Squandering Canada's Surplus:

Opting for debt reduction and "scarcity by design"

By Armine Yalnizyan

CANADIAN CENTRE FOR POLICY ALTERNATIVES

About the author

Armine Yalnizyan is a Toronto-based economist, winner of the first Atkinson Foundation Award for Economic Justice, Steering Committee member of the Alternative Federal Budget, and Research Associate with the Canadian Centre for Policy Alternatives.

About Social Watch:

Social Watch is a civil society research and monitoring initiative which currently involves hundreds of NGOs in some 60 nations. It was formed in the wake of the 1995 UN Social Summits in Copenhagen and Beijing, with the goal of monitoring how our governments were meeting their commitments to eradicate poverty and reduce inequality.

Each year country reports are brought together and synthesized in a global report produced by the Secretariat which is located at the Third World Institute in Montevideo, Uruguay. This year's theme of the global Social Watch report is "Obstacles to Human Security". It was released at the IMF-World Bank conference in Washington, April 22 and 23, 2004; and at the UN Economic and Social Council meetings, on April 26, 2004.

Since 2000, Armine Yalnizyan has authored the Canadian report for Social Watch. The Canadian Social Watch initiative is funded by the International Development Research Centre, a public corporation of the Parliament of Canada. The Canadian Social Watch is now housed with the Canadian Centre for Policy Alternatives.

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CANADIAN CENTRE FOR POLICY ALTERNATIVES
410-75 Albert Street, Ottawa, ON K1P 5E7
tel: 613-563-1341 fax: 613-233-1458
email: ccpa@policyalternatives.ca
http://www.policyalternatives.ca

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Canada's economic and fiscal position is the envy of nations. After posting a string of budgetary surpluses for the past six years, Canada is the only G-7 nation to forecast budgetary surpluses at the federal level for as far as the eye can see. Looking back on this historically unprecedented period of economic and fiscal luxury, will Canada be judged as having squandered the surplus? This unique and historic set of circumstances could be used to rebuild Canada and set in place an agenda for greater human security at home and abroad. Instead, it appears this unparalleled opportunity will be used for massive debt reduction. The most enduring legacy of this generation of leaders may be as the architects of a surreal era—a period of scarcity by design, not necessity.

Canada is in a highly unusual situation, domestically and internationally.

Incredibly, there is no other developed nation that has enjoyed surplus budgets (at the federal level) for the past seven years, and none with surplus budgets projected as far as the eye can see.

The consensus among non-official forecasts is that the federal government will enjoy a $50 billion surplus over the next five years.[1] The government itself, which has consistently and significantly underestimated the size of its budgetary surplus in each of the past six years, currently estimates that between $28 and $32 billion in surplus finances will be available over this period.[2]

Fiscally, Canada appears exceedingly secure. But the very policy approach that has yielded such fiscal security has also led to a scarcity of public resources which foster 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, even as economic capacity has expanded.

How Canada Grew Its Surplus

Since 1993, the Canadian economy has grown by 66% in nominal terms and by 41% in inflation-adjusted terms.[3] This is the fastest rate of economic growth in the western world. The economic "pie" is vastly bigger: $480 billion more on an annual basis than a decade before, and growing.

Having outpaced economic growth in the United States and the world's other largest economies for the past six years, Canada is currently endowed with one of the strongest performing economies in the advanced industrialized world.[4]

Inarguably, there is greater capacity to finance social development initiatives; but that is not a political priority. Though Canada held the number one spot in the UN's Human Development Index for seven years in the 1990s, it precipitously dropped to eighth place in the period 2000 to 2003.

Since the era of surplus budgets dawned, the focus has been on paying off the debt at a pace that is also internationally unrivalled. Canada appears to have traded off human development for a totally different kind of number one status: debt reduction.

Canada has outflanked all the other G-7 nations[5] with:

- **The sharpest contractions in program spending**

  Federal program spending shrank from 16.8% of GDP in 1992-3 to 11.0% in 2000-1. It is currently at 11.5% of GDP. It has not been above 12% since 1998-99, and Budget 2004 projects that it will stay well below that level for the foreseeable future.

  Since the Great Depression, federal program spending has been this small only once before, and for three years only (1947-8 to 1949-50).[6] At that time, federal spending did not cover big ticket items like elderly benefits and health care; the unemployment insurance system was much smaller in scale. Today's unemployment rates are roughly twice the levels of the post-war period. This means that, compared to a generation ago, we have almost double the proportion of the active labour force that is not working, and a smaller safety net for them to fall back on.

- **The longest unbroken string of budgetary surpluses at the federal level.**

  In the last decade, Canada's federal government initiated the deepest cutbacks in the G-7, and in its own history. Combined with the unexpected advantage of having the most rapidly accelerating economy in the G-7, reduced program spending has yielded surplus budgets since 1997-98. This is unprecedented in the nation's fiscal history.

