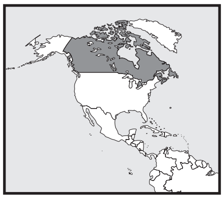
Trading off human security for fiscal balance



After posting a string of budgetary surpluses for the past six years, Canada is the only G7 nation to forecast budgetary surpluses. Looking back on this period of economic and fiscal luxury, will the country be judged as having squandered this unique fiscal opportunity? Canada appears poised to under-invest in its own people and in developing nations - the future of the globe - for the sake of "small government". A once-in-a-lifetime chance to invest in human development could be squandered for a little more debt reduction, and a little more consumer spending.

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Since 1993 the Canadian economy has grown by 66% in nominal terms and 41% in inflation-adjusted terms.[1] This is USD 361 billion more on an annual basis than a decade before, and growing. There is vastly greater capacity to finance social development initiatives, but that is not a political priority.

Fiscally, Canada appears exceedingly secure. But the very policy approach that has yielded fiscal surplus has also led to a scarcity of public resources that protect basic human security. That scarcity has been created by design, the product of political commitment to an agenda of tax cuts and aggressive debt reduction. Canadian politics in the surplus era - 1998 to 2003 - have not veered significantly from the course charted in the deficit era. Investments in the public goods and services that enhance human security have been limited, costly tax cuts and debt reduction measures have been favoured. Commitment to "small government" has coincided with larger economies, but deepening economic insecurity.

Canada has led the industrialized world in shrinking the scale of funding for public services. At the federal level alone, in an explicit attempt to create a permanently small government, programme spending shrank from 16.8% of GDP to 11.5% between 1992-93 and 2002-03, illustrating the Canadian Government's commitment to a "less is more philosophy".

Human security rests on a culture of human development that was first articulated in the 1948 Universal Declaration of Human Rights. These goals were reinforced in the 1976 International Covenant on Economic, Social and Cultural Rights, and repeatedly reaffirmed as worthy of action by hundreds of nation states around the world: 1995's 10 Commitments of the Copenhagen Declaration on Social Development; the 12 Critical Areas of Concern for gender equality articulated in Beijing Platform for Action also in 1995; and, most recently, the 8 Millennium Development Goals in 2000.

All these documents have in common the acknowledgement that, in order to live harmoniously with one another and develop as individuals, people need the security of adequate housing, food, and income, and access to clean water, health care and education. That's as true in Canada as it is for developing nations.

Long before the events of 9/11, Canadians saw their own human security placed in jeopardy. Since the 1980s wages have been mostly stagnant or falling. Deep government cutbacks of the 1990s led to a pronounced reduction in public provisions. The result: reduced accessibility, adequacy and affordability of housing, education, and health services for a growing number of Canadians. Cutbacks affecting water quality even led to tainted water supplies, with thousands becoming sick, and at least seven dying.[2]

Deep spending cuts and rising revenues

From the early 1990s well into the surplus era and the "mini-budget" of October 2000, the focus was on ushering out the cost-heavy welfare state, making - and keeping - government small.

Budget 1995 saw the biggest cuts to programmes in Canadian history. The largest dollar amounts came from cuts to income supports (through reduced unemployment insurance benefits to the jobless), defence spending and human resource development. Funding was cut in half for the departments of transportation, natural resources and regional development. Supports to the provinces for health care, post-secondary education, and social assistance saw deep cuts, after a decade of funding not keeping up with growth.[3] Canadian municipalities also lost federal support for affordable housing programmes.

Deep spending cuts and rising revenues from an expanding economy produced more rapid results than expected. Large surpluses quickly began to roll in.

Priorities and choices in the surplus era - more tax cuts and debt reduction

Between 1998 and 2003, an era of choice was made possible by six years of large budgetary surpluses, but the focus remained on tax cuts and debt reduction. The public investments and initiatives that *did* address human security are summarised below, in order of financial commitment:

- *Children's agenda.* Child benefits delivered through the tax system were increased for the poorest working parents (but not those receiving welfare). The duration of parental/maternity leave for new parents was doubled to one year, but only for those eligible to receive Unemployment Insurance benefits (many Canadians are not eligible). A modest five-year plan for child care and early child development was launched. These changes have totalled USD 6.8 billion to date. Another USD 7.8 billion will flow by April 2005.
- *National security.* In the wake of the events of 9/11, the federal Government committed USD 5.8 billion over 5 years for increased police and intelligence, emergency preparedness, air security, border security and screening entrants to Canada. A new department of safety and security has been created, and the Defence budget is poised to receive a major injection of resources. A 10 year USD 750 million plan that supports the G8 initiative against the spread of weapons of mass destruction was recently announced. To date USD 4.3 billion has been spent, with a minimum of USD 8.7 billion committed to 2008-09.
- *Public health care.* A five-year commitment for USD 15.8 billion in new federal funds, mostly targeted to health care, was announced in 2000. Another five-year "health" accord, worth USD 26.2 billion, was announced in 2003. This was in response to a growing sense of crisis in public health care provision, an issue that grew out of the federal Government's initial retrenchment of support in the 1990s. The amounts directly flowing to health care has been USD 4 billion to date, with another USD 21.8 billion yet to come.[4]
- *Infrastructure.* About USD 2 billion was put aside for repairs and construction for roads, bridges, wharves, housing and "green" infrastructure over a five year period. Most of that

1 Statistics Canada, *National Income and Expenditure Accounts, Quarterly Estimates, Second Quarter 2003*, Catalogue No 13-001-PPB.

2 Yalnizyan, Armine. "The Road from Monterrey: a caution from Canada", in *Social Watch 2002. The Social Impact of Globalization in the World.* Montevideo: Social Watch, pp. 96-97.

3 Yalnizyan, Armine. *Paul Martin's Permanent Revolution.* Alternative Federal Budget Working Paper No 3. Ottawa: Canadian Centre for Policy Alternatives, 26 January 2004.

4 Yalnizyan, Armine. *Squandering the Surplus.* Ottawa: Canadian Centre for Policy Alternatives, forthcoming (April 2004).

money has not started to flow.[5] Another USD 1.5 billion in surplus funds was set aside for development of major strategic infrastructure, such as highways, urban transport, and sewage treatment, money to be used over five years starting in 2003. Just last year, the federal Government announced it would fund another USD 2.25 billion over 10 years for strategic and municipal infrastructure projects. A further USD 1.5 billion went to energy production and conservation measures, through the five-year Climate Change initiative in 2003. It has not been verified how much of this money has flowed to date. Most of the funds were only operational as of 2003-04.

- *International aid.* The federal Government has promised to double the International Assistance Envelope (IAE) by 2010, from the base levels in 2001-02 of about USD 1.6 billion, at a growth rate of 8% a year. An Africa Fund has been created, targeting USD 376 million over the next three years to assistance initiatives in Africa, and dedicating half of the IAE growth to African support in the years to come. The Government has also provided USD 224.7 million in debt relief to the Heavily Indebted Poor Countries (HIPC) and offered another USD 56.4 million to the HIPC Trust Fund. About USD 1.65 billion has been devoted to improving IAE in the surplus era thus far, and another USD 1.65 billion is promised to 2010.

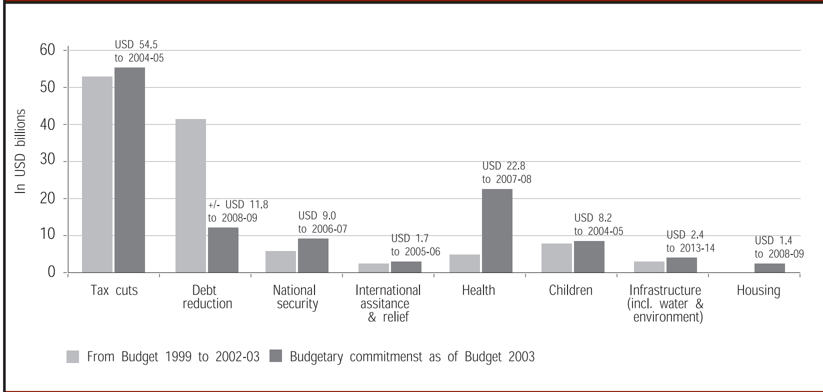
  Currently IAE is about 0.26% of GDP - USD 2.3 billion in a USD 900 billion economy. The explicit goal of the international community, first articulated in 1969 by Canada's Ambassador to the UN at the time, past Prime Minister Lester Pearson, is that developed nations put aside 0.7% of their GDP to support developing nations. By the time the IAE has doubled, to USD 3.15 billion, the economy will have also grown apace. Even at conservative rates of growth (an average of 2.8% growth every year) that USD 3.15 billion will represent only 0.28% of GDP by 2010-11. While this is an improvement, it does not meet the need, nor the stated target.

