The great money trick: The 1999-2000 Liberal budget versus the alternative federal budget

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INTRODUCTION

The 1999-2000 budget continues the tradition of previous budgets brought down by Paul Martin in understating revenues, exaggerating likely expenditures, and using bookkeeping sleight of hand to make it slippery and difficult to comprehend. Although it has been proclaimed as a "health care budget," it could more accurately be described as a "debt reduction budget" since, by the end of the year and contrary to the government's fiscal plan, there will once again be a large budget surplus. If this is not spent in some fashion currently not budgeted for, it will, by default, automatically be used to pay down outstanding debt. When compared with the alternative federal budget (AFB), the Liberal budget has clearly missed a golden opportunity to make a significant dent in the country's poverty and to rebuild important social programs. In doing so it has also passed up the opportunity to assert the more forward-looking version of the social union to be found in the AFB, thus continuing the drift to decentralization and provincial anarchy in the provision of social services.

THE FISCAL PLANS

Table one summarizes the fiscal plans of the Martin budget and the AFB. It is apparent from this table that the government's 1998-99 budget year will yield a surplus of at least $3 billion on account of the contingency provision and this will be used to pay down existing debt. In the AFB, this "surplus" would have been used to finance the outstanding pay equity grievance of public sector workers. As it is, pay equity will remain an outstanding claim on government money and can, therefore, be considered a debt.

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The second point to note about the year just ending is that the government balances its books only by running a large surplus on the UI (it calls it employment insurance (EI)) fund. Were the government not taking in more than it pays out in benefits to the unemployed, there would be a budget deficit.

For the coming year, the government is planning a balanced budget but again, after making a contingency provision of $3 billion. It is, once more, the UI fund that is making a budget balance possible—the projected surplus being $4.9 billion. There are, however, strong reasons to believe that, at the end of the year 2000, the government will be running a surplus well in excess of the $3 billion contingency. To begin with, non-UI revenues are projected to increase by only $1.1 billion or by only 0.8 percent and UI revenues are projected to fall by the full amount of the recent premium reduction. But current-price GDP is expected to grow by 3.0 percent during the fiscal year and since the government itself claims that, for every percentage point increase in current-price GDP, federal revenues grow by $1.4 billion, then revenues appear to be understated by at least $3.1 billion ($3 \times \$1.4b - \$1.1b$).

On the spending side, the increase in UI benefits is highly unlikely while, as we shall see, program spending appears to be "padded" in some areas. Debt servicing charges suggest an increase in average borrowing costs from 7.10 percent in 1998-99 to 7.36 percent in the coming year (adjusting outstanding debt for only the $3 billion contingency surplus in 1999); but who is expecting interest rates to rise?

For these reasons, the 1999-2000 budget could end up in a surplus position to the tune of some $8 billion, all of which would be applied to debt reduction, unless the government once again indulges in the kind of creative end-of-year spending adjustments that gave us the millennium fund in 1998 and the Canada health and social transfer (CHST) supplement last year.

The fiscal plan of the AFB is much more straightforward. The budget is balanced but so is the UI fund, which is, for the first time, separated out and run as an independent fund. UI benefits are increased by raising coverage rates of the unemployed from their catastrophically low current levels, of around 30 percent, to 70 percent. Average benefit rates would be increased from less than 55 to 60 percent and clawbacks and

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penalties for so-called repeat users would be abolished. Additional moneys would also be invested in training and in enriching maternity leave provisions. The AFB demonstrates that the call for a separate fund and for benefit enrichment by the trade union movement is one that can, indeed, be financed.

Second, the AFB forecasts much larger revenue growth than does the federal government, mainly because it funds a much higher level of both UI and program spending than does the federal government. This has the effect of raising employment and GDP and, in the process, government tax revenues. Unemployment would fall to less than 6 percent by the year 2000 (compared with more than 8 percent on government assumptions) and current-price GDP would grow by 5.8 percent in 1999 (compared with the 3 percent anticipated by government). Unlike the federal government, the AFB would spend the otherwise anticipated "surpluses." It would, however, keep the share of government revenue in GDP constant at about 15.5 percent.

Finally, the AFB would spend less on debt servicing because it would require the Bank of Canada to purchase 2 percent of the outstanding debt each year for 10 years. The interest earnings on these holdings would, in effect, be zero to the government.