  The longest previous surplus period occurred during the six years between 1946-7 and 1951-2, in the wake of the Second World War. At that time, surplus budgets were entirely due to a rapidly expanding post-war "reconstruction era" economy, and unexpectedly rapid increases in revenue. Today surpluses are primarily achieved by keeping a tight grip on spending (less than 12% of GDP), a managerial feat touted as the key that turned endless deficits into endless surpluses.[7]

- **The deepest reductions in debt-to-GDP ratios**

  Over the past six years, $52.3 billion of this budgetary excess has been used to pay down the federal debt, which now stands at $526 billion, or 44% of GDP. This is down from 68.4% in 1996. Canada's rank in the G-7 went from the second highest debt-to-GDP ratio to the second lowest in less than a decade. In 2004, we will have achieved the status of G-7 nation with the lowest debt-to-GDP ratio, and still dropping at dramatic rates.[8]

No other G7 nation has had seven years of back-to-back budgetary surpluses at the federal level. No other developed nation has surpluses as far as the eye can see.

The Weird Thing About Debt Reduction

The new Prime Minister's first budget – Budget 2004 – has elevated debt reduction to the number one public policy priority, settingan aggressive target debt-to-GDP ratio of 25% within the next 10 years.[9]

There is no economic reason to choose that number as a target. There also is no magic to achieving it. Under relatively normal conditions, this country is poised to reach that target sooner or later, anyway, given a continued balanced budget trajectory, which is the preferred choice of Canadians, politicians, and electorate alike.

For years, the federal budget guaranteed the delivery of balanced budgets by building in structural surpluses. This year, the budget locks in structural surplus at $4 billion a year, using explicit budget lines like "contingency reserves" and "economic prudence" factors.[10] These funds are earmarked for debt reduction, not program spending. They will permit the federal government to use at least $3 billion a year to pay down the debt – at least $30 billion over the next 10 years.

Every year since the end of fiscal 1997-8, the surplus has turned out to be much higher than $4 billion, and much higher than amounts forecast by the federal government – a combination of low-balling revenues and spending less on programs than planned. Every year some of that "surprise" surplus goes to one-time cash targeted to farmers, research, provinces struggling to provide health care; in short, whatever sector is making the most noise at the time. But most of it goes to paying down the debt, which currently stands at about half a trillion dollars. The impressive scale of this amount, apparently, is the key reason it should be paid off.

The race to accelerate payments on the debt is puzzling. No single generation is going to pay this amount off, nor would it be desirable, from a macro-economic point of view, to have zero debt. In fact, paying it off is not the objective. Reducing the burden of the debt as much as possible before the baby-boomers retire is the main point. That twenty-year wave of retirements begins in about a decade.

The question is: is debt reduction a "hard" target, the one objective that will be achieved "come hell or high water," as the current Prime Minister likes to say about his fiscal goals?

If so, we may end up starving vital social programs over the next decade, such as affordable housing and reliable unemployment insurance coverage for the growing number of unemployed Canadians. This approach would have a counterproductive macro-economic effect today, far outstripping the macro-economic benefits of paying down debt. Worse, it would promote under-investment in the important hard and soft infrastructure of our economy, making the supports for our future even more eroded, even less reliable, even more costly.

Aggressive debt reduction as a political priority is a dubious way to spend Canda's unprecedented fiscal surplus. There is no economic reason to choose 25 per cent as a target debt-to-GDP ratio. There also is no magic to achieving it.

It is argued that reducing debt today assures us fiscal room (to borrow more) later. This assumes that the costs of deferred maintenance and expansion today won't outpace the ability to pay for borrowed money tomorrow. Now, while the baby boomers are working and paying taxes, is the time to invest. But, instead of investing, there is a push to divest, even as we pay off our debts.

By far the most quirky aspect of the newly proclaimed goal is that the debt-to-GDP ratio is likely to fall to about 25% in 11 years instead of 10 years without paying a penny more to reduce the amount of debt. Any political party could reach the 25% target in roughly a decade — give or take a year or so, depending on how fast the economy grows. Speeding up attainment of the inevitable target is enormously costly.

Budget 2004 shows how this occurs. It assumes that the real growth of the economy will average just above 3% a year and the pace of inflation will be just below 2% a year. Both assumptions are quite reasonable over the longer term, too: real economic growth has averaged just under 3% a year since 1981, despite two significant recessions. As well, since 1990 the explicit mandate of the Bank of Canada's monetary policy has been to keep inflation in a target band between 1% and 3%. That means, on average, nominal GDP grows at about 5% a year.

Budget 2004 only projects macroeconomic assumptions over two years. Extending these assumptions over a decade – the time frame the federal government has set to reach its goal – sees the debt-to-GDP ratio fall to 25% by 2014-15, with no further reductions in the actual amount of debt. That's 11 years from now. Paying down the debt by $3 billion a year would get us to the target only one year earlier, by 2013-14.

The chart on page 13 shows how fast the 25% mark could be reached using various assumptions about economic growth and debt pay-down.

Is this the best thing our leaders can think of doing with $30 billion or more? Imagine what improvements that money could buy without even sacrificing the goal of a 25% debt-to-GDP ratio, simply postponing the target date by a single year. Imagine the progress that could be made towards greater human security by assuring affordable housing, timely access to health care, universally accessible child care, a cleaner and more sustainable environment, or implementing a plan to deal with the wave of retirements that are about to hit Canada's labour market.

These things are feasible today, without costing us a penny more. That money is sitting in surplus revenues, waiting to be used — money we have collectively put into public coffers to build infrastructures of security that our communities, our businesses, and our families can rely on. Which leads us to the question Canadians and their elected representatives have been wrestling with for years: what role should government play in our lives?

