

# The Canadian Alternative Federal Budget Project

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## What Is the Alternative Federal Budget?

Beginning in 1994, the *Canadian Centre for Policy Alternatives* and *CHOICES: A Coalition for Social Justice* began producing annual alternative budgets to counter the neo-liberal vision of Canada's federal government. The fundamental premise underlying their *Alternative Federal Budget* is that a budget embodies choices, and that the choices a government makes reflect its political values and priorities. The basic purpose of the *Alternative Federal Budget* is to explode the myth that governments have no choices and can only pursue one course of action, dictated by neoliberal doctrine. Starting from realistic macro-economic and fiscal assumptions, the *Alternative Federal Budget* demonstrates the possibility of a very different set of policies, based on the following premises:

- a commitment to full employment
- a more equitable distribution of income and wealth
- economic equality between men and women
- the protection and enhancement of basic labour rights
- safeguarding and improving the environment
- ensuring that policies that help Canadians do not exploit people in other countries
- recognizing the crucial role of public services

In addition to the production of a budget, the *Alternative Federal Budget* has been an important tool for building new coalitions in civil society. The project has brought together a wide range of groups and individual citizens from many sectors of civil society: labour, students, women, churches, anti-poverty groups, Aboriginal organizations, child care, health care, education, housing, farm coalitions, environmental organizations, international development NGOs, and other social and economic justice groups. Most of the project's financial resources have come from the trade union movement. *Alternative Federal Budget* activities and publications have included national conferences, round tables, budget schools, press conferences in many localities across Canada, as well as books, reports, and pamphlets.

When we began doing alternative budgets, we had been told for years, in Margaret Thatcher's words: »There is no alternative.« The prevailing orthodoxy said that citizens and corporations were terribly overtaxed. It said that a heavy burden of public debt had made our social programs and public services unaffordable. The prevailing orthodoxy said that the scope for national policies in this era of globalization was extremely limited, and therefore that peoples' expectations about what governments could do should be greatly reduced.

I vividly remember attending Parliamentary hearings in 1994 as Canada's federal government contemplated comprehensive neo-liberal reforms to Canada's social programs. Witness after witness came before the Members of Parliament to document the negative impact of the proposed changes. In each case, though, the parliamentarians pointed to rising government debt and asked the witnesses how the increased social spending they advocated could be achieved without worsening the fiscal situation. Most of the witnesses conceded the latter's severity; many suggested the cuts be made elsewhere than in the area they were defending. Faced with this multitude of special-interest groups unable to defend an alternative fiscal outlook, it was easy for the government to evoke the need to eliminate its deficit as a pretext for tough decisions.

In this context, an alternative budget offered a way of achieving two objectives:

- defending social programs against the imminent assault on them expected in the 1995 federal budget;
- rebuilding the shattered morale of progressive people, especially activists in the labour and social movements, by showing that the government's very own stated objective (deficit reduction) could be achieved in a less destructive, indeed in a socially progressive, way.

In producing the *Alternative Federal Budget*, we recognized the constraints that current realities impose on national policy. We accepted that unemployment, poverty and the erosion of the social infrastructure cannot be reversed overnight. However, we rejected the notion implicit in all government budgets for nearly two decades, that governments cannot do much except cut spending, deregulate, privatize, transfer responsibilities to lower levels of government, and 'free enterprise.' In our view, the state can and must play a vital and active role in society. There are alternatives to neo-liberalism.

Budgets dramatize numbers. But they are essentially about *values* and *choices*: they are political documents. This is our starting point: choices do exist. In stressing that simple message, the *Alternative Federal Budget* gave *silenced groups in society* a voice with which *to redefine the public good, and to demand renewed economic and social policies.*

### **The Policy Context and Orientation of the Alternative Federal Budget**

Challenging the government's fiscal strategy was not at first an easy matter. Canada's public debt had increased constantly from the 1970s onwards. When Pierre Trudeau left office in 1984, the federal government's debt stood at \$180 billion. When his successor Brian Mulroney left in 1993, federal government debt had risen to \$520 billion. In 1981, net federal government debt represented 30 per cent of GDP, in 1996, 75 per cent of GDP. Throughout the 1980s, Canadians had been warned again and again that public spending would have to be reined in. As the federal government ran higher and higher deficits, the Conservatives of Prime Minister Brian Mulroney embarked on a series of cuts to social programs, as did several provincial governments. However, other major political issues occupied centre-stage, in particular free trade with the United States and constitutional renewal to deal with the relationship between Canada and Quebec, as well as between Canada and its Aboriginal People. With the collapse of the last attempt at constitutional

change in 1992 and the consolidation of free trade, the stage was set for public finance to become a central political issue. The 1993 general election campaign revolved around two issues: public finance and unemployment (which had risen to 12 percent in the recession of 1992-1993). Both the Conservative Party and the Reform Party campaigned on platforms of balancing the budget within three or four years, while the Liberal Party made job creation its main promise.

