projections indicate. It would be nice to be wrong about this, but the Budget should include a much greater risk adjustment in its forecast, especially for 2010.

Table A
Fiscal, GDP and debt burden forecast in 2009 Budget
($ billions unadjusted for inflation)

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Revenues	236.4	224.9	239.9	259.4	276.4	294.3
Expenditures	237.4	258.6	269.7	272.3	283.7	293.7
Budget balance	-1.1	-33.7	-29.8	-13.0	-7.3	0.7
GDP	1604	1560	1627	1731	1838	1935
Percentage change in GDP		-2.7%	4.3%	6.4%	6.2%	5.3%
Debt as a percent of GDP (debt burden)	28.6%	31.6%	32.1%	30.9%	29.5%	28.0%

In any case, even if these optimistic economic projections are accepted, the revenue and expenditure projections constructed from them also include a number of questionable assumptions. First, as noted earlier, the federal government assumes it will begin raising Employment Insurance premiums in 2012. Second, the fiscal projections assume that Ottawa will realize almost $8 billion from as yet unspecified asset sales and expenditure cuts. Finally, the revenue forecasts suggest a strong and quick rebound in tax revenues, including corporate income tax revenue. Past experience suggests that corporations will retain significant losses against which to write down any new profits, and that it will take several years – not two or three years – for corporate tax revenues to recover. The Parliamentary Budget Officer also makes all these points in his report.

For the above reasons, we do not believe there exists at present a realistic plan to return the federal government to fiscal prudence. Moreover the Budget's unrealistically rosy perspective discourages open debate about how to return to fiscal prudence and what this entails. Consequently we could once more find ourselves making big emergency cuts in federal spending four or five years down the road – and there really are not that many more places to find big cuts. The choices are transfers to provinces/territories, First Nations programs, Employment Insurance, pensions for the elderly, child benefits or the military. All the rest amounts to little.

This is not a choice we will want to face, and we need to start discussing now the means of avoiding this choice.

What, then, can we do?

By introducing another $2.2 billion round of income tax cuts, the federal government has once again eroded its revenue base on a permanent basis. (In contrast, a doubling of the GST credit would have had a greater stimulative impact and could have easily been reversed in the recovery.) It is simply impossible for Ottawa to go on cutting revenue sources year after year, in good times and in bad. We need at minimum to put a stop to further reductions in the federal government's overall tax revenue, and we will likely have to consider raising some tax sources as the recovery begins. One obvious alternative would be to restore or increase the GST (adding compensation for households with low and modest incomes by boosting the GST credit). The Finance Minister has argued that the cut in GST was made in anticipation of the need for stimulus in a recession. If true, government should then be open to restoring the GST in the recovery.

This may not be so bad from an economic perspective. With recovery, the spectre of inflation will appear, so a contractionary fiscal policy will go some way to restraining inflation. Moreover a contractionary fiscal policy in the period of recovery will permit the Bank of Canada to continue a low interest rate policy. For most Canadian consumers and businesses, the benefits of a low interest rate will offset the pain of higher taxes.

Finally, as part of a debate on the path to restoring fiscal prudence, we need also to consider where we wish to end up at the end of that path. As of now, Canada likely has the lowest public debt burden among G7 nations. With a debt burden of just under 30 percent of GDP, interest payments are small and financing is readily available. Given our huge backlog of infrastructure requirements, and the need to convert to renewable energy sources, we should see our capacity to borrow as an opportunity for public investment in high-return projects. There is no rationale for driving our debt below about 30 percent of GDP if it means foregoing necessary investments that lay the foundation for ongoing prosperity. Far from imposing a burden on future generations, investment in productive infrastructure will provide future generations with a legacy worth far more than the amortization of the capital costs.

In sum, while we do not take issue with the amount of the stimulus in the 2009 Budget, we believe that it could have been designed to be more cost-effective and carry a greater economic wallop for the same expenditure. Ottawa has at its disposal powerful instruments – such as the Canada Child Tax Benefit, Working Income Tax Benefit, refundable GST credit and Employment Insurance – that can flow cash to low- and modest-income Canadians and the unemployed.

Furthermore, we do not see in the 2009 Budget any realistic plan to return Ottawa to the path of fiscal prudence or any reasonable discussion of what 'fiscal prudence' means. It is our view that the path of fiscal prudence means that further tax cuts must be avoided and tax increases should be considered during the recovery period. The overall objective of fiscal policy should be to maintain Canada's debt burden roughly at 30 percent of GDP, as this target will allow us to make needed long-term investments towards our future prosperity.

Conclusion

The preceding sections reviewed in detail some of the highlights of the 2009 Budget pertinent to its central themes. The government stated that it has four main goals:

- Support the economy when it is most needed.
- Support Canadian families and sectors most affected.
- Ensure maximum impact for Canadian jobs and output.
- Protect Canada's fiscal position by targeting new spending in the next two years.