What's Government Got to Do With It?

Like our American neighbours, Canadian politicians steadfastly pursued an agenda of tax cuts and program spending cuts over the last decade. But after years of government cutbacks, the chickens are coming home to roost. Vital infrastructure is crumbling, cherished public programs such as health care are in need of long-term, stable spending commitments. Tax cuts are becoming a less politically palatable way to use the surplus, leaving federal politicians with a new set of choices: Increase funding for services or reduce the debt?

The current government's decade-long objective to shrink government and keep it small is proving to be its only legacy. But is it sustainable? Has the public appetite for a fiscally hawkish approach been tempered by a growing desire for a more balanced approach to governance?

When the events of 9/11 shook the U.S., the effects rippled through Canada as well. Initially, 9/11 brought into focus the value of that which is public – strong governments, public services such as emergency response. More recent crises, such as the SARS and mad cow disease epidemics, massive power outages, and natural disasters of floods, fires and hurricanes, also pushed Canadian voters and politicians to re-assess the role of government services, especially in the hour of need. This reassessment goes beyond the simple formula that is offered by the agenda of "small government."

Defining Human Security

Many recent events, including but not limited to 9/11, have shaken our view of security in the world. But the question of how to bolster the human security of citizens in Canada and abroad, today and in the future, has taken a back seat to the war on terrorism.

The point has often been made that you cannot have secure countries full of insecure people. People who are unemployed, under-housed, hungry, uneducated or under-educated are not secure. The sick, the unrecognized, those living in economically, socially and environmentally unsustainable environments are not secure.

A well-grounded response to human security requires taking seriously the implications of violence in all its manifestations, including economic, social, and ecological. Heightened military force and a crackdown on civil liberties through increased controls and surveillance may satisfy some public fears and offer the illusion of security in the short term, but they distract society from the urgent investments in human security that healthy democracies require for the longer term.

Human security rests on a culture of human development 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 by hundreds of nation states: 1995's "10 Commitments" of the Copenhagen Declaration for Social Development; the "12 critical areas of concern" for gender equality articulated in Beijing, also in 1995; and, most recently, the Eight Millennium Development Goals.

These documents all 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.

Trading Off Human Security for Fiscal Balance

Canadian politics in the surplus era have not veered significantly from the course charted in the deficit era, despite a more complex, risk-filled international context and heightened insecurity for many people living within our own borders. Investments in the public goods and services that enhance human security, at home and abroad, have been limited. Politicians have turned to costly tax cuts and debt reduction measures as their compass. But this compass-setting, too, comes with a price.

Long before the events of 9/11, Canadians felt the destabilization of their own human security. 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: reductions in 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.[11]

Canada has gone from 1st to 8th place on the United Nations' Human Development Index. At the same time it moved from 6th to 1st place in the G7 nations with respect to debt-to-GDP ratios. We are trading off human security for debt reduction.

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, keeping government small.

Budget 1995 implemented the biggest cuts to non-military programs 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 were deeply cut.[12] Canadian municipalities lost federal support for affordable housing programs. There were cuts, too, to international assistance programs.

Priorities and Choices in the Surplus Era:

How the Government Spent the Surplus

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

Between 1998 and 2004, an era of opportunity and choice opened up, thanks to six years of large budgetary surpluses. Yet the focus has remained on tax cuts and debt reduction. The public investments and initiatives that did address human security are summarized below, in order of financial commitment to date, based on budget commitments since 1998:

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 (for which many Canadians are not eligible). A modest five-year plan for child care and early child development was launched. These changes have totalled $9.1 billion in new spending to 2002-3. An additional $10.43 billion will flow by April 2005.