Since there would be no debt reduction under the AFB, the share of debt in GDP would fall as the economy grew and would dip below 60 percent in the year 2000.

PROGRAM SPENDING

As in previous years, the AFB protects vital social programs in a series of social investment funds, each with its own funding formula and each with its own national standards (with provision for Quebec to negotiate separate arrangements). The main emphasis in this year's budget is expansion of the health care budget, by an additional $2 billion in federal transfers, another $2 billion for a national home care and community health program, and $0.5 billion for a national pharmacare program. In year two, transfers would rise by a *further* $4 billion. In contrast, the federal government has offered an additional $2 billion in transfers in the coming year, to a level that will be maintained in the following year, three-quarters of the cost being funded out of surpluses in the 1998-99 budget. This is a welcomed increase and shows the power of national protest and organization but it is insufficient to offset real cuts in health transfers in recent years and does nothing for health care restructuring or pharmacare. Neither is any additional money put into the CHST to offset past cuts to post-secondary education or to income support. Both of these are provided for in the AFB and, in the post-secondary education fund, provision is also made for the gradual replacement of student loans with grants.

Improving health is the watchword of this year's AFB with "health" being defined broadly. In particular, it is acknowledged that the biggest single determinant of health is income status. The AFB presents a package of spending increases and tax cuts for the poor that total some $20 billion. On the spending side (table 2), income support is increased by $2.9 billion, the national drug plan by $0.5 billion, the child care investment fund by $0.5 billion, UI benefits by some $6.0 billion, housing spending by $0.7 billion, retirement benefits by $1 billion, and youth employment creation by $0.4 billion.

Together with the growth in jobs mentioned above and the reductions in taxation on low-income earners outlined below, these measures would have the effect of reducing poverty in Canada from 20 to 14 percent over four years and cutting child poverty by more than 50 percent!

The AFB also makes provision for increased spending on services to First Nations people and people with disabilities, on regional and community development, the environment, and culture. The federal budget, on the other hand,

Table 1 Martin's 1999-2000 budget compared with the AFB fiscal plan

	Projected 1998-1999	Martin 1999-2000	AFB 1999-2000
		$ billion	
General revenue fund (excluding UI)			
Revenue	137.3	138.4	147.7
Spending			
Program spending	100.0	97.8	107.1
Debt service	41.4	42.5	40.6
Contingency	3.0	3.0	—
Total spending	144.4	143.3	147.7
Balance	−7.1	−4.9	0.0
Unemployment insurance fund			
Revenue	19.2	18.3	19.5
Benefits and other payments	12.1	13.4	19.5
Balance	7.1	4.9	0.0
Consolidated budget balance			
Revenue	156.5	156.7	167.2
Expenditure	156.5	156.7	167.2
Balance	0.0	0.0	0.0

Sources: Department of Finance, 1999, and Canadian Centre for Policy Alternatives/Choices, 1999.

contains no new major spending initiatives outside of health, though it provides funding for some new programs announced in earlier years for research, aboriginal services, and fisheries adjustment. The defence budget also increases by $0.4 billion. The category "General government services and other" in table 2 looks very high, suggesting once more that expenditure plans are being exaggerated.

TAXATION MEASURES

Nowhere is the contrast between the Liberal budget and the AFB more stark than on the tax policy front. The government has pandered to the anti-tax lobby by abolishing the surtax on those earning in excess of $50,000 a year, by increasing basic deductions for all taxpayers by $675, and by extending the child tax credit to middle-income Canadians. The main beneficiaries of these tax breaks are middle- and higher-income groups. The government feels that it made its gesture to the poor in 1998 when it abolished the 3 percent surtax on those earning less than $50,000 a year and increased the basic exemption for low-income earners by $500 a year. The cost of the 1999 tax breaks will be $1.5 billion in the coming year.

In comparison, the AFB recommended shifting no less than $8 billion a year to low-income earners by raising the GST credits for adults and children. This would be funded by *increasing* the taxes on wealthy Canadians through a wealth transfer tax on estates exceeding $1 million, by imposing two new income tax brackets on those earning in excess of $100,000, by closing a series of corporate tax loopholes, and by stepping up collection of outstanding taxes.

