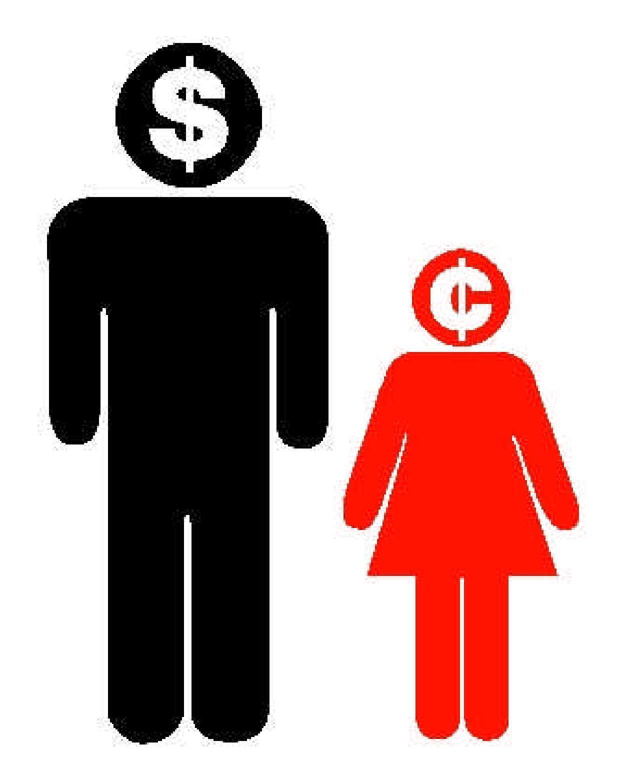
Canada's Commitment to Equality:

A Gender Analysis of the Last Ten Federal Budgets (1995-2004)



Prepared for the Canadian Feminist Alliance for International Action (FAFIA)

by Armine Yalnizyan

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Canadian Feminist Alliance for International Action (FAFIA)
151 Slater St., Suite 408
Ottawa, Ontario K1P 5H3
Canada
www.fafia-afai.org

Armine Yalnizyan
ayal@sympatico.ca

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Executive Summary

The Beijing Commitments

In 1995, 188 countries, including Canada, adopted the Beijing *Platform for Action*, setting out a detailed plan for addressing women's poverty, economic security and health. A decade later, the Canadian Feminist Alliance for International Action is asking: are women in Canada better off?

Undoubtedly, some women can show how life improved for them since 1995, but many more women point to the ways in which life seems harder. So how would one assess if women are better or worse off than a decade ago, on the whole? This project is the first attempt in Canada to answer that question in measurable terms. It should not have been.

In 1995, the Government of Canada agreed to undertake a gender analysis of all its macro-economic policies and its budgets. To date, no federal Minister of Finance has begun this process. A commitment to greater equality cannot occur without a commitment of resources for programs that make change possible. Fiscal policy is the way resources get raised and allocated, the way commitments become realities.

Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budgets (1995- 2004) is the first gender budget analysis of its kind in Canada. It tracks a decade of federal fiscal policy, looking at what the Government of Canada *said* it was going to do (budgets) and what it *did* do (public accounts).

Analyzing the patterns of federal decision-making during the deficit era (1995 to 1997) and during the surplus era (1998 to 2004), it has become clear that, in good times and bad, federal priorities actually ran counter to the promises made 10 years ago to improve economic security for women.

Though the economy grew by 62% between 1994 and 2004 – meaning almost $480 billion more a year in market value was being produced by Canadians – a growing number of women over the same decade were finding their pay rates virtually stagnant while the costs of basics like housing, tuition, child care, transit and utilities continue to soar. Paying more for less has become the norm for many households over the last decade. Women working in low-wage and part-time jobs continue to be hardest hit.

The Deficit Era (1995-1997)

Since women are still society's principal care-givers for children, the elderly and people with disabilities, social programs, in particular, have played a central role in their lives over the decades. Strong social programs can shift some of the burden of care-giving from women's shoulders, giving them more opportunities to be involved in paid work, higher education and public life. Also, women have less income than men and higher poverty rates. This means that income security programs, like employment insurance and social assistance are vital supports for women when they are unemployed or sick, or when relationships are abusive or break down. These income security programs, and a host of vital social supports, have been eroded over the past decade.

The federal spending cuts made between 1995 and 1997 disproportionately hurt women, particularly those already most vulnerable. Billions of dollars in reduced funding translated into significantly less support for women just at a time when the burdens they faced were increasing. The harsh effects of the 1990-91 recession meant that women were increasingly relied on by their families to support them financially. Women responded with rising labour force participation rates, higher employment rates, and record hours of paid work. At the same time, the billions lost resulted in massive service cutbacks, resulting in women also undertaking more unpaid care of the young, old, ill and disabled.

Public accounts show that almost $12 billion a year was lost in federal funds for critical programs between 1994-5 and 1996-7, and more in the last year of the deficit era, 1997-8. The restructuring of fiscal arrangements with the provinces and territories, and the billions of dollars taken out of transfer payments between 1995 and 1998, destabilized programs and services at the provincial and territorial levels, further eroding community programs, income supports and public goods that women in Canada rely on.

A review of federal budgets and public accounts reveal that the deep cuts to spending between 1995 and 1998 balanced the books years ahead of schedule. This rapid elimination of the deficit, which had dogged federal budgets since 1971, raises doubts that the severity of the cuts was necessary, raising the question: Did women and their families suffer unnecessarily?

The Surplus Era (1998-2004)

Since the beginning of the surplus era, the federal government has not redressed the damage done during the deficit era, let alone advanced the agenda for action promised to the women of Canada in 1995. The way the surplus was allocated between 1998 and 2004 ruled out any serious response to the systemic problems faced by women and the most vulnerable and marginalized people in Canada. Instead, initiatives were selected that essentially redistribute resources towards those already more advantaged.

Between 1998 and 2004, the federal government allocated $152 billion to tax cuts (most of which has gone to higher income earners and large corporations) and $61 billion to pay down the debt. In comparison, only $34 billion in net new resources were transferred to the provinces for health care and child care over that seven year period. The changes to the Employment Insurance scheme made in the deficit era, which resulted in fewer women qualifying to receive benefits and benefit rates being reduced ever , were not reversed. The only expansion of Employment Insurance was for extending parental leave, costing $3 billion over that time frame. Departmental spending expanded by $42 billion in new spending initiatives over the seven years, but much of it went to defence and "innovation" programs such as public investments in Research and Development under the Canadian Opportunities Strategy.

Remarkably little of the increase in new funds actually spent in this seven year period was devoted specifically to enhancing the security of Canada's most vulnerable individuals - through the building of affordable housing, the provision of quality child care, the reduction of the costs of post-secondary education and training, the expansion of immigrant settlement services, or the assurance of benefit coverage for part-time and casual workers, including adequate benefits for the unemployed. Taken together, the federal government's new spending initiatives in these areas would not have been more than $5 billion over the seven year period.

The single largest initiative to alleviate the effects of poverty was the increase in the Canada Child Tax Benefit, representing an additional $15 billion over the 7 years since 1998. These amounts are counted by the federal government as a tax measure, and represent only 10% of the total costs of the federal tax reform agenda. Despite this infusion of funds, Canada's poorest families have not benefited, because the program permits provinces and territories to "claw back" funds from those on social assistance. Single parent families, the vast majority of which are headed by women, too often find their incomes inadequate to cover basic needs of food and shelter.

A small number of tax measures introduced since 1998 have addressed women's realities – for example, tax credits for care-givers and increased tax deductions for expenses on child care – but these measures do not help women who have no taxable income. Tax measures also do little to fund and regulate services, in order to insure that reliable social supports are available in the first place, for women in Canada of all ages and circumstances. But a focus on tax measures instead of spending initiatives allows the Government of Canada to maintain its new commitment to "small government".

A Question of Priorities…Ten Years Later

Since the mid 1990s, the scale of federal involvement in society – which includes investments in programs that could advance the economic security of women and their families – has been deliberately kept at levels not seen since the late 1940s.

The federal budget of 1995 set out to "right-size" government, and shrank federal program spending as a share of the economy from 16% to 12% of GDP in three short years. It has remained at less than 11.6% of the economy since 2000-01, and is projected to stay at roughly that level for the foreseeable future. The rate of contraction, and the holding constant of this transformation, is unmatched in any other advanced industrialized nation.

But the commitment to small government may be antithetical to the interests of women, since women need the systems that governments put into place to protect basic economic security, address violence and injustice, and ensure quality and accountability in the provision of public goods, such as childcare and health care.

The economic strength that Canada has demonstrated in recent years—and the fiscal capacity that flows from it—means that there are more than enough resources for the federal government to honour the commitments it has made to women's equality in domestic law, and under international human rights treaties and agreements. It is simply a question of priorities.

Canada's Commitment to Equality: A Gender Analysis of the Last Ten Federal Budgets

> "We, the Governments participating in the Fourth World Conference on Women, gathered here in Beijing, in September 1995, the year of the fiftieth anniversary of the founding of the United Nations, determined to advance the goals of equality, development and peace for all women everywhere in the interest of all humanity … dedicate ourselves unreservedly to addressing these constraints and obstacles and thus enhancing further the advancement and empowerment of women all over the world, and agree that this requires urgent action in the spirit of determination, hope, cooperation and solidarity, now and to carry us forward into the next century."
>
> *– Beijing Declaration, 1995*

1. Preamble – Understanding the Beijing Commitments

Ten years ago the federal Government of Canada, along with 188 other nations, committed to implement the Beijing *Platform for Action* (PFA) – signing on to a broad range of international commitments to advance equality for women at home and abroad.

These commitments were built around twelve critical areas of concern about the obstacles and constraints facing women in their pursuit of full participation in public and private life.

The 12 areas refer to women's experience with respect to poverty, education and training, health, violence, armed conflict, the economy, power and decision-making, institutions and mechanisms for advancement, human rights, the media, the environment, and concerns specific to the girl child.

Five years later at the Beijing +5 conference, the Government of Canada submitted the UN Questionnaire on Implementation of the Beijing *Platform for Action*, reporting that it remained committed to implementing the platform's agenda. The federal government specifically committed to undertake gender-based analysis of what it does and what it supports, saying:

> The cornerstone of the *Federal Plan* is a policy requiring federal departments and agencies to conduct gender-based analysis of future policies and legislation. Gender-based analysis is a key methodology for mainstreaming a gender perspective.
>
> \- *Canada's National Response to the UN Questionnaire on Implementation of the Beijing Platform for Action, p.5*

The Government of Canada specified that the *Federal Plan* was "both a statement of commitments and a framework for the future" in each area of critical concern covered by the Beijing *Platform for Action.* It reasserted the need to address the structural causes of poverty; to promote women's economic independence, including employment; to encourage women's participation in decision-making; and it recognized the key role played by affordable access to child care and safe housing in meeting these goals.

Women in Canada take very seriously the government's commitments to make progress on the Beijing *Platform for Action*, and expect it to honour its word.

Making progress on the Beijing commitments should be relatively easy for a country like Canada, whose economy has grown faster than any of the advanced industrialized nations (G7 nations) for every year but one in the past eight years. Their attainment should be hallmarks of civilized society, rich or poor.

Yet just months before the federal government of Canada stood on the international stage in September 1995 declaring its commitment to the goals laid out in Beijing's *Platform for Action*, it put forth a document that belied these internationally echoed commitments to women.

2. Introduction: Why do a gendered budget analysis?

The federal government of Canada tabled a budget in February of 1995 that introduced the broadest, deepest and most rapid set of program cuts this country has seen. It launched a new domestic language of commitment – to small government.

By their very nature, government budgets are political documents. The political aim of Budget 1995 was explicitly designed to "irrevocably" reform, redefine, and redesign "the very role and structure of government".

The government proudly announced: "[T]his budget overhauls not only *how* government *works* but what government *does*" (1995 Budget Speech).

To "ensure that the nation's finances are healthy," Finance Minister Paul Martin said in his 1995 Budget Speech, the federal government would cut overall departmental spending by almost 19 per cent over a three-year period. "And let me emphasize," Martin continued, "these are not the phony cuts we saw so often in the past – measures that pretended to define a slower rate of *increase* in spending as actual cuts. These are *real* cuts in *real* dollars."

This document examines 10 years of Canadian federal budgets, beginning in 1995, with a view to seeing how the Government of Canada made manifest the language of commitment to Beijing's goals. By reviewing the fiscal commitments laid out in 10 years of federal governments and attempting to assess how those actions did or did not further the progress towards the commitments made in the Beijing Platform for Action, we are undertaking a task never before attempted in Canada: a gendered budget analysis.

This document examines the key changes in areas of clear federal jurisdiction that impact heavily on women's economic, social, and financial reality in Canada.

The analysis applied in this document takes for granted familiarity with the standard information regarding the position of Canadian women in the economy, the labour force and social life, as described, for example, in *Women's Economic Independence and Security: A Federal/Provincial/Territorial Strategic Framework.*[1]

Like many other studies, this *Framework*, produced in 2001 by the Federal/Provincial/Territorial Ministers Responsible for the Status of Women, documents women's higher rates of poverty, lower employment earnings, higher

[1] Federal/Provincial/Territorial Ministers Responsible for the Status of Women, *Women's Economic Independence and Security: A Federal/Provincial/Territorial Strategic Framework*, (National Library of Canada: 2001).

participation in part-time work, greater involvement in unpaid work and unpaid care of children and elderly people, and segregation into traditionally female jobs.

Because of these, and other, known differences between the lives and conditions of women and men, federal spending decisions affect women and men differently.

The analysis applied here also takes for granted familiarity with different conditions faced by particularly vulnerable groups of women – Aboriginal women, women with disabilities, single mothers, older women, immigrant and refugee women, and women of colour, for example.[2] These groups of women, who tend to be poorer and more marginalized in the labour force, can be even more harshly affected by federal spending decisions that adversely affect women as a whole.

The review looks at both changes to program funding (expenditures) and changes to taxation policy (revenues). Its goal is to assess whether the massive re-orientation of the Government of Canada's fiscal policy over the last decade had neutral, beneficial or adverse effects on the women of Canada.

This review also separates the past decade into two distinct periods: the deficit era, which ended in 1998, and the surplus era, which has continued to this day.

The document examines federal government priorities by examining the amount of money invested or divested in both spending and revenue initiatives over the past decade.

Much of the social supports that the women of Canada receive are delivered at the sub-national level. This analysis deals only with changes to *federal* spending and taxation.

It is important to note, however, that federal spending and taxation centrally affect the social supports that can be delivered by provincial and territorial governments. The federally funded areas that most closely relate to the focus of concerns expressed in the Beijing Platform for Action are:

- **The Canada Health and Social Transfer (CHST)**, which includes funding to the provinces and territories for health care, post-secondary education, social assistance and social supports. Since April 2004 the CHST has been transformed into two separate funds the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).
- **Employment Insurance**, which funds benefits to eligible unemployment Canadian workers, those out of work for reasons of sickness or short term disability, the unemployed who are in training, and parents on maternity/parental leave.

[2] Ibid., pp. 13, 14, 18, 19.

- **Housing** which used to be funded under the Canada Assistance Plan (CAP) and is now treated as a separate budget item.
- **Early Childhood Development and Education (ECDE)**, a relatively new federal funding initiative which was initially folded into the CHST and now flows through the CST.
- The **Canada Child Tax Benefit (CCTB)** and **National Child Benefit Supplement (NCBS)** the refundable tax credit that provides income supports for low-income families with children under age 18.

Together these programmes constitute some of the key levers the Government of Canada has at its disposal to address the 12 critical areas of concern identified by the Beijing Platform for Action.

They are the mechanisms through which governments directly enhance the security of all Canadian women, by assuring income supports in time of need, affordable shelter, and access to the public goods and services that permit independent and equal participation in Canadian society.

It is through these programmes that the federal government makes available or denies adequate resources to pursue progress on the commitments it has made to women, especially the most disadvantaged.

For this reason, it is important to undertake an analysis of just what resources the Government of Canada made available (or took away) in the aftermath of the Beijing Commitments. Budgets are the place to go for that answer.

3. Context – The Economic Backdrop

There is a final note of context that must feature in an introduction to this kind of document, a document focused on the fiscal decisions that have been made over the long haul. That is the economic context.

Canada's economic future looks bright, with the economy continuing to outperform the rest of the G7 (the major industrialized nations of the world), and predicted fiscal surpluses as far as the eye can see.

By the middle of 2004, the economy was churning out more than $1,250 billion. That was almost $480 *billion* more *a year* than in 1994, or a 62% increase.

The economic strength – and the fiscal capacity that flows from it – to make good on its Beijing commitments exist, beyond the shadow of a doubt.

In contrast, the economic situation for a growing number of women, even during a period of robust economic growth, is more stark than during the early 1990s, a period marked by deep recession.

Census data shows that average earnings for all women in paid employment rose by 12.9% between 1990 and 2000, to $24,390. Yet fully half of all women with paid work earned less than $20,000 in 2000. [3]

Among full-year full-time female workers, average wages increased by 10%, to $34,892. Similarly employed males (full-year, full-time) earned, on average $49,224 in 2000. A quarter of these working men made over $60,000, compared to only 10% of women who worked full-year and full-time. [4]

While every *category* of average earnings saw an increase over the decade, it should be remembered that many workers saw no wage increases at all in that period. At the same time, inflation rose by over 22% between 1990 and 2000 (and about the same from 1994 to 2004), eroding the purchasing power of most incomes.[5] (Bank of Canada)

Meanwhile the basics for everything from housing costs to child care, transit costs to utility costs, tuition fees and pharmaceuticals all went up.

3

http://www12.statcan.ca/english/census01/products/highlight/Earnings/Page.cfm?Lang=E&Geo=PR&View=1a&Code=0&Table=2a&StartRec=1&Sort=2&B1=Both&B2=Full

4 Ibid.
5 Bank of Canada interest calculator, http://www.bankofcanada.ca/en/interest-look.htm

Access to affordable housing and child care, two key budget items for working women, went down.

One of the most dramatic changes in Canadian society in the last decade has been the increase in the rates of mothers of young children who work for pay. In 1990, about half (53%) of the mothers of children under the age of three were in paid employment. By 2003, the share had risen to almost two-thirds (63%), and the rising trend shows no sign of abating. Among women with children between 3 and 6 years of age (pre-school), almost 70% are employed, up from 60% a decade before. [6]

Social policy in Canada has failed to respond to the issues raised by this social revolution. In fact, it can be argued that decisions over the past decade have exacerbated, rather than mitigated the double pressures that women with pre-school and school-aged children face to both work and care for children.

Over time, social policy in Canada has shifted from an emphasis on support to an emphasis on work or, in the policy vernacular, from "passive" to "active" policies. The rate of change in these supports was particularly rapid in the 1990s. Shifting mothers' allowance to workfare, or reducing unemployment benefits as well as opportunities to train meant economic security was increasingly framed as a matter of individual enterprise. That shift simply meant the economic security of families rested increasingly on the degree to which women in households were willing to increase or engage in paid work. Even as the need for more supports for child care and development grew, budget cutbacks meant a freeze or even a reduction in the available supply of regulated and/or subsidized child care.

International comparisons show that Canadian pre-school aged children have remarkably low levels of public support for child care. Only 29 per cent of Canadian children aged six and under have access to publicly funded child care – compared to 65 per cent in Denmark, 56 per cent in Sweden, 61 per cent in France, and 47 per cent in the UK.[7]

Furthermore, over the past decade the nature of the public supports changed: subsidies to offset the costs of child care were reduced, and public supports were more likely to be made available through income-related mechanisms, such as maternity benefits or tax credits and deductions, rather than through the provision of increased spaces in affordable, quality, regulated child care settings with a focus on early child development.

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[6] Statistics Canada, *Women in Canada: Work Chapter Updates*, 2003, Catalogue No. 89F0133XIE.

[7] Luxembourg Income Study Working Paper No. 346, *The Prevalence of Welfare-State Policies and Gender Socioeconomic Inequality: A Comparative Analysis*, page 30, March 2003.

Similarly, funding supports for social housing have been withdrawn, even as the population has grown – by 13% since 1991, with no coordinated plans on how to house the increasing numbers of people migrating from inside and outside Canadian borders to the big urban magnets of the country.

At the same time, political pressures have led to the commonplace elimination of rent controls and other forms of regulation in the housing market, particularly the rental market which traditionally, in Canada, serves lower-income households. Predictably, affordable housing stock – both owned and rented – has shrunk dramatically in urban centres, just as the demand has escalated.

Since the launching of the Beijing *Platform for Action* in 1995, the central economic fact of life for most women in Canada has been the fact incomes have not kept pace with rising costs.

At the same time, the central theme in the macro-economy has been "less government, more market". This "hands-off" approach to public provision has been epitomized by the Government of Canada over the past decade.

The federal government's stated commitments to the *Platform for Action* have been vastly eclipsed by its explicit agenda to downsize government.

The Beijing commitments were circumscribed by an era of cutbacks (most dramatically between 1995-96 and 1997-98), but even when Canada left behind the deficit era and had excess resources, many of the cuts to key social supports were not restored.

Rather, tax cuts and debt reduction were the policy initiatives of choice, wiping out large fiscal surpluses that could otherwise be invested in direct spending that could mitigate the economic precariousness that women, children, and vulnerable Canadians increasingly face.

Over the past decade, federal expenditures and, to a lesser extent, federal revenues shrank as a proportion of Canada's economy – the result of a concerted ideological shift toward small government.

Between 1993-94 and 2000-01, program spending fell from 16% of the economy to 11%. It has not risen above 11.6% of the economy since, and is projected to stay at roughly that level for the foreseeable future – a first in Canadian fiscal history, and designed to be parked at a level of federal involvement that has not been seen since before the Second World War.

Though budgetary revenues were fairly constant at about 17% of the economy throughout the 1990s, between 2000-01 and 2003-04 they fell to 15.3% of the economy and are projected to continue to fall. That, too, is a first.

This contraction in the role of the federal government has been unprecedented, both in Canadian history, and among the G7 nations. The federal government's commitment to small government continues to over-ride everything else. It largely explains what happened to the commitments made to Canadian women at Beijing.

4. Methodology: How do you do gendered budget analysis?

While the Government of Canada has committed to implement gender *based* analysis of its departmental initiatives, there are no clear initiatives underway to incorporate gendered *budget* analyses to inform the government's future spending decisions or even to assess the gendered impact of past decisions.

This is the case despite the federal government commitment - through the Beijing Platform for Action - to "integrate a gender perspective in budgetary decisions on policies and programmes" and "to adjust budgets to ensure equality of access to public sector expenditures".[8]

We attempted to locate examples of gendered budget analyses in Canada and found none.

While women in Canada know from first-hand experience that government decisions to cut funding for key social programs such as housing and social assistance directly affect quality of life, there has been no systematic review of federal budgeting from women's standpoint to quantify the problem.

This report attempts to fill that void. But, in preparing it, the limitations became apparent.

Given the lack of examples available for gendered budget analysis in Canada, we needed to build a new methodological process from scratch – with the intent of creating a pedagogical tool for other women to follow, to encourage more analyses of this kind in future years, and development of a standard for gender budget analysis.

For this exercise we began with a thorough examination of 10 federal budgets, starting in 1994-95 and ending in 2004-05.

We reviewed promises made within federal budget speeches delivered by the nation's Finance Minister and examined the details of those promises as outlined in each year's technical document, the Budget Plan.
We focused, specifically, on two things: (1) Priorities the government sets out within each budget; and (2) Budgetary priorities that could have a clear and direct impact on women.

As mentioned above, this latter set of priorities includes federal support for affordable housing initiatives; child care and early childhood learning and care initiatives that support women's caring roles as mothers and enable them to secure

[8] Platform for Action, Paragraphs 345 and 346, respectively.

paid employment; benefits provided through Canada's Employment Insurance program for those who find themselves in between paying jobs and for women requiring paid maternity leave; and, importantly, federal transfers to enable provincial supports for public health care, education, and social assistance to our country's most vulnerable and at risk population.

The next step was to compare what was said to what was actually done.

Once we determined what the federal government said it would do in each of its budgets, we turned to the nation's audited statements to determine if the government made good on its promises or deviated from its plan.

This amounts to a gendered budget audit within a gendered budget analysis.

The exercise should be straightforward, but there were numerous complications.

Key among the obstacles in comparing what was said to what was done:

- Budgetary allocations are not the same thing as real spending. But to compare the two requires that the same things are counted. We found that budgets are not consistent in the way they track spending programmes over time.

- In seeking relevant comparisons, we found that, among the variety of potential official sources, all based on audited statements, there was often lack of consensus on what the government did at the end of the day. These sources include: the Annual Financial Report, produced by the Department of Finance; Statistics Canada's Financial Management System, which is the most consistent source of spending and revenue data historically speaking, and across jurisdictions; and the Public Accounts, which is the tool we chose to use as the final audited say on what public expenses were.

- Each source counts spending and revenue factors in a different way. Even when categories are sufficiently broad to be referred to in the same way (for example, program expenses), they vary in their calculation of what happened.

While the process did develop a clear methodology on how to track federal budgets, there remain a number of issues that cannot be resolved with this methodology. Different files had their own unique problems.

- Housing was not tracked as a program area in Public Accounts.

- Early child development and health expenditures are, respectively, buried in block funds that are transferred to other levels of government.

- A shift away from Defence and towards a "security" approach occurred in Budget 2001 and thereafter, which blurs departmental lines in a manner that cannot be easily followed in anything but Budget documents.