National Security

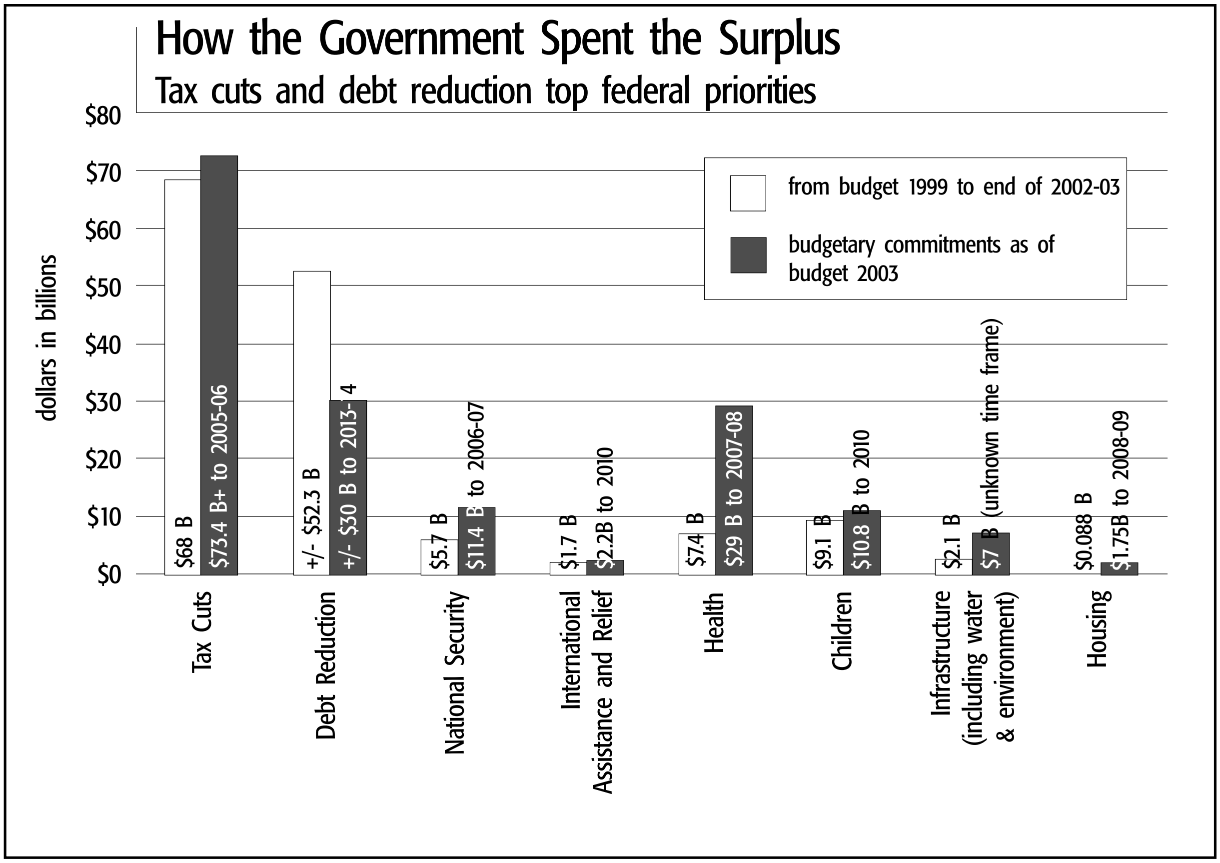
In the wake of the events of 9/11, the federal government committed $7.7 billion over five years for increased police and intelligence, emergency preparedness, air security, border security, and screening entrants to Canada. A new department of safety and security has been created, and the Defence budget is poised to receive a major injection of resources. A 10-year $1 billion plan that supports the G-8[13] initiative against the spread of weapons of mass destruction was recently announced. To date, $5.7 billion in new investments have been made, with a minimum of $11.6 billion more committed to be spent by 2008-09.

Public Health Care

A five-year commitment for $21 billion in new federal funds, mostly targeted to health care, was announced in September 2000. Another five-year health accord, worth $34.8 billion, was announced in February 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 retrenchment of funding support in the 1990s. The amounts directly flowing to health care have been $7.4 billion to date, with another $29 billion yet to come.[14] It appears that the federal government is poised to negotiate an additional increase in the amounts transferred to the provinces in fiscal 2004-5.

Infrastructure

About $2.65 billion was put aside for repairs and construction for roads, bridges, wharves, housing, and "green" infrastructure over a five-year period. Most of that money has not started to flow.[15] Another $2 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 $3 billion over 10 years for strategic and municipal infrastructure projects. A further $2 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 2003-4, meaning something close to $7 billion will flow in new infrastructure projects in the coming years.

International Aid

The federal government has promised to double the International Assistance Envelope (IAE) by 2010, from the base levels in 2001-2 of about $2.1 billion, at a growth rate of 8% a year. An Africa Fund has been created, targeting $500 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 $169 million in debt relief to the Heavily Indebted Poor Countries (HIPC) and offered another $75 million to the HIPC Trust Fund. About $2.2 billion has been devoted to improving IAE in the surplus era thus far, with an additional $2.2 billion promised to be invested by 2010.

Currently, IAE is about 0.26% of GDP ($3.1 billion in a $1.2 trillion economy). The explicit goal of the international community, first articulated in 1969 by Canada's Ambassador to the UN at the time, former 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 $4.2 billion, the economy will have also grown apace. Even at conservative rates of growth (an average of 2.8% growth every year), that $4.2 billion will represent only 0.28% of GDP by 2010-11. While this is a welcome improvement, it does not meet the need, nor the stated target.

By investing only a part of the money earmakred for tax cuts and debt reduction, Canada could reclaim its position as a leader on human security issues. This is a generation's calling. We have the resources to do it.

Affordable Housing

The federal government has announced cost-shared initiatives to construct affordable housing, worth $1 billion (to be used by 2007-8). This was initially in response to the mayors of Canada's largest cities, who descended on Ottawa in 1998 to declare the lack of affordable housing a national housing disaster. In 1999, a $753 million five-year plan was announced, and has been re-announced three times since then. This is because the money was conditional on provinces building new affordable housing units in their jurisdiction. This has not yet occurred, for two reasons: the provinces were reeling from the devolution of program responsibilities without the devolution of federal dollars; equally, provinces were committed to reducing the size of their own government and increasing provincial tax cuts. With virtually no take-up of federal housing funds, little of the money has actually been spent ($88 million to date). Other housing initiatives to 2006-7 total $745 million, including $345 million to 2006-7 ($128 million a year) for the costs of repair of existing social housing stock; and $405 million to 2006-7 for programs to address homelessness ($135 million a year).

These amounts pale in comparison to tax cutting and debt reduction initiatives.

