Alternative Federal Budget 2002

Economic and Fiscal Statement

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Introduction

On December 10, 2001, the federal government will publish its first recession budget since it was first elected in 1993. In the face of a contracting economy, the government claims that major new investments in the social and economic well-being of Canadians would only be possible if it were to incur a deficit—something it absolutely refuses to do, "come hell or high water." The House of Commons Finance Committee has just published a report stating that new spending on national security measures will require cuts to other programs.

This year again, the Alternative Federal Budget Project categorically rejects this fiscal approach. It bases this conclusion on three findings:

- the federal government's financial situation is not as serious as it claims—it could boost spending significantly without risking a deficit;

- even in the unlikely event that the recession proved to be much deeper than expected, the federal government is in a very good position to handle a temporary deficit;

- badly-needed investments in social programs, transfer payments, and the public infrastructure would make a lasting contribution to the quality of life of Canadians, as well as helping to protect jobs and incomes as Canada slides into recession.

Recession or no recession, the federal government has ample resources which should be invested in our flagging economy, rather than being hoarded in the form of large federal surpluses. The needs of Canadians for improved public services and infrastructure are many. And there has never been a better time for the federal government to step up and meet those needs.

Threats to the federal budget have been greatly exaggerated

The federal government booked a $17.1 billion surplus in fiscal 2000-2001, Ottawa's largest surplus ever, even as Canada's economy was rapidly weakening. During the first half of the current fiscal year (April through September, 2001) the government accumulated another $13.6 billion in surplus funds, despite the onset of recession. A total of $50 billion in federal debt has been repaid over the last 4 1/2 years, and the federal debt ratio has declined by almost one-third (from 71 percent of GDP at peak in 1995, to less than 50 percent today). The structural features of the federal fiscal environment are uniquely favourable; even with the major tax reductions and modest spending increases announced during the 2000 federal election campaign, the government can anticipate strong surpluses and falling debt ratios under a wide range of economic scenarios.

Yet with an official recession now well under way, the Minister of Finance still claims that his government has no fiscal room to take pro-active measures to offset the downturn in private economic activity. The government would fall back into deficit, he argues, if it attempted to provide any significant fiscal stimulus (other than the tax cuts and spending increases which were already announced), and preventing this deficit is more important than trying to protect jobs and economic activity. Most private-sector economists have agreed with this assessment, arguing if anything that the government should *reduce* its spending intentions–a stance which would only accelerate the decline in the economy.

But how realistic is the claim that pro-active fiscal stimulus would push the federal government into deficit? Given the consistent pattern of deliberately conservative budgeting which has marked the tenure of Paul Martin, it is worth taking a close second look at the standard view that any significant new spending on the part of the federal government would indeed push Ottawa back into deficit.

Table 1 summarizes a fiscal forecast for the federal government that was constructed by the Alternative Federal Budget on the basis of plausible assumptions regarding the course of economic growth, core federal spending, and interest rates. The forecast assumes (in line with the consensus views of private-sector forecasters) that Canada's economy has entered a short, shallow recession, with real GDP declining during the last two quarters of 2001, and beginning to expand again with increasing vitality as 2002 unfolds. (The specific assumptions underlying the forecast are detailed in the notes to the table.) Government revenues are collected at the current share of GDP, less the expected value of already-announced but not yet implemented tax cuts.[1] Federal spending equals the amounts announced in last year's pre-election fiscal statement, plus an additional $3 billion in each of 2001-02 and 2002-03 for additional EI benefit payouts and incremental military and security expenses arising in the wake of the events of September 11. Interest payments on the debt are determined on the basis of the average effective interest rate on federal debt which was paid during the first half of the current fiscal year.

On the basis of these assumptions, the federal government will accumulate a surplus of $8.5 billion in the current fiscal year–half of last year's record surplus, but still equal to almost a full percentage point of Canada's GDP. This predicted surplus expands further, to some $10 billion in 2002 and $11 billion in 2003, thanks to the rebound in economic growth expected to begin next spring and summer. The advisability of a national government accumulating such large fiscal surpluses, as the national economy experiences a painful downturn, is doubtful. The rhetoric of fiscal restraint has surely been taken too far, when a government not only fails to take adequate countercyclical fiscal actions to offset a painful decline in private sector activity, but actually maintains large and contractionary surpluses throughout the period of the downturn.