- Similarly, initiatives that combine tax "spending" (incentives, credits, etc.) with program spending cannot be readily tracked. The Canadian Opportunities Strategy is one major example of this.

  This form of "spending" could only be tracked in the annual Tax Expenditures publication, adding another layer to the process of "following the money".

  However, assessing the rising value of these initiatives is impossible in this official source, since the individual initiatives under the Canadian Opportunities Strategy are buried within pre-existing categories investment incentive categories, for example the Scientific Research and Experimental Development Tax Credit.

- The era of surplus launched a number of arms-length trust funds (for example, scholarship funds, foundations for innovation, medical and diagnostic equipment funds).

  There was no follow-through on how the moneys from these trust funds were disbursed over time.

  Because they are one-time allocations of funds into trusts (a way of using surplus money without committing to built-in increases in program spending), they do not appear again in public accounts as spending items, though the use of funds is often spread out over time.

At this stage of developing a methodology, the gender-based part of the analysis is more art than science. There are several reasons for this lack of rigour.

- While it is common to hear by how much the "tax burden" has increased or decreased, there is virtually no quantitative measurement that describes the impact on our lives of scaling up or down the myriad of public provisions that modern societies rely on – other than by capturing it as a budgetary expense.

Generally speaking, there has been no effort, by governments or academics, to assess the incidence of benefits conferred by program spending by income class, gender or any other break-out.

In the 1960s some work was done to try to assess the "rate of return" on public investments in public goods. The only enduring methodology of this sort has been with regard to "human capital investments", that is, the rate of return on investments in education, and even that has increasingly focused on private rather than public investments.

Currently, the most accessible example of breaking out the "who benefits" story can be found in data-bases that track spending on health care (public and private) by age and gender, and even this refers solely to the dollars spent, not on the benefits conferred.

There is as yet no consistent way to measure how cuts in public spending (or increases) affect even the most simple view of the benefit of public provisions: how much individuals or families spend on the good or service privately.

- It is relatively easier to assess the incidence of benefits through changes in tax structures, as a specific dollar amount can be calculated in any individual's case.

  This can be aggregated to income classes (for example, we can quite easily address the question "did low-income or upper income individuals benefit most from these changes"), but publicly available tax data does not provide gender break-outs.

- Analysis of tax data, even if available by gender, only speaks to individual circumstances. The vast majority of Canadian women live in households of more than one person.

  Micro-simulation data bases (such as the SPSD/M tool that can be purchased from Statistics Canada) can provide an educated estimate as to the combined impact of tax measures on households – for example CCTB changes in combination with full indexation, more tax credits for caregivers, and greater exemptions for RRSPs, etc. – but even this costly manipulation of data will not reveal the net impact of changes in the tax system on Canadian women versus Canadian men.

At the end of the document, we will provide recommendations that we believe will contribute to greater understanding, transparency and accountability of fiscal choices, so that more women can get involved in the important work of gendered budget analysis in future.

This document is but a first attempt to provide a gendered budget analysis, by keeping in mind the following three questions:

- **Do women benefit or are they hurt by these changes?**
- **Are the benefits or costs of these changes equally shared by men and women?**
- **Are the priorities of government, in good times or bad, explicitly or implicitly gendered?**

5. Analyzing the Commitments: Looking at Beijing+10 through the budget looking-glass

The fiscal policy of Canada's federal government shapes women's day-to-day lives by:

- Determining which service or income supports will be made available (through expenditures);
- Determining the rates of taxation on our incomes – both individual and corporate – and on our consumption – such as Canada's Goods and Services Tax (GST); and
- Determining user fees for various public goods and services.

On the taxation side, both tax rates and tax credits or deductions have an impact.

The tax structure determines how much we collectively agree to fund services and it affects our individual disposable incomes.

The tax system can also be the way the government provides income to the least advantaged, through refundable tax credits, as in the case of the Canada Child Tax Benefit (CCTB) or the GST credit.

On the spending side, the federal government:

- Transfers money to individuals (for the unemployed and the elderly);
- Transfers money to provinces and territories (through equalization payments and supports for major social programs such as health care, post-secondary education and social assistance);
- Undertakes direct program spending, including defence and the activities of crown corporations; and
- Pays debt charges (the interest to be paid on money borrowed to cover operating expenses when there are insufficient revenues)

By the mid-1990s, fiscal policy (financing decisions on both the taxation and spending sides of the equation) overtook previous policy goals like improvements in health, social justice, or regional strength. Spending cuts and tax cuts became commonplace at both the federal and provincial levels, leaving municipalities to struggle with limited revenue-generating capacity and an increased burden to provide community supports in the face of federal and provincial government retrenchment. As a result of this retrenchment, men and women in communities across the country were impacted by massive cuts to the scope and frequency of public service.

It is important to understand the historical context in which such decisions were taken and perpetuated since.

For decades the federal government had struggled with chronic operating deficits – a shortfall of revenues to cover annual expenditures. Since the fiscal year 1971-72 the federal government had racked up a budgetary deficit every year right up to the mid 1990s, and every year it had borrowed money to make up the difference. By the mid-1990s, the accumulation of annual deficits created a debt of about $500 million. Debt charges were taking a bigger bite out of budgets with every passing year.

These same trends were plaguing federal treasuries around the world, but by the mid 1990s Canada was second only to Italy in its debt-to-GDP ratio, a figure widely used to express a nation's ability to carry the burden of its debt. These facts, rather than other equally important social and economic indicators, were marshaled as the evidence for a massive redirection of federal policy.

Though it campaigned and secured a majority government position on the "jobs, jobs, jobs" slogan in late 1993, by early 1994 the newly elected government did something of an about face by declaring that wrestling the deficit to the ground was the number one problem facing Canadians. This quickly became the single over-arching focus of the federal government.

The program to eliminate the deficit was launched in earnest with the February 1995 budget, just months before the Beijing Conference. The ability to implement Canada's *Platform for Action* for women, based on the September 1995 meeting in Beijing, as well as other policy initiatives, was virtually eclipsed by the government's commitment to get rid of the deficit.

The attack on the deficit was so forceful that the deficit was eliminated years ahead of schedule. This raised questions about the necessity of such deep cuts, which not only reduced resources to provide key public goods, but retrenched the role of the federal government to assure roughly equivalent levels of public provision for all citizens everywhere. Importantly, the federal government clearly ceded authority in exchange for less funds to the provinces.

The fiscal and devolutionary thrust of the deficit era hung on long after the books were balanced. This mentality continues to constrain efforts to collectively marshal resources to advance the common good even though the public treasury had quickly and definitively moved into a distinct second phase – the era of surplus.

Every year since 1997-98 the federal government has generated a budgetary surplus, and current budgets estimate surpluses for as far as the eye can see. Endless deficits have been replaced by endless surpluses.

It cannot be stressed too much that this is an unprecedented event in Canadian history. Only once before, in the immediate aftermath of World War II, did the Canadian federal government enjoy six back-to-back budgetary surpluses, after which it slid in and out of annual deficits. The array of government supports were gradually extended for the next two decades, but against the backdrop of the business cycle, complete with its ups and downs. Surpluses were rare and marginal things in this period.

So it is not an insignificant question to ask how the federal government has chosen to use the rare, indeed unique opportunity presented by this brand new feature of fiscal policy, the structural surplus.

In this document we are concerned with how the federal government has performed in terms of meeting the commitments it made to Canadian women at Beijing, both in good times and bad. The budgetary lens can provide crucial answers to that examination.

The following analysis divides the past decade into two periods. The deficit era was a time, Canadians were told, of no alternatives but fiscal restraint. That was followed by the surplus era, a time of immense fiscal possibility.

In this report, we look at how the government eliminated the deficit, and how it used the surplus. Then we assess the impact those actions had on the goals set out in Beijing.

Phase One: The Deficit Era and Budgets 1995 to 1997

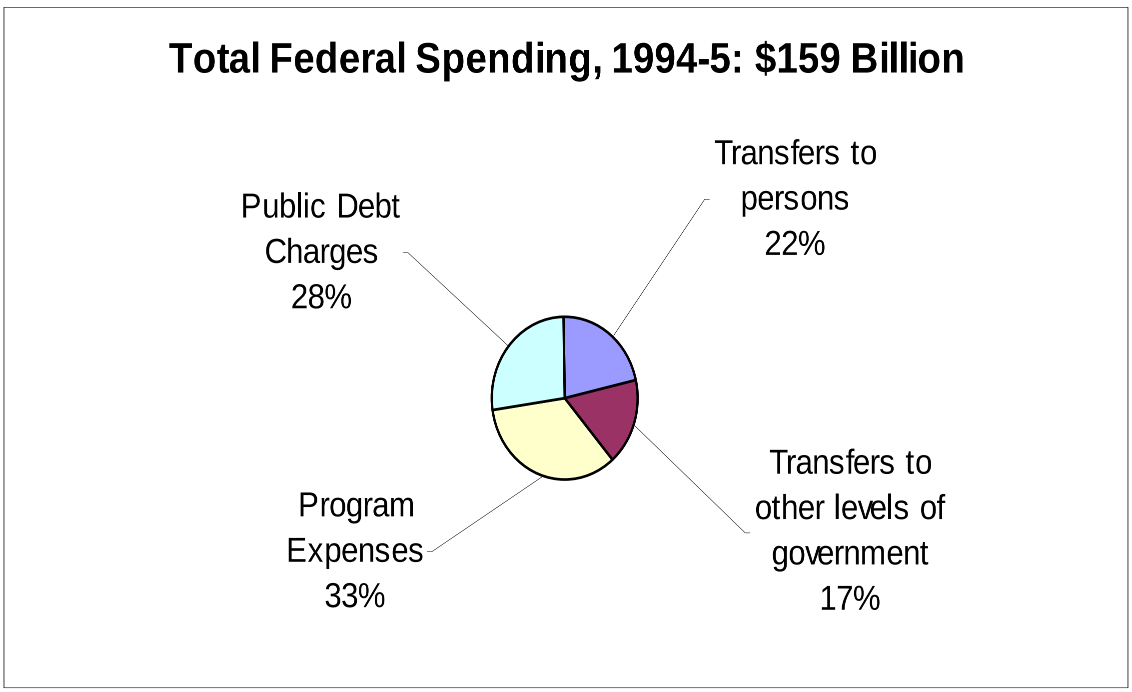
> "If we are to ensure durable fiscal progress, building towards budget balance – that can only happen if we redesign the very role and structure of government itself.
> This budget secures that reform – *irrevocably*. Indeed, as far as we are concerned, it is this reform in the structure of government spending – in the very redefinition of government itself – that is the main achievement of this budget. After extensive review, this budget overhauls not only *how* government *works* but what government *does*."
>
> - *Paul Martin, 1995 Budget Speech*

When faced with either chronic budgetary deficit or surplus situations, governments can choose to vary either the rate of spending or the rate of taxation to resolve the problem.

From the mid-1980s to the early 1990s, rising anxiety over the deficit yielded both changes in federal fiscal policies, with the result that Canadians paid more for less: rising tax levels were accompanied by program restraints and cutbacks.

With a change of federal government in the mid-1990s came a firm political resolve to wrestle Canada's federal deficit to the ground. The new approach ruled out increases in taxation as the way to tackle deficit. Spending cuts were deemed the tool of choice.

For this reason, this section focuses primarily on the spending functions of the federal government: Spending on transfers to individuals, transfers to other levels of government, and direct program spending. The section closes by describing how the stage was set for the surplus era in respect of the two other big fiscal levers of the federal government – trends in revenue and debt reduction.



Source: Fiscal Reference Tables 2004

The above graphic shows how the government of Canada spent its budget in 1994-95.

Two of these functions – transfers to individuals and to other levels of government – have remained roughly constant in their relative scale since the mid-1960s. These transfers are bound by formulae and/or statutory commitments and are thus less susceptible to large fluctuations. Over time, transfers to persons have quite steadily accounted for just over a fifth of federal expenditures. Transfers to provinces and territories account for just under a fifth of all federal spending.

There is considerably greater variability in the amount of spending on programs and debt charges.

The chart above shows that, in 1994-95, direct program spending took up the single biggest share of federal expenditures. It accounted for 33% of the federal budget. Debt charges – interest payments made on borrowing to cover budgetary shortfalls, which accumulate over time – were next, at 28% of expenditures. Transfers to individuals, through statutory programs to support the unemployed and the elderly, accounted for 22% of spending. Transfers to provinces – through equalization payments and through fiscal supports for key social programs – made up the balance, 17% in 1994-95.

Some of these expenditures were deemed easier to control than others.

Debt charges could not be dealt with in an immediate, direct fashion. They are a function of two separate things, only one of which the Government of Canada can control: 1) Interest rates, which are set by the Bank of Canada in line with its monetary policy goals and the anticipated performance of the economy; and 2) The size of the debt, or the scale of accumulated annual deficits plus interest charges. The government can control the size of its debt in several ways.

The debt will grow if there are annual spending deficits. Or it can shrink if there is a budgetary surplus. The budgetary surplus only appears if the government becomes aware of an excess of revenue over expenditures, and does not use that excess to a) increase spending or b) reduce taxes. At the end of the day, the budgetary difference, whether "excess"/surplus or shortfall/deficit, is added to the stock of accumulated debt. That said, the government is largely in control over the size of the excess or shortfall.

The Government of Canada would eventually reduce its debt charges, but accomplishing this required an initial, dramatic step: eliminate the deficit, and prevent it from re-occurring.

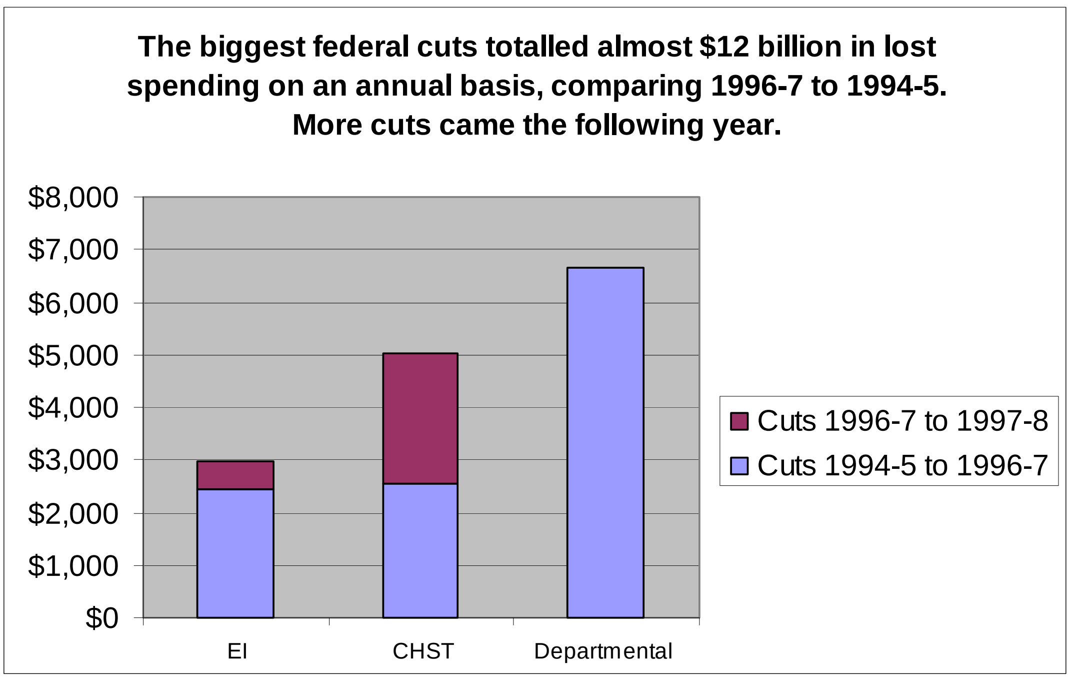
In 1995, the government embarked on reducing its deficit by choosing the spending cuts in each area that would generate the least political resistance by the public.

In the area of transfers to persons, supports to the elderly proved more politically charged to scale back than supports to the unemployed. The result: major reforms to limit Employment Insurance benefits to Canadians.

In the area of transfers to the provinces, equalization was similarly deemed more politically untouchable than supports for key social programs such as health, education and social assistance. The result: major reductions to the transfers in support of social programs (CHST).

Departmental spending was subjected to Program Review, which envisioned a permanent recasting of what the federal government was "in the business" of providing (and cost-recovering). Whole functions within particular departments were excised, for example port/airport authorities, environmental monitoring, or food safety inspections.

The chart below shows how departmental spending provided the greatest contribution to the downsizing agenda initially.



Source: Department of Finance, Fiscal Reference Tables, 2003 (based on Public Accounts)

The federal government cut $12 billion in annual spending during the deficit era. Departmental spending represented the largest share of the cuts, followed by cuts to transfers to the provinces.

Cuts in transfers to other levels of government occurred exclusively through reductions in cash supports for social programs, through the Canada Health and Social Transfer (CHST). These cuts proved to be historically unprecedented in scale and represented the second biggest cuts, next to departmental spending.

The third biggest source of cuts was through reduced benefits paid to the unemployed. As we will see in the upcoming Employment Insurance (EI) section, Canada's EI fund became an even bigger contributor to the war on the deficit through overpayment of premiums and through a federal government initiative to create a large and stable pool of surplus funds – by budgetary design – from which it could draw for other purposes.

In combination, the cuts disproportionately jeopardized those very social programs and income transfers that were the supports of last resort for the most vulnerable and at risk populations in Canada, particularly women.

The following examines each area of federal spending cuts in turn.

Cuts to departmental spending in the deficit era

In the mission to reduce the deficit, departmental spending bore the biggest brunt of spending cuts. Every government program and service was examined for its relevance to the reformulated mission of the federal government, and whole areas of activity were dramatically scaled back or eliminated.

In terms of scale, Public Account shows departmental cuts represented a 13% reduction. (*Note:* Budget 1995 documents anticipated these cuts would carve out 19% of departmental spending.)

Some departments were deeply retrenched. The departments of natural resources and transport were halved, as were regional agencies. International Assistance lost $1.3 billion over 3 years, and saw its budget reduced by 20%. Defence was cut by $1.94 billion over the three years, reducing that budget by 14%. [9]

[9] These figures and others cited on this page are drawn from Department of Finance, Budget 1995 Fact Sheet Number 6, "Getting Government Right: Program Review Overview".

As significant as these losses were, the deepest dollar cuts were to federally-delivered social programs.

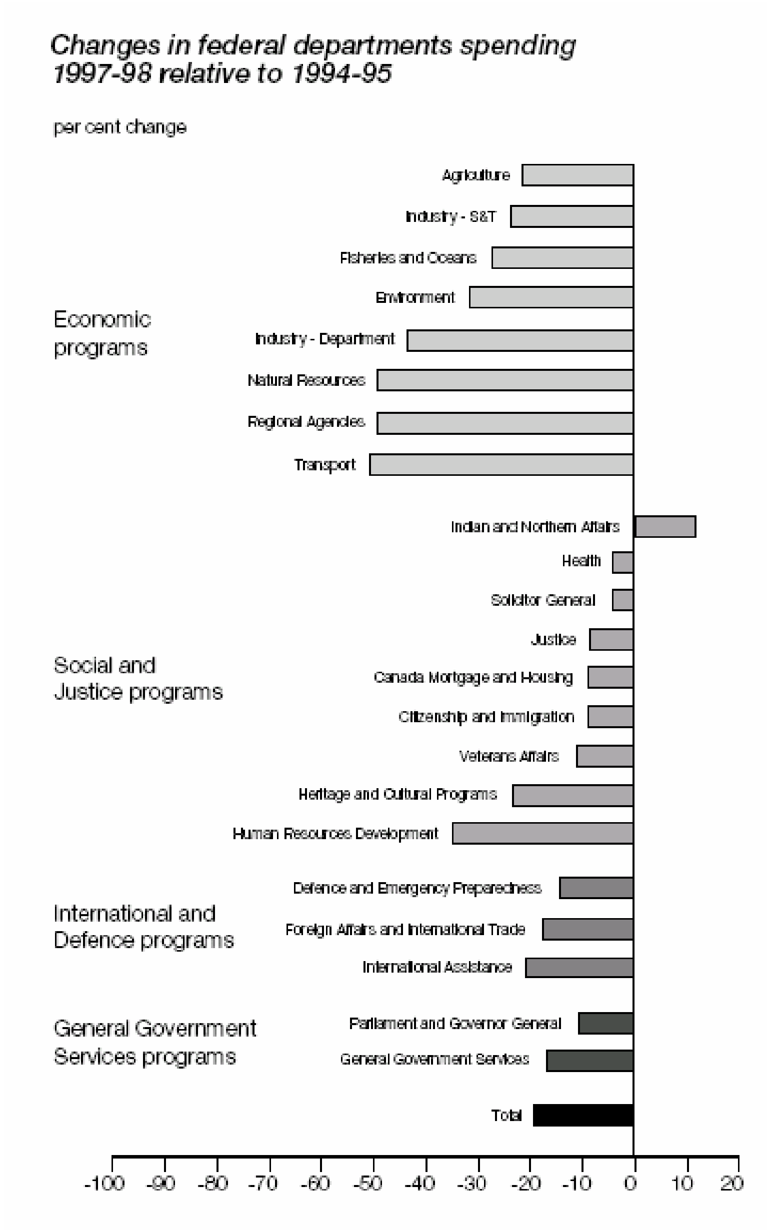
Over a three-year period, between 1994-95 and 1997-98, the federal government cut social programs by a total of $4.2 billion.

Human Resources Development was the hardest hit department, losing $2.8 billion over 3 years. During this period, the HRDC budget shrank by about 35% and this contraction contributed two-thirds of the cuts in social programs. These cuts included cuts to training, student loan supports, and unemployment insurance benefits.

Some of the other departments that also contribute to social programs saw less deep cuts, but offer critical services for vulnerable populations. For example, the federal department of health was cut by $388 million, housing was cut by $307 million, citizenship and immigration was cut by $272 million.

(Please see Chart of Departmental Cuts in Annex 1)

The chart on the next page, taken from Budget 1995, shows almost every government department underwent funding cuts during the deficit era.



Source: Department of Finance, Budget in Brief 1995, page 9

Cuts to Transfers to Provinces for Social Programs in the deficit era – the Canada Health and Social Transfer (CHST)

The introduction of the CHST replaced a block fund that previously covered supports for Established Programs Financing (for health care and post-secondary education) and the Canada Assistance Plan (CAP, which supported welfare payments, social housing, child welfare, home care and other programs of social assistance).

The CHST ushered in a new era in fiscal federalism. The new fund placed no expectations or limits as to how federal resources would be allocated among these different programs to meet the social and health needs of their residents. It also had fewer conditions for receipt of funds, and weaker enforcement of remaining mechanisms by which funds could be retracted if a province did not meet rough standards or expectations for service delivery and level of support.

The federal government reinforced the virtues of the new arrangement. Unconditional financing was portrayed as the way for the federal government to give provinces increased "flexibility" to use the money as they best saw fit.

The biggest impact of the new hybrid fund was not the provinces' new-found flexibility but the unprecedented unilateral withdrawal of federal funds. The scale of the cuts was enormous. The CHST took two previous federal transfers to the provinces, rolled them up into one, and reduced the overall amounts that provinces would receive, lopping $7 billion off the top in two years alone.[10] Though it had limited its support from the mid 1980s to the mid 1990s, never before in the history of Canadian fiscal federalism had the federal government reduced the actual amount of its financial contribution to social programs.

The new mechanism threw social supports into open and intense competition with university and college funding and health care, with every legitimate need wrestling for a continued if not bigger share of a smaller pot of money.

Given the historically unprecedented nature and depth of this unilaterally imposed change, the federal government paced the cuts over an additional year, giving the provinces a "heads up" in 1995 to brace themselves for cuts that would extend to 1997-98.

The chart below shows how cash transfers through the CHST shrank between 1994-95 and 1997-98. Public Accounts indicates these cash transfers decreased from $17.4 billion in 1994-95 to $12.4 billion in 1997-98.

[10] Department of Finance, Budget 1995 Fact Sheet Number 10, "The Canada Social Transfer: A New Transfer System".

Federal Cash Transfers for the CHST	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**
In $billions					
What they Planned					
Budget 1995 p.85	16.8	17.3	16.4	12.9	
Budget 1996 p.110		18.8	18.5	15.0	12.5
Budget 1997 p.64		19.3	18.6	14.9	12.5
Budget 1998 p.64				14.8	12.5
What They Did					
Public Accounts		17.442	16.671	14.911	12.421

Federal cash transfers in support of social programs, through the CHST, fell by 15% between 1994-95 and 1996-97, and a further 15% the following year. The CHST thus lost 30% of its cash value in just three fiscal years.

Budget 1995 anticipated $7 billion would be taken out of these transfers, cumulatively, over the next three years. The Public Accounts show that $8.2 billion was removed over that period.

Cuts to the CHST were symbolic in their nature and sweeping in their impact. Since 1966, the federal government had committed itself to sharing the costs of providing social assistance and supports with the provinces, through CAP. Since 1977, the federal government had committed itself to Established Programs Financing (EPF), providing both cash and tax revenues to help cover about half the costs of health care and post-secondary education.

Together these two fiscal mechanisms used federal strength to help the provinces and territories ensure all Canadian citizens roughly equal access to basic social services, education, and health care programs.

