

MACLEAN'S

Flaherty gets generous

Budget pledges billions for provinces, environment

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The followup:

- After weeks of speculation as to whether the government would fall on it, Jim Flaherty's second budget is set to pass courtesy of support from the Bloc Québécois. "We will support the budget," Bloc leader Gilles Duceppe [told](#) CTV Newsnet just after it was tabled.
- The Liberals are not expected to support the budget, and John McCallum was not going overboard to feign objectivity. "I'm the Liberal finance critic - what do you think I think?" the veteran MP said outside the House of Commons. Specifically, McCallum told *Macleans.ca* that "it does virtually nothing to help Canadians of moderate income." At the same time, he said, "when a government is drowning in money, it has an obligation to Canadians to offer some kind of vision for the future on the economy - how we're going to compete in the 21st century with the giants of the world. We need competitive taxation and money for research and education and there's nothing there."
- Garth Turner, a recent convert to the Liberals, was reading from a somewhat different playbook. The former Conservative MP complained primarily about the lack of tax relief, telling *Macleans.ca* he had expected "a knockout punch" that might include "income splitting and a broad-based income tax cut." Turner conceded, though, that ending the so-called marriage penalty is "a good thing - a small tax cut, but a worthwhile one."
- Once reviled by environmental groups, the Tories have graduated to mixed reviews. Julie Gelfand of the Green Budget Coalition told *Macleans.ca* that the budget is "terrible for climate change," complaining that "measures are either too small, too little [or] too late." But she acknowledged that "there are some other things that are good" - notably funding for endangered species.
- While suggesting that the ample federal surplus is proof Ottawa is still collecting too many taxes, Canadian Federation of Independent Business president Catherine Swift was generally pleased with what she saw. Calling it "quite a comprehensive budget," she lauded Flaherty's efforts to pay down the federal debt and told *Macleans.ca* that the personal tax reductions "were targeted in the right place."

- The budget appears to be playing well with social conservatives, with David Quist of the Institute for Marriage and the Family telling *Macleans.ca* that "the elimination of the marriage penalty is a good start." Quist did not take issue with funding for HPV vaccinations, criticized by some religious groups in the United States for encouraging promiscuity. But he did express regret over the decision to transfer child care funding to the provinces, saying that he would "rather see more money get into the hands of parents so they can make those choices," or failing that into the hands of businesses rather than government.
- Gerry Barr of the Canadian Council for International Cooperation expressed disappointment with the amount of foreign aid offered, telling *Macleans.ca* that the budget represents "a failure of performance against election promises made." But John Kelsall of Health Partners International had high praise for the tax credit for companies that donate pharmaceuticals to developing countries. "The system that is proposed is actually in place and has been running in the United States, and it works," he said.
- Anti-poverty activists had little good to say about what Flaherty had to offer. "Fundamentally, from our point of view, there's no comprehensive vision for poverty reduction in Canada, there's no new money for affordable housing," Rob Rainer of the National Anti-Poverty Association told *Macleans.ca*. "There is nothing in this budget that would reflect that as a priority. I'm not entirely surprised, but one of the slogans is a safer Canada and a better Canada - but for a better Canada, we have to look after the most vulnerable in our society."

The story:

OTTAWA - Finance Minister Jim Flaherty made the "fiscal imbalance" and the environment the focal point of his second budget, delivered Monday afternoon in the House of Commons.

Flaherty is pledging \$39-billion for the provinces - including \$12.7-billion in equalization payments in the next year, a commitment to per capita funding for the Canada Health and Social Transfers and \$16-billion in infrastructure spending.

As for the inclusion of natural resources revenues in equalization funding, the budget presents provinces with a special one-time offer to either move to the new formula - which will exempt only 50% of resource revenues from subsequent calculations - or to remain under the existing formula. The catch is that once a province has made its choice, it can't go back - even if it turns out that it would be better off under Flaherty's new formula.

As reported last week, the Conservatives have also backed away from their plan to offer tax incentives to businesses to create child care spaces. Instead, they will transfer the bulk of the money - approximately \$250-million per year - directly to the provinces.

While Ottawa is preoccupied with Flaherty's funding for the provinces, particularly in light of next week's Quebec election, it shares top billing with green policies in the budget presentation documents.

In total, the Tories have pledged to spend more than \$4.5-billion on green initiatives. That includes \$1.5-billion for the ecoTrust Fund for clean air and climate change - nearly half of which has already been promised to the provinces in recent weeks.

In what is described as a "rebalancing" of the tax system, the accelerated capital cost allowance for the oil sands development will be phased out, beginning in 2010.

Other environmental commitments include a \$2,000 rebate for buying fuel efficient cars and a levy on "gas guzzlers"; \$2-billion for the development of renewable fuels; a doubling in the number of environmental enforcement officers; and \$110-million to better protect endangered species. The government will also launch a National Water Strategy to clean up lakes and new standards for safe drinking water for First Nations, as well as pollution prevention along Canada's coasts and increased funding for science and research.

Tax savings and "tax fairness"

Flaherty's skate-shopping excursion on Sunday afternoon was more than just a photo-op - it was a sneak peek at the Working Families Tax Plan, which includes a \$2,000 tax credit for dependents under the age of 18. According to the Finance Minister, that means \$620 for a single-earner family making \$37,000 per year.