How can the federal government continue to accumulate such significant surpluses, despite the economic downturn? And why does this Alternative Federal Budget forecast differ so markedly from the consensus view–namely, that the federal government has very little fiscal room to manoeuvre?

The following factors help to explain the relative stability of the federal government's fiscal position in the face of the expected recession:

- The downturn in real economic activity is expected to be modest and short-lived. In the consensus forecast, real GDP declines by a cumulative total of only one-half of a percentage point, and only for two quarters. This is much less severe than the recessions of 1981-82 and 1990-91, both of which were associated with a massive deterioration of federal budget balances.

Table 1
Status-Quo Outlook for Paul Martin
Fiscal Forecast Prior to December 10 Budget ($billions)

	1999-00 (actual)	2000-01 (actual)	2001-02 (fcst.)	2002-03	2003-04
Total Revenue	165.7	178.6	175.8	181.4	189.1
Program Spending	111.8	119.3	127.6	132.6	139.7
Debt Service Charges	41.6	42.1	39.8	39.1	38.3
Balance	12.3	17.1	8.5	9.7	11.1
Closing Federal Debt	564.5	547.4	538.8	529.1	518.0
Total Revenue/GDP Share (%)	16.6	16.7	16.3	16.1	15.9
Program Spending/GDP Share (%)	11.2	11.1	11.8	11.8	11.8
Closing Debt/GDP Share (%)	56.6	51.0	49.9	47.0	43.7
Real GDP Growth (fiscal yr., %)	5.0	3.8	0.7	2.3	3.3
Nominal GDP Growth (fiscal yr., %)	8.1	7.6	0.7	4.3	5.3

Assumptions: Real GDP Growth: Actual to 3Q 2001, consensus quarterly forecast (as reported in Globe and Mail, November 27 2001) from 4Q 2001 to 4Q2002 (contraction at 1.2% annual rate 4Q 2001, expansion at 0.8, 3.2, 4.1, and 4.5% annual rates in the four quarters of 2002), 3% annual growth afterward. Calendar year average annual real growth rates are 1.3% in 2001 and again in 2002, in line with consensus forecasts. ***Nominal GDP Growth:*** GDP inflation of 0% in fiscal 2001-02, and 2% in subsequent years. ***Revenues:*** Revenues assumed to equal previous year's share of nominal GDP, less the estimated value of additional incremental tax reductions during the year (*excluding* the ascribed value of tax system indexation): $4 billion in 2001-02, and $2 billion in each of 2002-03 and 2003-04. ***Program Spending:*** Assumed to equal budgeted amounts in 2001-02 and 2002-03, plus $3 billion in each year for additional EI and military spending. Assumed to equal constant share of GDP in 2003-04 and beyond. ***Debt Service Charges:*** Assumed to equal the product of the average debt stock and the average effective interest rate on federal debt which was paid during the first half of fiscal 2001-02 (7.325%).

In fact, *annual average* real GDP continues to expand throughout the forecast period.

- Nominal GDP continues to grow throughout the forecast period, at a modest pace. Federal tax revenues depend more on the growth of nominal GDP, than on real GDP. The average GDP price level declined slightly in mid-2001, mostly because of the sharp one-time decline in energy prices. But economy-wide prices are expected to resume growing at about 2 percent per year, and this will help to fuel continuing growth in total federal revenues.

- Despite recent tax cuts, federal revenues have been stable as a share of nominal GDP. Reductions in particular marginal tax rates in the personal and corporate income tax systems, have not really translated into reductions in the average effective taxation rate in the economy as a whole. In fact, during fiscal 2000-01 the federal tax take actually *increased* marginally as a share of GDP–from 16.6 percent to 16.7 percent–despite the accelerated implementation of substantial personal income tax cuts. During the first six months of fiscal 2001, the average effective tax rate fell only slightly (to 16.4 percent of nominal GDP), in the face of both continuing tax cuts and the sharp deceleration in economic growth. With the remaining incremental tax cuts still to be implemented (mostly on the corporate income tax side), we forecast the average effective federal taxation rate to decline to 16.3 percent of GDP this fiscal year, and by two-tenths of one percentage point of GDP in each of the following two years. The shallowness of the recession, combined with this stability in the average effective tax take, means that total federal revenues decline only modestly this year (by less than $3 billion) despite the recession, and begin to grow again in 2002 and beyond.