In 1986, the federal government redefined the escalator formula for EPF, a move that reduced amounts of cash transferred for health and post-secondary education for one year only, 1990-91. In 1990, the federal government put a “cap on CAP”, imposing a ceiling on increases to federal transfers to three of Canada's wealthiest provinces and thus limiting its liability to cost-share expenses for social assistance and other social supports (such as housing) under CAP.

The slowdown in federal funding supports for these programs turned into actual cuts by the mid 1990s. The CHST, introduced in 1996, also launched an era of explicit retrenchment by the federal government from its leadership role in ensuring national standards and universal access to basic social programs such as welfare.

The legislation governing the CHST required sunsetting the legislation governing CAP. The new rules were looser and provided fewer guarantees for the poorest members of society. With fewer conditions placed on the transfer of federal funds, and increasingly less strict enforcement of existing rules, it was no coincidence that many Canadian provinces introduced new restrictions on welfare, including new requirements to work, in the mid-1990s.

During this period, the federal government maintained equalization payments to the provinces and territories. By their nature, these payments cast a blind eye to what provinces do with the money. The CHST compounded that effect, casting a blind eye to what was done with money specifically transferred for the purposes of providing health and social programs that people in Canada rely on from coast to coast to coast.

The CHST was one of two processes that reinforced the balkanization of social protections. The other was the transformation of the Unemployment Insurance program, which after 1996 was called the Employment Insurance fund.

"Reform" of Un/Employment Insurance in the deficit era

Budget 1995 anticipated a minimum 10% reduction in Canada's unemployment insurance benefits by 1996-97, yielding "savings" of $700 million.

Public Accounts show that the cuts represented a 16% spending reduction between 1994-95 and 1996-97.

Benefits for the unemployed kept dropping until 1999-2000, the combination of a strengthening economy and squeezed entitlements.

The contribution EI made to the war on the deficit did not only flow from the way payments were scaled back from tightening eligibility for and duration of benefits. It also was a product of premium rates being held sufficiently high that surpluses began to build up in the fund.

Unemployment insurance premiums were ramped up starting in 1990 when the federal government pulled out of the fund entirely, leaving employees and employers to fund it on their own. Only one other nation follows that modality of financing unemployment insurance benefits: The United States.

The resulting pressures on the unemployment insurance fund led to repeated calls for deep reforms to extended benefits, particularly for the unemployed living in economically depressed regions that had to rely on more seasonal forms of work, such as the fisheries.

The spirit of "reform" was relentless. There were four rounds of major change to the unemployment insurance program in the 1990s: 1990, 1993, 1994 and 1996.

In 1990, the federal government pulled out of the fund, leaving a multi-billion dollar hole. That led to increased premium rates for employers and employees alike, just as a profound recession gripped the labour market.

The 1993 and 1994 reforms radically changed the rules. They made it harder to become eligible for benefits; they shortened the duration of benefits; and they dropped the rate at which income would be replaced by benefits to 55% of insurable earnings.

The 1996 round of changes particularly affected women, as it shifted the basis for calculating eligibility from weeks of work to hours. This could have been a good thing for the many female workers working "casual" shifts. Instead, the bar was dramatically raised on eligibility for benefits once unemployed, while workers were obliged to pay into the fund at a much lower threshold - from the first hour worked.

Under the old formula, which was actually based on number of weeks worked, Canadian workers required an equivalent of 300 hours of paid work to qualify for benefits in the event of unemployment. The new rules required between 420 and 910 hours of paid work to qualify, depending on where in Canada you live and the unemployment rate in that region at the time of filing your claim.

On the premium side, the new rules made workers pay premiums from the first hour. Before the EI changes in 1996, those who worked less than 15 hours a week didn't pay premiums. This resulted in an infusion of revenues, without guaranteeing that benefits would flow.

Part-time and seasonal workers found themselves increasingly likely to pay more into a fund that they were increasingly unlikely to be able to access for help.

The number of Canadians eligible for income supports through EI dropped precipitously. Women were hit disproportionately hard by these changes.

The table below illustrates the drop in coverage with each of the four major rounds of changes to EI in the 1990s.

Impact of Higher Eligibility Requirements on Insurance Coverage Ratios

	1990	1993	1994	1996	2001
Legislative Change	Bill C-21	Bill C-113	Bill C-17	Bill C-12	
% of Unemployed Receiving UI	74%	57%	51%	42%	39%

Source: Canadian Labour Congress, *Falling Unemployment Insurance Protection for Canada's Unemployed*, March 2003

Two reasons for the drop in eligibility centre on the nature of part-time work. A large number of part-time workers simply do not work enough paid hours to collect EI. Another reason part-time workers are now disqualified for EI is due to a growth in the number of people working unscheduled hours. Nurses working on-call, for example, can experience trouble qualifying.

Due to the high proportion of women in the part-time workforce, women ended up literally paying more, and getting less.

As a result of these changes, the gap widened between percentage of women receiving EI compared to the number of men.

As the table below shows, after the changed rules kicked in, the gap in EI protection between men and women more than doubled.

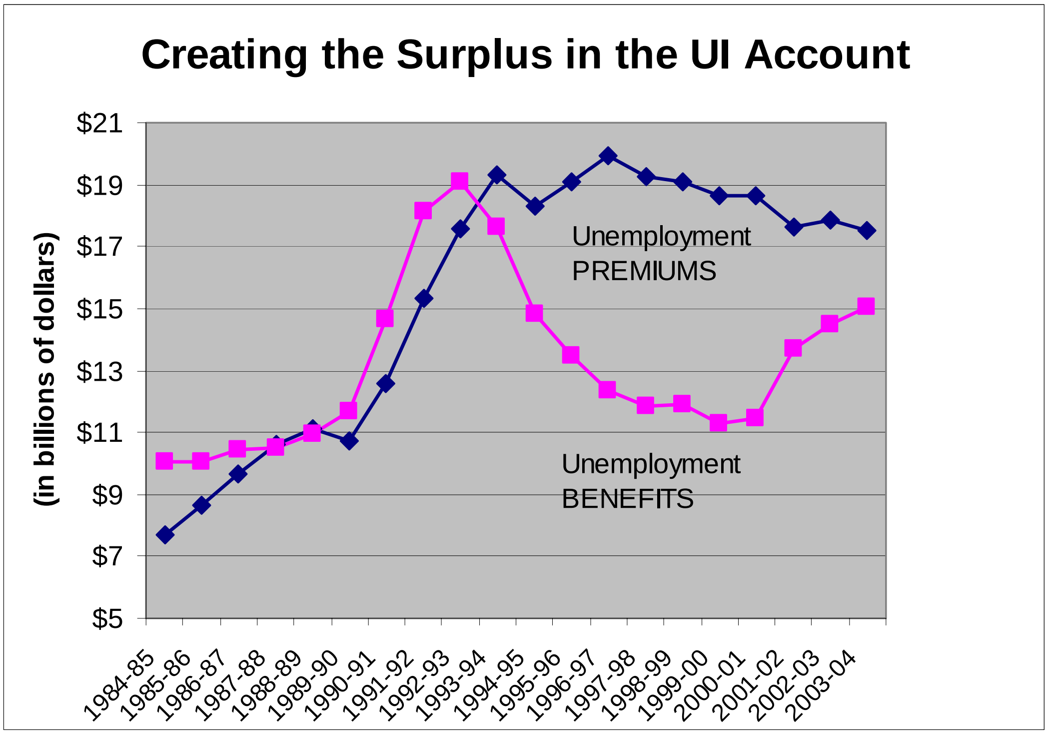
Coverage for men fell marginally after the 1996 changes, from 45% to 44% of all unemployed men. Coverage for women fell more dramatically over this period, from 39% to 33%. (The report covered regular income replacement for the jobless, and did not include coverage for maternity/parental benefits, which is discussed in the surplus era section.)

Gender Gap in Coverage – Percentage of Unemployed Receiving UI

	1994	1996	2001
Men	53%	45%	44%
Women	49%	39%	33%
Gender Gap	4 points	6 points	11 points

Source: Canadian Labour Congress, *Falling Unemployment Insurance Protection for Canada's Unemployed*, March 2003

The depth of the recession of 1990-91 caused benefit payments to rise sharply, even though entitlements were scaled back. But since premiums had never been scaled back, by the mid-1990s, a structural surplus had emerged, explicitly created by budgets that ensured the premiums paid in to the EI fund would exceed the benefits paid out of the fund. The federal government relied on that surplus in budget documents throughout the 1990s.



Source: Public Accounts

In addition to the "built-in" surplus – a planned excess of revenues/premiums over expenditures/benefits in the EI fund – Public Accounts show that budget documents systematically overestimated the scale of benefits to be paid out, and also had a poor record in correctly estimating the amount of premiums that would be paid in to the EI fund.

As the following table shows, the annual surplus in the EI account reached $7.5 billion a year by 1996-7 and was held at that level until 2000-01. (Since that time the annual surplus in the EI fund has fallen each year, from $3.9 billion to $3.4 billion to $2.5 billion.)

TOTAL SURPLUS IN EI ACCOUNT

in billions	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Total Surplus in EI Account	**$3.5**	**$5.6**	**$7.5**	**$7.4**	**$7.3**	**$7.3**	**$7.3**	**$3.9**	**$3.4**
Of Which Intended/Explicit Surplus in Budget Based on Difference Between Revenue/Premium And Expenditure/ Benefits Estimates	$3.6	$5.4	$5.0	$5.8	$6.0	$4.9	$6.4	$6.2	$1.9
Budget Erred on Benefits by	$0.5	$0.8	$1.4	$1.7	$0.8	$2.1	$0.4	-$1.5	$1.2
Budget Erred on Premiums by	-$0.6	-$0.6	$1.1	-$0.1	$0.5	$0.3	$0.5	-$0.8	$0.3

NOTE: Negative figures means the Budget overestimated relative to what occurred (as laid out in Public Accounts)
Positive figures mean the Budget underestimated, relative to what occurred

Sources: Budget Documents and Public Accounts

Debt reduction in the deficit era

From Budget 1995 onward, deficit and debt management has remained the government's key focal point. Not only did the government meet its goal to eliminate the deficit – it did so ahead of schedule. But program spending did not benefit from the early victory.

Underlying the drive to cut spending was an explicit goal to permanently bring fiscal "prudence" to federal governance.

"Prudence" was code for three objectives:

- no more deficits,
- permanently smaller government, and
- paying down the debt.

The prudent approach became the central commitment of federal budgets to the citizens of Canada. Budgets included an earmarked fund which was, on paper, dedicated to be used only in the case of nasty surprises.

The rationale was that such funds were necessary to avoid slipping into deficit in the event of unanticipated situations. The "contingencies" for which the government needed to be prepared could be emergencies stemming from national disaster, geopolitical crises, or unanticipated liabilities brought forward in legal suits.

The first contingency reserve was introduced in the 1995 budget, which put aside $2.5 billion for 1995-6, and $3 billion for 1996-7. This was maintained in the 1996 budget, with $2.5 billion set aside for the fiscal year, rising to $3 billion for the next year.

By the 1997 budget, the contingency fund was locked down at $3 billion a year. Budget 2000 would introduce yet another concept to add funds to this "safety cushion" (details are laid out in the surplus era section that follows).

Thus early in the deficit era, the federal government cemented in the notion of building contingency funds into budgets as a line item – a central goal framed as fiscal prudence.

The concept of contingency funds seems reasonable enough, even prescient given the events of 9/11, and the floods, fires and mad-cow diseases of recent years.

Nonetheless, the initial motivation behind contingencies had little to do with emergencies and everything to do with structurally building in the budgetary capacity to pay down debt once surpluses started to roll into government coffers in the late 1990s.

As it happened, the Government of Canada eliminated the deficit well ahead of its own official plans, yet its debt management goals remained a top priority.

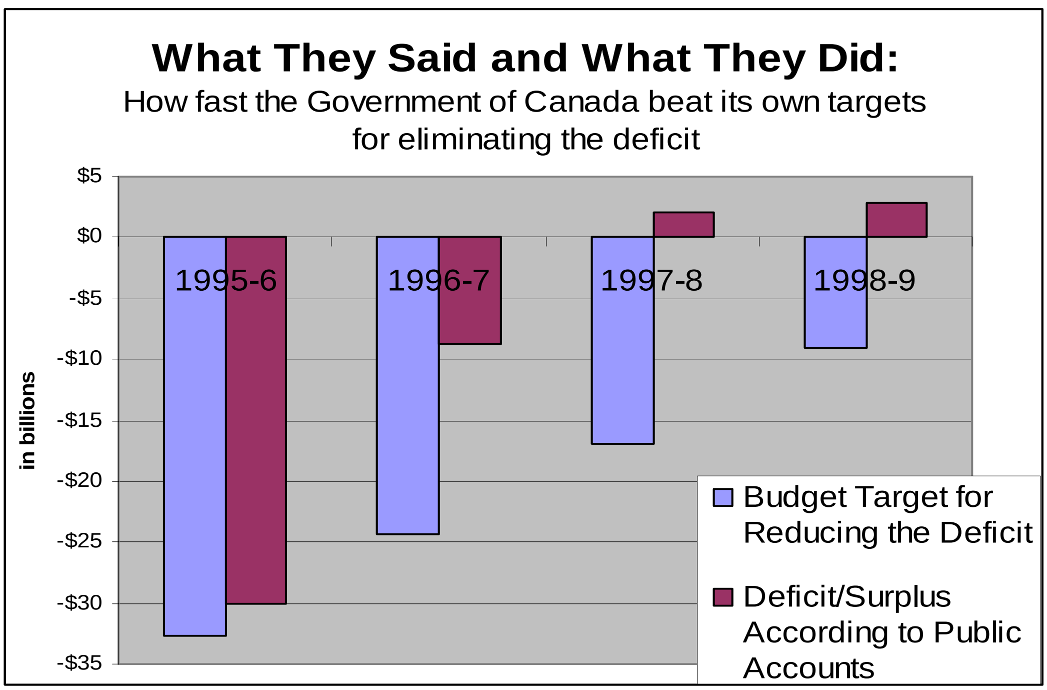
In the mid-1990s, budget documents spoke of the elimination of deficits by the end of the decade. By 1997-8 there were already surpluses.

Budget 1995 set the deficit target for the 1995-6 fiscal year at $32.7 billion. Public accounts show it came in at $30 billion.

Budget 1996 set the deficit target for 3% of GDP in 1996-7, or $24.3 billion. Public accounts show that the deficit that year was $8.7 billion.

Budget 1997 set the deficit target for $17 billion in 1997-8 and $9 billion in 1998-9, giving the impression that perhaps the deficit would be eliminated by the end of the decade.

The deficit was in fact eliminated in 1997-8. The federal government registered a $2.1 billion surplus, years ahead of target.



Sources: Federal Budgets and the Public Accounts of Canada

Budget 1998 acknowledged the deficit was eliminated, without reference to the fact that this occurred faster than officially projected.

It also acknowledged that contingency payments for the purpose of deficit reduction were no longer needed, yet contingency funds remained built into the budget. The federal government's rationale: debt repayment.

By the end of fiscal year 1998-9 the Government of Canada had already used about $5 billion in surplus funds to reduce the accumulated debt. Later, we will illustrate just how ambitious the government agenda for debt reduction really was.

Revenues in the deficit era

Before the cuts to federal program spending were launched, there was debate as to what was causing the deficit, and even more vigorous disagreement as to how to get rid of it. Indeed from the mid 1980s to the mid 1990s there was even disagreement as to how necessary it was to eliminate the federal deficit, given prolonged periods of high unemployment and fundamental restructuring of the economy in the wake of the free trade agreement with the U.S.

Though the government chose spending cuts as the primary way to eliminate the federal deficit in 1995, few analysts pointed the finger primarily at growth in spending as the root cause. As the story of the EI fund shows, the revenue side of the picture was also important.

A widely cited Statistics Canada report from June 1991 calculated that growth in federal spending accounted for only 6% of the growth in the federal deficit. [11] Indeed, the study noted that federal spending on social programs as a share of GDP had remained stable for the previous 16 years, being 9.9% of GDP in 1974-75 and still 9.5% in 1990-91.

Rather, the report concluded, the chief factors behind the growth of the federal debt were revenue oriented and attributable to central bank policies. About half the deficit could be attributed to tax reforms (mostly new loopholes, tax breaks and tax incentives for investors) introduced over the previous 2 decades. A further 44% flowed from tight monetary policy that produced high real interest rates for a prolonged period, dramatically ballooning the size of the federal debt by the sheer power of compound math.

By the mid 1990s, the federal government was addressing the revenue side of the deficit problem by repeatedly underestimating its incoming budgetary resources. Federal budgets established a pattern of low-balling the federal revenue stream, even as that revenue stream was clearly accelerating over the course of the 1990s. This was an important structural element in federal budgets, one that would produce the hallmark of the era – the “surprise” surplus.

The “surprise” element of the surplus helped the federal government pay down debt while denying funding to programs and income supports – even as the painful effects of the deficit era cutbacks rippled through communities and households across the country.

The “surprise” surplus grew into a regular routine: Surpluses would solidify half a year after the fiscal year closed, made apparent through Public Accounts. But just as quickly as they appeared, they would vanish into the deep well of debt payment.

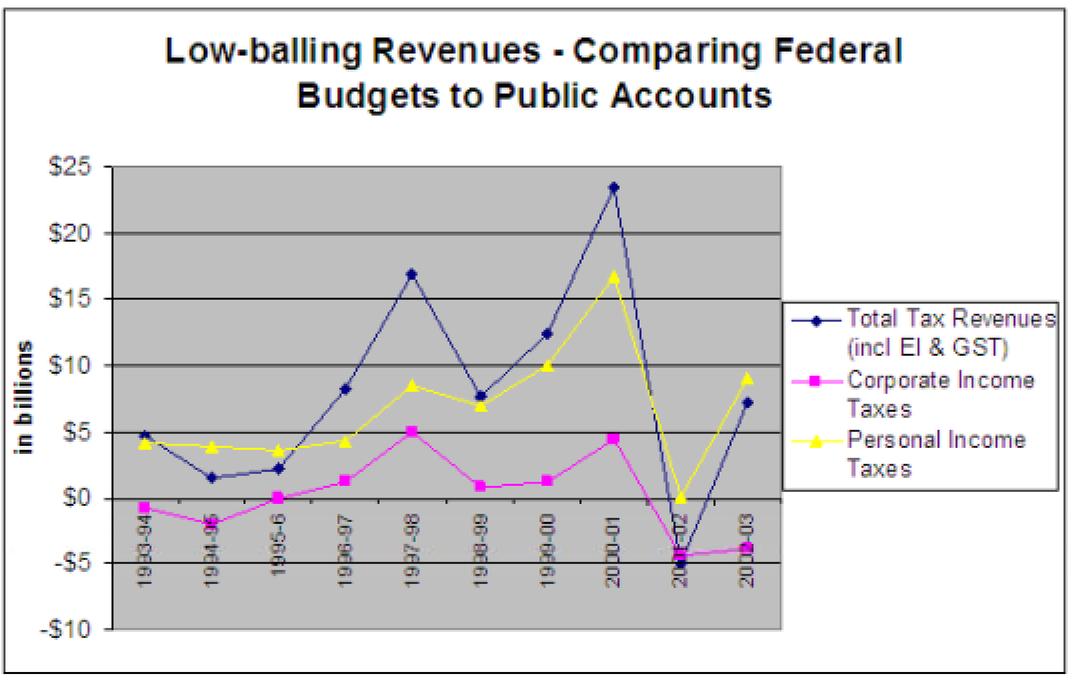
[11] Mimoto, H. and P. Cross. 1991. "The Growth of the Federal Debt". *Canadian Economic Observer*. Ottawa: Statistics Canada, June: 3.1 - 3.18.

Underestimating budgetary surpluses in each budget was key to dampening demands for higher program spending, increased transfers to individuals or to provinces, and tax cuts. Each of these possibilities represent a way to use up excess resources. Each imply an ongoing commitment of resources.

Though the surpluses were structurally built into the budget, during the mid-1990s they were sufficiently novel that the government of the day retained a stance that indicated to the broader world they were simply happy mistakes, an inversion of the unhappy preceding era where governments had consistently underestimated the size of the federal deficit.

The ruse enabled the Government of Canada to make good on its commitment, in Budget 1995, to radically transform what governments do for their people.

As the chart below illustrates, budget estimates regarding total tax revenues deviated substantially from the final outcome (as tracked by Public Accounts) in the deficit cutting period and continued that track record for the rest of the decade.



Source: Calculated as the difference between Budget Estimates and Public Accounts

The consistency of the federal government's apparent inability to accurately predict revenues represented far more than just the understandable element of an economy performing more robustly than anticipated. It was, as we saw in the previous section with respect to the EI fund, partly planned. And it appears to be also, partly, under-calculated.

Personal income taxes were consistently the biggest contributor to the budgetary surplus, accounting for just below $5 billion a year in "unplanned" revenues during the mid-1990s then increasing rapidly between 1997-8 and 2000-01, peaking at roughly $16 billion that year. In comparison, corporate income taxes were more accurately estimated.

In combination with the surplus in the EI fund, the added revenues from "unanticipated" personal income taxes were to line public coffers in a manner that would make possible the key spending initiative of the 1990s: debt reduction.

Phase Two: The Surplus Era, Budgets 1998 to 2004

> "We must be very clear. There can be no going back. The days of overreaching, over-spending governments are over."
>
> *– Paul Martin, 1997 Budget Speech*

By 1997-98 it was becoming crystal clear that the Government of Canada would not only balance its budget, but that a new era had arrived on the scene. Now that the deficit had been slayed, Canada faced surplus budgets at the federal level as far as the eye could see. Though it was well hidden, Canada had entered a unique period of fiscal plenty.

It has been shown that the commitment to balancing the federal budget was achieved with a particular approach, an approach that came at the expense of federal commitments to reducing inequities faced by women. Indeed, it can be argued that not only was the deficit used as an argument to ignore such commitments, but it was used as the reason for why things "had to" get so much harder for hundreds of thousands, if not millions, of women in Canada.

The question that looms is: having eliminated the budgetary deficit, did the federal government use the new era of prosperity to invest in the kinds of social supports necessary to live up to its Beijing commitments, and mend the damage done in the name of the war on the deficit?

This section examines where the surplus was spent, comparing the amount of money that went into the federal government's key priorities – debt reduction and tax cuts – versus investments in transfers to the provinces and territories, transfers to individuals, and departmental spending.

Debt reduction in the surplus era

> "What I am about to say is something no Canadian government has been able to say for almost 50 years. We will balance the budget next year. We will balance the budget the year after that. And, Mr. Speaker, we will balance the budget this year."
>
> -- *Paul Martin, 1998 Budget Speech*

In Budget Speech 1998, Finance Minister Paul Martin declared that Canada had "left the era of chronic deficits behind" and that Canada was "now on an irrevocable course to reduce the debt".

He acknowledged that Canadians had shouldered the difficult burden of this goal, then declared he would stay the course and maintain frugality. He would attack Canada's debt burden "steadily, permanently, irrevocably".

The Budget Plan of 1998 mentioned, almost in passing, that the federal Government had paid off almost $13 billion in its market debt the first 9 months of the 1997-8 fiscal year.[12] The Finance Minister reinforced the intention to achieve greater reductions in the years ahead. Meanwhile, program spending was not pulled off its trajectory of decline, from $106 billion in 1997-98 to $104.5 billion in 1998-99.[13]

During his 1999 Budget Speech, Finance Minister Paul Martin announced Canada had left "the era of deficit financing behind". But contraction of program spending was not a thing of the past. As a percentage of the economy, they would continue to decline, from 12.6 per cent in 1998-1999 to 12 per cent by 2000-01 – its lowest level in 50 years.[14]

While this was already a remarkable event, history shows the budget was wildly off. By 2000-01, according to the Public Accounts, program spending had actually

[12] *The Budget Plan 1998*, p. 10. The Fiscal Reference Tables show a further $2 billion in budgetary surplus at the end of the 1997-98 fiscal year.
[13] *Ibid*. p. 58
[14] *The Budget Plan 1999*, pp.15, 16, 43, 64.

plummeted to 11% of the economy, a level that had only been stumbled upon once before, for one year, in the immediate aftermath of the Second World War.

At that time the only reason spending-to-GDP fell to such a low level was: a) a suddenly buoyant post-war economy, and b) a considered pause before launching into a massive wave of public investments.

Yet Budget 1999 declared this anomaly a prudent thing, a return to a more sensible era, and a desirable long-term goal. By design instead of accident, the target of 12% or less was a level of federal input into the economy that had not been matched since before the Second World War.

The speech of Budget 1999 went on to trumpet that, also for the first time in almost a half century, Canada's federal government would balance two budgets back to back.

The arrival of the surplus era was celebrated in this budget for the opportunity it offered Canadians to lower the federal "debt burden".

The 1999 Budget proudly noted that the nation had recorded the largest single improvement in the debt-to-GDP ratio in over 40 years, falling from 70.3 to 66.9 per cent, with the expectation that it would fall to under 62 per cent by 2000-01.

Canada was "one of the few countries in the world that is actually paying down its debt", and Finance Minister Martin made it clear the war on the debt was only beginning.

The 1997-98 surplus launched a new era of budgetary purpose, and the choices made possible by the surplus era began to be narrowed down in earnest starting right with Budget 1998.

The overarching goal of the deficit era was fiscal "prudence" directed at deficit reduction. Similarly, the first overarching political goal expressed in Budget 1998 was more fiscal "prudence" – this time to lower the accumulated federal debt.

