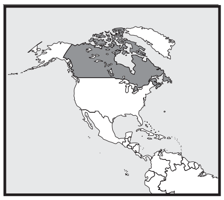
CANADA

Fighting mad – Canada’s new focus on the world



Canada is in the enviable position of having posted a budget surplus for nine consecutive years. While these resources could be used to remedy the eroding access to basic services like health care, education, and even clean water and housing, the Conservative government has chosen to adopt massive tax cuts that will further increase the gap between rich and poor, while substantially expanding its military capacity without explanation or debate around this significant change in Canada’s international role.

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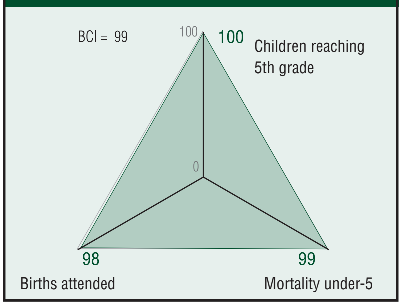
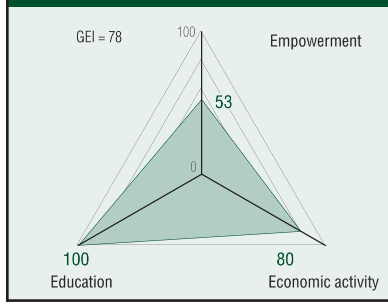
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



A newly elected minority government is redefining the meaning and purpose of the federal government in Canada.

A decade of fiscal surplus is scheduled to end, with little to show for it except the prospect of a more militarized and “security-conscious” Canada, and a growing gap between rich and poor.

Despite being in a minority position, the disarray of the opposition parties has allowed the Conservative government to pass sweeping change through Parliament. The Government’s two main federal priorities are now focused on slowing revenue-generating capacity through massive tax cuts, so as to reduce expectations of the Government, and redirecting the purpose of government away from supporting social security towards providing military security.

The commitment to expanding Canada’s international role in combat requires huge investments in equipment, infrastructure and personnel. No other sector of interest – including Canadians’ number one concern, health care – is afforded this kind of support (Laghi, 2006).

Eliminate the federal surplus, eliminate expectations

Canada has enjoyed an unbroken string of budgetary surpluses at the federal level since 1997. It is the only nation in the G8 to have such fiscal luxury. Until this latest budget, Canada was set for surpluses as far as the eye can see. It stands atop almost CAD 18 billion in surplus funds this year, and over CAD 19 billion next year (DoFC, 2006a, p. 160).

This minority federal government plans to eliminate “unplanned” surpluses, principally by reducing taxes and paying off national debt. It also plans to decrease the rate of growth in federal spending, largely by reducing the scope of government and shifting its focus (DoFC, 2006a, p. 21).

The 2006 budget speech notes that spending will become more consistent with areas of federal responsibility (DoFC, 2006b, p. 18). This is widely interpreted to mean a tight focus on international issues, as well as a devolution of programs and funding to the provinces for supports on social issues. Within the context of international issues, the Government has placed emphasis on defence/security and trade rather than international development, assistance or reconstruction.

The combined surplus between 2005-2006 (the year the new government was formed) and 2007-2008 is CAD 54.6 billion. Without question, enormous change could be financed through such “extra” revenues. Indeed, large changes are afoot.

The May 2006 budget allocated half of the surplus to new tax cuts (CAD 26.2 billion until 2007-2008) and promises more to come. When debt reduction is included (CAD 14 billion to 2007-2008), almost three quarters of the surplus disappears. Net new spending initiatives total CAD 9 billion over the two-year horizon (DoFC, 2006a, p. 160).

A further CAD 3.6 billion is provisionally allocated to a set of spending initiatives brokered by the previous minority government and is the source of one-time funding for:

- Housing (CAD 1.4 billion, of which CAD 800 million goes to an “affordable housing” program that appears to be part of the new fiscal arrangements with the provinces, (DoFC, 2006a, p. 111), and a potential CAD 600 million for off-reserve Aboriginals and the northern territories)
- Public transit supports (CAD 900 million)
- Supports to colleges and universities (CAD 1.1 billion infrastructure trust fund)
- Foreign assistance (CAD 320 million)

A final CAD 2 billion remains as unallocated surplus.