The Liberals won a resounding victory. Yet, within a year of being elected, they had embraced the Conservative platform of deficit reduction. As this represented a significant change of direction for the Liberals, a huge propaganda campaign was mounted to persuade Canadians that the state was headed for bankruptcy, that excessively generous social spending was to blame, and that only massive cuts to social spending could save the day. Articles were written discussing how the finance minister, like Saint Paul on the road to Damascus, had seen the light and understood that sound finance was the key to all other endeavours.

The government, business think tanks and lobby groups, and the virtual totality of the news media announced that Canada was headed for imminent fiscal catastrophe. Typical of the general hysteria were claims that the baby boomers, in their reckless extravagance, had demanded and consumed far more social spending than the country could possibly afford, and that subsequent generations would be pauperized by the resulting debt.

Canadians were called upon to mobilize for a great collective sacrifice. Lines were drawn: on one side, »us«, those prepared to endure drastic spending cuts for the sake of their country; on the other, irresponsible people clamouring for increased spending. In announcing very deep spending cuts in presenting his budget to Parliament in 1995, the finance minister likened the advocates of increased social spending to Quebec separatists, suggesting that both were enemies of the nation.

In preparing the first alternative federal budget in such a climate, it was clear that the greatest immediate priority was to defend workers, women, and the poor, and that our budget had to target massive job creation and more generous social programs. We also realized, however, that we would not even begin to be heard if we did not also promise to reduce the government's deficit. We decided that the purpose of the 1995 AFB should therefore be to demonstrate that the government's deficit reduction targets could be achieved without cutting social spending, indeed that they could be reached while increasing social spending.

Our task, then, was:

- to show that social spending was not the cause of rising public debt;
- to expose the true culprit, monetary and fiscal policies;
- to show the devastating impact of such policies on working Canadians;
- to propose viable progressive alternatives.

The rise in Canada's public debt corresponded to a shift in the relationship between interest rates and economic growth rates in Canada. Between the 1950s and the 1980s, the rate of economic growth had always been higher than the real rate of interest on federal government debt. As a result, in spite of periodic government deficits, the debt/GDP ratio declined over time. But from 1981 to 1997, »the federal government's real interest rate (...) doubled, on average, and (...) exceeded average economic growth by more than 5 percentage points. (...) The

*combination* of higher interest rates and slower growth *directly* caused 89 percent of the post-1981 growth of the debt-to-GDP ratio (...). At the interest and growth rates that prevailed from 1950 to 1980, Canada's debt burden would have been declining since 1986, and would equal less than 30 percent today (rather than close to 75 percent at present).« (Stanford 1997).

The rapid increase in Canada's interest rate coincided with the abandonment by the federal government and the Bank of Canada of the goal of full employment and their adoption of the doctrine of the »non-accelerating inflation rate of unemployment« (or NAIRU). Their main priority became the fight against inflation. As a means of doing this, the Department of Finance and the Bank of Canada pegged at 8.5 percent the NAIRU, or the level of unemployment below which inflation would begin to rise.

The fight against inflation was waged using high interest rates. This policy helped bring about the deepest recession in Canada since the Great Depression. The introduction of free trade with the United States in the context of then prevailing exchange rates exacerbated the economic devastation of Canada's manufacturing sector. Unemployment and poverty soared. High interest rates and stagnation meant that government revenues dropped while Unemployment Insurance and social assistance payments increased.

The essential strategy we proposed was a massive job creation program (400,000–500,000 jobs per year). This was to be achieved in two ways: cutting interest rates (using the power of the Bank of Canada) and direct public investment. The goal was both to leverage the creation of jobs in the private, co-operative, and not-for-profit sector, but also to expand the public sector by injecting billions of dollars into Canada's environmental, social and physical infrastructures: health care, home care, child care, public transportation, waste water treatment facilities, waste reduction and recycling, retrofitting houses and public buildings, building housing co-operatives and other forms of social housing.