- Core program spending by the federal government is growing, but at a modest rate, and debt service expenses are falling (due to both to a shrinking debt stock and a declining average effective interest rate, which fell in the first half of fiscal 2001 to 7.325%). Even an additional $3 billion per year in program spending this year and next (for expanded EI payouts and additional military and security spending) leaves a sizeable surplus, despite the modest decline in revenues expected this year.

In this context, the huge budget surplus booked last year is cut in half in fiscal 2001. But the surplus begins to grow again next year, as a rebounding economy begins once again to powerfully pump new monies into Ottawa's coffers. ***The federal government could clearly allocate at least $10 billion per year to new spending priorities in each of the next two fiscal years, on top of additional monies required for core EI benefits and extra military and security costs, while still balancing its budget.***[2]

This relatively optimistic scenario differs markedly from the dominant and more pessimistic view of both the Finance Department itself, and its major private-sector advisors. Remember, though, that these other forecasts incorporate numerous very conservative assumptions and practices. For example, they allocate billions of dollars to the government's desired "contingency reserves," and hence are estimating the abstract "budget surplus for planning purposes" (rather than the government's actual budgetary surplus). And in line with past practice, these other forecasts incorporate assumptions regarding economic growth, interest rates, and government revenues (measured relative to GDP) that are deliberately and misleadingly conservative.

The use of these conservative budgeting techniques in past years has produced a pattern of consistent and predictable overperformance by the federal government, relative to its official budget targets. As summarized in Table 2, during Paul Martin's first seven years as Finance Minister (ending in fiscal 2000), he outperformed his official budget target in every year–by a cumulative total of almost $75 billion. In each case, he argued that the government had insufficient fiscal room to meet public demands for increased spending on public services, infrastructure, transfer payments, and other priorities. But in each case, the official budget forecast provided little accurate insight into the actual state of federal finances.

This same pattern of consistent and deliberate underreporting of the federal government's true fiscal health, will almost certainly be maintained in the current budget–even as the Canadian economy slips deeper into recession, and the need for injections of federal spending power becomes all the more urgent. This time, when the Finance Minister rises in the House of Commons to announce yet again that he has "outperformed" his official budget target, his victory will be especially hollow. He will have engineered another phony budgetary success, with the help of misleading forecasts, but at the

Table 2 Paul Martin's Perpetually Empty Cookie Jar *Official Budget Targets and Actual Budget Outcomes, 1994-2001 ($billions)*			
Fiscal Years	Budgeted Balance	Actual Balance	Difference
1994-95	-39.7	-37.5	**+2.2**
1995-96	-32.7	-28.6	**+4.1**
1996-97	-24.3	-8.9	**+15.4**
1997-98	-17.0	+3.5	**+20.5**
1998-99	0	+2.9	**+2.9**
1999-2000	0	+12.3	**+12.3**
2000-01	0	+17.1	**+17.1**
TOTAL			**+$74.5 billion**

cost of foregone opportunities to assist a nation facing recession, unemployment, and poverty.

Even if the current recession is longer and deeper than most economists expect, the federal government will continue to accumulate substantial budgetary surpluses. For example, if the contraction in real GDP is twice as long and twice as deep as imagined in the current consensus forecast (with real GDP contracting for a total of four quarters, and by a cumulative total of 1 percent), the anticipated federal surplus still equals $7 billion in fiscal 2002, and $8 billion in fiscal 2003. The federal government cannot use the recession, therefore, as an excuse for not acting quickly to address the immediate economic and social problems facing Canadians. Recession or no recession, the government has room to allocate billions of dollars to new programs and initiatives, protecting jobs and helping to reassure millions of Canadians–yet still be in a position to balance its budget.

Balanced budgets in perspective

Our core argument is that the federal government has the fiscal capacity to allocate at least $10 billion to new spending initiatives in each of the next two fiscal years, while still being able to maintain a balanced budget. The Alternative Federal Budget forecast which follows is also premised on maintaining a balanced budget throughout the forecast period. Other things being equal, of course, it is preferable for the federal budget to be balanced. But we reject the extreme and counter-productive emphasis which the Finance Minister, and many other conservative financial commentators, have placed on the necessity for the government to maintain its balanced budget–no matter how bad economic conditions become.