"That's money families can use to buy new shoes or clothes for their children, or save for a new computer," Flaherty told the House on Monday. "Or even to buy a new pair of hockey skates - just like I did yesterday for my son John."

For families with kids under six, more than half of the new tax credit will be offset by the fully taxable \$100 per month child care allowance. But the budget will eliminate the so-called "marriage penalty" by increasing spousal and dependent deductions to the same level as the basic personal exemption, resulting in total savings of "up to \$209."

But while the Finance Minister giveth, he won't entirely stop taking away. "Everyone's going to pay their fair share," Flaherty told the Commons. "Tax fairness for everyone. That's our Canada."

That means more money to enforce existing tax laws, particularly in relation to the use of offshore tax havens. The government will also make it illegal for companies to borrow money in Canada to fund operations abroad, which Flaherty claims has resulted in Canadian taxpayers "indirectly subsidizing the foreign operations of multinational corporations," resulting in diminished business activity and job losses back home.

And he has a special message for "creative tax planners" out there: find another loophole and he'll close it down "every time."

Health care

This budget marks the triumphant return of the Tories' fifth priority - eliminating lengthy waiting lists.

Flaherty has pledged \$612-million for the Patient Wait Times Guarantee Trust, which will provide additional funding for provinces that have "publicly outlined" plans to reduce wait times in at least one of the five "priority areas": cancer treatments, joint replacement, sight restoration, diagnostic imaging and heart procedures. An additional \$30-million will be available for related "pilot projects" over the next three years.

The budget also includes a \$400-million boost for the Canada Health Infoway to support the evolution toward universally accessible electronic health records.

The government will spend \$10-million on the establishment of a Canadian Mental Health Commission, to be chaired by retired Liberal Senator Michael Kirby, which will develop a national strategy on mental health. As well,

it has earmarked \$2-million for the Canadian Medic Alert Foundation to support an initiative to provide free MedicAlert bracelets to all children with serious conditions such as peanut allergies and diabetes.

Slightly more contentious may be the \$300-million earmarked for the provinces to vaccinate girls and women against HPV - the sexually-transmitted virus responsible for 70% of cervical cancers. In recent weeks, several American states have been forced to back down from making the vaccine mandatory after social conservatives objected to it on the grounds that it could promote promiscuity.

Education and social programs

An extra \$800-million in transfer payments will go to the provinces to improve the "quality and competitiveness" of Canadian colleges and universities. And graduate students will be eligible to apply for support from the Canada Graduate Scholarships program, which will be administered by existing federal research agencies.

The Conservatives are also sweetening the pot for parents who invest in the existing Registered Education Savings Program, removing the \$4,000 annual limit and increasing the maximum grants to \$500.

Universities will also benefit from \$510-million in new money for the Canada Foundation for Infrastructure, as well as \$120-million for CANARIE Inc. - the research broadband network that links Canadian universities, research facilities and hospitals. Other research initiatives include \$85-million for federal granting councils; \$500-million for labour market training, which will be universally accessible; \$350-million for the development of Centres of Excellence in Commercialization and Research over the next three years; and and \$105-million for the Aboriginal Skills and Employment Partnership.

Defence

The operating budget for the Canadian Forces will see a \$175-million increase, courtesy of the acceleration of the Canada First defence plan announced last year.

Meanwhile, the Canadian Coast Guard will receive \$324-million to buy six new vessels.

The environmental allowance for soldiers serving in the army will increase at a cost of \$60-million and another \$10-million will go toward supporting Canadian Forces members, veterans and families contending with "stress injuries."

The government will also follow through on its commitment to establish a Veterans' Ombudsman, who will make sure that the level of care meets the standards set out in the Veterans Bill of Rights.

Crime and punishment

To bolster the Conservatives' law and order credentials, the government will invest \$64-million in a National Anti-Drug Strategy - from busting meth labs and grow-ops to treating addiction.

The Tories are committing an additional \$6-million for the RCMP to combat the sexual exploitation and trafficking of children.

Meanwhile, first-time firearms owners will face a beefed-up front-end screening process at a cost of an additional \$14-million per year, and Canada's embassies and consulates will get \$11-million over the next two years to increase infrastructure security.

The budget includes an \$80-million increase to the budget of the Canadian Security Intelligence Service and \$102-million for the Correctional Service of Canada. On the local front, Canadian firefighters will benefit from \$1-million in funding for a hazardous materials training program and the Canadian Police Research Centre gets \$10-million.

Arts and culture

Ottawa will also kick in \$52-million for the 2008 Francophonie Summit in Quebec City, as well as \$30-million to support "arts and heritage festivals" - arguably a small node to the dire financial straits many local events found themselves in following the cancellation of the sponsorship program.

The budget also includes \$5-million for museums to hire student interns; \$30-million for minority language communities; \$5-million toward the creation of Canada's National Trust, based on the British model, which will protect buildings, land and "national treasures"; and \$1.5-million for the Canadian Heritage Sport Fund, which will support distinctly Canadian sports (specifically "three-down football" and lacrosse).

Other initiatives

- \$2.1-billion for gateway and border crossings, including Windsor/Detroit
- The creation of a common securities regulator
- Increased international cooperation on tax policy
- A tax credit for donating pharmaceuticals to developing countries
- More money for international development