- *Affordable housing.* The federal Government announced a cost-shared initiative to deal with homelessness, worth USD 752 million to be used by 2007-08. This was in response to the mayors of Canada's largest cities declaration of a National Housing Disaster in 1998. It is an initiative which has been re-announced in various forms three times since 1999. Little of the money has actually been spent - USD 66.2 million to date - however, because the money was conditional on provinces matching funds and starting new construction, and the provinces have been equally focused on constraining programme spending in this period.

5 Department of Finance Canada. *The Budget Plan 2000*, p. 121.

CHART 1

The priorities of a secure government (Canadian federal initiatives since the era of surplus budgets)



These amounts pale in the face of initiatives to cut taxes and reduce debt.

- *Tax cuts.* A five-year USD 75.2 billion plan to cut taxes was announced in October 2000. Further tax cuts have been announced in every budget since then. To date, foregone federal revenues total USD 51.3 billion. They will cost a further USD 52.1 billion by 2004-05.[6]
- *Debt reduction.* Surplus amounts in the federal budget since 1998 have also been used for debt reduction. To date, the payments have totalled USD 39.3 billion. Budget plans include a contingency line of USD 2.25 billion a year, which automatically goes to reduce debt if not used. Surpluses have exceeded this amount in every year for the past six years. Using the entire contingency budget (USD 2.25 billion) every year for debt reduction will reduce the debt to GDP ratio to 39.6% by 2004-05. Doing nothing but letting the economy grow will drop the ratio to 40.1%.[7] The new Prime Minister, Paul Martin, has stated the target should be a debt to GDP ratio of 25%.[8]

New government, old commitments?

The things that build security at home are the same things that build security abroad: affordable housing, clean water, access to health care and education. Canada's surpluses offer ready resources to vigorously and effectively pursue an agenda of greater human security and development, at home and abroad. But fiscal opportunity does not equal political will.

With as much as USD 37.6 billion in surplus funds for the next five years, averaging USD 7.5 billion "extra" each year, the federal Government could easily ensure support for the basics. Thoughtful analysis shows the following annual increases in federal funding, over and above current federal commitments, could get us close to our objectives: public health care (USD 3.76 billion),[9] children's development, (USD 1.13 billion),[10] infrastructure (USD 752 million),[11] a national housing programme (USD 752 million),[12] and international assistance (USD 150.4 million).[13]

These social investments are affordable, given our economic and fiscal capacity, and urgent, given unattended social deficits. The continuously growing gap between rich and poor, a trend which is shaking Canada's social foundations, is also exacerbating global tensions.

Instead, the tax-cut-and-debt-reduction focus continues to be marketed as key to the sound management of nation's finances for the foreseeable future. This is, at the least, an arguable approach to fiscal sustainability. Like deficits, surpluses cannot be indefinitely sustained. Despite unparalleled fiscal opportunity, Canada appears poised to under-invest in its own people and in developing nations - the future of the globe - for the sake of "small government". If that happens, a once-in-a-lifetime chance to invest in human development will be squandered for a little more debt reduction, and a little more consumer spending.

Squandering surplus, by design, may become the legacy of this generation of leaders. ■

6 Department of Finance. *Economic Statement and Fiscal Update, October 2000.* Table A5.3, p. 97, plus Budget 2003.

7 Department of Finance Canada. *The Budget Plan 2003*, p. 202.

8 Paul Martin's Speech to the Board of Trade of Metropolitan Montreal, 18 September 2003.

9 Alternative Federal Budget (2004); The Standing Senate Committee on Social Affairs Science and Technology. *The Health of Canadians, Vol 6, Recommendations for Reform* (2002); Lazar, Harvey and France St. Hilaire. *Money, Politics and Health Care.* Institute for Research in Public Policy, 2004.

10 Calculated from Campaign 2000, 2003 Report Card on Child Poverty in Canada.

11 Federation of Canadian Municipalities, *A Better Quality of Life Through Sustainable Community Development: Priorities and Investment Plan*, August 2001.

12 National Housing and Homelessness Network, *The 1% Solution.*

13 Calculated from Canadian Council for International Cooperation, Presentation to Federal Standing Committee on Finance, 21 October 2003.