Of the CAD 9 billion that will go to new spending initiatives, most goes to three areas:

- The Conservative approach to child care, the so-called Universal Child Care Benefit (a taxable allowance which sends CAD 3.9 billion in cheques to families with children under age 6 rather than actually expanding child care)
- A new focus on the military and security (totalling CAD 2.6 billion by 2007-2008)
- Infrastructure deals that are targeted at highways, border and “gateway” security, with some renewals of existing municipal infrastructure funds (totalling about CAD 2.5 billion over the next two years).

Resources were also freed up by abandoning two major initiatives undertaken by the previous minority government, which were viewed as breakthroughs in fields that had faced decades of difficulty in gaining access to funding.

One was the Kelowna deal with Canada’s First Nations, Métis and Inuit peoples, which provided CAD 5 billion over five years to address chronic shortfalls in education, housing, health and water services in Aboriginal communities. This was replaced with CAD 450 million to meet all the needs but housing. “Up to” CAD 300 million was provided to address housing issues among off-reserve Aboriginals. Another “up to” CAD 300 million was directed to the northern territories to create affordable housing, but does not flow to reserves or Aboriginals.

The other cancelled agreement provided CAD 5 billion over five years to launch Canada’s first-ever bid to create a national approach to child care. The plan to create 250,000 licensed child care spaces by 2009 was shelved in order to finance the Conservatives’ Universal

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Child Care Benefit, discussed above. This spending program does nothing to help working families find child care. Further, because it is taxable, few families will get the full amount. Ironically, the ones that do are families with one parent at home and the other earning more than CAD 106,000. Families on social assistance receive only CAD 950 because the Universal Child Care Benefit is also partially financed by the young child supplements that previously went to the poorest families (worth about CAD 250 a child).[2] It should be noted that the CAD 3.9 billion "face-value" of this program costs the public purse 28% less because it is taxable and replaces an existing program (Goff, 2006).

Despite the economic largesse available at the federal level, Canadians from rural, remote and urban regions across the country continue to voice concern about eroding access to basic services like health care, education, even clean water and housing.

The mayors of the biggest cities recently warned that mounting infrastructure needs threaten to swamp local coffers. They seek senior government assistance in functions that were devolved a decade ago to the local level without passing on commensurate resources. Needed transit investments are estimated to require an additional CAD 4 billion in operating costs per year for Canada's urban centres (Big City Mayors' Caucus, 2006). Other estimates of the funding gap for hard infrastructure (roads, sewers, electricity, etc.) run at about CAD 50 billion currently, growing to approximately CAD 100 billion over the next 20 years (Robertson and Horsman, 2005, p. 25-29; and De Bever, 2003).

The existing surplus amounts could have helped address these concerns. Instead, a flurry of tax cuts will most benefit those with the highest income, further accentuating the growing gap between rich and poor.

Tax cuts and debt reduction will continue shrinking the federal presence in the economy and society. Federal spending and revenues as a share of gross domestic product (GDP) are at levels not seen since just after World War II, and even then only fleetingly before the federal government engaged in the project of postwar reconstruction in Canada (Yalnizyan, 2005, p. 59). The budget plan seeks to contract federal spending further, to 13% (from 13.7%) by 2007-2008, and shrink revenues to 15.5% (from 16.4%) (DoFC, 2006a, p. 22).[3]

Consider that 1% of GDP will be worth about CAD 15 billion by 2007, enough to finance much of the annual costs of the nation's infrastructure and social needs, not to mention finally arriving at the goal of providing 0.7% of GDP in the form of international assistance. That goal was first set in 1969 by former Canadian Prime Minister Lester Pearson. By 2007-2008, official development assistance (ODA) will have reached about 0.26% of GDP, down from 0.54% in 1975,[4] and the defence budget will be more than four times as large as the budget allocated to ODA.

This is the backdrop against which the new government is setting its directive to gear up for greater combat in the world. This represents a significant cultural shift in Canadian politics – one that is taking place without political debate.

Gearing up the military

At first glance, the increase in military spending in the budget is not stunning. This budget adds CAD 1.1 billion to the Department of National Defence over the next two years. There is a further CAD 1.5 billion in spending on other security issues such as border and port security, police, and prisons.

But there is more here than meets the eye. At the end of June, mere weeks after the Budget was tabled, the Minister of Defence had a whirlwind week of announcements that totalled CAD 17 billion in spending on capital military equipment, including trucks, ships, helicopters, and tactical and strategic airlifts.