If the economy enters a recession, and government decides that the maintenance of its fiscal position is its top priority, then it must either increase taxes or reduce spending even as the recession unfolds. These actions serve only to worsen the recession; fiscal policy becomes *pro-cyclical*, rather than counter-cyclical, and actually exacerbates swings in private economic activity. This is why the balanced-budget laws which have been implemented in several Canadian provinces are so ill-advised. They force governments to tighten the fiscal levers at the exact moment when more support for aggregate spending in the economy is required.

Given the consensus forecast that the current recession will be relatively shallow and short, we are confident that the major new spending which we propose would not push the federal government into deficit. If the recession is much worse, however, and federal revenues are hard-hit as a result, then a deficit is certainly possible.[3] But this risk should not stop the federal government from undertaking the desired spending initiatives–which are valuable to Canadians not only for their short-run stimulative value, but also because of the concrete usefulness of the services and infrastructure improvements which would be provided. With a debt ratio equal to less than 50 percent of GDP, dramatically lower than just a few years ago, and with no concern that a *structural* deficit would continue even after the economy began to expand again, it is clearly both feasible and prudent for the federal government to incur a temporary deficit during a period of deep recession.

If the federal government were truly worried about the "optics" of a temporary return to budget deficits amidst a deep recession, it could simply "lend" itself some of the huge surpluses which it was accumulating even as the economy began to slow and contract. For example, the $8.5 billion which

Ottawa will accumulate this year, and the $17.1 billion which it booked last year, could be deposited into a "fiscal stabilization account," used to fund any deficits incurred in the course of the recession. This budgeting approach is admittedly transparent and symbolic,[4] but would allow the government to claim that no deficit was incurred (since what looks like a deficit was "paid off" with surplus funds saved from earlier years). And it would fall well within the manipulative tradition of budgeting which Paul Martin himself has pioneered (with such budgetary innovations as the pre-booking of future expenses for projects such as Millenium Scholarships and other innovation programs). Preferable for us, however, would be to simply recognize that balanced budgets should be a *goal*, not a *religion*. The public debt ratio must be stable over time, and hence budgets should be balanced during good years; but during times of profound economic weakness, it is incumbent on government to offset private-sector contraction with its own spending power–even if this means deficit financing.

The Alternative Federal Budget outlook

Simply by spending the latent surplus which it is poised to collect over the next two years, the federal government could inject about $10 billion per year in additional spending power into our flagging economy–adding about one percentage point to economic growth, and protecting as many as 150,000 Canadian jobs. This first-round economic effect is amplified, however, by the fact that some of the resulting economic value-added returns to the federal government in the form of new revenues–which could in turn be re-injected into the economy in new spending. Finally, in our view, additional fiscal resources for fiscal stimulus could be mobilized if the federal government were willing to forego the coming incremental tax reductions it plans to implement in 2002 and 2003. This would provide approximately $2 billion in additional fiscal room in 2002, and $2 billion more in 2003.[5]

Table 3 summarizes the fiscal projections under an Alternative Federal Budget program which balances the federal budget, cancels the tax reductions announced by the government last year but not yet implemented, and allocates all remaining monies to new spending programs (some of the many worthy initiatives which could be supported under this program are described in the next section). Under this program, the federal government could allocate an additional $13.4 billion in spending in fiscal 2002 (relative to the Paul Martin base case summarized in Table 1), while still balancing the budget.

Table 3
Alternative Federal Budget Program
Spending Stimulus Fiscal Forecast to 2003-04 ($billions)

	1999-00 (actual)	2000-01 (actual)	2001-02 (fcst.)	2002-03	2003-04
Total Revenue	165.7	178.6	175.8	185.5	195.6
Program Spending	111.8	119.3	127.6	146.0	156.1
Debt Service Charges	41.6	42.1	39.8	39.5	39.5
Balance	12.3	17.1	8.5	0.0	0.0
Closing Federal Debt	564.5	547.4	538.8	538.8	538.8
Total Revenue/GDP Share (%)	16.6	16.7	16.3	16.3	16.3
Program Spending/GDP Share (%)	11.2	11.1	11.8	12.8	13.0
Closing Debt/GDP Share (%)	56.6	51.0	49.9	47.3	44.9
Real GDP Growth (fiscal yr., %)	5.0	3.8	0.7	3.4	3.4
Nominal GDP Growth (fiscal yr., %)	8.1	7.6	0.7	5.5	5.4
Extra Spending (relative to Martin status-quo)				13.4	16.5
Extra Taxes (relative to Martin status-quo)				2.0	4.0