In the face of a direct correlation between poverty and hours worked, we proposed measures to redistribute not only wealth, but also working time, to reduce the standard work week and limit overtime, while stemming the rise of part-time, temporary and contract work. We also stressed policies both to recognize the importance of unwaged labour (domestic and volunteer work) and to increase the participation of women in wage labour. These included massive investment in child care, but also changes to the unemployment insurance, social assistance, family allowance, and pension programs.

These measures were to be paid for through the imposition of an inheritance tax for legacies over \$1 million, of a tax on excessive profits by banks and other financial institutions, of a minimum tax on corporations, and of higher taxes on wealthy Canadians. Lower- and middle-income Canadians, on the other hand, would under our budget have enjoyed tax relief. I should also mention that the Alternative Federal Budget proposed a carbon tax and supported the taxation of international financial transactions (a Tobin Tax).

In subsequent alternative budgets, the same general policies were pursued: boosting employment, increasing government spending, redistributing the tax burden. After 1997-1998, interest rates had begun to fall, the federal government's deficit had melted away, the economy was growing, and unemployment was drop-

ping. Indeed, it became clear that given existing taxation and spending levels, the federal government would start running growing budget surpluses.

Suddenly, we no longer heard talk about the imminent bankruptcy of the state. Rather, we began to be told, again and again and again, that taxes were too high! Now, the business sector claimed, our economic competitiveness was at stake and only radical tax cuts could save us. Having driven the state to shed its role in job creation and to beggar its social programs, the neo-liberal plan was now to remove its fiscal capacity to restore what it had cut. The focus of the *Alternative Federal Budget* therefore shifted away from interest rates and job creation measures, to exposing the iniquitous impact of tax cuts and to promoting the rebuilding of public services.

### **Structure and Process of the Alternative Federal Budget**

An alternative budget serves several purposes. It provides a space for policy analysis and development. It offers a platform from which to publicize an oppositional point of view. It serves as a forum in which policy differences can be aired among friendly organizations. It proves a valuable vehicle for coalition building. It helps in the work of economic education.

Given these diverse functions, it is not surprising that there were tensions in the project from the start – between grassroots activists and national organizations, between propaganda, coalition-building and policy development – which were reflected in the organizational divisions of the project and the different documents produced. Thus we had a national steering committee in Ottawa that set the general direction and made the final decisions (by consensus), as well as a working group in Winnipeg that prepared policy papers and co-ordinated regional activities. We organized local workshops and national conferences. We published leaflets aimed at a mass audience, but also sophisticated technical documents accessible only to experts. We aimed to empower activists, but felt the need to impress the media by having researchers with doctorates present our budgets.

The important point is that such tensions are healthy; I feel that we were fortunate to experience them. I think that we were able, at least at first, to tap the creativity and energy of people working at different levels, and to accomplish a range of different things. Each year, we embarked on a six-month process from August to February, culminating in the publication of our budget at a national press conference two or three weeks before the Finance Minister's budget. A host of meetings, workshops, conferences and round tables occurred during this period, leading not only to the publication of a variety of documents directed at diverse audiences, but also to many new personal and organizational collaborations, especially at the local and regional level.

### **What Impact Has the Alternative Federal Budget Had?**

How well has the Alternative Federal Budget fulfilled these many functions? Its direct influence on government is difficult to demonstrate. As the overall direction of our budget was diametrically opposed to that of the government, it would have been surprising to see the latter adopting our prescriptions. Still, in the earlier

years, the finance minister himself always read our budget; until 1999, we had a meeting with him each year after the publication of our alternative budget.

It is clear that we have succeeded in establishing ourselves as an important public voice on government finance. The mainstream electronic and print media (especially the CBC, the state-run radio network) give us good coverage. We used to have to run after them to get their attention. Now they seek out our views. As a result, we help shape the public debate over the budget.

Some would argue that we owe our success with the media to the fact that we are so mainstream, so liberal. Our budget is at best moderately *redistributive* of wealth, hence its preoccupation with monetary policy, shifting the tax burden, and social spending; attention is given to the production of wealth only as a condition of distributing it – economic growth is to be fostered in order to create jobs and increase social spending; even when potentially more radical proposals, such as shortening working hours, are evoked, it is only in order to draw out their least far-reaching implications, such as creating jobs. With the exception of gestures towards feminist and green economics, the prevalent economic and social model is not questioned. There is not enough sense that there is anything wrong with the nature, structure and process of production, except that there is too little of it and its fruits need to be more widely distributed.