The Conservative promise is for at least CAD 5.325 billion more in the defence budget over the next five years. This comes on top of the previous government's allocation of CAD 7 billion over five years to the Department of National Defence in the 2005 budget, which described its expansion as the "largest increase … in 20 years" (DoFC, 2005, p. 22). That CAD 7 billion in budgetary funding "will support CAD 12.8 billion in additional expenditures by the Forces in that period" (DoFC, 2005, p. 221).

Budgetary figures that look modest today will grow quickly over time. The CAD 17 billion in new capital spending appear as quite small amounts in budgetary terms in 2006-2007 and 2007-2008. That is because expenditures for capital are amortized over the lifetime of the equipment, so they look very small in annual budgets.

Such logic has not held sway in the search for financing urgent community infrastructure needs such as upgrading hospitals, repairing schools, building affordable housing or creating child care spaces. It took three rounds of highly publicized federal-provincial negotiations over more than five years to come up with CAD 3 billion for desperately needed investments in medical equipment, despite a concern across the country that Canadians are getting sick or dying because underinvestment in capital needs has led to delays in diagnostic tests.

The CAD 17 billion currently allocated for the military's capital needs vastly eclipses these other demands, but CAD 17 billion is just the beginning. A recent Senate report states that capital requirements for big-ticket equipment items over the next 20 years range between CAD 58 and CAD 81 billion – almost equivalent to the rest of the nation's needs (Standing Committee on National Security and Defence, 2006, p. 47).

The 2006 budget plans to add 23,000 soldiers to Canada's current complement of forces, which stands at about 62,000 regulars and 26,000 reservists (DoFC, 2006a, p. 135). The goal of 75,000 regular forces may also be only a first step. Senator Colin Kenny (2006), chair of the Senate Committee that has been studying military needs since 2003 states the need is in the order of 90,000 regular soldiers (with a commensurately larger reserve army).

It should be noted that, despite more than a decade of hand-wringing about the crisis in health care, this budget did not fund even one more doctor or nurse for the health sector.

The planned growth in the size of the military is staggering compared to everything else the federal government does. No other federal budget line has seen this breathtaking rate of expansion – doubling in a decade, and still growing. One expert has noted this "will put Canadian military spending at a higher level than any amount of spending in adjusted dollars since the Second World War."[5]

The Canadian public has not been told why we need to expand our military capacity by this scale. Where are these troops going to be deployed? What are we doing overseas? Why?

Growing inequality – poverty reduction falls off the policy menu

Meanwhile, inequalities among Canadians are accelerating on a whole host of dimensions.

Differences based on where a person lives or the size of their wallet increase with every passing year in access to basic needs like child care, training and education, affordable housing, clean water, public transit, programs for youth, income supports when jobs run out, recourse to the justice system, etc.

Those differences are accentuated for women.

For decades Canadian women have worked hard to minimize their economic vulnerability. There are now more female than male graduates of post-secondary education. Women keep setting records in labour force participation rates. More women own their own homes and invest in their own retirement savings plans than ever before. Women are also having fewer children, more women are having no children, and more women of all ages are living on their own.[6]

Yet women still earn less than men, represent fewer positions of influence within business and public institutions, and are still more economically vulnerable.

The economic progress that Canadian women have made has been on their own steam. Over the past decade, public policy changes have worked against women, despite the federal government's 1995 commitments to reduce poverty and gender inequalities.[7]

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2 See www.universalchildcare.ca for more information.

3 Note that new accounting and reporting rules make all these figures approximately 1 percentage point higher than they were before, but the trend lines remain unchanged.

4 Based on Budget Plan 2006 figures estimating that international assistance will total CAD 4.1 billion in 2007-2008 (p. 137) and that nominal GDP will rise to CAD 1,517 billion in the same year (p. 22). Even aid has shifted focus. Between 2001 and 2004, 28% of new resources for aid were targeted to Iraq and Afghanistan, neither of which were priorities previously (RoA, 2006, p. 258).

5 Staples, S. Director of Security Programs, Polaris Institute, Ottawa, Presentation to the Standing Committee on National Security and Defence, 8 June 2006.

6 Documented by Statistics Canada in a number of publications.

7 Canada is signatory to a variety of UN international agreements on poverty reduction and gender equality, including the World Summit for Social Development (1995); the Fourth World Conference on Women (1995); the Millennium Development Goals (2000); and the International Conference on Financing for Development (2002).