With a debt load of $560 billion the objective, clearly, was not to pay off the federal debt. It was to reduce it. But to what degree? And at what expense?

The answer to that question would not come for many years, though the commitment was there from the start of the surplus era, and even in latent forms beginning in Budget 1995.

As mentioned earlier, the federal government structurally embedded into the budgetary process reserved amounts; money designed to create fiscal surpluses, year after year.

By definition, the surplus – unallocated amounts of excess revenue over spending – had no home, so had to be used for debt payment.

But Budget 1998 *created* built-in surpluses, by introducing explicit contingency reserves of $3 billion a year that would be used for debt payment, if not for other things. Public Accounts shows the budgetary surplus in 1998-99 was $2.85 billion, which was put down on the debt.

Budget 1999 reinforced this use of the $3 billion contingency reserves. That year Public Accounts showed a surplus of $13 billion, all of which went to debt repayment.

In ensuing budgets, contingency reserves were supplemented, making the structural funds available for debt payment increasingly large.

Budget 2000 added a "prudence factor" to the $3 billion a year in contingency reserves. The prudence factor was set at $1 billion for the current fiscal year, rising by a billion every year thereafter. That year Public Accounts show a $20.2 billion surplus, which was used to pay down the debt.

The events of 9/11 caused the prudence and contingency factors (now one, unitary concept) to be slightly reduced in Budget 2001 (delivered in December), translating into $1.5 billion in the current fiscal year, but rising to $2.5 billion by the third year out. However Budget 2001 also made clear the goal was to return to the $3 billion reserve and additional prudence "padding" as soon as possible.

Budget 2001 provided further structural padding by adding new contingency lines to specific departments, such as the Department of Defence, a move that looked reasonable in the wake of 9/11.

Notwithstanding these measures to build in the padding, Budget 2001 was notable as being the only budget in the surplus era that did not commit to debt reduction. Early in the Budget it remarked: "Given the current economic weakness, [the federal government] has decided not to pay down any debt this year. Any surplus at the end of fiscal year 2001-02 will be dedicated to the Strategic Infrastructure Foundation and the Africa Fund." [15]

Nonetheless, Public Accounts show that, despite the global economic slowdown that followed 9/11, the budgetary surplus for 2001-02 clocked in at just over $7 billion. This amount went to pay down the debt.

There was no federal budget in 2002, but the February 2003 budget put the federal government back on track, with a $3 billion a year contingency reserve and a prudence factor that started at $1 billion but built up by a billion as time progressed

[15] *The Budget Plan 2001*, p. 19. Also at pp. 139 and 148, the *Budget Plan 2001* declares that circumstances dictate "debt paydown at this time is not appropriate".

through the budget forecast. Public Accounts for 2002-03 indicated a $7 billion budgetary surplus, which went to pay down the debt.

The 2004 Budget, delivered on the heels of a year of economic disasters from coast to coast (fires in the west, floods in the east, mad cow disease on the prairies, SARS and a major continental power outage in Ontario), nonetheless envisioned a surplus budget, for that year and all following years. It planned for a contingency reserve of $3 billion a year and a prudence factor now holding steady at $1 billion a year.

Debt repayment was thus earmarked for $4 billion a year, barring unforeseen circumstances.

For the second time in the surplus era, however, a budget indicated there were other ways to use this reserve. On page 196 of Budget Plan 2004 it was noted that "[s]ince Budget 2003, a further $286 million has been ***allocated from the security contingency reserve*** [emphasis added] for the development and implementation of key border management programs…"

Over the course of 2004, Department of Finance estimates of the size of the surplus varied. This was to some extent understandable, given that 2003-4 had been a year full of unforeseeable disaster and economic interruption. Still, despite the upheavals of this difficult year, Public Accounts showed that fiscal year 2003-04 produced a massive surplus of $9.1 billion in the Government of Canada's coffers, a full $7 billion greater than the most recent estimate of surplus just a few months before. Thus over $9 billion went to debt repayment.

By this point in the surplus era there were two elements that contributed to a consistent underlying minimum $7 billion surplus factored into the budgetary statements: a $3 to $4 billion a year contingency plus prudence factor; plus $3 billion or more in excess revenues (premium payments) over expenditures (benefits) in the EI account, though this latter amount has declined in the past year. Both items were built-into the budgetary estimates, but virtually always being added to by the end of the year through underestimation of tax revenues, and over-estimation of program spending.

It is not surprising, then, to see imbedded in Budget 2004, the next logical step. That budget laid out a clear target and date for debt repayment – 25% of GDP (Gross Domestic Product, the value of the economy in the year) within the next decade.

It is critical to know that budget documents show that this debt to GDP ratio could be reached without one more penny being paid down on the debt, if only one year is added to this target time frame of a decade.

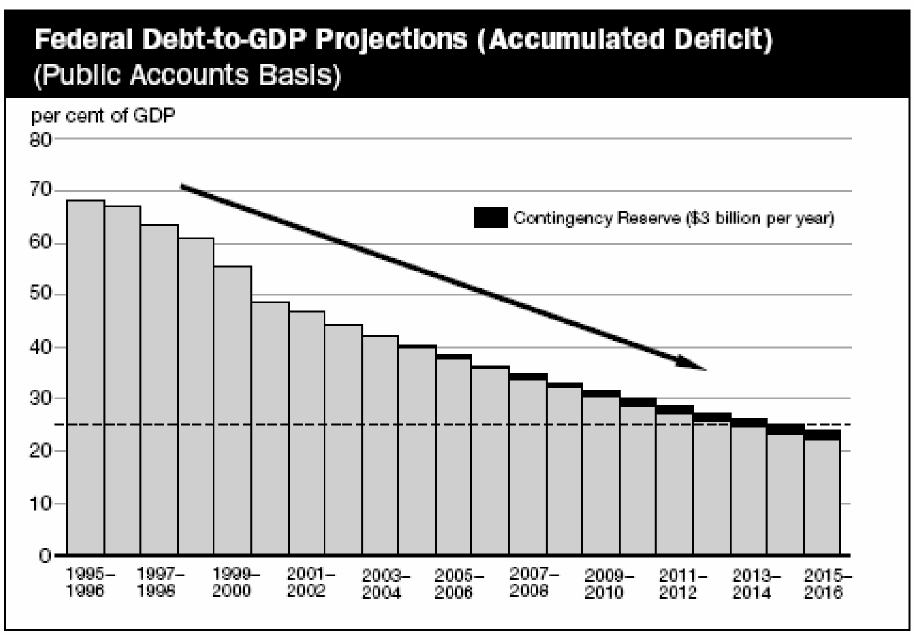
The reduction in the debt-to-GDP ratio is primarily the product of economic growth. Given the entirely reasonable long-range forecasts for growth in budget, that $3 to

$4 billion a year (amounting to $30-$40 billion over the next decade) could be used for other purposes and we would *still* arrive at a debt-to-GDP ratio of 25%.

[Please refer to the Debt Paydown chart in the Annex to see how quickly Canada could attain the 25% debt-to-GDP target under different economic growth and debt paydown assumptions.]

Without doubt $30-$40 billion over the next 10 years could buy remarkable investments in the quality of life of all Canadian citizens and go a long way to meeting the commitments made 10 years ago at Beijing.

Conversely, as the chart below – extracted from Budget 2004 – shows, that same amount makes very little difference in terms of the rate of change of the debt-to-GDP ratio. It is, as they say, a drop in the bucket.



Source: The Budget Plan 2004, page 55

As Public Accounts show, the billions in surplus reserved in the budget every year are far surpassed each and every year. Each year these amounts are paid down on the debt without any public discussion about whether this is, indeed, the most prudent approach to governing the federal government can take.

Between April 1997 and October 2004, public coffers had reduced the accumulated federal deficit by $61.4 billion, the biggest debt paydown in Canadian fiscal history, and the largest such payment in the advanced industrialized world.

The federal debt still stood at just over $500 billion.

The federal debt-to-GDP level had fallen from 68.4% in 1995-96 to 41.1% in 2003-04, the largest contraction of the debt burden in the industrialized world. This was in large part due to the growth of Canada's economy and the fact that Canada did not continue to run up budgetary deficits. The other, smaller part was due to debt paydown.

In just seven fiscal years, the Government of Canada had taken $61.4 billion of taxes paid but not used and reduced the debt-to-GDP ratio drastically. At the time of writing, the federal government seems intent to use at least another $30-$40 billion of our paid but not used taxes over the next 10 years to do the same thing.

Even if every penny of the currently forecast surplus is used to reduce the debt, the federal debt will stand at more than $450 million in 10 years.

This fact alone makes the pursuit of debt reduction not unlike the Myth of Sisyphus, whom the gods had condemned to ceaselessly roll a rock to the top of a mountain, at which point the stone would fall back of its own weight.

If just some of that tireless energy was applied to a less futile pursuit, greater economic and social justice would be much closer at hand.

Revenues in the surplus era

The surplus era ushered in a huge federal policy emphasis on tax cuts and tax relief.

The process began in 1998 when the federal government accelerated a trend to fiscalizing social policy and blossomed into a $100 billion 5-year tax reduction plan that has since been added to.

Over the past decade, social policy in Canada has been marked by a shift away from direct program spending on supports such as regulated, affordable post-secondary tuition, home care and child care. Instead, new supports and initiatives in these domains are likely to be offered as tax breaks.

This is what is meant by the fiscalization of social policy: federal funds in support of universities and colleges, or funds for the provision of child care or home care have been reduced and replaced with, for example, individualized tax credits for care givers, tax deductions for child care expenses, and tax relief for interest payments on student loans.

This trend is imbedded in the larger theme of simply "reducing the tax burden", a policy thrust that became the priority of virtually all levels of government in the mid to late 1990s. If the federal government did not lead the way on this initiative, it certainly made up for lost time by introducing tax cuts of unprecedented proportion.

Targeted personal income tax cuts appeared in Budget 1999, but were quickly taken over by broad-based reductions to both corporate and personal income taxes by 2000. Budget 2000 launched the most massive five-year plan to cut taxes that the nation has seen.

Despite its scope and depth, that five-year plan was accelerated and deepened just a few months later, on the eve of a federal election, in what is known as "Mini-Budget 2000". In that budget, the federal government provided lower rates on personal income tax brackets, quicker attainment of deep cuts to the corporate income rate, and more exemptions for the taxation of capital gains.

The 2003 Budget added yet more tax cuts, this time raising exemption limits for tax shelters (benefiting only those at the top of the income spectrum) and fully eliminating capital taxes (a benefit only to the richest of companies).

These initiatives put the growth of federal revenues on a slower track.[16]

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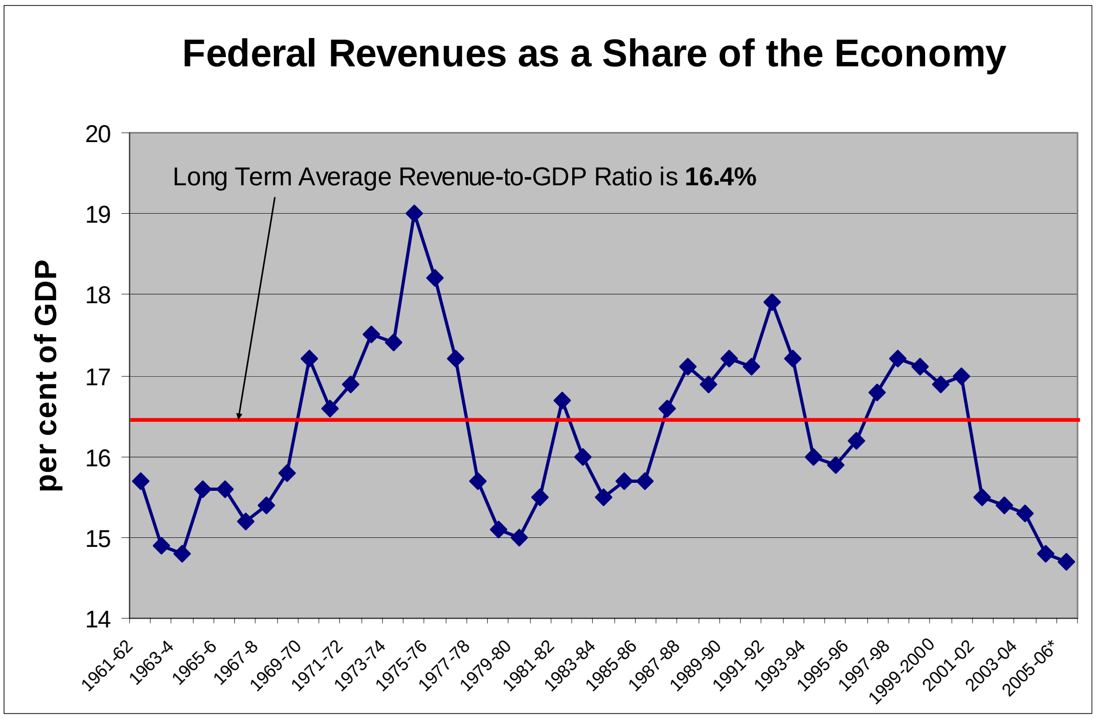
[16] Note: Even massive tax cuts are not likely to put federal revenues on a downward track. Federal revenues have only fallen twice since 1961 (the beginning date of the published Fiscal Reference Tables from the Department of Finance): once in 1993-94, in the wake of a deep recession, and once in 2001-02, after the launch of the tax cut agenda.

The language of commitment to small government was explicit in federal budgets from 1995 on. These documents articulated a clear and overriding goal that federal revenues would take up a shrinking share of the economy over time. This has indeed occurred. Federal revenues fell from 17.2% to 15.3% of GDP between 1997-98 and 2003-04, according to Public Accounts. *(See chart on next page.)*

This is significantly below the long-run average of federal revenues to GDP, which had been 16.5% since 1983, and 16.4% since 1961. Budget 2004 projects a further decline in the ratio of revenues to the economy, falling to 14.7% of GDP in 2005-6.[17]



**Denotes projections*
Source: Department of Finance, Fiscal Reference Tables 2004, Table 2, and Budget Plan 2004, page 64 (for projections of years 2004-5 and 2005-6)

The following outlines the highlights of each budget in the surplus era with respect to revenue measures.

Budget 1998 launched a wide-ranging agenda of new fiscal supports for activities ranging from learning to caring, supporting institutions ranging from families to charities. There were improved tax deductions for child care expenses, tax credits

[17] *The Budget Plan 2004*, p. 64.

on interest payments for student loans and tax credits for caregivers for the elderly and people living with disabilities, enhanced tax shelters to save for post-secondary education, GST rebates for charities and some public institutions, and new deductions for the self-employed for health and dental insurance premiums. The budget also enhanced payments made to support families, through the newly launched Canada Child Tax Benefit (CCTB), a refundable tax credit.

In total Budget 1998 promised almost $1 billion in tax "relief", and a further $0.5 billion in reductions to EI premiums. It started the trajectory of budgetary revenues being forecast as a shrinking share of GDP, dropping from 17.2% of GDP the year before to 16.7% of GDP by 1999-2000, i.e. over three years. Public Accounts show this occurred, plunging more deeply than forecast.

Budget 1999 built on the measures announced in 1998, offering an additional $1.5 billion in tax relief that year. The threshold at which people start paying taxes was raised (for all taxpayers, not just low-income individuals), and surtaxes (taxes on the taxes paid by those with incomes over $50,000) were eliminated.

Together the two budgets promised over $16.5 billion in tax relief over three years, ending 2001-02, plus an additional $800 million in "savings" from reduced EI premiums. The improvements to the Canada Child Tax Benefit (CCTB) accounted for only about $0.5 billion of the $16.5 billion. While about 3.3 million families received CCTB in 1999, about two million families would benefit from these changes, totaling $525 million in new benefits cumulatively by 2001-02. Elimination of the surtax, meanwhile, affecting 2.7 million individuals of the highest income, would total $2.74 billion by 2001-02.[18]

Budget 2000 increased its emphasis on tax relief, and became the first budget in which the majority of fiscal initiatives were weighted on the side of tax measures rather than spending measures. It introduced a broad set of tax cuts, including improved supports to the Canada Child Tax Benefit, totaling $58 billion over five years, almost half of which was carried out in the first three years. A significant part of this five-year plan was the long overdue full indexation of the personal income tax system. The rate of taxation of both personal and corporate income taxes was dropped in each bracket, the most dramatic being to the rate of corporate income tax, which was scheduled to fall from 28% to 21%.

Just a month before a federal election, the October 2000 Economic Statement and Fiscal Update set out an accelerated plan to meet these targets. It added some new tax credits for the disabled and their caregivers, and a small increase to the Canada Child Tax Benefit. More importantly, and fiscally costly, it set out a clear and rapid timetable of deep cuts to corporate income taxes, further cut rates in each personal income tax bracket, and lighter taxes on capital gains. The total resulted in an anticipated $100.5 billion in tax cuts over the next five years.

[18] *The Budget Plan 1999*, pp. 141 and 186.

Budget 2001 was focused on dealing with the fallout from the events of 9/11, and there was no budget in 2002.

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.

According to Canada Customs and Revenue Agency statistics for the 2002 taxation year, 8.1% of Canada's almost 23 million tax filers had a total income of more than $70,000. Thus only the richest 8% or less of tax filers stood to gain anything from this measure.

By the year 2006 the limits will be $18,000, affecting only those earning more than $86,000 a year (accounting for about 5% of all taxfilers). The threshold keeps moving up by indexation thereafter.

The cost to the public purse of deferring revenues in this way was just over $7 billion in 2002, the last year for which we have completed data from the Department of Finance (Tax Expenditures and Evaluations, 2003). Projections for 2003 show that the changes will cost $545 million more that year, a tax expenditure that goes to, at best, 8% of tax filers.

By 2006 the program will cost $8.6 billion in deferred taxes. That's a tax expenditure of $1.6 billion more a year when the threshold increases are phased in, going to a very small proportion of the tax paying public, less than a million individuals who are already the most advantaged in society. That can and should be compared to the 2 million families sharing another $500 million in CCTB improvements from Budget 2000.

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 2004-05 and $695 million in 2005-06. 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 who 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.

[19] Provided by the Department of Finance Canada, unpublished data.

It should be noted that whereas Budget 2003 carefully laid out the cost implications of both spending and revenue initiatives between 1997 and 2004-05, Budget 2004 chose only to provide information about the costs of spending initiatives beyond 2004-05. The single exception is tax relief provided to cities, presented 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 agenda grows every year, as the economy grows and the five-year commitments made in 2000 continue to roll out. New measures add to these costs.

Simply including the implications of the two tax reduction measures in Budget 2003 noted above, and carrying them though to the fiscal year 2005-06, adds about $3 billion to the tally. But we have no official numbers estimating the value of the five-year plan in the 6th year.

This reports simply replicates the estimate of what has been spent on tax relief and tax expenditures in the surplus era as expressed in Budget 2003, though it understates the costs by excluding the most recent initiatives and fails to forecast the costs of extending the "five-year plan" beyond the initial five years.[20]

Table A1.9 in Budget 2003 shows the cumulative impact of all the revenue (tax) measures undertaken by the federal government between the 1997 Budget and the 2003 Budget. **To date in the surplus era, there have been $152 billion spent on tax reductions and tax-related benefits.**

Slightly more than $14 billion of this is due to increased income supports through the Canada Child Tax Benefit, which is counted as a tax measure in the government's own accounts. A further $7.3 billion is attributed to tax incentives under the Canada Opportunities Strategy (discussed later in the document). Almost $29 billion was due to the cumulative effect of recurring cuts to EI premiums over this period.

Compared to the tax structure in 1996, the new tax regime implemented in the surplus era resulted in foregone revenues of about $42 billion in 2004-05 alone. Of that amount, the Canada Child Tax Benefit – a refundable tax credit – only accounted for about $4 billion of the new revenue measures.

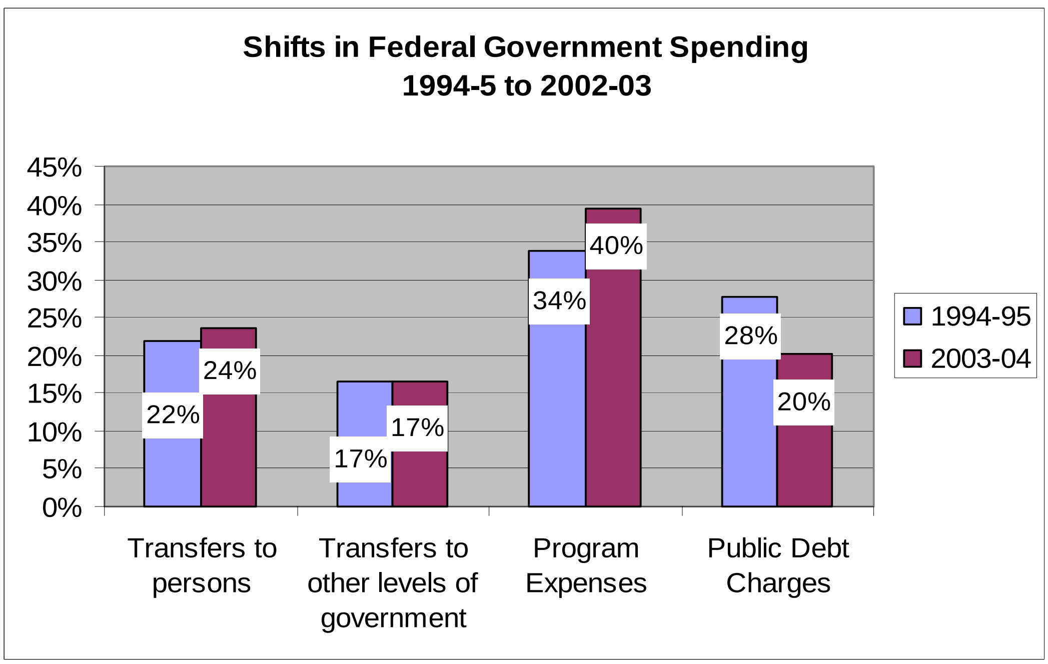
[20] *The Budget Plan 2003*, Table A1.9, p. 238.

Federal spending in the surplus era

As mentioned before, the federal government spends its budget on four areas: It provides income supports to individuals (transfers to persons, i.e. the elderly and the unemployed); it supports the provinces and territories in their provision of basic social programs and services (transfers to other levels of government, through equalization and the CHST); it spends directly through line departments (program expenses); and it pays interest on borrowed money (public debt charges).

After an intense period of restructuring the focus and purpose of government, the federal government had actually reduced spending on debt charges. Reducing these payments is the result of three factors: Running surplus budgets rather than piling on to the debt; funneling large surpluses into debt paydown; and lower interest rates in the economy (in some measure a result of the first two actions of the federal government).

The amount paid in debt charges has fallen, from $44 billion a year in 1994-95 to $35.8 billion a year in 2003-04. But this is a small fraction of what government spends. Total federal expenditures run at $177 billion a year, including debt charges.

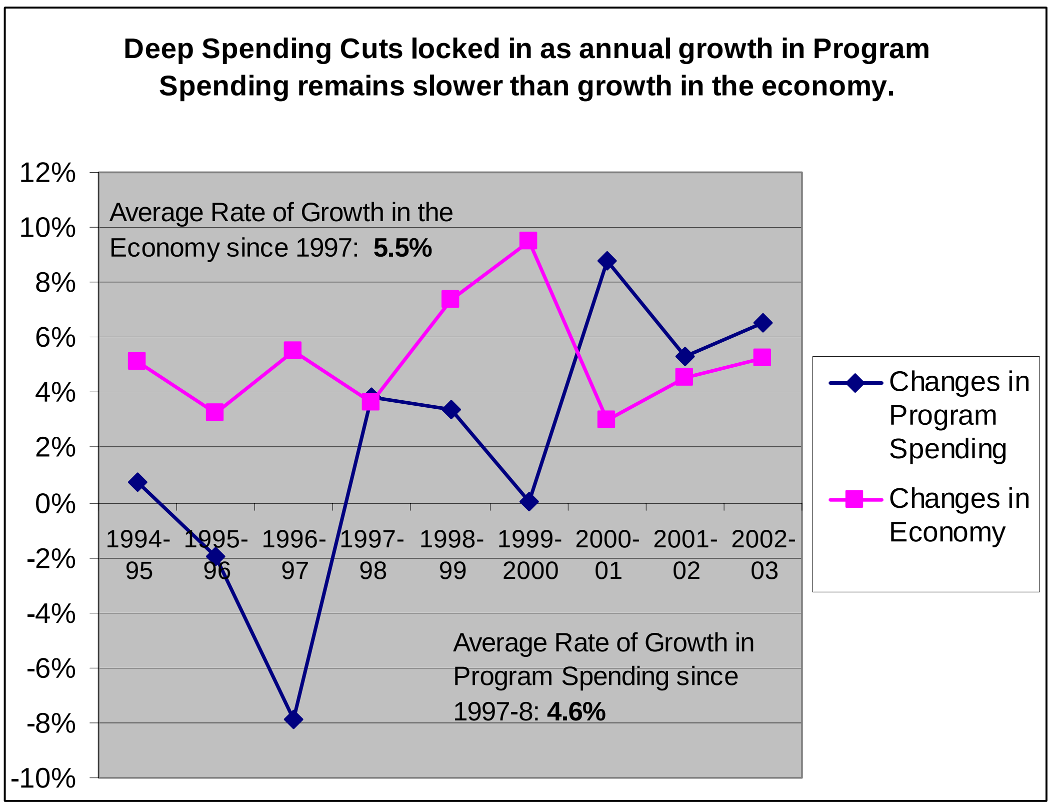


Source: Public Accounts

Recalibrating what the Government of Canada spends its budget on, with a determined focus on reducing debt charges, harkens back to the promises made in Budget 1995 to reduce the size of government and keep it permanently smaller.