Assumptions: Real GDP Growth: Base forecast from Table 1 adjusted to reflect 100% of the value of additional program spending in the AFB scenario, less 75% of the value of additional taxes in the AFB scenario. Calendar year average annual real growth rates are 1.3% in 2001, and 2.1% in 2002. ***Nominal GDP Growth:*** GDP inflation of 0% in fiscal 2001-02, and 2% in subsequent years. ***Revenues:*** Revenues assumed to equal previous year's share of nominal GDP, less the estimated value of additional incremental tax reductions during the year (*excluding* the ascribed value of tax system indexation): $4 billion in 2001-02 only. Revenues in 2002-03 and 2003-04 equal preceding year's revenue share of GDP. ***Program Spending:*** Assumed to equal budgeted amount in 2001-02 plus $3 billion for additional EI and military spending. Program spending in subsequent years set to ensure balanced budget. ***Debt Service Charges:*** Assumed to equal the product of the average debt stock and the average effective interest rate on federal debt which was paid during the first half of fiscal 2001-02 (7.325%).

Incremental spending could grow modestly again in the subsequent year (by about another $3 billion).[6]

This spending package would produce, under plausible and cautious assumptions,[7] an additional 1.1 percent of real GDP growth during fiscal 2002. This stimulus is too little, too late to actually prevent the current recession (which is already well under way). But it would be invaluable nonetheless in sparking a faster, stronger recovery, and in pushing Canada's economy and labour market back toward a more fully utilized position.

The federal debt burden falls continuously, as a share of GDP, throughout the AFB scenario, to less than 45 percent of GDP by the end of fiscal 2003 (only fractionally higher than under the status-quo scenario). Federal revenues are constant at their 2001 share of GDP, while program spending rebuilds gradually from 11.8 percent of GDP expected in 2001 to 13 percent of GDP by 2003.

Investments in social security have constantly been deferred

In the drive to beef up national security in the coming budget, the federal government must not define the problem too narrowly. Canadians don't just need secure borders—they also need food security, income security, social security, and job security. Many of our most urgent social and economic needs have gone unmet for years, as the government has pursued other priorities.

In 1995, when the first Alternative Federal Budget was published, the federal government told Canadians that the country was headed for bankruptcy and that only a common sacrifice by all Canadians could prevent it. Years of government spending cuts have subsequently eroded the social fabric for which Canadians had fought so hard.

But some gave up a lot more than others. The rich got richer; the rest grew poorer. The well-off became more secure in their privileges; the rest became more insecure.

In 1995, the country was supposedly on the verge of fiscal collapse. Yet within three years, the federal deficit had melted away like a snowball in July, thanks to the positive effect of strong economic growth on government finances (just as the Alternative Federal Budget had predicted). By the end of the 1990s, a new era of government surpluses had dawned. The federal government conceded that the time had come to compensate Canadians for the lean years they had endured.

But instead of at least putting the money back whence they had taken it, namely into public services and social programs, the federal government chose to cut taxes deeply, rewarding primarily the very people who had made no sacrifice at all—the rich.

As we enter 2002, the government is telling Canadians that the fiscal surpluses of the boom years have now also melted away. What money is left is now to be spent on bolstering national security in the face of global terrorism.

In the mid-1990s, the federal government cut back on social security, saying that it was too expensive. Subsequently, it claimed that tax cuts were a greater priority. Now security is on the agenda—but only in the form of policing and immigration control. There is nothing to address the crushing social insecurity that too many Canadians face, because they lack decent, affordable housing, timely and accessible health care, good quality child care, or a living wage.

The next section outlines some of the investments the federal government could make if it chose to make Canadians' social security its main priority. The suggestions contained here are merely indicative and are not intended as a comprehensive plan.

Continuing social insecurity

According to Statistics Canada, 2.5 million people went hungry for lack of money at some time during 1998/99 (the latest year for which figures are available). There are over 600 food banks in Canada. In the month of March

2000, over 700,000 Canadians resorted to a food bank for emergency groceries. Even in the midst of the booming economy of the late 1990s, nearly one in five (1.3 million) of Canada's children lived in poverty. On average, poor families were over $9,000 under the poverty line. Thousands are homeless, while many more are crushed by rents they cannot afford. A tide of scientific studies has shown that the growing social inequality of the last decade is likely to result in the deteriorating health of Canada's population.