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Promoting women's participation

Women's equal participation in the labour market and in education and training is a key element for meeting the goals of the Lisbon Agenda. There is a persistent trend of women representing an oversized share of the unemployed in Bulgaria. The ratio between unemployed women and unemployed men in the third quarter of 2004 was 54.7:45.3. A study of the first gender budgeting initiative in Bulgaria in 2005 showed that the programmes and measures included under the "Gender Equality" guideline represent a fraction of all programmes and measures to promote employment (0.61%), and the corresponding funding is 0.63% of the total amount. All of the funding comes from the state budget, and most of it is allocated to projects and jobs related to women's traditional gender roles, such as "Family Centres for Children" and "Stimulating Women's Independent Economic Activity for Child Care Services".

Women are very active in training and retraining programmes. The highest rate of female participation was seen in a national programme called "Computer Training for Young People": over 80% of the funds allocated for this programme for 2005 were used for the training of young women. There is also a relatively high percentage of women participating in the National Programme for Literacy, Qualifications and Employment (over 60% for the third quarter of 2004). Nevertheless, it is estimated that overall, the percentage of funds used by women is less than 20% of all programme budgets. This amount is far too low, given the fact that 60% of all long-term unemployed persons are women (Gender Project 2006 report). One promising sign for the future is the inclusion of the gender budgeting approach in the Draft Law on Equal Opportunities for Women and Men. ■

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Women's lives are disproportionately affected by cuts to public policies that support housing, education and training, care for children or the elderly, or access to the justice system.

Cuts occurred precisely in these areas a decade ago. The federal government slashed budgets for social housing, long-term care, home care, rehabilitation and mental illness, children's aid, legal aid, training and upgrading, immigrant settlement services, ports (air and marine) and terminals, maintenance and infrastructure budgets for publicly supplied services, as well as roads and bridges, public laboratories, safety inspections, colleges and universities. Unemployment insurance benefits and welfare benefits (provincially provided, contingent on federal support) were also slashed across the country.

These are the state-funded supports that can make or break lives, build or deplete communities.

Our top military officials in Afghanistan, Brigadier-General David Fraser and General Rick Hillier, concur with this view, making the case that the central issues to be permanently resolved in that theatre of war are things like access to clean water, schools, and the assured safety of women. They have said this process is about securing the future of the next generation, and may take a long time to achieve.[8]

What is happening within Canada runs counter to these goals. The cuts made a decade ago have still not been reversed.

Instead, our two senior levels of government have delivered over CAD 250 billion in tax cuts over the past decade. To put this in perspective, health care – Canadians' first political priority – saw only CAD 108 billion in renewed funding in this same time period (Yalnizyan, 2004, p. 8-9).

Now Canada seems to be on the verge of a new mindset that says it's time for spending again. But the latest federal budget makes it clear that the money won't be there for vital areas of social security. Rapid growth in spending is only good when it goes to the military.

Conclusion

Canadians should be concerned. The surplus is being squandered with no long-term benefits accruing to Canadian society. The military is being expanded without explanation or debate around this significant redirection of collective purpose. Millions of Canadians (and vulnerable populations around the world) have been abandoned by a Government that – despite huge fiscal capacity to intervene – views policies that target poverty reduction and gender equality as immaterial to the betterment of society and the economy.

A federal government seeking Canadian support to wage war will find it most readily if it is a war on poverty and underdevelopment, at home and abroad. ■

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In the case of Ghana, various studies have shown that the poor tend to bear a greater portion of the tax burden, both directly and indirectly. With respect to direct income taxes, most of the self-employed poor, especially women and petty traders in general, are often assessed flat taxes by the tax authorities at rates that do not always bear a proportionate relationship to their earnings. Thus, while salaried workers would only pay taxes on what they earn, most poor people pay taxes on incomes that they have yet to earn or may not earn at all. For example, a poor woman who is assessed GHC 10,000 (USD 4) daily tax by the Government – at a tax rate of 10% and based on the assumption that she will earn GHC 100,000 (USD 39) daily – may actually earn, say, GHC 90,000 (USD 35) instead. This would raise the effective tax rate to about 11% (GHC 10,000 divided by GHC 90,000, instead of the GHC 100,000 assumed by the tax authorities).

Indirectly, the poor incur a greater tax burden through the Value Added Tax (VAT) because they are forced to pay the same rates as consumers in higher income brackets. Recent figures from a district assembly in the Greater Accra Region, which is typical of the situation across the country, illustrates the inequity of the poor paying more taxes and not receiving a corresponding provision of social services by