A permanently smaller government has been accomplished, even though program spending keeps rising. The deep program spending cuts of the mid-1990s radically scaled back the size of the federal government's spending relative to the size of the economy. As mentioned, program spending fell from 16% to 12% of GDP in three short years, between 1994-95 and 1997-98.

Since 1997-98 total spending on federal programs (departmental and transfers) has grown, some years more quickly than others. But until very recently, the rate of growth in program spending fell short of the rate of economic growth. That discrepancy locked in the commitment to smaller government outlined in the 1995 budget.



Source: Public Accounts and, Statistics Canada, National Accounts, Catalogue No. 13-001 PPB

Federal program spending as a share of the economy was dramatically scaled back to levels that were last seen over half a century ago, then *held constant*, by design. Budget documents project that federal program spending will not rise above 11.7% of the economy for the foreseeable future.

The reason is that though federal spending is again rising, its growth has tended to be at a slower rate than the economy.

This leads to the observation that government spending can expand, by billions of dollars a year, without abandoning the central commitment to small government.

So long as growth in federal expenditures remains at or less than the growth in the economy (roughly 5% a year over the long run), the scale of the federal government could remain at less than 12% of the economy.

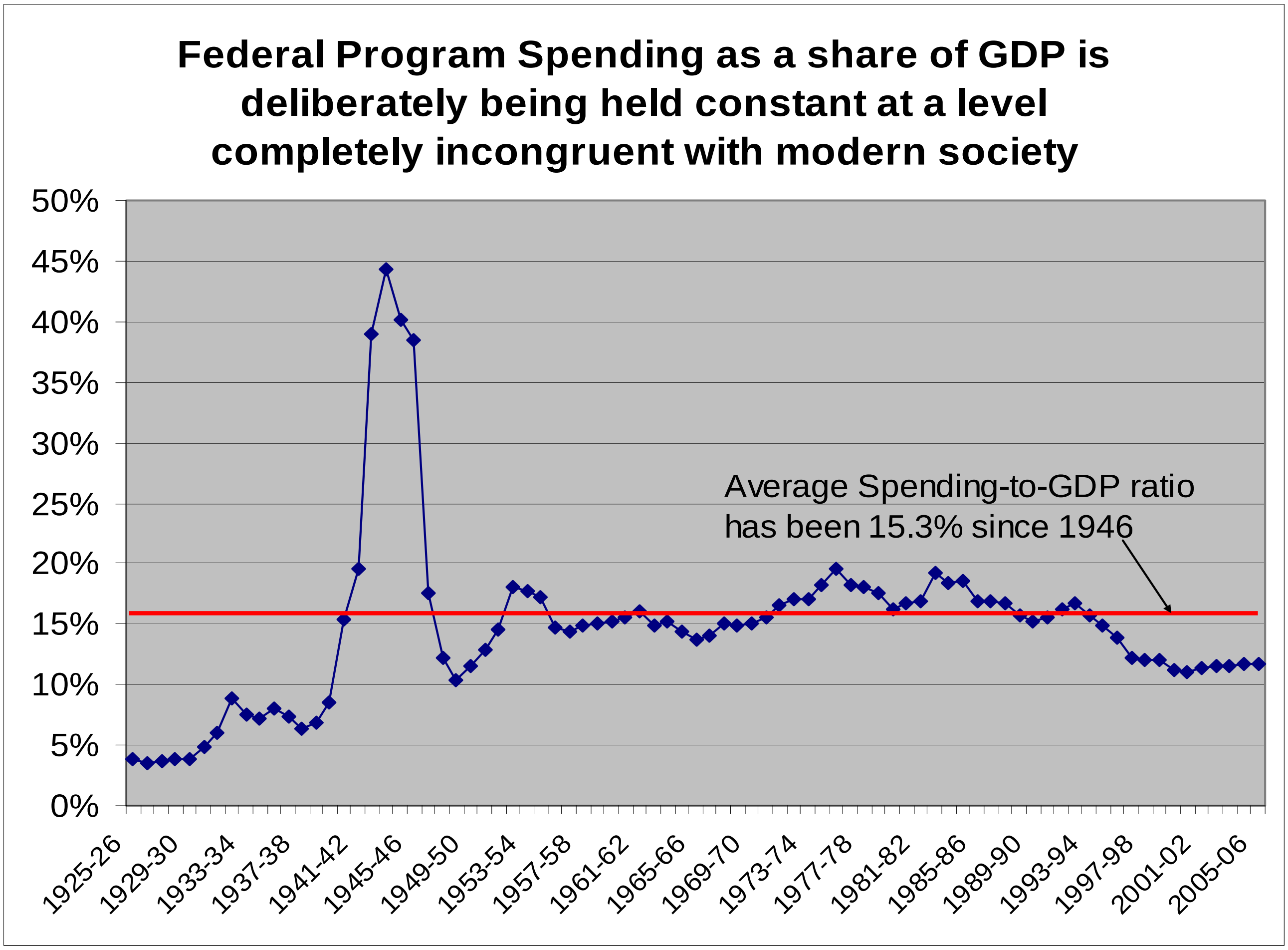
This raises two important questions.

First, is 5% a year growth in overall spending enough to address the needs of modern Canadian society?

This year alone such a rate of growth would imply almost $8 billion in new spending next year, and this amount simply escalates over time. Does such a rate of expansion provide sufficient funds to make meaningful progress on the commitments to advance women's equality, while simultaneously pursuing other commitments, such as a sustainable environment, economic development and reduction of global conflict?

Second, has the government been "right-sized", or is the scale of the federal government now simply too small to meet its domestic and global obligations in the 21st century?

The chart on the following page shows just how unusual the scale of federal government involvement is in the context of the past 50 years.



Sources: Data from 1925-6 to 1960-61 from an unpublished Historical Series file from the Department of Finance Canada; Data from 1960-61 to 2003-04 from Fiscal Reference Tables 2004, Table 2; Data for 2004-05 and 2005-06 (forecast spending levels) from Budget 2004, page 73.

The first priority of the Government of Canada starting in Budget 1995 was to "rightsize" the scale of government. Apparently the "right" size is something short of 12% of the economy, a scale of government provision that appears incongruous with the post-war standard on what it costs to run a modern society.

The "size 12" outfit is the new uniform, the product of an extreme make-over. Every subsequent theme and nuance of how the Government of Canada chose to use surplus leftovers after tax cuts and debt reductions fits into that story.

The idea of small government may be antithetical to women's interests in the long run. Women need the systems governments put into place to protect them from violence and injustice, and address needs and market failures that the private sector, on its own, cannot handle.

No market process can create the overriding rules that ensure quality and accountability in the purchase of public/common goods, for example in education, health care and child care. No private sector institution is mandated to provide basic economic security for *all* citizens, through income supports such as unemployment insurance, or social assistance, or subsidies for housing. No business or group of businesses could undertake the investments required to build public infrastructure for the benefit of all users. And no enterprise has as its mandate that of assuring citizen input into the decision-making processes of government, or safe-guarding an accessible system of courts and law.

How much should the federal government put into meeting these objectives? That question of degree is the fulcrum on which the political process tips back and forth.

But one clear theme is emerging: An overarching commitment to a particular scale of government in relation to the economy – whether that scale is at historically low rates, average rates, or unusually high rates – is an absurdly reductionist compass setting for federal policy.

We revisit the three remaining areas of how the federal government spends – through transfers to the provinces, transfers to individuals and direct departmental spending. In these sections the focus is on what was enhanced in these spending areas thus far during the surplus era.

Transfers to provinces – Renewing the CHST in the Surplus Era

As mentioned, the provinces receive fiscal supports (both cash transfers and tax "points") from the federal government under two main thrusts: equalization payments and funds supporting specific social programs (health, post-secondary education, and social supports).

Equalization was neither a transfer that was attacked during the deficit era, nor a program that has seen gains in the surplus era.

The equalization formula has not essentially changed over the last decade, and transfers, while varying every year based on economic circumstances, have averaged about $8.8 billion over the last decade. For more than a decade, equalization transfers have been outside the federal political frame of interest, though it is again coming on the intergovernmental agenda, prompted by the latest round of health care talks.

The main issue on the transfers file has been cuts to the provinces in the form of cash payments for support of social programs, through the new Canada Health and Social Transfer (CHST).

As noted above, Public Accounts show these cuts took out a cumulative $8.3 billion from cash supports to the provinces by 1997-98, in comparison with the previous (1994-95) levels of cash transfers from the federal government for the same programs.

There is virtually no discrepancy between Public Accounts and budget documents as to how much will be transferred to the provinces in cash for social programs. Public Accounts show that in the period 1997-98 to 2003-04, **a cumulative $34.1 billion was added to these cash transfers**, and there is far more to come.

Without doubt, health care has been centre stage as the one show-case beneficiary of the surplus era within the context of increased funding to other levels of government. But both the focus on health care and the amounts of money sent in its direction have been misleading.

The new "health care" funds have mostly flowed through the CHST thus far, and other initiatives, such as early childhood education and development also see their funding come through the block fund to the provinces.

Bearing in mind, then, that both health care and early childhood development agendas are financed by this fiscal mechanism, this section looks at what happened to the CHST in the surplus era.

Cash Transfers to the Provinces for Health and Social Programs (CHST)

in billions of dollars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Amount of Cash Transferred	17.442	16.671	14.911	12.421	16.018	14.891	14.500	17.300	21.100	22.341
Cumulative Reduction in Cash Amounts Transferred Relative to 1994-5 Level: $ **8.32 B**		-0.771	-2.531	-5.021						
Cumulative Increase in Cash Amounts Transferred Relative to 1997-8 Level **$34.12 B**					3.597	4.97	2.079	4.879	8.679	9.920

Sources: Years 1996-7 on, Public Accounts of Canada 2004, Vol. 1 Years 1994-5 and 1995-6, Public Accounts of Canada 2003, Vol. 2, p.1.3 (summation of Insurance and Medical Care, Canada Assistance Plan, and Education Support)

The cuts to CHST funding became the showcase for why the agenda of permanently smaller government is unsustainable. There are two main reasons for this.

First, the sheer size of the cuts in the deficit era amounted to offloading billions of dollars of responsibility to the provinces. Those cuts were difficult to absorb without raising taxes, which was anathema to most provincial governments. Health care is one of the biggest line items in provincial budgets, and the most politically sensitive program to cut. So the response to squeezed budgets was to cut other programming covered under the CHST.

Second, there was no cash floor built into the original formulation of the new transfer, the CHST. That meant cash amounts of support would literally run out in a few short years, leaving federal support to be solely in the area of transfer of tax points. This raised the troubling possibility of "no cash, no clout": The federal government would have significantly reduced ability to enforce roughly equivalent access to roughly equivalent levels of service across the country, accelerating the potential towards greater balkanization of social welfare provisions in Canada.

The political pressure cooker was set to a boil. Within months of Budget 1995, the federal government had amended the CHST proposal to include a cash floor.

Budget 1996 laid out a continued roll out of cuts, but nailed down the floor below which funding would not be cut.

Budget 1997 acknowledged that cash transfers to the provinces for the purposes of social programs would never be allowed to drop below $11 billion…."over the period of current legislated arrangements".[21] This reinforced the continuing nature of the "arrangements" as unstable, and potentially unpredictable. It was hardly the language of commitment.

Budget 1998 introduced the first multi-year deal to restore cash funding for social programs: A $4.1 billion, four-year deal, raising the cash floor of the CHST in future and including $200 million for the previous year in surplus funds. The deal was unilaterally offered by the federal government and was the first small attempt to stabilize the system. Both the increase in the base transfer and the supplement were unconditional. The terms of the arrangement were such that funding was indeterminate beyond the 4-year horizon.

Budget 1999 introduced the template for future deal-making: A five-year plan to increase the base (worth $8 billion), with a one-time supplement (worth $3.5 billion). It folded in the money announced the previous year as a multi-year transfer. The plan was again a unilateral federal initiative, and though it flowed through the CHST it was the first to be called a "health care deal". Again, there were no conditions placed on how this money would be spent, and again the arrangements were silent on what would happen after the five years were up.

By September 2000, on the eve of a federal election, there was a new five-year plan to "save health care", now openly negotiated between the federal and provincial governments. It was worth $21.1 billion, and included a new specific aim to expand early child development programs, for which $2.2 billion was set aside within the $21.1 billion purse. Another $2.5 billion of this purse was an unallocated one-time CHST supplement. Over and above the CHST purse were additional earmarked one-time funds: one for medical and diagnostic equipment ($1 billion), another for the development of health informatics ($500 million), and a third to "speed up"

[21] *The Budget Plan 1997*, p. 50.

reforms in primary care ($800 million). In total, the five-year plan, including these one time supplements, was $23.4 billion. Though there were now targeted funds for specific purposes, most were only loosely conditional, leading to questionable uses of the money. The considerable challenges of trying to identify how the new funds "bought" change raised concerns about inadequate transparency and accountability. The language around public health care grew more politically charged. Rising expenditures on public health care were increasingly characterized by the provinces as "unsustainable".

In the wake of the Romanow Report, Budget 2003 put forward yet another five-year plan touted to really save health care. It had been negotiated prior to the budget with the provinces, but there had been no provincial/territorial acceptance or agreement on the deal. The federal government put forward $34.8 billion over five years, and again this plan included previous commitments. Again there were base amounts transferred through the CHST, covering more than just health care. But this time more than half the five-year deal flowed through one-time pots of money, some targeted to particular purposes, some not. The deal featured, again, a one-time CHST supplement worth $2.5 billion with a promise of a further supplement of $2 billion the next year if federal finances permitted. The earmarked funds were one-time allocations, financed through surplus funds sitting in trust funds with no true follow-through regarding how or when the money would flow. Money was again made available for the purchase of diagnostic and medical equipment ($1.5 billion) and for the development of a health informatics systems ($600 million). But the biggest single pot was the Health Reform Fund, a 5-year budgetary allocation, providing $16 billion over five years to move toward improvements in catastrophic drug coverage, home care, and primary care reform. Again, though the rough objectives were getting more explicit, the disbursement of funds was so loosely conditional as to have no effect. While base funding was increased for the CHST, more than half the total would disappear in five years or less, since these were one-off targeted pots of money. Transparency and accountability remained sore points in the deal, but so did sustainability, since there were no commitments for funding beyond the five-year framework.

Essentially, between 1998 and 2003 there were 4 five-year plans. Only one of them could be characterized as endorsed by the provinces. Each "deal" promised to sustain the social program that Canadians most support and rely on, health care.

In that same period, though more resources flowed, public health care was deemed increasingly in peril, and funding for other social programs and priorities were getting crowded out.

Over the summer of 2004 the federal government again tried to meet the increased pressure of the provinces to resolve the problems facing health care. By September 2004, the federal government announced, with the endorsement of the provinces, a 10-year plan to "save medicare for a generation". It was worth $41.3 billion, and was instantly remarkable for two features. It re-introduced the concept of an escalator formula, to assure stable and predictable future increases in cash funding for health care (but not all social programs). And, even though the health care money was virtually unconditional, there was a separate deal for Quebec.

Throughout the entire period, from cuts to reinvestments, the decentralization of social programming was reinforced, first by taking away critical resources, then by re-introducing resources for programmes without attaching "strings", or conditionality, to funds received by the provinces. This has weakened the understanding that federal money is a tool to attain national standards or move towards national objectives for service provision.[22]

The lack of transparency regarding how new investments are being used has frustrated every casual and academic observer of this massive infusion of funds. The lived experience is that supports for home care and long-term care are still lacking. There seems to be little improvement in timely access to acute care and primary care and public confidence in the system is eroding.

Transparency, accountability, conditionality, confidence: All were lost in the process of taking away money and only to try undoing the damage years later.

While the federal government was forced to acknowledge the unsustainability of the scale of federal cuts and forced to restore federal funding levels, something far deeper had been transformed in the process of fiscal adjustment.

In the end Canadians lost the federal budgetary mechanisms that enable the federal government to play a leadership role in ensuring universal access to fundamental social programs from coast to coast to coast.

[22] It bears noting here that a different form of conditionality has emerged at the federal level. Just as new federal resources have been allocated for targeted program purposes, some forms of spending have been introduced as income supports for specifically targeted groups. Only individuals who meet certain eligibility criteria (for example, in accessing the Millennium Scholarship Fund, the National Child Tax Benefit program, or the expanded parental benefits under Employment Insurance) benefit.

Targeting has become a potent form of conditionality, screening out the beneficiaries at the front end, rather than examining whether federal resources are contributing to the provision of roughly equivalent access and outcomes in public goods across the country.

The little sister to health care: Early Childhood Education and Development Initiative

The September 2000 federal-provincial-territorial agreement that focused on health care also ushered in an important initiative called the Early Childhood Development Agreement, worth $2.2 billion over five years. It was the centerpiece of a newly announced National Children's Agenda, with funding designed to expand the capacity of governments, voluntary organizations, and communities to provide family and child services and supports.

The new resources flowed through the CHST over a five-year period. Provinces and territories were able to access the money to fund initiatives within the following four broadly based objectives:

- Promoting health pregnancy, birth and infancy;
- Improving parenting and family supports;
- Strengthening early childhood development, learning and care;
- Strengthening community supports.

In March 2003, the federal government, provinces and territories deepened their commitment to the National Children's Agenda by signing on to another initiative: the Multilateral Framework on Early Learning and Child Care. The federal government would provide $900 million in funding over five years through the CHST and, after April 2004, the Canada Social Transfer (CST). The new funds were to flow to provincial programs that targeted improved access to affordable, quality, regulated early learning and child care programs.

This should have been a boon for families with young children, especially the poorest. It was not.

Given the large number of children aged 12 or less who have mothers in the paid labour force – 3,308,700 in 2003 – the need for expanded community supports for women and families raising children is great.[23]

In the report *Early Childhood Education and Care in Canada 2001*, the authors show only 12.1% of children under the age of 12 had access to regulated child care spaces in Canada in 2001. In some provinces, such as Saskatchewan, only 4.2% of children had access to regulated child care.[24]

While regulated child care spaces grew from 371,573 spaces to 593,430 between 1992 and 2001, 70% of that growth was due to the expansion of the Province of Quebec's envied universally accessible $5 a day regulated child care program. [25]

[23] www.childcarecanada.org/ECEC2001/tables_big/TABLE5.pdf
[24] www.childcarecanada.org/pubs/pdf/ECEC2001.sum.pdf
[25] Ibid.

Supply could not keep up with demand. During that same period, 1992 to 2001, the share of mothers with young children, aged 3-5, and working in the paid labour force grew from 68% to 73.4%. [26]

At the same time, the number of parents who found themselves eligible for regulated child care subsidies dropped between 1992 and 2001.[27] Affordability of child care was becoming a major problem for the working parents of young children.

Historically, social programs such as child care have been coordinated by the provinces and municipalities, many of whom cut back funding in the 1990s. So the presence of federal leadership on the children's agenda was welcome.

But child care advocates have been fighting since 2000 for the federal and provincial governments to put the "care" back into the ECD initiatives – to support women in their efforts to secure economic independence while fulfilling their caring responsibilities.

The following table shows how much ECDI funding actually went into regulated child care in 2000-2001.

[26] Ibid.
[27] Ibid..

Table 14
Early Childhood Development Initiative funds spent on regulated child care by province/territory, 2000-2001 (rounded)

Province/Territory	Total ECDI allocation ($ millions)	Expenditure on regulated child care ($ millions)[1]	Percent of ECDI funds spent on regulated child care (%)
Newfoundland & Labrador	5.2	2.0	38.5
Prince Edward Island	1.3	0.5[2]	38.5
Nova Scotia	9.1	6.0	65.9
New Brunswick	7.3	4.4	60.3
Québec[3]	71.6	not applicable	not applicable
Ontario	114.1	0	0
Manitoba	11.1	4.7	42.3
Saskatchewan	10.0	1.0	10.0
Alberta	29.7	not specified[4]	—
British Columbia	39.9	not specified	—
Northwest Territories	0.4	not specified	—
Nunavut	0.3	0	0
Yukon Territory	0.3	0[5]	0
Canada	$300.3	$18.6	8 % (est.)[6]

Source: www.childcarecanada.org/ECEC2001/tables_big/TABLE14.pdf

As the chart indicates, only eight percent of the money targeted for early child development went to provide regulated child care in 2000-2001. The provinces and territories dedicated $18.6 million to this initiative – a drop in the bucket compared to the need for regulated affordable child care in Canada.

Many provinces, such as Ontario, did not spend a single penny of the ECDI funds to expand regulated child care capacity for parents. Instead the province used ECDI to fund school milk programs, which was equivalently supported by the new federal funding.

These highly varied uses of ECDI funding represent a significant disconnect in federal policy thrusts.

On the one hand, the federal government has improved supports for families caring for their infants in the first year of their lives, through updated EI initiatives to expand maternity and parental leave benefits.

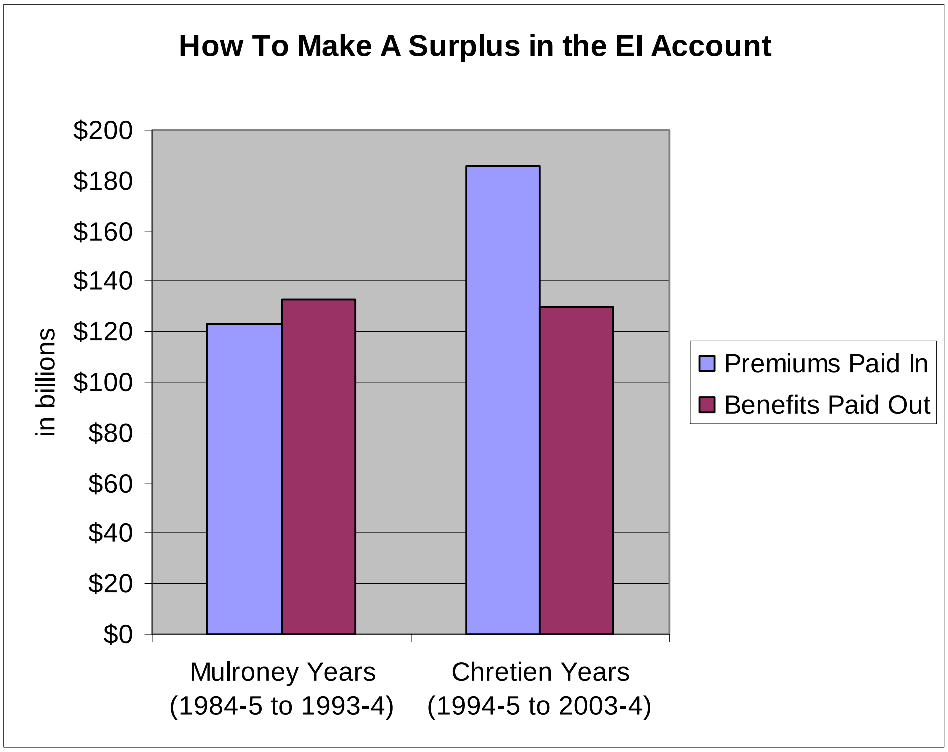
On the other hand, there is no seeming ability to coordinate an approach that ensures those same children get the best start with universally accessible, quality early childhood learning and care irrespective of where they live, when it counts the most – in the early years.

Transfers to individuals – parental benefits are enhanced in EI… and that's the end of the improvements

It has already been noted that elderly benefits barely changed during the deficit era. Indeed, between 1994-5 and 1997-8, the outlays for these benefits rose by about 8%, and would rise by a total of 33% by 2003-4, to $27 billion.

Instead, the focus was on trimming unemployment insurance benefits. Radical transformation of the rules governing access to unemployment benefits was accompanied by the ironic renaming of the fund to Employment Insurance. With tougher rules of access and a light hand on premium changes would come unprecedented surpluses in the fund.

Looking back over the past two decades, the story of how the massive surplus in the EI account was created was simple: Increase the premiums collected and decrease the payouts. The chart on the following page shows what happened.



In the surplus era, the federal government created an unemployment insurance premium structure that far exceeded the revenues needed to cover benefits paid to the unemployed. For years, the resultant EI surpluses would be used to help balance the Government of Canada's ledgers.

After years of running a surplus in the EI account, benefits were finally enhanced in 2000, but only through one initiative: The doubling of leave under maternal/paternity benefits, to one year.

In December 2000, the federal government increased the parental leave provisions under EI benefits, expanding it from 10 to 35 weeks. In combination with the existing benefits available under maternity leave, parents could now take a total of six months to almost one year (50 weeks) of paid leave to care for newly born and newly adopted children.
The reforms of 2000 also lowered the eligibility threshold, from 700 hours to 600 – a significant change for many of those living in rural areas in Atlantic Canada. Implementation of these measures was anticipated to cost an additional $900 million a year.

As expected, take-up of benefits increased, and files from the EI account show that the budgetary projections were accurate regarding the expected increased draw on the fund for the expanded parental benefits.

These new expenditures for parental benefits were the only way the EI surplus was used to improve income supports.

Public Accounts shows that benefits paid out went up by an accumulated $3.6 billion since 1997-8, but some of that can be attributed to the fact that the economy weakened, so more benefits were paid out in general.