Tax Cuts

A five-year $100 billion plan to cut taxes was announced in October 2000. Further tax cuts have been announced in every budget since. To date, forgone federal revenues total $68 billion. They will cost a further $69 billion by 2004-5.[16] To this one needs to add the impacts of at least two initiatives announced in Budget 2003, and the fact that cities received "tax relief" in Budget 2004 to the tune of $7 billion over the next 10 years — they will not have to pay GST (Goods and Services Taxes) to the federal government.

The five-year tax cut package introduced in 2000 significantly reduced both corporate and personal income taxes. These changes have been consistently portrayed as providing tax relief to the average Canadian, although, in absolute dollars amounts, the greatest tax relief accrues to the highest tax payers. New tax cuts introduced in Budget 2003 explicitly focused the lion's share of additional tax relief on the wealthiest individuals and corporations through two particular measures that will cost billions over the coming years.

The tax-exempt contribution limits to RRSPs (Registered Retirement Savings Plan) and RPPs (Registered Pension Plans) were raised in 2003 to $15,500 from $13,500 a year. That move affected only those earning more than $75,000 a year. (8.3% of tax-filers had a total income of more than $70,000 in 2002; and fewer had earned this much or more income.[17]) By the year 2006, the limits will be $18,000, affecting only those earning more than $86,000 a year (accounting for about 4.5% of all tax-filers). The threshold keeps moving up by indexation thereafter. Published and unpublished data from the Department of Finance show that simply raising the thresholds for this small group will cost the treasury well over $200 million in forgone taxes. This amount rises every year. The annual cost of deferring taxes on saved income through the ever-expanding RRSP and RPP programs was $11.5 billion in 2002, the last year for which we have complete data.[footnote] Though all income classes are eligible to contribute, contribution rates and amounts are highest for those with the highest incomes. Only about a third of all taxfilers make RRSP contributions in any given year. Half of all contributions are less than $2,500, indicating that only a tiny fraction of the population truly benefit from raising the thresholds.[18]

The promise to eliminate capital taxes — which currently apply only to companies that hold $50 million or more in taxable assets — will cost the public purse $310 million in 2004-5 and $695 million in 2005-6. The phase-out ends in 2008, when the federal capital tax will be fully eliminated. In 2000, the last available year of data, the revenue intake from the federal capital tax was $1.3 billion, paid by around 18,500 corporations which had $10 million or more in taxable capital assets.[19] Capital tax revenues do not fluctuate as much as corporate income taxes because they are asset-based. For the same reason, they slowly rise over time. That means approximately $1.5 billion a year (or more) has been eliminated as a potential source of public revenue.

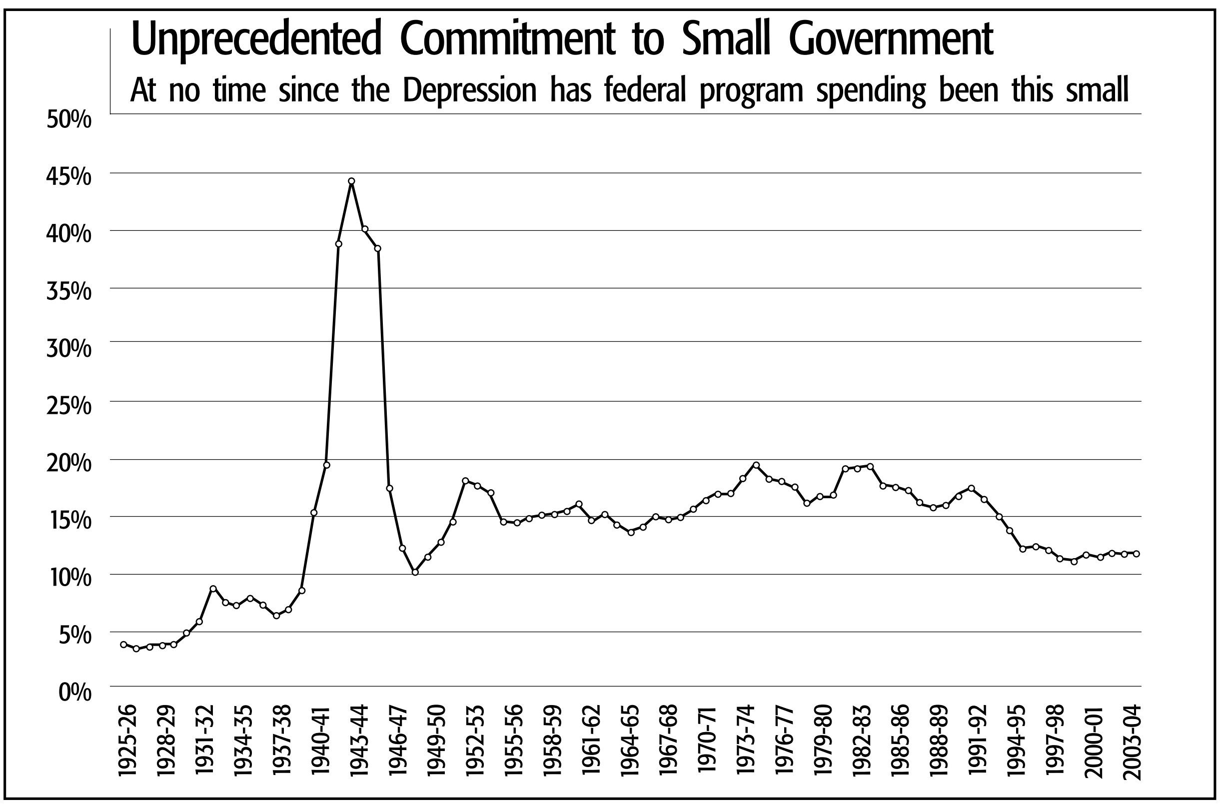
Neither of these tax changes attracted much attention at the time, but the implications on how public resources have been redistributed is immense. Each of these moves, individually, could have been money used, for example, to train an additional 43,000 new nurses over the next four years to help reduce wait-lists for care; or solve the affordable housing dilemma over the next 10 years. Instead, almost $2 billion a year will flow back to those who are already the most affluent in society.