These are indeed the goals that a Budget at this dire juncture in our economic fortunes should pose for itself. However, we restate these goals to be more explicit and more readily assessed:

- Stimulate the economy to speed up the recovery.
- Ameliorate the impact of the recession on Canadians who are hardest hit.
- Make effective investments that create jobs now but have high returns for the future.
- Position Canada to return to a fiscally prudent position when the economy recovers.

How does the 2009 Budget measure up in delivering on these four goals?

In respect of stimulating the economy, we agree that the Budget has provided the right amount of stimulus, but we have argued that the funds could be more effectively deployed. Instead of the Budget's Robin Hood-in-reverse income tax cuts that favour the affluent, we would invest in income security programs that put more cash into the hands of low- and modest-income consumers and thus inject stimulus into the economy.

In regard to amelioration of the worst effects of the recession, the Budget failed to address the lack of Employment Insurance coverage for most of the unemployed living west of Quebec. This must be considered a major failing, only offset in part by the modest improvements for those who are already entitled to Employment Insurance, the substantial increase in the Working Income Tax Benefit for the working poor, and investments in social housing and vulnerable communities.

The small increases in the Canada Child Tax Benefit will do little to improve support for families with children, and poor families will see no gains whatsoever. Low-income Canadians will get nothing from the much-touted income tax cuts, while the wealthy will get the largest tax breaks – albeit the proverbial drop in the bucket in comparison to their income. The Budget gets a failing grade overall on this criterion. Doubling the refundable GST credit to improve the incomes of low- and modest-income Canadians would have made far more sense than profligate tax cuts.

In respect of creating jobs now that lay the foundation for the future, the Budget went some distance in respect of the areas in which it has sole jurisdiction, such as First Nations infrastructure, federal buildings and other federal assets. The Budget also announced a moderate increase in training dollars, although it did not adequately provide for unemployed workers ineligible for training provided by the Employment Insurance program. While the infrastructure provisions outside of federal jurisdiction – for general infrastructure, housing and so on – are reasonable in amount, we are concerned about the deliverables.

Finally, in regard to defining a path back to fiscal prudence, our assessment of the Budget found that the government did well in revealing the state of fiscal affairs for the next two years, but relied on a rosy and somewhat unlikely scenario for the medium term. This is a crucial task that remains to be undertaken, including setting out some of the hard choices Ottawa will need to make. In the end of the day, the Budget had nothing to say about how we get back to fiscal prudence or even what that would mean.

Overall, we would give the Red-Ink Budget a provisional pass and put it on probation for the coming year – which happens to coincide with the outcome in the House of Commons.

Endnotes

1. The term 'welfare wall' refers to the conundrum that some welfare recipients can end up worse off financially if they leave social assistance for the workforce. They may forfeit cash benefits for spouses and allowances for children; special benefits; and valuable services such as supplementary health, dental and drug benefits, subsidized housing and access to supports for recipients with disabilities. They see their typically low earnings from work reduced by federal and provincial/territorial income taxes and payroll taxes (Canada and Quebec Pension Plan contributions and Employment Insurance premiums). And they face work-related expenses such as clothing, transportation and child care.

2. In 2008 the maximum WITB for single recipients was $510 and would have been $522 in 2009 if indexed. The Budget raised it instead to $925, which amounts to an increase of $403 over the $522 pre-Budget level or 77.2 percent.

3. The $13,389 figure is what the threshold where eligibility for WITB would have ended in 2009 without the Budget's changes.

4. The maximum WITB benefit for single parents and couples was $1,109 in 2008. That amount would have risen to $1,044 for 2009 under indexation. The 2009 Budget set it at $1,680, which is $636 or 60.9 percent above the pre-Budget amount for 2009.

5. We cannot calculate results for the three territories because they are not covered by the labour force survey, which generates the unemployment statistics.

6. How can EI coverage exceed 100 percent in two provinces? It is possible for EI recipients to collect EI and work at the same time. 'Working on claim' is allowed and indeed encouraged. For example, a fish plant worker

may be unemployed in the off season, and called back to work for a week or two, or finds a temporary job. They notify the EI office, get pay rather than EI for a short period, and have their claim duration extended. I am grateful to Andrew Jackson, Director of Economic and Social Policy, Canadian Labour Congress, for this insight and illustrative example. Thus a person can be on EI but also working and not included in the denominator of the Beneficiaries/Unemployed ratio (i.e., the unemployed), but included in the numerator (EI beneficiaries).

7   The following 10 benchmarks are used: parental leave of 1 year at 50 percent of salary, a national plan with priority for disadvantaged children, subsidized and regulated child care services for 25 percent of children under 3, subsidized and accredited early education services for 80 percent of 4 year-olds, 80 percent of all child care staff trained, 50 percent of staff in accredited early education services tertiary educated with relevant qualification, minimum staff-to-children ratio of 1:15 in pre-school education, 1.0 percent of GDP spent on early childhood services, child poverty rate less than 10 percent and near-universal outreach of essential child health services.

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