Statistics Canada accounts show that about $3 billion in additional parental benefits has been paid, cumulatively, in the first three years since the 2000 reforms to Employment Insurance were introduced.[28]

Statistics Canada reports women now take longer maternity leaves, up from six months in 2000 to 10 months in 2001. Still, one-quarter of employed mothers returned to work within eight months.[29]

More women are eligible too. While these measures do not cover women who are self-employed, women who work too few hours, or women who do not have paid employment, the proportion of all new mothers who received maternity or parental benefits increased from 54% in 2000 to 61% in 2001.

Of the 39% of mothers in 2001 who did not receive birth-related benefits, 23% were not in the paid labour force, 12% were ineligible or did not apply for benefits, and 5% were self-employed. [30]

The following table from Statistics Canada shows the number of new parents/mothers who benefit from these improvements continues to rise. By 2003 approximately 65% of all new mothers in Canada had enough work in the previous period to make them eligible to receive income supports while caring for a new child. [31]

[28] Statistics Canada, CANSIM V384158 - Table 276-0005
[29] Statistics Canada, The Daily, March 21, 2003, http://www.statcan.ca/Daily/English/030321/d030321b.htm
[30] Ibid.
[31] Statistics Canada, the Daily, June 22, 2004, http://www.statcan.ca/Daily/English/040622/d040622c.htm

Eligibility of mothers for maternity and parental benefits and duration of leave		
	2002	**2003**
Mothers with child aged 12 months or less	329,000	332,000
As a proportion of total		
With insurable employment (%)	**74.4**	**75.0**
Received maternity or parental benefits (%)	63.3	64.8
Did not claim or receive maternity or parental benefits (%)	11.1	10.2
Without insurable employment (%)	**25.6**	**25.0**
Not worked in two years or more (%)	14.2	16.1
Other (includes self-employed) (%)	11.5	9.0

Source: Statistics Canada, , The Daily, June 22, 2004.

It is telling that women who are not eligible for EI maternity leave benefits return to work much more quickly – within four months.

Lower income women who have been in receipt of these supports are also likely to return to work more quickly, not surprising given EI benefits under maternity/paternity leave only replace 55% of earned incomes in the eligibility period. Statistics Canada documents those returning within four months had median earnings of $16,000, compared with $28,000 for those returning between 9 and 12 months. [32]

It should be recalled here that the replacement rate of income under unemployment insurance benefits was 67% in 1971, 60% in 1980, 57% in 1993, and 55% in 2004.

So while the *length* of coverage expanded for a select group, the real coverage in dollar terms is significantly lower than rates of 40 years ago. Replacement rates for similar leaves in European countries are generally between 70% to 80%, for a minimum one-year duration.

While the reforms introduced in 2000 were important in the lives of many women and families, they failed to address three issues:

- The need for *all* new parents to have some form of income support as they begin their lives with infants/newly adopted children;
- The need to recognize the ongoing care-giving provided (primarily by women) for children of all ages, the disabled, the infirm and the elderly; and

[32] Statistics Canada, The Daily, March 21, 2003, http://www.statcan.ca/Daily/English/030321/d030321b.htm

- The need to redress the continued squeeze placed on the unemployed due to eligibility restrictions, reduced benefit levels, and shorter duration periods that flowed the from the reforms to unemployment insurance in the 1990s.

Women working in low-wage and part-time jobs continue to be hard hit by the reforms to unemployment insurance.

Almost one in six jobs (just over 17%) are part-time, and women represent 69% of all part-time workers in Canada.[33]

An OECD study notes that 34% of full-time women workers were in low paid jobs, second only to Japan, and exceeding the U.S. [34]

As shown in the analysis of the deficit era, the EI reforms of 1996 caused total benefits paid out to decrease with each year, a trend that would have continued had the economic slowdown following 9/11 not occurred.

Even in that context, women continue to represent a shrinking share of total regular EI claimants, down to 46% of the total by 2002-3, a reduction of 2.7% from the previous year.

The only reason that benefits paid to women increased by 13.7% (compared to only 1.5% for men) over the same period was due to the increases in maternity/parental benefits, and the fact that women make up the majority of those making parental leave claims.[35]

Increased payments to a select group of women, but decreased claims for support on the part of all working women: That is the story of enhancement reforms introduced in 2000, reforms that targeted new mothers/parents but forgot about the rest.

[33] Statistics Canada Catalogue no. 71F0004XCB
[34] *The OECD Employment Outlook 1996*, Table 3.2. Note: Neither this table nor the data in it have been updated since.
[35] Canadian Employment Insurance Commission, *Employment Insurance: 2003 Monitoring and Assessment Report*.

Federal departmental spending in the surplus era

Departmental spending was not decreased as deeply as originally conceived in Budget 1995, but over the years Program Review has become entrenched in how departmental spending is allocated. That means between $1 billion and, most recently $3 billion, of annual spending is targeted to be cut and re-allocated, from "low" priority to "high" priority areas.

Overall, however, the federal government *is* spending more through its departments, as well as through transfers to individuals and transfers to provinces.

Departmental spending has increased, cumulatively, by $42 billion since the surplus era began.

This figure includes the creation of trusts, foundations and funds from money that would otherwise have been deemed surplus at the end of the fiscal year. Surplus funds were thus used to provide one-time allocations for specific purposes. They appeared in annual records of program spending within public accounts in the year they were set aside. It is not possible to ascertain how they were actually spent through Public Accounts, as will be discussed further below.

Of the annually reported department lines, more than a quarter of renewed departmental spending, $11.3 billion, has flowed to enhancing the Department of Defence's budget. Even more money was allocated to a range of "security" issues in the post 9/11 budget, not all of which are spent by the Department of Defence.

There have been two other significant departmental initiatives in the surplus era. One concerns federal investments in infrastructure. The other concerns a policy thrust called the Canadian Opportunities Strategy.

Following the money with respect to Infrastructure investments is difficult because of the widespread use of surplus funds converted to trusts. In addition, there is no single departmental file under which infrastructure investments are tracked in public accounts.

Furthermore, there have been numerous re-allocations of money within departmental spending since the implementation of permanent Program Review.

This may partly explain how the total of only two "programs", Defence and the Canadian Opportunities Strategy, almost account for the total increase in Departmental spending. According to Budget documents, the Canadian Opportunities Strategy used a cumulative $28 billion in new spending during this same period, though this cannot be verified through Public Accounts in a straight-forward manner.

The narrative in this section focuses on spending trends on two files that have a profound impact on women's economic security and development: housing and the Canada Child Tax Benefit.[36] It finishes with an explanation of the two biggest initiatives in spending during the surplus era, the Canadian Opportunities Strategy and the Strategic Infrastructure Fund.

The reason for the focus on the Canadian Opportunities Strategy is that it is simply the biggest new spending initiative by the federal government during the surplus era.

The Canada Child Tax Benefit (CCTB) is, similarly, the biggest initiative the federal government has undertaken in terms of income supports, and is critical to an assessment of how women have been affected by federal budgets since 1995.

Housing has been included, not because it is a major budget item, but to the contrary, it is not. Yet affordable and accessible housing is a key issue for women in Canada, especially the most vulnerable, and is impossible to attain without public support.

Infrastructure has been included to tell the story of how money can be notionally allocated to vital public needs, and yet remain difficult to follow in the way it was spent.

The entire section is followed by a summary of the various ways in which public funds were used in the surplus era, comparing the relative weight of tax cuts and debt reduction to new spending, and within the category of new spending, the relative weight of increases in spending on the programs that can most specifically benefit women.

[36] Though Finance Canada categorizes the Canada Child Tax Benefit as a revenue initiative, presumably as a tax expenditure, Public Accounts categorizes it as an expense, i.e. program spending.

Affordable housing

In 1998 the mayors of Canada's biggest cities descended upon Ottawa to declare the state of affordable housing a National Disaster.

Years of cascading downloading, from federal to provincial to municipal treasuries, had compromised social supports. The lack of affordable housing became a crushing burden on low-income families and new immigrants (both international and inter-provincial). Getting and maintaining adequate shelter was becoming an increasingly precarious proposition for a rapidly growing number of households.

Communities had started losing federal supports for the national housing program in 1993. Though hotly contesting this move during its opposition days, the next federal government has done little to restore these supports.

Of the $1 billion promised over five years to increase Canada's stock of affordable housing, only $550 million had been allocated by federal Budgets to the end of 2003-04. Of that amount, there is only confirmation that $88 million was actually spent by the end of 2002-03.

The following outlines what initiatives the federal government undertook to making housing affordable for all citizens since 1993, when federal supports for social housing were targeted for elimination.

Budget 1996 confirmed supports for social housing would continue to be phased out, with the exception of funding social housing on Indian reserves[37]

Budget 1997 allocated $50 million to extend supports to the Residential Rehabilitation Assistance Program for one year, which provides home renovation supports for low-income Canadians and seniors, as well as upgrading transition shelters for victims of family violence.[38] Half of the $50 million was to be provided by internal reallocation of budgets in the Canada Mortgage and Housing Corporation, a department that provided almost 30% of all social program cuts in the continued program review reductions scheduled to take place in 1997-98 and 1998-99.

Budget 1998 focused on assistance to the Aboriginal community, creating a $126 million fund for basic services including housing, water and sewer systems, and supporting reforms in the provision of education, social and economic development programming. [39]

[37] *The Budget Plan 1996*, p. 43.
[38] *The Budget Plan 1997*, p. 81.
[39] *The Budget Plan 1998*, p. 161.

Budget 1999 was silent on the issue of housing, but by December 1999 the Government of Canada announced $753 million to help Canada's homeless. This amount included $268 million to extend the Residential Rehabilitation Assistance Program through the Canada Mortgage and Housing Corporation[40] and increased funding for existing programs that assist Aboriginal and at-risk youth in finding shelter.

Budget 2000 introduced an infrastructure strategy worth $2.65 billion over six years, starting at $100 million a year and ramping up to $550 million. It was put aside for repairs and construction for roads, bridges, wharves, housing and "green" infrastructure over a five-year period.[41] It cannot be verified how much of that money has started to flow, nor how much was allocated to housing.

Budget 2000 also reasserted the availability of $753 million over four years for assisting the homeless[42] and launched a new tax rebate program for new residential rental properties, with a value of about $45 million a year when fully implemented.

Budget 2001 "confirmed" a five-year $680 million capital grants program to help alleviate the shortage of affordable housing.[43] This was announced as a framework agreement with the provinces and territories, contingent on the conclusion of bilateral cost-sharing agreements. These agreements did not occur.

Budget 2003 "enhanced" these terms though the provinces had not yet endorsed them, and added another $320 million, bringing the total to $1 billion by 2007-08.[44] It also offered GST/HST rebates on taxes paid on social housing by municipalities and other public institutions.

Budget 2004 simply reconfirmed earlier promises for support, but the federal election platform of the winning party a few months later promised an additional $1.5 billion over the next three years for new social housing.

It has not been possible to track expenditures under these files through Public Accounts. The only public documentation available is a letter dated December 2003 obtained by a well-known housing advocate indicating that by the end of 2002-03 only $88 million was used for housing projects, in Quebec and B.C. It is possible that this occurred through the Infrastructure investments funds rather than money specifically allocated to increase affordable housing.

Though millions of dollars have been offered to address housing problems over the years, the repeated promises of funding over the years resulted only in $85 million

[40] *The Budget Plan 2000*, pp..70-71.
[41] Ibid. p. 121.
[42] Ibid. p. 145.
[43] *The Budget Plan 2001*, p. 126.
[44] *The Budget Plan 2003*, p. 15.

being allocated specifically for "affordable housing" in 2002-3 by the federal government in Budget 2001. Budget 2003 ratcheted that number down to $30 million for 2002-3 and $50 million for 2003-4.

To further confuse matters, Canada Mortgage and Housing Corporation notes in its 2003 Annual Report that the federal "commitment" to affordable housing projects had totaled $185 million over time, the equivalent of 10,000 units.[45] However the report did not specify that the units had been built, or that the federal money had actually flowed.

Indeed, in another CMHC report the stagnation of the rental market is documented, showing the net addition of only 2,000 units of housing in the period 1996 to 2001. This refers to the entire stock of rental housing, not just affordable rental housing.[46]

The central concern in the housing market is that rental units are being lost (to condos and similar conversions) faster than they are being built.

In the absence of Public Accounts lines that follow the money on this file, the actual amounts used are left to informal and incomplete methods of assessment.

Within the housing advocacy community, the lack of take-up of existing funds for social housing is explained by two reasons.

- In 2001, when the offer of cost-shared funds was made, the provinces were still 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.

It is unclear why the federal government does not use this stalemate to act, as it once did, to meet the pressing needs for housing by redeveloping a national strategy, funded and implemented unilaterally by the federal government.

If the federal government remains unwavering in its commitment to bilateral deals for affordable housing, the commitments to increase the availability of adequate shelter will ring hollow.

[45] Canada Mortgage and Housing Corporation 2003 Annual Report, *It All Begins With an Address*, p.19.
[46] Canada Mortgage and Housing Corporation, *Canadian Housing Observer*, 2004, p. 68 (Table 13).

Fiscalization of social programs

(includes the Canada Child Tax Benefit, the National Child Benefit Supplement, and Canada Opportunities Strategy)

Budget 1998 was noteworthy for the range of tax-related incentives and expenditures it brought in, as was noted above in the Revenue section of the surplus era analysis.

At the start of the surplus era, the federal government was faced with a critical choice: it could reinvest in the social programming that had been cut so deeply in the deficit era; or it could redirect resources to tax-based incentives and expenditures.

In an increasing number of cases, it chose the tax route.

A range of supports that were previously provided through public service or regulation were now available primarily as tax credits, tax deductions, or tax deferrals. Thus began the fiscalization of social policy in earnest.

Two program areas with the potential to enhance women's quality of life were significantly impacted by this decision.

In this section, we examine the federal government's treatment of income supports through tax measures known as the Canada Child Tax Benefit (CCTB) and its related National Child Benefit Supplement (NCBS).

We also examine a new and costly federal initiative called the Canada Opportunities Strategy – a series of budgetary initiatives that began as supports for individuals trying to improve their foothold in the job market but diverged into a set of supports for the research and development of new technologies, both in universities and through the business sector, and supports for the commercializing of that research.

The Canada Child Tax Benefit (CCTB) and National Child Benefit Supplement (NCBS)

The Canada Child Tax Benefit (CCTB) and the related National Child Benefit Supplement (NCBS) is an outgrowth of the Child Tax Benefit introduced in 1993. Launched in July 1998, it is a classic example of the fiscalization of social policy.

What was once a universal program of allowances – paid to all Canadian families equally per child in recognition of the costs of raising children – was transformed to a refundable tax credit, a system of providing income support that uses the tax system to determine who is and is not eligible for support, and to what degree of support.

Reinforcing the notion that this income support has been fiscalized, the Department of Finance now counts what used to be classed as an element of public spending as a "tax expenditure". Indeed, enhancements to the CCTB and the NCB supplements were a key feature of the 5-year $100 billion tax cut plan announced in 2000 and its stated emphasis on low income Canadians.

It is of note that Public Accounts still classify these income supports as expenses, part of program spending.

Budget documents show proposed improvements to the program almost every year, though in 1996 the enrichment to the Working Income Supplement was very small.

Budget 1998 heralded the transformation of the system and scheduled regular improvements. Budget 2001 and 2004 were silent on the issue. The single biggest improvement to supports under the CCTB and the NCB supplement was in Budget 2000. Budget 2003 included a new Child Disability Benefit (worth a maximum of $1,600 per year) as a supplement to the CCTB.

Cumulatively, budget documents report the federal government has increased initiatives under CCTB by $14.4 billion between 1999-2000 and 2004-5, which the Department of Finance counts as tax relief.[47]

Public Accounts show the cumulative increase in CCTB expenses, compared to 1997-8 levels, was $7.7 billion up to 2002-3.

The reason for this huge discrepancy has not been clarified.

Tax expenditures data show that the cumulative impact of changes cost $14.8 billion between 1998 and 2005, though the last 3 years are projections, not audited accounts.

[47] *The Budget Plan 2003*, Table A1.9, p.238.

The CCTB/NCB has been vaunted as an income-support programme that targets help most to low income families. But the National Welfare Council reported that, despite these claims, income supports for the *poorest* families in Canada – those on welfare – did not increase.[48]

The reason was that the federal government decided to allow provinces and territories to claw back the National Child Benefit Supplement (NCBS) from families receiving social assistance.

Under federal guidelines, the provinces and territories are permitted to reinvest the "savings" into child care and early childhood initiatives, supplementary health benefits and "other NCB initiatives".[49] This is known as the clawback.

In 1998, all but two provinces clawed back the NCBS from Canada's poorest families. Newfoundland and New Brunswick stood as exceptions. In 2001-02 Manitoba stopped clawing back the NCBS from families with children aged six and under. The province of Quebec has stated it agrees with the basic principles of the NCB, but it chose not to participate in the program at all.[50]

As a result of the clawback, many of Canada's poorest families do not benefit from this supplement. Indeed, they are worse off.

With stagnant levels of welfare in most provinces and territories throughout the late 1990s and the early part of the new century, the purchasing power of welfare rates has fallen, eroded by inflation, which has increased by 14% since 1998, when the new system was introduced. The CCTB and the NCBS did nothing to change this fact.

The federal government's own *National Child Benefit Progress Report: 2000* showed 44 percent of families who received the National Child Benefit Supplement (NCBS) did not receive the supplement – their provincial or territorial governments clawed the money back. Single parent families, the vast majority of which are headed by women, seemed hardest hit.

[48] National Council on Welfare, *2003 Welfare Report*, Ottawa: 2003.
[49] http://www.nationalchildbenefit.ca/ncb/progdesc.shtml
[50] http://www.nationalchildbenefit.ca/ncb/thenational1.shtml

Estimate of families keeping the full National Child Benefit Supplement (NCBS)

Family type	Total families receiving the NCBS July 1998 to June 1999	SUBTRACT	Total families receiving social assistance (March 1999)	EQUALS	Families keeping the full supplement	
					Number	Per cent
Single-parent families	801 898	-	347,700	=	454,198	57%
Two-parent families	576,395	-	121,600	=	454,795	79%
All families	1,378,293	-	469,300	=	908,993	66%

Note: The number of families receiving social assistance was not available by province so we are unable to account for New Brunswick and Newfoundland not clawing back the supplement. Given the relatively small population of the two provinces, it is likely that this omission underestimates families receiving the full supplement by only a few percentage points.

While the federal government maintains its system simply allows provinces and territories the flexibility to use the NCB supplement "reinvestment" option to fund locally needed programs and benefits, it has been widely noted that provinces use the option as a cost recovery mechanism, either to keep welfare rates at bay or to fund other programs.

The federally-provided supplement has increased over time, but that money has in most cases been clawed back while welfare rates remained stagnant. The National Welfare Council has called this a "back-door way of transferring money from the federal government to the provinces and territories to help defray the costs of welfare".[51]

The Canadian Opportunities Strategy

Budget 1998 formally set out the Canadian Opportunities Strategy – "a co-ordinated set of measures building on the thrust of the last budget, designed to create opportunity by expanding access to lifelong learning" .[52]

[51] National Council on Welfare, *op. cit*., p. 33.
[52] *Budget Speech 1998.*

This file has been used as the tool to put forward the "innovations agenda", the single biggest new initiative in Departmental spending in the surplus era. The strategy is a wide-ranging list of initiatives that grows and mutates with each new budget.

Budget 2003 estimates that, since Budget 1998, $28.4 billion has been spent thus far in cash on the Canadian Opportunities Strategy, and a further $7.3 billion has been spent through tax expenditures and incentives.[53] It is not possible to verify these amounts through Public Accounts or through the most current volume of Tax Expenditures and Evaluations (2003).

The strategy began, in 1998, as a commitment to supporting individual advancement in the marketplace, through access to post-secondary or vocational education, or through job readiness training. Over the years, the strategy has drifted towards a more industrial purpose.

The Opportunities Strategy supports three main areas through either direct spending or, increasingly, through tax initiatives: education and training for individuals; research and innovation (including building IT infrastructure); and commercialization of research (including provision of venture capital).

It is not possible to track both the spending and tax initiatives in this file through publicly available data. There are a great many initiatives, some with similar names promoting different ends, or different names promoting the same ends.

The same table from Budget 2003 referenced in footnote 53 indicates that, in 2004-5 alone, more than $2 billion in tax incentives flowed for the full set of Canadian Opportunities Strategy initiatives, while just under $5 billion was directly funded. According to this table, every year the tax incentives increase substantially, while spending varies significantly from year to year. Again, it is not possible to verify these amounts through Public Accounts in this manner, though the Tax Expenditures and Evaluation publication indicates that these incentives are indeed rising with each passing year, some more quickly than others.

A first attempt to assess the relative weight of the different initiatives within the Canadian Opportunities Strategy has been made by tallying spending announcements made in various budgets.

While not a fool-proof method, these preliminary calculations show that $5.3 billion has been allocated through budgets since 1998 to promote training, post-secondary education, and some limited assistance to vulnerable populations in assisting them to enter or re-enter the job market. Another $4.8 billion has been allocated through budgets for various tax credits and shelters since 1998, including the $2.5 billion

[53] *The Budget Plan 2003*, Table A1.9, p. 238.

which has been put aside for Education Savings Grants over time, and which is only available to those who put money into an RESP (Registered Education Savings Plan).

Tax Expenditures and Evaluations show that, since 1998, approximately $2.5 billion in new tax incentives have been "spent" on education-related tax measures. It is not possible to assess the costs of the tax incentives to businesses for research and development, innovation, commercialization, and IT infrastructure. However, in total, tax expenditures on Scientific Research and Experimental Development Tax Credit increased by a cumulative $1.6 billion since 1998.

This first set of measures under the Canadian Opportunities Strategy was dedicated to the enhancement of individual's access to education or training that could prepare them for the job market.

The vast majority of the cash funding under this "learning" rubric has taken the form of cash supports for students: approximately $4 billion in student loans, grants and scholarships has been allocated since 1998. Of this amount the single biggest item was the announcement of the Millennium Scholarship Foundation, a 10 year $2.5 billion endowment. (See discussion below.)

Another table in Budget 2003 shows that about $11 billion has been spent on various research and innovation initiatives during the surplus era.[54]

The most recent thrust within the Opportunities Strategy has to been to help commercialize this knowledge, and at least $1.7 billion more has been allocated through budgets to this end.

Again the exercise of "following the money" from budget announcements to actual spending is hampered by changed program names and inconsistent references in different budgets.

It has not been possible to either substantiate or refute Budget 2003's claim that $28 billion was spent on the Opportunities Strategy in direct funding and a further $7.3 billion in tax measures.

However, based on a review of budget documents, the following three initiatives have received the following supports in new resources, through direct and tax-related spending, since 1998: learning accounted for about $10 billion in new resources; research and development accounted for about $11 billion; and the commercialization of knowledge accounting for about $2 billion.

Since this review left large sums unaccounted for, relative to the statements in Budget 2003, it is not clear if these amounts reflect accurately the relative weight

[54] *The Budget Plan 2003*, Table 5.1, p. 124.

put on the different types of initiatives, for individuals and for businesses, under the Canadian Opportunities Strategy.

The Canadian Opportunities Strategy is a classic case of how to obfuscate public spending.

The original impetus to launch the strategy was apparently in response to emerging concerns that post-secondary education was growing less affordable, and consequently less accessible. Tuitions were rising, with no end in sight to the fee hikes, since Canada's post-secondary institutions had seen their funding frozen for years. The situation was in large measure due to the fiscal pressures triggered by federal spending cutbacks.

The federal government responded to this situation, but not by flowing direct help to Canada's universities and colleges to keep the lid on tuition costs. Instead, the federal government unveiled, year in and year out, a series of changes in the tax treatment of tuition and student loan charges, and in expanded tax shelters for savings for the purpose of education.

Between Budgets 1997 and 2003 the federal government made virtually annual changes to the Canada Student Loans Program and to their associated tax credits. By 2002-3, the federal government had allocated $158 million a year for student loans, and $165 million for tax credits for interest paid on student loans.[55] According to the Tax Expenditures tables, less than half that amount ($69 million) was taken up. (See Table 3 in the Annex to this report)

Enhanced education tax credits came in with Budget 1997, but even at full implementation years later the allocations barely topped $100 million. In Budget 1999, these were extended to part-time students. Budget Plan 2003 doubled the credits, allocating $225 million in 2002-03 for education credits, inching up to $230 million in 2003-04 then $240 million.[56] These budgetary allocations seem to be fully taken up, according to the Tax Expenditures tables.

Acknowledging Canadian families were having difficulty affording post-secondary education for their children, the federal government offered a series of incentives to encourage parents to start saving for their child's education through two key tax measures: Registered Education Savings Plans (RESPs) and Registered Retirement Savings Plans (RRSPs). Budget 1998 introduced tax-free withdrawal of RRSPs for the purposes of learning, a measure that was re-announced and extended in every subsequent budget, consistently costing exactly $50 million a year. In fact, the Tax Expenditures Tables show that that almost doubles (to $97 million) by 2004.

Canada Study Grants were introduced at a price tag of $100 million a year in Budget 1998, and extended by the same amount in every subsequent budget. By

[55] *The Budget Plan 2001*, p. 163.
[56] *The Budget Plan 2003*, p. 231.