It should be noted that, whereas Budget 2003 carefully laid out the cost implications of both spending and revenue initiatives between 1997 and 2004-5, this year the federal government has chosen only to provide information about the costs of spending initiatives beyond 2004-5. The single exception is tax relief provided to cities, costed as a $7 billion 10-year program. There are no public documents that continue the history of measuring the continued costs of their much-vaunted five-year $100 billion tax cut initiative, announced in 2000, and measures announced since.

The cost of the tax cut package grows every year, as the economy grows; and new measures add to these costs. Adding the estimates of new revenue initiatives in Budgets since the $100 billion five-year plan was announced adds at least another $4 billion to the tally. That means our government has chosen to forgo at least $73.4 billion in tax revenues by 2005-6 in tax "relief" measures introduced since 2000.

Debt Reduction

As mentioned previously, surplus amounts in the federal budget since 1998 have also been used for debt reduction. To date, the payments have totalled $52.3 billion. Budget 2004 plans include a contingency line



of $3 billion a year, and a further "prudence" factor of $1 billion. If not used for other (ostensibly emergency) purposes, this amount, and anything else that contributes to year-end budgetary surplus, automatically goes to reduce debt. Given that surpluses have exceeded this amount in every year for the past six years, the government appears poised to spend at least another $30 billion over the next 10 years on debt reduction.

New Government, Old Commitments

The things that shore up human security at home are the same things that build human 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. But fiscal opportunity does not equal political will.

With as much as $50 billion in surplus funds over the next five years, the federal government could easily ensure support for the basics, without even raising new revenues. 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 ($5 billion),[20] children's development, ($1.5 billion),[21] infrastructure ($1 billion),[22] a national housing program ($1 billion),[23] and international assistance ($250 million).[24]

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 that is shaking Canada's social foundations, is also exacerbating global tensions.

Yet the sound and fury of the federal government is still about fiscal "pressures" – a surplus of "just" $5.5 billion officially projected thus far for this year and "only" $4 billion a year thereafter is being used as the trigger for another round of "program review" to cull programs and pare back public spending. Add to this the explicit priority to bring debt-to-GDP ratios down to 25%, and the oft-addressed-then-ignored, priorities of Canadians remain on a holding pattern, as they have been for the past decade or more.

The unprecedented fiscal strength of the federal government means Canadians should be calling for a period of re-investment, not unlike the period that followed the Second World War, the era of reconstruction. It is time to rebuild the nation, put it on a solid footing for the future based upon what we value as a national community – a commitment to the human security of all. The objectives are the same as they have been since 1948, stated clearly and with actionable goals in international agreements and covenants to which our nation has been signatory. Yet, despite vastly greater economic capacity, these goals appear to be less attainable and sustainable, ironically more so now than in the immediate post-war period.

Instead, the new debt-reduction focus is being marketed as the key to sound management of public resources and the hallmark of good government.

Despite unparalleled fiscal opportunity, Canada's leaders appear poised to under-invest in their 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.

Is Paul Martin's 25% debt-to-GDP ratio hard to reach?

No. Canada will get there. The question is: How fast and at what cost?