Though the AFB recommendations were tax neutral, in that there would be no increase in the share of GDP being raised by taxes, they would clearly have had dramatic effects on the after-tax income of low- and middle-income earners.

While the business community and right-wing think tanks have assailed the government for failing to cut taxes further, the social movements behind the AFB see no merit in across-the-board tax cuts and feel that putting money back into strengthening social programs has to be the top priority for the use of "surplus" funds. Tax cuts for the poor must, therefore, be funded by tax increases for the wealthy.

CONCLUSION

The AFB incorporates the measured demands of social movements across the country and has, in that respect, become the fiscal mouthpiece of the left. While it would be easy to dismiss the exercise as one of wishful thinking, a strong case can be made for its having

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Table 2 Martin's 1999-2000 budget compared with the AFB program spending

	Martin 1999-2000	AFB 1999-2000
	$ million	
National social investment funds		
1. Health care fund	9,761	12,130
2. Post-secondary education fund	3,108	4,000
3. Income support fund	4,325	7,200
4. Child care fund	350	850
5. Retirement income fund	23,500	24,666
6. Housing fund	1,889	2,263
Subtotal	42,933	51,109
Equity participation foundation	–	200
Veterans pensions	1,970	1,840
Equalization	9,288	8,600
Transfers to territories	1,299	1,232
VRDP-disabilities	195	225
First Nations	4,334	5,000
Common security	12,085	12,808
Agriculture	1,976	2,200
Industry (inc. infra)	3,501	4,082
Environment	542	1,550
Transport	912	1,753
Natural resources	713	850
Fisheries	1,314	1,359
Immigration, etc.	759	900
Human and training (ex. VRDP, student loans)	1,046	1,245
Justice	3,609	3,275
Heritage/culture	2,652	2,825
General government services and other (net)	7,672	6,047
Contingency	3,000	–
Less CHST* transfer from 1998-99	–2,000	–
Total program	97,800	107,100
Unemployment insurance fund	13,400	19,500
Total spending program and UI	111,200	126,600

* CHST allocated among health, post-secondary, and income support in 1994-1996 proportions. CHST supplement to health only.

Sources: Detailed estimates for 1999-2000, Treasury Board Web site, and Canadian Centre for Policy Alternatives/Choices, 1999.

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had an impact on some important items in the federal budget in recent years. The imposition of a "floor" below which the CHST would not fall, the backing away from the proposed seniors' benefit, and the abolition of the surtax on low-income earners are just some recent fiscal initiatives for which social movement activism, of which the AFB is but a small part, can take some credit.

In the current federal budget, pressure from social movements, organized labour, and consumer groups across the country led to the restoration of at least some of the cuts to health transfers. In the coming year, the main task facing social movements will be to develop even more persuasive arguments for the necessity to strengthen social programs, to offset what are likely to be increasingly histrionic calls by the business lobby for across-the-board tax cuts.

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ated new export opportunities. World financial markets became highly fluid, and new technologies altered the way international business was organized.

It was the 1990-91 recession that finally provoked drastic action—first in the private sector, as industries began to deal directly with their lagging productivity and the intense pressures of world competition, and then in the public sector, as those fluid financial markets began to take flight from high-debt countries, including Canada.

Budget cuts were deliberately designed to reverse the role of government—shifting responsibility and insecurity back to citizens. Although the political rhetoric and the severity of the cuts varied from one part of the country to another, Liberal, Conservative, and NDP governments were all caught up in the process of "getting the economic house in order."

Hospitals were restructured, unemployment insurance became less generous, public pensions became more costly, social services were cut, and social programs became more and more targeted, leaving gaps in the social safety net. As people began to fall through those gaps, the social deficit increased.

The first food banks appeared in the late 1980s. By the late 1990s, homelessness was painfully evident on the downtown streets of most Canadian cities.

If the next budget addresses children, for example, it will require a well-articulated strategy for supporting parents in achieving healthy child development. No single budget could possibly "fix" the problem; we will need a 10-year agenda.

A NEW ERA BEGINS

Now, finally, Canada is poised on the threshold of a new era in the balancing of risk between citizen and state. The fiscal crisis is largely behind us, and we have the luxury of planning ahead. The federal budget each February has become one of the key levers for social investment.

Both the education budget in 1998 and the health budget in 1999 took important initiatives to direct money into starving systems. But they did not "fix"

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