Budget 2001, the allocations for previous years had changed (some years higher, some lower) and that document indicated that the grants in 2001-2 would rise to \$120 million a year and stay at that level.[57]

While the Canada Study Grants were actual grants of monies allotted to students in need, the Canada Education Savings Grant was a different initiative altogether. Initiated at the same time as the Canada Study Grants, they were created as a supplement to family contributions to RESPs. For every dollar contributed to an RESP up to \$2,000 a year, the federal government would provide a Canada Education Savings Grant equal to 20 per cent of the total – yet another tax incentive.

While this approach rewarded parents who saved for their child's education, it did nothing to ensure all Canadians access to quality, affordable post-secondary education, and didn't offer any help to families who could not afford to save up to \$2,000 a year per child. The amounts made available through this form of grant grew to be more than four times as great as the straight money grants to students – \$500 million a year in 2001-2 – though, like the Canada Study Grants, it started out with a \$100 million a year allocation in 1998.

By far one of the biggest Opportunities Strategy announcements was made in Budget 1998, with the creation of The Canada Millennium Scholarship Foundation – a private, independent institution that would be federally funded with a 10-year endowment of \$2.5 billion to provide scholarships to low- and middle-income students.

This was the single biggest "program expenditure" within the Canadian Opportunities Strategy with respect to individuals. The foundation was a way of setting aside some of the emergent surplus in 1997-8 into a trust fund so that it would not appear as a budgetary surplus at year end and disappear into debt payment.

Accounted for in that year as an expense, the draws on the foundation's endowment are not tracked by public accounts as ongoing public expenses.

Budget 1998 anticipated that 100,000 students would benefit from scholarship averaging about \$3,000 a year, and that the fund would provide about \$325 million a year for 10 years.[58]

However, there is no public record as to the amount of annual support this fund actually provided, the number of people that are served by this fund on an annual basis, or whether the endowment is scheduled to be fully drawn at the end of the 10 years.

[57] *The Budget Plan 2001*, p. 163.
[58] *The Budget Plan 1998*¸ p. 75- 76.

The federal government's penchant for private, arm's length institutions would become apparent as the Canadian Opportunities Strategy expanded its mandate and supports.

In 1997 it allocated $800 million to the Canada Foundation for Innovation, to support research facilities in universities, colleges and hospitals. Through partnerships with research institutions, the private sector, or the provinces, the foundation continues to receive federal funding. Budget Plan 2004 indicates that allocations for the foundation have grown from $30 million a year in 1998-9 to $480 million in 2002-3. Though the amounts fluctuate, they are scheduled to reach $550 million by 2005-6.[59]

The federal government has been inconsistent in its reporting on funding for the commercialization of research or knowledge. Technology Partnerships were hailed in Budget 1999 as the way keep Canada at the forefront of innovation and open new market opportunities, at a cost of $50 million a year, over three years.[60] Later in that budget, the category of "commercializing knowledge" receives $121 million, $232 million, then $317 million in the same three years. By Budget 2004, the Technology Partnerships were again referenced in those some three years as costing $190 million a year.[61]

Continuing the theme of inconsistent or non-transparent reporting, it is virtually impossible to track government allocations for initiatives that use public funds as venture capital.

Venture capital is a more recent theme within the Opportunities Strategy, dedicated to "turning promising research into new products and services".[62]

The Budget suggests that the public purse should invest in "innovative start-up/early-stage companies through the Business Development Bank of Canada, and in agriculture and agri-food innovation, through Farm Credit Canada" to the tune of $270 million.[63]

The $270 million allocated to this purpose – with no time frames given – is characterized as an "equity injection… not counted as a budgetary expense." Earlier in Budget Plan 2004 it is suggested that more than these amounts have been allocated to these purposes. It states that "Together, the Business Development Bank of Canada and Farm Credit Canada have established targeted venture capital operations, estimated at $400 million by March 2004, to increase financing of knowledge-based and export-oriented businesses."[64] (p.140)

[59] *The Budget Plan 2004,* p. 134.
[60] *The Budget Plan 1999,* p. 113.
[61] *The Budget Plan 2004,* p. 124.
[62] *The Budget Plan 2004,* p. 13.
[63] Ibid., p. 160.
[64] ibid., p. 140.

Clearly, some of the surplus funds from the 2002-3 fiscal year have been earmarked for use as venture capital. We just don't know how much.

Again, the Canadian Opportunities Strategy appears to be marked by a certain ad-hocery concerning the government's initiatives to fund "connectedness" – that is, to ensure expanded access to the internet. Though funding for this initiative appears to go back to at least 1997 under the Community Access Program, in subsequent years it was referred to as a combination of Community Access Program, SchoolNet, Smart Communities and other initiatives. Budget allocations vary from budget to budget, ranging from $15 million a year to $97 million a year for the same fiscal year. The inconsistencies make it difficult to assess the true scale of this initiative, or track how the funds have been used.

A similar scatter-gun approach characterizes the part of the Opportunities Strategy that fell under "research". This varied from regular annual funding to the Networks of Centres of Excellence from 1997 to 2004 of $30 million consistently over the years to intermittent funding for initiatives ranging from biotechnology research, federal granting councils, and the Industrial Research Assistance Program.

Finally, for a government that was elected in the mid-1990s on the promise of "jobs, jobs, jobs", the Opportunities Strategy often fell seriously short in funding direct training and job readiness initiatives.

The Canada Jobs Fund received three years of funding and then that initiative appears to have fallen off the map. Funding to help new Canadians integrate into the economy emerged in 2002-03 and 2003-04 but the allocations were minimal at $19.5 million and $21.9 million respectively. Youth employment strategies varied over the years, and so did the funding, ranging from $50 million in 1998-99 to $100 million 2001.

Despite difficulties in tracking each line item within the Opportunities Strategy file, certain trends have clearly emerged.

What began as an education and training initiative around 1997 to enhance individuals' opportunities in the marketplace quickly mushroomed into a growing and diverse funding envelope that supported what was characterized as the cutting edge of innovation in technologies as diverse as agri-business, space, bio-tech and alternative energy sources, to list just some initiatives.

Using surplus funds to create catch-all categories that evolve over time, which is the hallmark of the Canadian Opportunities Strategy, makes tracking government activities virtually impossible within a gendered budget analysis.

One clear theme emerges: with increasing emphasis and resources being placed on initiatives such as the CCTB/NCB and the Opportunities Strategy, it is becoming more difficult for Canadians' to follow the money and find out who benefits most from these choices.

Investments in Infrastructure

Much of the nation's hard and soft infrastructure was built and established after the Second World War. Little has been done to set aside funds to maintain these public assets since the early 1970s, and even less to expand them, though the nation's population has grown by 10 million since then, an almost 50% increase.

The long-deferred era of investments in public infrastructure saw a little boost in 1993, when the federal government introduced a $6 billion program. It, too, suffered from the cutbacks of the war on the deficit. Budget 1996 indicated that by 1997-8 the Infrastructure Works program would be phased out.

Just before Budget 1997, in January, a small offering was made of $425 million to pay for the employment costs of upgrades to municipal infrastructure, bringing the federal "contribution" to infrastructure in 1997-98 to $600 million. But this offer was contingent on raising the same amounts of cash from municipal and provincial purses.

By Budget 1998, the only infrastructure the federal government was interested in investing in was research infrastructure, and it set aside $800 million in a trust fund, financed by surplus funds from the end of the 1997-8 year, for the Canadian Foundation for Innovation.

Budget 1999 focused on investment in the *health* research infrastructure, and added another $200 million, from the 1998-9 budgetary surplus, to the Canadian Foundation for Innovation (CFI). Budget 1999 went on to clarify that the CFI had already awarded $58 million in 1998, and was expected to have award $420 million more in 1999 from its original $800 million endowment. [65] No other public source offers such an explanation of what happened to the money.

Budget 2000 saw the federal government committing to renew its own infrastructure (federal bridges, wharves, laboratories, etc.) and to "work with other orders of government and the private sector to make a deal by the end of 2000". The deal the Budget was aiming for was $2.65 billion in funding over 6 years, over which $200 million a year would start flowing for federal builds two years later.[66] The rest, $2.05 billion, would flow only on the basis of multi-sectoral public-private partnerships. That plan was never again referred to.

[65] *The Budget Plan 1999,* p. 110.
[66] *The Budget Plan 2000,* p. 121.

Budget 2001 re-announces the same amounts of money as if they were a new initiative, and future Budgets refer only to the announcements of Budget 2001. In the wake of the events of 9/11 Budget 2001 allocated $600 million for roads, bridges and other forms of infrastructure required at major border crossings. This money was considered an investment for enhanced security measures, and would be made available in order to lever even greater amounts of money with private sector partners and other players on both sides of the border.[67]

Budget 2001 went on to turn the previous year's $2 billion into the Strategic Infrastructure Foundation. The foundation was created with this unused money, which would otherwise add to budgetary surplus. The trust fund was announced as a "minimum investment" for "large strategic projects", to be set aside with no scheduled roll-out.

Budget 2001 put the lie to the argument that surplus funds could only be used for one purpose, i.e. debt reduction. It read: "Given the current economic weakness, [the federal government] has decided not to pay down any debt this year. Any surplus at the end of fiscal year 2001-02 will be dedicated to the Strategic Infrastructure Foundation and the Africa Fund." [68]

Budget 2003 put a further $2 billion into the Infrastructure Fund from unused budgetary surplus from the previous year, spreading that amount over 10 years. The Budget Plan provided no indication as to how these infrastructure monies would be allocated. A further $1 billion was provided to the municipalities for their infrastructure needs over the next 10 years. This was set out as a program expenditure, not a fund or trust. It was also spread out over time, allocated at $100 million a year to be shared among all Canadian municipalities.

Budget 2004 accelerated this municipal infrastructure spending program to $1 billion over 5 years instead of 10. That Budget showed another way to use surplus money for things other than debt reduction. On page 196 it states "Since Budget 2003, a further $286 million has been ***allocated from the security contingency reserve*** [emphasis added] for the development and implementation of key border management programs…"

In total, the federal budgets in the surplus era allocated $5.6 billion in infrastructure investments between 2000 and 2010. Less than half of it ($1.886 billion) was allocated through budgetary program spending. The rest has not yet been accounted for.

[67] *The Budget Plan 2001*, p. 15.
[68] Ibid., ,p. 19.

Major Tax Expenditure Initiatives in the Surplus Era

The table of tax expenditures provided in the Annex to this report shows that the provision of tax incentives, tax deductions, tax credits and tax deferrals accrued differently to different groups in the surplus era.

While the Canada Child Tax Benefits (CCTB) was the single most costly tax initiative, accounting for an additional $14.8 billion since the surplus era began, they did little to benefit the most economically vulnerable families, those on social assistance. (See discussion above.)

The GST credit, a refundable tax credit that flows specifically to the least advantaged taxfilers, only cost an additional $1.4 billion.

Child care expense deductions have had a cumulative increased cost, since 1998, of only $380 million.

In contrast, raising the limits on RRSPs and RPPs – a tax shelter for private savings for retirement – created an increase in "costs" of over $7 billion. Some of that increase was simply due rising numbers of contributions over time, some due to increases in average contribution. But, significantly, most of the increase in average contribution levels is attributable to the fact that upper limits were raised on the amount of savings that could receive preferential tax treatment. Those changes ultimately only benefited individuals already making more than $75,000 a year. (See discussion above.)

Under the rubric of education and learning, the sum total of all improvements to tax incentives and credits since 1998 was $2.5 billion. This includes the new Registered Education Savings Plans (RESPs) and enhancements in their rules over this period.

Those who started off with more continued to get more under these reforms. People realizing capital gains upon selling their primary residence saw new tax breaks worth a total of $7.2 billion since 1998.

The same pattern was displayed on the corporate income side.

The single biggest increase in tax incentives and credits on the corporate income tax side was through lighter tax treatment of capital gains, which netted businesses another $7 billion thus far in the surplus era.

For large corporations with significant assets, the rise in the threshold at which capital is taxed returned $771 million over this period, though this underestimates the amount of tax-related benefit, as the capital tax is scheduled to be entirely eliminated in stages.

Enhancements to already high levels of tax incentives for investments in research and development have cost the public purse another $1.5 billion thus far in the surplus era.

Builders of rental properties saw tax rebates worth $1.7 billion in this period (though these "savings" were not passed on to renters, with rental prices of new units continuing to soar throughout the period).

In sum, there is no question that with respect to tax expenditures, the lion's share of rewards accrued to those individuals and businesses that were already most privileged.

As a group, the poorest women and families saw little improvement (and some, as in the case of families needing social assistance, saw less).

At the same time, those with plenty of money and spending-power saw their disposable incomes rise even more, thanks to government-led changes in the tax system.

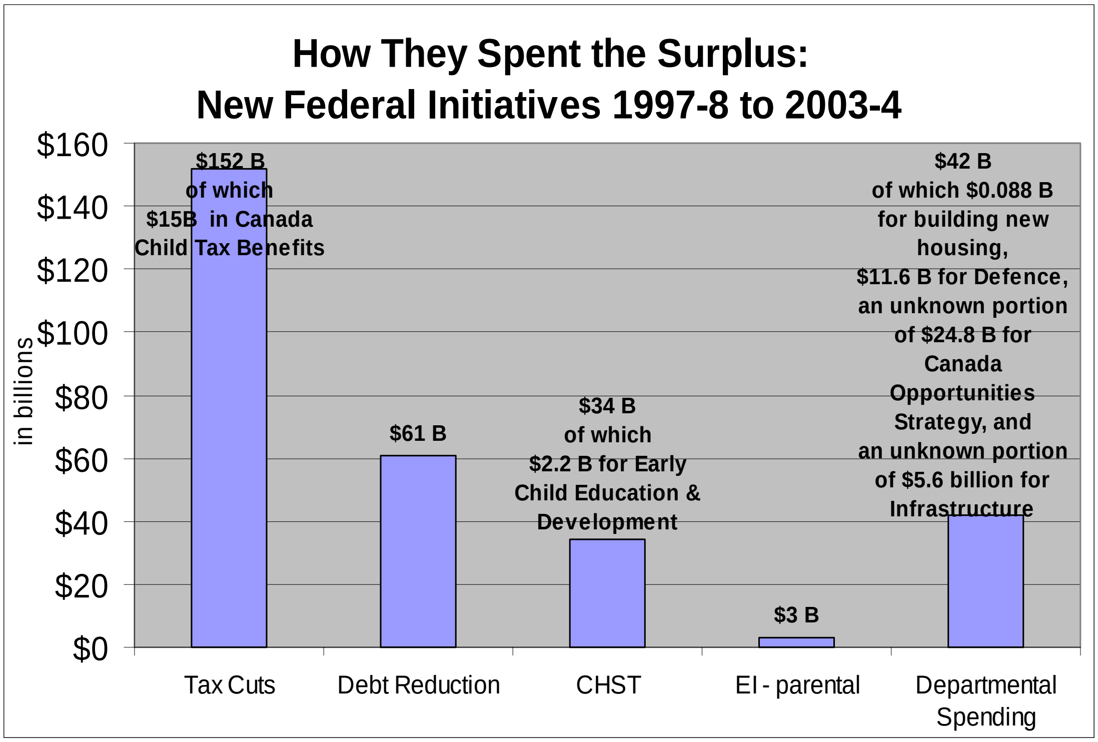
How Did They Spend the Surplus?

The federal government targeted funds towards a variety of new initiatives in the surplus era. Of these, we tracked the five we have suggested are the most influential in facilitating progress towards the Beijing commitments towards women:

- Canada Child Tax Benefits (and the national Child Benefit Supplements);
- The Canada Health and Social Transfer, including money for Early Child Education and Development and a variety of health and social supports;
- Employment Insurance benefits for the unemployed, including those in training, and for new parents; and
- new funds for Housing.

We found that the vast majority of new federal resources went to initiatives that did not directly or indirectly advance the agenda put forward in Beijing in 1995, and to which the Government of Canada re-committed itself in 2000.

By far the two greatest initiatives by the federal government in the era of surplus have been tax cuts and debt reduction, two uses of surplus that are possibly the weakest ways in which to invest in the advancement of the Beijing *Platform for Action.*



Sources: Tax Cuts - Budget 2003; CCTB – Tax Expenditures and Evaluations 2003; Debt Reduction - Fiscal Reference Tables 2004; CHST – Fiscal Reference Tables 2004; ECED – Economic Statement and Budget Update; EI, parental benefits – Statistics Canada; Departmental Spending – Fiscal Reference Tables 2004; Housing – unpublished documents

This table tells us what we *can* say happened to the "extra" money in the surplus era. It shows, in broad brush strokes, the elements of growth in federal government spending that that were clearly attributable to the availability of budgetary surpluses.

In the area of transfers to the provinces, equalization payments were not affected by the availability of surplus funds in the 1997-8 to 2003-4 period, but the CHST was. The CHST was the mechanism through which the Early Child Education and Development funds were transferred, an element of spending that would directly impact women in Canada, at least those with young children.

In the area of transfers to individuals, elderly benefits saw no major changes in the surplus era, but Employment Insurance did. While overall benefits went up by more than is indicated on the chart, there were no major changes to rules governing eligibility, duration or benefit rates. That means the rise in payments under EI during this period was largely due to macro-economic conditions, not government policy. The $3 billion that is identified, however, was a clear policy choice on how to distribute the surplus, which was by doubling maternity/parental leaves, for those who were eligible and could afford to spend a year at 55% of their previous income.

We *can't* say clearly what happened in the area of departmental spending. New budgetary allocations made in budgets for increased departmental spending were often multi-year, over 5 to 10 year horizons. Many were funded through foundations. Two of the biggest such budgetary initiatives in the surplus era – the Canada Opportunities Strategy and the Strategic Infrastructure Fund – cannot be tracked through public accounts or other official sources, because a large amount of their funding flowed from one-time allocations of surplus money that were "pre-booked". These were itemized in public accounts in the year in which the money was set aside, but it is not possible to see how spending from these funds flowed over the surplus era, and see where the money went. The lack of transparency also comes about when new budgetary allocations, such as the "security" initiatives introduced in Budget 2001, cross departmental lines and cannot be easily traced in public accounts.

With that caveat in mind, it is clear from Budget speeches and plans that there was little to no emphasis placed on provided new or additional resources for departmental programs that could provide improved supports to women in Canada for the basics: housing, education and training, better employment and unemployment regulations, child care, care for the infirm and disabled. The most explicit support that federal budgets offered women was through the tax structure, in their role as care-givers for the ill, disabled and children.

Are they committed to this way of spending the surplus?

There were four known different ways in which surplus monies were allocated, two being ongoing commitments, two being uncommitted to future disbursements.

1) Debt Reduction: Uncommitted Change.

- Can increase or decrease every year.

- A total of **$61.4 billion** thus far in the surplus era, ranging from $2.1 billion in the 1997-8 fiscal year to $20.2 billion in the 2000-01 fiscal year. Even in the year in which the budget declared there would be *no* further debt reduction (2001-02), the federal government opted to pay down $7 billion in debt.

2) Trust Funds/Foundations/Supplements: Uncommitted Change.

- Can increase or decrease in any year. Can have time-limited or unlimited endowments. Cannot be easily tracked as to how they were used.

- **At least $23.2 billion** has been set aside in this manner since the 1997-8 fiscal year.

  - Budget 1998: at least $3.5 billion ($2.5 billion for the Millennium Scholarship fund, $800 million for the Canadian Foundation for Innovation, and $200 million for the CHST cash supplement)
  - Budget 1999: at least $3.7 billion ($3.5 billion for the CHST cash supplement, a supplement of $200 million to the Canada Foundation for Innovation)
  - Budget 2000: at least $5.7 billion ($2.5 billion in CHST cash supplement, $1 billion in medical and diagnostic equipment fund, $500 million for Canada Infoway, $800 million for primary care reforms, $900 million to supplement the Canada Foundation for Innovation)
  - Budget 2001: At least $2.5 billion ($2 billion for the Strategic Infrastructure Fund; $500 million for the Africa Fund)
  - Budget 2003: At least $5.3 billion ($2.5 billion for the CHST cash supplement, $1.5 billion for the diagnostic and medical equipment fund, $600 million for Canada Infoway, $500 million to supplement the Canada Innovation Foundation, and about $170 million for Canadian Institute for Health Information, Genome Canada and CHSRF)
  - Budget 2004: AT least $2.4 billion ($2 billion for the CHST cash supplement, and $400 million for the national immunization strategy)

3) Tax Cuts: Committed Change

- Once the changes in the rate structures or deduction/credit levels are announced they can only increase in value as the economy expands, unless those particular changes are reversed.

- **At least $152 billion** has been committed in this manner since 1997-8. Almost every budget in the surplus era has had some kind of tax reduction in it, but the single biggest announcement was the overhaul of the personal and corporate income tax structures, in their rates, thresholds, and treatment of capital/savings.

- The value of these changes was tracked in Budget 2003 up to 2004-5. (Table A1.9) It can be seen that the value of tax cuts increases over time, partly as the tax cuts are expanded, and partly as a result of a growing economy. The cuts introduced in successive federal budgets resulted in the following amounts of annual foregone revenue:

Budgetary Impact of Federal Revenue Changes/Tax Cuts

1997-1998:	$235 million
1998-1999:	$2,150 million
1999-2000:	$6,230 million
2000-2001:	$14,163 million
2001-2002:	$24,237 million
2002-2003:	$28,264 million
2003-2004:	$34,678 million
2004-2005:	$41,968 million

4) New or Increased Federal Spending: Committed Change.

- Once the increase in base levels is announced it extends into the future at that new minimum. The base only then decreases if subjected to specific cuts.

- It is unknown exactly how much has been allocated in the surplus era to increase budget base line spending for particular departments. Departmental spending has, overall, seen **net increases totaling $42.1 billion** during this period. However some new spending is re-allocation of funds from existing budgets within government.

- Program Review, a one-time feature of the 1994 budget, was imbedded as a $1 billion a year exercise in Budget 2003 and was targeted to become a $3 billion a year exercise within 3 years in Budget 2004. At present there is no simple way of comparing which programs lost money under Program Review and how these expenditures were re-allocated.

- Examples of committed increases to base funding in the surplus era include:
  - ➢ Defence ($800 million a year starting in 2003-04 plus an automatic annual 1.5% increase), and
  - ➢ the CHST cash floor (from $11 billion 1996 to $20.4 billion in 2004-5, and now fixed to rise further at 6% a year)

Who benefited?

Upon reviewing this landscape of change, it is safe to say that, whether spent or unspent, the sum total of new investments in the surplus era did little to promote greater equality for women.

The best that can be said is that working women who had young children were somewhat more supported than in the past (extended parental benefits through EI, increased amounts in the Canada Child Tax Benefit, enhanced tax deductions for child care expenses).

However low-paid working women with young children were significantly less supported than middle and higher-income women, given that they could not afford to take full advantage of year-long parental benefits at 55% of their already low wages; or claim on child-care expenses without receipts, or find subsidized child care in the first place.

Furthermore, it is debatable that working women with young children are better off overall, as their lives are increasingly tangled in difficult trade-offs that need to be made in order to accommodate the pressures to undertake more and more paid labour.

As for those working women who have no young children, those with young children but in receipt of welfare allowances, or any of the legion of women seeking adequate shelter throughout Canada – be they recent immigrants, recently separated, on native reserves, or escaping violence and abuse; each of these groups saw precious little support flowing from the many billions of dollars newly "invested" by this fiscally generous agenda.

Indeed the era of budgetary affluence did little to redress the increased vulnerability of those affected by the cuts of the mid 1990s. On the contrary, budgetary initiatives reinforced the continuing growing gap between rich and poor, rather than mitigating rising inequality.

This was as true in the growing gap between individuals and families as it was between regions of the country.

The federal budgets of the surplus era reinforced in a myriad of ways the increasing balkanization of access to essential public goods – from home care to child care, from health care to post-secondary education, from legal aid to social assistance. Although some increases to transfers to the provinces were made during the surplus era, the monies still had no designations attached to them and could be spent in any way the provinces and territories decided, with the exception of new money specifically designated for health.

The increasingly light touch of federal interventions on behalf of those most needing support has raised barriers rather than reduced them, and facilitated the raising of barriers to varying degrees in the provinces and territories.

The rapid and permanent retrenchment of the federal state has hastened the decentralization of social and economic policy, exacerbating differences between east and west, north and south, urban and rural. Most painfully, it has been the cause of unacceptably and interminably deferred action on Aboriginal reserves.

This has been an unparalleled decade of opportunity in federal capacity to address and redress long-standing claims for greater social and economic justice.

Instead of using this time of prosperity to advance a strong agenda that benefits all Canadian citizens, federal budgetary initiatives of the past 10 years have increased the constraints faced by women and the most vulnerable in their daily lives, and conferred greater resources on those already most privileged.

The surplus era has been used to redistribute incomes and wealth, both public and private, from the less affluent to the more affluent. This turns the commitments made at Beijing 10 years ago on their head.

6. Conclusion: Assessing the language of commitment

The chief utility of a gendered budget analysis is to track a government's stated goals and priorities and to check to see if it actually put its money where its mouth was. When considered in the context of the federal Government of Canada's commitments to the goals outlined within the Beijing *Platform for Action*, it is clear the government's stated intentions in September of 1995 ran completely counter to its proposed actions in Budget 1995 tabled in February of that year.

Budget 1995 lay in place a plan to put an end to the era of federal budgetary deficits, achieved primarily by introducing massive cuts to fundamental social programs such as health care, housing, employment, benefits for the employed, and training supports.