	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GDP (in $billions) GROWTH RATES ARE NOMINAL - INFLATION PLUS REAL GROWTH															
1% growth	1200	1212.0	1224.1	1236.4	1248.7	1261.2	1273.8	1286.6	1299.4	1312.4	1325.5	1338.8	1352.2	1365.7	1379.4
2% growth	1200	1224.0	1248.5	1273.4	1298.9	1324.9	1351.4	1378.4	1406.0	1434.1	1462.8	1492.0	1521.9	1552.3	1583.4
3% growth	1200	1236.0	1273.1	1311.3	1350.6	1391.1	1432.9	1475.8	1520.1	1565.7	1612.7	1661.1	1710.9	1762.2	1815.1
4% growth	1200	1248.0	1297.9	1349.8	1403.8	1460.0	1518.4	1579.1	1642.3	1708.0	1776.3	1847.3	1921.2	1998.1	2078.0
5% growth	1200	1260.0	1323.0	1389.2	1458.6	1531.5	1608.1	1688.5	1772.9	1861.6	1954.7	2052.4	2155.0	2262.8	2375.9
DEBT is currently $510.6 billion															
no paydown	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6	510.6
paydown $3B	510.6	507.6	504.6	501.6	498.6	495.6	492.6	489.6	486.6	483.6	480.6	477.6	474.6	471.6	468.6
paydown $4B	510.6	506.6	502.6	498.6	494.6	490.6	486.6	482.6	478.6	474.6	470.6	466.6	462.6	458.6	454.6
DEBT to GDP ASSUMING NO PAYDOWN															
1% growth	42.6%	42.1%	41.7%	41.3%	40.9%	40.5%	40.1%	39.7%	39.3%	38.9%	38.5%	38.1%	37.8%	37.4%	37.0%
2% growth	42.6%	41.7%	40.9%	40.1%	39.3%	38.5%	37.8%	37.0%	36.3%	35.6%	34.9%	34.2%	33.6%	32.9%	32.2%
3% growth	42.6%	41.3%	40.1%	38.9%	37.8%	36.7%	35.6%	34.6%	33.6%	32.6%	31.7%	30.7%	29.8%	29.0%	28.1%
4% growth	42.6%	40.9%	39.3%	37.8%	36.4%	35.0%	33.6%	32.3%	31.1%	29.9%	28.7%	27.6%	26.6%	25.6%	24.6%
5% growth	42.6%	40.5%	38.6%	36.8%	35.0%	33.3%	31.8%	30.2%	28.8%	27.4%	26.1%	24.9%	23.7%	22.6%	21.5%
DEBT TO GDP WITH A $3B/YEAR PAYDOWN															
1% growth	42.6%	41.9%	41.2%	40.6%	39.9%	39.3%	38.7%	38.1%	37.4%	36.8%	36.3%	35.7%	35.1%	34.5%	34.0%
2% growth	42.6%	41.5%	40.4%	39.4%	38.4%	37.4%	36.5%	35.5%	34.6%	33.7%	32.9%	32.0%	31.2%	30.4%	29.6%
3% growth	42.6%	41.1%	39.6%	38.3%	36.9%	35.6%	34.4%	33.2%	32.0%	30.9%	29.8%	28.8%	27.7%	26.8%	25.8%
4% growth	42.6%	40.7%	38.9%	37.2%	35.5%	33.9%	32.4%	31.0%	29.6%	28.3%	27.1%	25.9%	24.7%	23.6%	22.6%
5% growth	42.6%	40.3%	38.1%	36.1%	34.2%	32.4%	30.6%	29.0%	27.4%	26.0%	24.6%	23.3%	22.0%	20.8%	19.7%
DEBT TO GDP WITH A $4B/YEAR PAYDOWN															
1% growth	42.6%	41.8%	41.1%	40.3%	39.6%	38.9%	38.2%	37.5%	36.8%	36.2%	35.5%	34.9%	34.2%	33.6%	33.0%
2% growth	42.6%	41.4%	40.3%	39.2%	38.1%	37.0%	36.0%	35.0%	34.0%	33.1%	32.2%	31.3%	30.4%	29.5%	28.7%
3% growth	42.6%	41.0%	39.5%	38.0%	36.6%	35.3%	34.0%	32.7%	31.5%	30.3%	29.2%	28.1%	27.0%	26.0%	25.0%
4% growth	42.6%	40.6%	38.7%	36.9%	35.2%	33.6%	32.0%	30.6%	29.1%	27.8%	26.5%	25.3%	24.1%	23.0%	21.9%
5% growth	42.6%	40.2%	38.0%	35.9%	33.9%	32.0%	30.3%	28.6%	27.0%	25.5%	24.1%	22.7%	21.5%	20.3%	19.1%

Notes

[1] Two respected but politically opposed think tanks, the Canadian Centre for Policy Alternatives (*Alternative Federal Budget 2004*), and the Conference Board of Canada (*Performance and Potential 2003-4*), both project roughly this amount, using different methodologies. This includes a surplus (albeit a comparatively modest one, expected to be "only" a billion or more over $5.5 billion existing in January) even in the current fiscal year, 2003-04, a year which was marked by a number of major shocks to the economy – mad cow disease, hurricanes in the east, massive fires and floods in the west, the SARS outbreak and the continental power outage that crippled southern Ontario, Canada's industrial heartland.

[2] Department of Finance Canada, *Economic and Fiscal Update*, November 3, 2003, pp. 95 and 96. The Fiscal Monitor from January 2004, basis for figures in *Budget 2004*, states that the current size of the surplus in 2003-4 is $5.5 billion, $2 billion larger than the estimate provided in the November Update. A variety of private-sector estimates place the size of the final surplus for 2003-4 between $7 and $8 billion.

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

[4] This year Canada's rate of economic growth is second only to the U.S., but that appears to be a temporary interruption in its number one ranking in the G7. The U.S. economy is currently benefiting from the combined effects of a surge in home-mortgage re-financing and tax cuts (both fuelling consumer spending) and growth in defence spending. However job creation remains stagnant. Given that a) tax cuts are a one-shot stimulus, b) interest rates are expected to start increasing due to the massive and growing size of the deficit, and c) significant employment growth does not appear likely on the horizon, it is widely anticipated that the pace of growth will subside.

[5] The G7 nations are the economic elite of the world, the major industrialized nations: United States, United Kingdom, Japan, France, Germany, Italy and Canada. They have been meeting annually since 1975 to deal with the major economic and political issues facing their countries and the international community as a whole.