Over the last couple of years, although it still exists and produces some documents, the project has lost much of its momentum. Partly, I think this has to do with fatigue. We reached a plateau in 1997 and 1998. Thereafter, it felt that we were repeating the same formula every year. We failed to renew ourselves and to fire the imagination of our potential supporters. All the participants agree that we must do things differently if we are to continue. However, that future direction is still to be determined.

Still, our achievement was not negligible. Originally developed by our partner organization *CHO!CES* in the form of alternative budgets for the city of Winnipeg and the province of Manitoba, the idea of alternative budgeting has spread across the country. The Canadian Centre for Policy Alternatives now publishes alternative budgets for half of Canada's provinces: British Columbia, Saskatchewan, Manitoba, Ontario, and Nova Scotia. A coalition of environmental organizations every year develops a »green budget.« Even the Right has caught on. The most influential pro-business think tank in Canada, the C.D. Howe Institute, recently published a »shadow« budget. Groups have even developed alternative budgets for universities and local authorities responsible for schools.

Over the better part of a decade, we brought together a significant number of national and regional organizations in common cause and in a spirit of solidarity to work out an alternative policy platform. Most importantly, we empowered activists at the grassroots, especially in the labour movement. At a time when *la pensée unique* was overwhelming and there appeared to be no alternative, we showed that a significantly different road could be imagined, even in quite mainstream economic terms. The Alternative Federal Budget project will continue. Its potential is too great for it to cease.

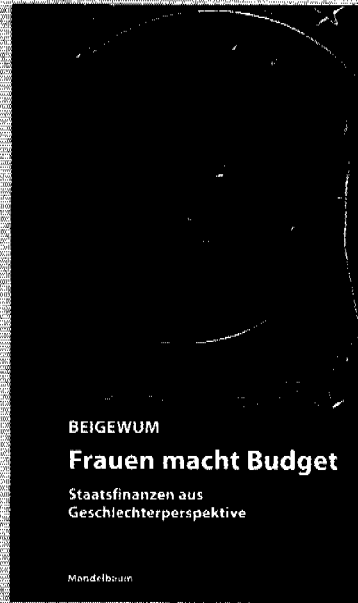
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# Frauen Macht Budget!

Staatsfinanzen aus  
Geschlechterperspektive

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Budgetpolitik ist ein Kernelement staatlichen Handelns. Noch immer wird versucht, die Budgetpolitik als neutrales Instrument darzustellen, das Frauen und Männer gleichermaßen zugute kommt. Im Zusammenhang mit der Kritik an den Sparbudgets der letzten Jahre wurden auch in Österreich erste Frauenstimmen laut, die auf die geschlechtsspezifisch unterschiedlichen Wirkungen von Budgetpolitik hinwiesen. Es zeigt sich, dass viele der Sparmaßnahmen besonders zulasten von Frauen gehen. Das vorliegende Buch knüpft an dieser Diskussion an und vertieft sie. Angesichts der enormen geschlechtsspezifischen Unterschiede verwundert es, warum WirtschaftspolitikerInnen bislang diese Fragen ignorieren. Es ist höchste Zeit, dass wir Frauen diesen Politikbereich erobern und im Sinne einer solidarischen und emanzipatorischen Gesellschaft umgestalten. **Frauen macht Budgets!**

Aufbauend auf bereits langjährigen internationalen Arbeiten zu »geschlechtergerechten Budgets« wird im Buch die Wirkungsweise des österreichischen Bundesbudget analysiert. Aus feministischer Sicht sind die Defizite der österreichischen Budgetpolitik groß. Sie reichen vom »Vergessen« der strukturellen Frauenbenachteiligung in der Budgetpolitik bis hin zum undurchschaubaren männerdominierten Budgeterstellungprozess. Das Budget ist und bleibt in Zahlen gegessene Gesellschaftspolitik. Die Autorinnen nehmen erstmals das österreichische Budget unter die feministische Lupe und spannen den Bogen von der Theorie bis zur österreichischen Budgetpraxis. Die Kritik an der herrschenden Wirtschaftspolitik besteht im Aufzeigen der Geschlechterdifferenzen bis hin zur »Vergeschlechtlichung« (engendering) der politischen Konzepte.

Das Buch soll Frauen ermutigen, sich diesen Fragen zu widmen und sich in die wirtschaftspolitische Debatte einzumischen. Aber gleichzeitig ist es eine Aufforderung an die Regierungen – auf nationaler, regionaler und lokaler Ebene – in Zusammenarbeit mit zivilgesellschaftlichen Organisationen auf eine geschlechtergerechte Budgetpolitik hinzuwirken.