In a time of recession, as thousands lose their jobs, it is essential that governments insure workers' income security. Unemployment insurance is the main public program designed to this end. In the past, it not only provided workers with a safety net, it also played a vital counter- cyclical role in pumping money back into the economy during recessionary periods.

Cuts to the unemployment insurance system since 1993 have eroded its capacity to play these twin roles. Over the 1990s, an ever increasing gap appeared between the unemployment insurance premiums paid in by employers and employees, and the benefits paid out to unemployed workers. It is in no small part thanks to the billions of dollars "borrowed" from the unemployment insurance program that the federal government was able to balance its budget.

Changes to the Employment Insurance legislation following the 2000 general election have brought small improvements for beneficiaries, but still fall well short of what is needed. The federal government could take a major step, both in protecting working families and in stabilizing the economy, by urgently reinvesting in the Employment Insurance program. Yet, rather than recommend improved benefits and eligibility, the House of Commons Finance Committee has urged the federal government to slash premiums, thus reducing the program's capacity to fulfil its function.

A better advised policy would maintain EI premiums and increase EI spending by $7 billion over 2001-2002 and 2002-2003. This would make it possible to implement a uniform eligibility requirement of 360 hours, enabling far more workers to qualify for benefits. Furthermore, the benefit period could be set at a standard of one week of benefits for every thirty hours of work, up to a maximum of one year. The two-week waiting period could be waived, to further assist the hundreds of thousands of Canadians who will lose their jobs in the coming months.

In order to address the continuing scandal of child poverty in Canada, we endorse Campaign 2000's proposal that the National Child Benefit be increased to a maximum of $4,200 per year. This policy could be financed by way of progressive reforms of the taxation system.

The federal government committed money in the fall of 2000 to meet some of Canadians' emergency shelter needs. In November 2001 it reached an agreement with its provincial counterparts, under which it will invest $680 million over five years in affordable housing. While any investment is welcome after years of inaction, this one remains insufficient. In November 2001, the Canada Mortgage and Housing Corporation released figures revealing the calamitous shortage of rental housing in Canada, as the vacancy rate in metropolitan centres dropped from 1.6 percent in October 2000 to 1.1 percent in October 2001. The federal government should spend $2 billion over two years on housing, and for the provincial and municipal governments to provide matching funds.

The House of Commons Finance Committee has recommended that the federal budget adhere to its September 2000 agreement to transfer $23.4 billion to the provinces for health care and early childhood development programs. It has also recommended that the federal government increase the budget of the Canadian Institutes for Health Research as part of an R&D package designed to boost the productivity and competitiveness of Canadian businesses. Again, while these are welcome moves, they fall short of what is needed. It is imperative that the federal government increase the share of total health care funding represented by federal cash transfers to the provinces.

Initially, the federal government paid half of insured health care costs. Now it pays just over 10 percent and the period of most rapid decline has been the last decade. More federal funding is necessary to maintain than improve the public system. And more federal cash is necessary if the government is to have the power to enforce the principles of the Canada Health Act. The Canadian Health Coalition has recommended that the federal government raise its overall annual contribution at least to 25 percent of total public health care funding, or about $17 billion. This would entail an increase in the federal cash transfer to the provinces of up to $5 billion per year. This goal could be met through a multi-year ramp-up in federal health spending.

Experts agree that quality child care and early childhood development services enhance healthy child development. Investing in child care is important for all children, regardless of their parents' employment status and income. Quality child care is essential to advancing the equality of men and women, since women still bear the greatest responsibility for raising children and head most single-parent households. It is central to an effective anti-poverty agenda. Yet many thousands of Canadian families do not have access to such services. In 2000, the Alternative Federal Budget proposed the establishment of a national child care program. Funding for such a program would consist of $2 billion in additional funding (over and above what the federal government already spends on child care) in the first year, increasing by $500 million in each of the following four years.

Canada is one of only three industrialized nations without a national system of grants for post-secondary education students. The present formula of student loans, interest relief, and income tax credits has generated ever-increasing debt loads, rising from an average $8,675 in 1990 to $28,000 in 2000. The federal government ought to replace student loans with a National System of Student Grants based solely on need. We recommend that $500 million be spent on such grants in the first year and $750 million in subsequent years.