[6] Department of Finance Canada, *Fiscal Transactions, Historical Summary Table* (1925-6 to 2002-3), unpublished. Records do not go back before 1925-26 because there was no system of national accounts to provide an economic reference point (ex. spending as % of GDP). Program spending has been at 12.2% of GDP or less since 1996-97.

[7] Department of Finance Canada, *The Budget Plan 2003,* February 2003

[8] Department of Finance Canada, Economic and Fiscal Update 2003, November 2003; *The Budget Plan 2004*, March 2004, page 48.

[9] Department of Finance Canada, *The Budget Plan 2004*, March 2004, pp.10, 46, 48, 55, 66, etc. etc.

[10] There are other uses of contingency lines to protect the government from missing its balanced budget targets, such as contingency lines for defence spending, to be used if needed over the course of the year, and reverting to the surplus if not used.

[11] See Armine Yalnizyan, "The Road from Monterrey", in *Social Watch 2002*, pp. 96 and 97.

[12] See Armine Yalnizyan, "*Paul Martin's Permanent Revolution*", Alternative Federal Budget Working Paper Number 3, Ottawa: Canadian Centre for Policy Alternatives, January 26, 2004.

[13] The G8 includes Russia. Russia entered dialogue with the G7 in 1991, and was made a formal member in 1998. In addition to issues of macro-economic management, international trade and

relations with developing nations, this group deals with East-West relations, energy, and international security issues.

[14] The first plan to increase funding for health care came with the February 1999 federal Budget, which offered $11.5 billion to "health care" over five years through a one-time CHST supplement of $3.5 billion, and increased funding for the CHST of $8 billion over the next five years. The CHST (Canada Health and Social Transfer)funded not only health programs, but post-secondary education and programs of social support including but not limited to welfare.
Of this new CHST funding, $2 billion flowed in 1999-2000. The rest was rolled into the September 2000 agreement. This analysis does not include the $3.5 billion supplement as true health care funding. It does add the $2 billion to the amounts usually referred to as the major health care initiatives, the September 2000 Agreement ($21.1 billion "for health") and the Health Accord of February 2003 ($34.8 billion "for health").
The numbers do not add up because a) there is almost $4 billion in overlap between the two Health Agreement/Accord funds and b) almost 40% of this money is for programs other than health care (post-secondary education and social assistance). In addition, $4.5 billion in unconditional funds was counted as "health" transfers to the provinces and territories, who deliver health care. However, most of this money has been used to reduce provincial deficits in 2002-3. It is unclear if this will again be the case in 2003-4, given growing public concern and scrutiny of these funds. It has not been included as money for health care in these calculations.

[15] Department of Finance Canada, *The Budget Plan 2000*, page 121.

[16] Department of Finance, Economic Statement and Fiscal Update, October 2000, Table A 5.3, p.97, lays out the estimated costs of the five-year $100 billion tax cut package. The calculations here are based on updated numbers from Budget Plan 2003, Table A1.9. p.238. They add tax relief measures from 1997-8 to 2002-3, and from 2003-4 to 2004-5. They subtract the Canada Child Tax Benefits amounts from these totals, as these are actually payments made to low income families, so are regarded in this analysis as increased spending, a form of transfer payments rather than tax relief, which is how the Department of Finance characterizes this program.

[17] Canada Customs and Revenue Agency, *Income Statistics, 2004 (2002 tax year)* Interim Basic Table 2, All returns by total income class.

[18] Statistics Canada, *The Daily*, October 23, 2003, "Registered Retirement Savings Plans Contributions, 2002."

[19] *ibid.* http://www.fin.gc.ca/taxexp/2003/taxexp03_5e.html#Elimination

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

[21] Calculated from Campaign 2000, *2003 Report Card on Child Poverty in Canada*

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

[23] National Housing and Homelessness Network, *The 1% Solution*

[24] Calculated from Canadian Council for International Cooperation, *Presentation to Federal Standing Committee on Finance*, October 21, 2003

about the

Canadian Centre for Policy Alternatives

The Canadian Centre for Policy Alternatives is an independent, non-profit research institute funded primarily through individual and organizational memberships. It was founded in 1980 to promote research on economic and social issues from a progressive point of view. The Centre produces reports, books and other publications, including a monthly magazine. It also sponsors public events and lectures.

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National Office
410-75 Albert St.
Ottawa, ON K1P 5E7
Tel: 613-563-1341
Fax: 613-233-1458
ccpa@policyalternatives.ca

BC Office
1400-207 W. Hastings St.
Vancouver, BC V6B 1H7
Tel: 604-801-5121
Fax: 604-801-5122
info@bcpolicyalternatives.org

Saskatchewan Office
2717 Wentz Avenue
Saskatoon, SK S7K 4B6
Tel: 306-978-5308
Fax: 306-922-9162
ccpasask@sasktel.net

Manitoba Office
309-323 Portage Ave.
Winnipeg, MB R3B 2C1
Tel: 204-927-3200
Fax: 204-927-3201
ccpamb@policyalternatives.ca

Nova Scotia Office
P.O. Box 8355, 6175 Almon St.
Halifax, NS B3K 5M1
Tel: 902-477-1252
Fax: 902-484-6344
ccpans@policyalternatives.ca

CANADIAN CENTRE FOR POLICY ALTERNATIVES