Between 1994-5 and 1997-8, the effects of the federal spending cuts had cascaded down to the local and individual levels, creating a deeply destabilizing effect on the community programs, income supports and public goods that Canadian women rely on for economic and social security.

The federal government used the depth and breadth of these cuts to eliminate the budgetary deficit years in advance of its targeted schedule. By happy coincidence, an era of global economic expansion was also in full swing by the late 1990s, and Canada was a key beneficiary of these developments.

With this fortunate conjuncture of events – the prospect of budgetary surpluses and solid economic growth – the Government of Canada's conflicting priorities faced a critical test. In 1995, it had made two sets of commitments: one to greater economic and social justice for the women of Canada, and one to "right-sizing" government through significant and sustained withdrawal of federal spending.

The commitment to smaller government proved more authentic. The federal government failed to take an approach to deficit-cutting that would protect the most vulnerable and disadvantaged groups of women from being further harmed; and it failed to take the opportunity provided by renewed fiscal capacity to meet the commitments it made in Beijing by first enhancing the lives of women who are most at risk and economically insecure.

Programs vital to women's economic well-being and independence remain inadequately funded. Pledges to support regulated, affordable child care, accessible post-secondary education and training, affordable housing, and benefits for the unemployed are vastly eclipsed by the pledge to "small government".

The scale of retrenchment of federal involvement in the economy and society is historically unprecedented. As a share of the economy, federal government spending shrank dramatically in this period, from 16% in the deficit era, to just over 11% at the beginning of the surplus era.

It has stayed at roughly that level since then, and is projected to remain there for the foreseeable future. This level of federal engagement in Canadian life appears to be incongruent with the stated aspirations of a modern and diverse society.

The objective of "small government" has become entrenched since 1998, even in the face of clearly rising economic and fiscal capacity, because the potential for expansion has been cut off at its source – through massive tax cuts, and by using the budgetary surplus to pay off debt.

Tax cuts introduced since 1998 have cost federal public coffers $152 billion thus far – cuts that help well-off Canadians far more than they do low-income, vulnerable, and at-risk women. Debt payments used up another $61 billion in funds that were otherwise readily available for investments on behalf of all Canadians.

A small number of tax measures, by their nature, addressed women's realities more than men's, though the cash value of those measures may or may not have ended up in women's pockets. But even these – for example tax credits for care-givers or tax deductions for expenses on child care – were more valuable to women with taxable levels of income.

This approach was entirely inconsistent with the proposals for childcare that were emerging from broad based coalitions of women's organizations and other groups, for the good reason that those who most needed help would be unlikely to get support through such mechanisms.

About 32% of all tax filers have no taxable income, and though the gender break-out of those who do not pay taxes is not known, low-income rates are higher among women than men.

Therefore such tax measures a) did nothing for the women who have no taxable income, who tend to be the least advantaged and b) did nothing to help fund and regulate services, in order to insure that reliable supports are available in the first place, for Canadian women of all ages and circumstances.

The tax cut/revenue story is key to understanding the federal government's retreat from its Beijing commitments. Despite unprecedented economic capacity and fiscal opportunity, the string of federal surpluses quickly disappeared into the ether of tax cuts, tax credits, and the fiscalization of social policies.

The theme of fiscalized social policy speaks volumes about the federal government's retreat from its Beijing commitments, and to low-income or at-risk women in particular.

The federal government replaced direct funding supports to the provinces to ensure affordable post-secondary tuitions with federal education and tuition tax credits that presume students have the money to pay up front and secure the tax credit a year later.

It ignored the accessibility problem of Canada's post-secondary institutions and created, instead, a tax-based scheme to "encourage" parents to save for their children's future through Registered Education Savings Plans (RESPs) and Registered Retirement Savings Plans (RRSPs) – something out of reach to many low-income, vulnerable families – whose basic needs are not even supported by social assistance in many regions.

The federal government replaced universally accessible programs such as family allowance with tax-based initiatives such as the Canada Child Tax Benefit (CCTB) and the related National Child Benefit Supplement (NCBS) which gets clawed back from many of Canada's most vulnerable social assistance families.

Instead of coordinating and funding a plan to expand the number of regulated, affordable child care programs throughout Canada, the government diverted resources into tax deductions for child care expenses – a move that does nothing to guarantee universally accessible quality child care, and a move that encourages the current patchwork of child care provision that falls short of meeting the needs of working mothers with children.

Even when the federal government agreed, in 2000, to fund an Early Childhood Development Initiative with $2.2 billion in five-year funding, and enhance that amount by $900 million in 2003, there were no conditions attached to using the money that would guarantee the creation of new child care spaces. In fact, very little of the ECDI money has gone toward child care. Despite the fact that there has been a social revolution with respect to women's dual role in the labour market and in child-rearing, and despite the fact that women of very young children continue to surpass previous record rates of employment, there is no policy response. Instead, the answer is to provide a little more cash in the pocket for some with a tax cut.

With Budget 1995, the federal government scripted a new agenda, a permanent revolution in reduced service supports to women, to vulnerable Canadians. It fundamentally changed what government does, naming as its key priority fiscal prudence, rather than socially prudent policy.

Yet it is profoundly imprudent to ignore the desperate need for affordable housing programs when so many Canadians are in shelters or precariously housed. It is imprudent to turn a blind eye to increasingly inaccessible post-secondary education. It is imprudent to neglect the need for quality early childhood education and care, to ensure our children get the best possible start in life. It is imprudent to encourage more people to work, then deny working mothers the supports they need to gain economic independence. It is imprudent to gut unemployment insurance programs and restrict access to supports during a period of rising economic and employment insecurity, then turn around and use the predictable surpluses arising in those programs to finance a host of unrelated government initiatives, including tax cuts.

It is disingenuous of the Government of Canada to promote its slate of actions as "relieving" Canadians of tax and debt "burdens", when these very actions have imposed increasing financial burdens on women and families struggling to keep themselves housed, educated, and financially solvent in times of unemployment and economic uncertainty.

Federal positioning is all the more frustrating for those seeking progress on the Beijing agenda when this positioning is placed in its proper context: the Government of Canada has never before had greater fiscal capacity to help relieve these very real day-to-day concerns and burdens.

The federal government has made clear its "come hell or high water" commitment to deficit, debt, and tax reduction. Its commitment to the supports that make or break peoples' lives is a little softer.

Yet these are the public goods that permit individuals to reach their full potential, allowing people to seize and create opportunity by starting with a foundation of life-long secure access to health care, housing, education and employment. This is precisely where federal leadership and commitment is required, to ensure that these basics are available wherever you live in Canada.

We asked at the beginning of this exercise whether the actions of the federal government over the past 10 years had neutral, beneficial or adverse effects for the women of Canada. This question was raised in the context of the upcoming 10th anniversary of commitments made to women by the federal government in Beijing in 1995.

There is no simple tool that permits the direct tracing, by gender, of the costs borne by the cuts in the deficit era, or the benefits distributed in the surplus era.

Nonetheless, budgetary analysis of the allocation of resources over the past 10 years reveals that there has been little advancement during this period on an agenda promoting greater social and economic justice for women in Canada.

Indeed, despite increased capacity to address the growing gap between rich and poor, men and women, this has been a time of going backwards.

Through changes in spending, government policies have reinforced the decentralization and contraction of public provision, and have led to the increasing balkanization of services. Through changes in taxation, the greatest benefits have accrued to those with more income, reducing the redistributive thrust of the taxation system.

These shifts in federal policy have reinforced, rather than mitigated, a growing gap between groups of citizens – by region, by gender, by race, by ethnicity, by ability, by age – systematically favouring the more advantaged over the less advantaged.

As we have seen, there is a large underlying surplus of about $7 billion a year in the way the Government of Canada has been setting out its books, derived in part from a built-in set of contingency/prudence reserves, in part from the surplus in the EI account, and in part from chronically inaccurate forecasts of revenues from personal income taxes.

As we have seen, in good economic times and bad, the actual budgetary surplus far eclipses the planned surplus, a combination of apparently intentional budgetary underestimates, and just plain luck in the rate of economic growth.

More tax cuts and further debt reduction will be doubtless be promoted as the most "prudent" thing the Government of Canada can do on our behalf in the face of new surpluses. But these are not the most prudent choices for women.

The assertion that these two uses of surplus are superior to further investment in the hard and soft infrastructure of our nation ignores the commitments that Canada has made to women in domestic law, and under international human rights treaties and agreements, such as the *Beijing Platform for Action*. It also ignores Canada's social and political commitment to creating an egalitarian and just society.

The Government of Canada can make a beginning on designing a fairer, more equality-based allocation of resources by immediately devising a plan for implementing the recommendations that the United Nations Committee on the Eliminaton of Discrimination made to Canada in January 2003, after its review of Canada's 5th report on its compliance with the *Convention on the Elimination of Discrimination Against Women.* Implementing these recommendations will also help to fulfill the commitments Canada made when it adopted the *Beijing Platform for Action*.

It is time for the women of Canada to stake their legitimate claim on the Government of Canada's surplus resources, a claim that will benefit all Canadians. And it is time for the Government of Canada to move beyond the mere language of commitment to the principles of the Beijing Platform for Action, to an active reinvestment in the search for greater peace, development and equality for all its citizens.

7. Recommendations

a) More Equitable Allocation of Public Resources

As this report has documented, women have been adversely affected by the cuts to social programmes and services of the deficit era, and not substantially assisted during the surplus era since 1998.

Women have a legitimate claim to make on the federal surpluses. They are owed a debt, that can be repaid by investment and re-investment in the programmes and services that are most closely related to their enjoyment of their right to equality – in transfers to the provinces and territories, in enhanced employment insurance benefits, in child care, in social housing.

We recommend that the Government of Canada act on the recommendations made in 2000 of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) Committee immediately in order to invigorate and renew its commitment to women's equality, and the agreements it undertook as a signatory to the Beijing Platform for Action.

b) Enhancing the Capacity to Undertake Effective Gender Budget Analysis

This report has documented the many obstacles posed by conflicting and incomplete official federal sources that are dedicated to tracing the use of public dollars. This is true not just for a gendered approach to budget analysis, but for all forms of budget analysis.

Beyond the need for greater transparency, the following recommendations could help ensure Canadians access to the kind of budgetary analysis that could help ensure our governments make good on all of their commitments – especially those to women.

In this regard, our recommendations include:

1) That the Department of Finance and other functions of the Government of Canada produce a clear methodology and reporting process for tracking budgetary initiatives that effect women, in consultation with women's organizations.

2) That the federal Government of Canada provide Parliamentary mechanisms (such as Committees) and budgetary resources to support women in the following ways:
   - building expertise within government and in the community to prepare annual gendered budget analyses; and
   - enhanced participation in fiscal decision-making, both through Parliamentary and extra-Parliamentary processes.

c) Reporting the Incidence of Benefits of Budgetary initiatives by Gender

We urge the Government of Canada, as well as provincial and territorial governments, to undertake and employ gendered budget analysis on a regular basis, to ensure the impacts of fiscal policy are also considered from women's standpoint, and to provide a public account of the analysis they have applied and the rationales for decisions they have taken in light of that analysis.

In order to shed greater light on the gendered impact of fiscal policy we propose an agenda for future inquiry. Our suggestions for further research include:

1) The systematic use of incidence studies, to show relative benefits for women and men of tax cuts and tax credits, which have been a major thrust of federal policy in the surplus era.

2) Development of a methodology, within Statistics Canada or other parts of government, to assess the distribution of benefits (by age, income, gender, and geography) from social program expenses.

   The "benefits" flowing from tax cuts on individual income are relatively easy to calculate (though how these benefits are conferred within a household is difficult to estimate). However, there is no measurement or assessment of the value of public spending. Similarly there is no measurement or assessment of women's unpaid work, and the implications for women's unpaid work when governments offload public provisions and supports.

   Without such comparisons, public debate about how to use future surpluses and public resources in general will remain uninformed and unbalanced.

3) Tracking the impact of federal spending as it is filtered by provincial initiatives, since almost 20% of the federal government's spending power is delivered in transfers to the provinces. This report provided an example of such an approach with its analysis of the Early Child Education and

Development funds. This could and should be made a more systematic feature of the Government of Canada's efforts to tell Canadians where their money is going, and to what purpose it is being put.

4) Further analysis of the distributive impact of the Canada Child Tax Benefit on different income classes. Though it is targeted to lower income families, the key feature that supports the lowest income recipients is the National Child Benefit Supplement (NCBS), which gets clawed back from many Canadian families receiving social assistance. To date there has been no clear assessment of what proportion of families on social assistance do not benefit from the NCBS. This is critical to understanding whether Canada is living up to its commitment to support the most economically vulnerable women in our country.

ANNEX

DEPARTMENTAL CUTS CHARTS 1994-95 TO 1997-8

DEBT PAYDOWN TABLE

HIGHLIGHTS FROM TAX EXPENDITURES AND EVALUATIONS, SINCE 1998

DEPARTMENTAL SAVINGS UNDER PROGRAM REVIEW [1]

BUDGET 1995 FACT SHEETS

CUTS BY DEPARTMENT	1995-96	1996-97	1997-98	TOTAL CUTS OVER 3 YEARS	SCALE OF CHANGE: Spending levels 1994-95	Spending levels 1997-98	Change $ millions	Change per cent
	(millions of dollars)				(millions of dollars)			
Natural Resource Sector	**328**	**380**	**581**	**1289**	**4,847**	**3,333**	**-1,514**	**-31.2**
Agriculture	215	128	272	615	2,073	1,628	-445	-21.5
Fisheries and Oceans	51	80	110	241	775	565	-211	-27.2
Natural Resources	26	82	68	176	1,262	638	-624	-49.4
Environment	35	90	131	256	737	503	-234	-31.8
Transport	**555**	**953**	**1,111**	**2619**	**2,851**	**1,404**	**-1,447**	**-50.8**
Industrial, Regional and Scientific-Technological Support Programs	**508**	**476**	**581**	**1565**	**3,798**	**2,355**	**-1,443**	**-38**
Industry (and specific agencies)	93	148	212	453	1,301	742	-560	-43
Science and Technology Agencies [2]	71	108	142	321	1,359	1,038	-321	-23.6
Regional Agencies	144	220	227	591	1,138	576	-562	-49.4
Infrastructure	200			200				
Justice and Legal Programs	**32**	**59**	**75**	**166**	**3,298**	**3,132**	**-166**	**-5**
Justice	6	12	17	35	757	693	-64	-8.4
Solicitor General	25	47	58	130	2,541	2,439	-102	-4
Heritage and Cultural Programs	**142**	**274**	**387**	**803**	**2,897**	**2,221**	**-676**	**-23.3**

Foreign Affairs and International Assistance	**490**	**515**	**711**	**1716**		**4,082**	**3,292**	**-789**	**-19.3**
Foreign Affairs/ International Trade	109	134	171	414		1,488	1,231	-257	-17.3
International Assistance Envelope	381	381	540	1302		2,594	2,061	-532	-20.5
Social Programs	**877**	**1,580**	**1,771**	**4228**		**13,003**	**12,013**	**-990**	**-7.6**
Citizenship and Immigration	100	69	103	272		663	601	-62	-9.4
Health	49	138	201	388		1,815	1,746	-70	-3.8
Human Resources Development	600	1,100	1,100	2800		2,544	1,660	-885	-34.8
Indian Affairs and Nothern Development	5	97	177	279		3,761	4,208	447	11.9
Canada Mortgage and Housing	64	115	128	307		2,131	1,942	-189	-8.9
Veterans Affairs	59	61	62	182		2,088	1,857	-232	-11.1
Defence/Emergency Preparedness	**350**	**557**	**1,033**	**1940**		**11,574**	**9,925**	**-1,648**	**-14.2**
PUITTA [3]	200	276	280	756		250	0	-250	-100
General Government Services [4]	232	391	523	1146		4,967	4,137	-831	-16.7
Parliament/Governor General	3	8	15	26		309	277	-32	-10.2
Expenditure Management System	150	150	150	450					
Other Program Review (unallocated)	250			250					
Total	**3,867**	**5,869**	**7,217**		**Total**	**51,875**	**42,089**	**-9,785**	**-18.9**

Source: Department of Finance, Budget 1995 Fact Sheet Number 6, "Getting Government Right: Program Review Overview".

[1] Program Review resulted in additional deficit reduction cost savings through increases in cost recovery and revenue generation. These savings are not reflected in this Table.

[2] Includes granting councils, the Canadian Space Agency and the National Research Council

[3] Public Utilities Income Tax Transfer Act.

[4] Includes Central Agencies, Public Service Commission, Statistics Canada, National Revenue, Parliament, and PublicWorks and Government Services.

*Numbers may not add due to rounding.

DEBT PAYDOWN – DIFFERENT SCHEDULES TO REACH THE 25% DEBT-TO-GDP RATIO TARGET

	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
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
2% growth	1200	1224.0	1248.5	1273.4	1298.9	1324.9	1351.4	1378.4
3% growth	1200	1236.0	1273.1	1311.3	1350.6	1391.1	1432.9	1475.8
4% growth	1200	1248.0	1297.9	1349.8	1403.8	1460.0	1518.4	1579.1
5% growth	1200	1260.0	1323.0	1389.2	1458.6	1531.5	1608.1	1688.5
DEBT is currently $510.6 billion								
no paydown	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
paydown $4B	510.6	506.6	502.6	498.6	494.6	490.6	486.6	482.6
DEBT to GDP ASSUMING NO PAYDOWN								
1% growth	42.6%	42.1%	41.7%	41.3%	40.9%	40.5%	40.1%	39.7%
2% growth	42.6%	41.7%	40.9%	40.1%	39.3%	38.5%	37.8%	37.0%
3% growth	42.6%	41.3%	40.1%	38.9%	37.8%	36.7%	35.6%	34.6%
4% growth	42.6%	40.9%	39.3%	37.8%	36.4%	35.0%	33.6%	32.3%
5% growth	42.6%	40.5%	38.6%	36.8%	35.0%	33.3%	31.8%	30.2%
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%
2% growth	42.6%	41.5%	40.4%	39.4%	38.4%	37.4%	36.5%	35.5%
3% growth	42.6%	41.1%	39.6%	38.3%	36.9%	35.6%	34.4%	33.2%
4% growth	42.6%	40.7%	38.9%	37.2%	35.5%	33.9%	32.4%	31.0%
5% growth	42.6%	40.3%	38.1%	36.1%	34.2%	32.4%	30.6%	29.0%
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%
2% growth	42.6%	41.4%	40.3%	39.2%	38.1%	37.0%	36.0%	35.0%
3% growth	42.6%	41.0%	39.5%	38.0%	36.6%	35.3%	34.0%	32.7%
4% growth	42.6%	40.6%	38.7%	36.9%	35.2%	33.6%	32.0%	30.6%
5% growth	42.6%	40.2%	38.0%	35.9%	33.9%	32.0%	30.3%	28.6%

DEBT PAYDOWN – DIFFERENT SCHEDULES TO ACHIEVE THE 25% DEBT-TO-GDP RATIO TARGET (CONT'D.)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-7	2017-8
GDP (in $billions) GROWTH RATES ARE NOMINAL - INFLATION PLUS REAL GROWTH							
1% growth	1299.4	1312.4	1325.5	1338.8	1352.2	1365.7	1379.4
2% growth	1406.0	1434.1	1462.8	1492.0	1521.9	1552.3	1583.4
3% growth	1520.1	1565.7	1612.7	1661.1	1710.9	1762.2	1815.1
4% growth	1642.3	1708.0	1776.3	1847.3	1921.2	1998.1	2078.0
5% growth	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
paydown $3B	486.6	483.6	480.6	477.6	474.6	471.6	468.6
paydown $4B	478.6	474.6	470.6	466.6	462.6	458.6	454.6
DEBT to GDP ASSUMING NO PAYDOWN							
1% growth	39.3%	38.9%	38.5%	38.1%	37.8%	37.4%	37.0%
2% growth	36.3%	35.6%	34.9%	34.2%	33.6%	32.9%	32.2%
3% growth	33.6%	32.6%	31.7%	30.7%	29.8%	29.0%	28.1%
4% growth	31.1%	29.9%	28.7%	27.6%	26.6%	25.6%	24.6%
5% growth	28.8%	27.4%	26.1%	24.9%	23.7%	22.6%	21.5%
DEBT TO GDP WITH A $3B/YEAR PAYDOWN							
1% growth	37.4%	36.8%	36.3%	35.7%	35.1%	34.5%	34.0%
2% growth	34.6%	33.7%	32.9%	32.0%	31.2%	30.4%	29.6%
3% growth	32.0%	30.9%	29.8%	28.8%	27.7%	26.8%	25.8%
4% growth	29.6%	28.3%	27.1%	25.9%	24.7%	23.6%	22.6%
5% growth	27.4%	26.0%	24.6%	23.3%	22.0%	20.8%	19.7%
DEBT TO GDP WITH A $4B/YEAR PAYDOWN							
1% growth	36.8%	36.2%	35.5%	34.9%	34.2%	33.6%	33.0%
2% growth	34.0%	33.1%	32.2%	31.3%	30.4%	29.5%	28.7%
3% growth	31.5%	30.3%	29.2%	28.1%	27.0%	26.0%	25.0%
4% growth	29.1%	27.8%	26.5%	25.3%	24.1%	23.0%	21.9%
5% growth	27.0%	25.5%	24.1%	22.7%	21.5%	20.3%	19.1%

TABLE OF MAJOR TAX EXPENDITURE INITIATIVES IN THE SURPLUS ERA (SINCE 1998)

	1998	1999	2000	2001	2002	2003	2004	2005 projection	
CCTB	5,625	5,930	6,610	7,370	7,935	8,255	8,755	9,315	
Cumulative Increase Over 1998 Level		305	985	1,745	2,310	2,630	3,130	3,690	14,795
GST credit[11]	2,925	2,915	2,965	3,005	3,095	3,195	3,280	3,385	
Cumulative Increase Over 1998 Level		-10	40	80	170	270	355	460	1,365
Child care expense deduction35	510	550	595	555	560	560	560	570	
Cumulative Increase Over 1998 Level		40	85	45	50	50	50	60	380
Deduction for contributions RRSPs	6,560	6,965	7,155	6,585	7,040	7,585	8,010	8,600	
Cumulative Increase over 1998 Level		405	595	25	480	1,025	1,450	2,040	6,020
Deduction for contributions RPPs	4,490	5,030	4,895	4,440	4,480	4,550	4,515	4,570	
Cumulative Increase over 1998 Level		540	405	-50	-10	60	25	80	1,050
TOTAL RETIREMENT SAVINGS INCREASES									7,070

TABLE OF MAJOR TAX EXPENDITURE INITIATIVES IN THE SURPLUS ERA (SINCE 1998) – cont'd.

EDUCATION

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	
Tuition fee credit	260	295	315	270	280	290	300	310	
Education credit	120	130	135	240	250	265	270	270	
Transfer of education and tuition fee credits	335	330	290	400	410	420	430	440	
Carry-forward of education and tuition fee credits	10	74	120	103	103	110	110	115	
Student loan interest credit	46	59	66	64	65	67	69	71	
Registered education savings plans	30	26	42	54	68	83	97	98	
Partial exemption of scholarship, fellowship and bursary income	6	6	29	24	25	25	25	26	
TOTAL EDUCATION RELATED TAX EXPENDITURES	807	920	997	1155	1201	1260	1301	1330	
CUMULATIVE INCREASE IN TAX EXPENDITURES ON EDUCATION Over 1998 levels		113	190	348	394	453	494	523	2,515

TABLE OF MAJOR TAX EXPENDITURE INITIATIVES IN THE SURPLUS ERA (SINCE 1998) – cont'd.

CAPITAL GAINS

	1998	1999	2000	2001	2002	2003	2004	2005	
Non-taxation of capital gains on principal residences									
Partial Inclusion Rate	815	970	1000	785	1265	1060	1060	1065	
Full inclusion rate	1080	1295	1530	1575	2530	2120	2120	2130	
TOTAL	1895	2265	2530	2360	3795	3180	3180	3195	
Cumulative increase on CAPITAL GAINS on residence over 1998 levels		370	635	465	1,900	1,285	1,285	1,300	7,240

TABLE OF MAJOR TAX EXPENDITURE INITIATIVES IN THE SURPLUS ERA (SINCE 1998) – cont'd.

GENERAL BUSINESS AND INVESTMENT TAX EXPENDITURES	1998	1999	2000	2001	2002	2003	2004	2005	
Partial inclusion of capital gains	935	970	2,510	1,855	1,930	2,020	2,085	2,175	
Cumulative Increase In Levels Since 1998		35	1,575	920	995	1,085	1,150	1,240	7,000
Capital Tax Threshold Reduction	555	570	600	615	625	640	825	725	
Cumulative Increase in Levels Since 1998		15	45	60	70	85	270	170	715
Scientific Research and Experimental Development Tax Credit	1,080	1,165	1,300	1,445	1,270	1,290	1,310	1,335	
Cumulative Increase In Levels Since 1998		85	220	365	190	210	230	255	1,555
Housing Rebate (For Builders and Developers)	500	550	580	630	750	835	890	965	
Cumulative Increase In Levels Since 1998		50	80	130	250	335	390	465	1,700
Tax Rebates for municipalities	575	615	645	695	695	695	695	695	
Cumulative Increase In levels Since 1998		40	70	120	120	120	120	120	710

Source: Department of Finance Canada, Tax Expenditures and Evaluations 2003