The United Nations Food and Agriculture Organization has recently reported that 815 million people suffer from chronic hunger globally. There are presently 30 acute hunger crises worldwide, affecting 50 million people. Yet Canada trails far behind other donor countries in its provision of overseas development assistance (ODA). At 0.25 percent of gross national product, it has fallen well below the average (0.39 percent). We recommend that the federal government increase its international assistance envelope by $300 million immediately and by a further $300 million each year for five years, in order to match the average level of assistance among donor countries.

Finally, analysis by Informetrica Ltd. shows that $1 billion spent on public infrastructure creates approximately 15,000 full-time jobs and increases federal and provincial net revenues by 30-40% of the initial amount spent.

The Alternative Federal Budget Project has for several years called for a multi-year National Environmental Infrastructure Investment Program. Projects would be initiated at the municipal and local level in the public sector. In the first year, the federal investment would invest $1 billion, to be matched by equal contributions of $500 million each from provincial and municipal governments/local authorities.

The key initial areas for Public Environmental Infrastructure Investment are:

(A) Water and Wastewater Systems: upgrading of municipal water and wastewater treatment plants to improve water quality and to achieve energy savings, improved water conservation and better effluent management.

(B) Waste Management: the diversion of household/commercial/ industrial solid and liquid waste from landfills and from incineration facilities through comprehensive and leading edge reduction/reuse/recycle programs.

(C) Development of Public Transit and Commuter Rail: the purchase and refurbishment of buses and rolling stock; fleet replacement and modernization for higher energy efficiency and lower operating costs; construction and enhancement of transit infrastructure; development of parking facilities at transit access points. (The federal government can also give a major boost to public transit by giving tax-free treatment to employer provided transit passes.)

(D) Retrofitting of municipal and local public sector buildings to much higher standards of energy efficiency and procurement of energy from alternative sources, resulting in reduced greenhouse gas emissions and lower operating costs.

Other areas of activity could include: clean-up of contaminated sites and their opening up to other uses, including the development of affordable housing, parks and recreation facilities; purchase and/or protection of ecologically sensitive lands and natural heritage (over and above the needed expansion and protection of the national parks system): development of community energy systems, realizing energy efficiencies through projects which use wastes (such as methane gas or waste biomass) to provide heating or energy for other users.

Clearly, there is no shortage of worthy projects to which the federal government could contribute the surplus funds which it continues to accumulate even as Canada's economy drifts into recession. Apart from meeting the long-standing needs of Canadians for better public programs and facilities, a renewed financial commitment on the part of the federal government would have the added macroeconomic benefit of helping Canada's economy to recover more quickly and more robustly from the recession. The government has fiscal room to finance a major economic stimulus through enhanced public spending. And it has the responsibility, as hundreds of thousands of Canadians lose their jobs, to do as much as it can.

Endnotes

[1] The government's pre-election fiscal statement indicates additional incremental tax reductions worth approximately $4 billion in each of 2002-03 and 2003-04 (see Table 5.2 of the *Economic Statement and Budget Update*, October 2000). About half of this value, however, is associated with the indexation of the income tax system (a measure which is not so much an actual tax reduction as it is a foregone tax *increase*).

[2] The expected federal surplus in 2002 equals almost $10 billion, and about $11 billion in 2003. On top of this, as explained in the next section, by spending this latent surplus (rather than hoarding it), the federal government would stimulate or protect additional economic activity that would in turn be reflected positively in federal revenues.

[3] The recession would have to differ dramatically from the consensus forecast for this eventuality to prevail. As noted above, even if the recession was twice as long and twice as deep as expected by economists, the latent federal surplus would still total $7 billion in 2002 and $8 billion in 2003.

[4] The government of Saskatchewan has a similarly symbolic fiscal stabilization account, which allows it to pretend that it doesn't have a deficit when it does have a deficit, and vice versa during times of surplus.

[5] The largest announced tax reduction not yet fully implemented is the schedule of lower corporate tax rates announced in the pre-election fiscal statement last October. One Liberal tax measure which the AFB would implement is the planned modest expansion in the Child Tax Benefit, which is scheduled to grow by about $400 million in 2002, and $250 million more in 2003.

[6] The incremental AFB spending reported in Table 3 is measured *on top of* the increases in core program spending which will occur under the "base-case" Paul Martin scenario summarized in Table 1–including the new health spending and provincial transfers announced before the last election, and $3 billion per year in addition EI and military/security spending.

[7] The AFB forecast assumes no "multiplier" effect for federal spending–only that new public spending represents a one-to-one addition to GDP, which is a plausible assumption during times of excess aggregate capacity.

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