

Canadian Association of University Teachers
Association canadienne des professeures et professeurs d'université

CAUT Analysis of Federal Budget 2012



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The 2012 federal Budget marks the beginning of a painful and unnecessary fiscal retrenchment. Despite boasting one of the lowest debt-to-GDP ratios amongst industrialized countries, the Conservative government is pressing ahead with deep cuts of more than \$5 billion across departmental budgets by 2014-15. In the process, programs and services will be eliminated and more than 19,000 public sector jobs will be lost.

There are severe cuts to overseas development assistance and cultural programs, including a 10 per cent reduction in the budget of the CBC and a \$9.6 million reduction in funding for Library and Archives Canada.

Social programs are also targeted. One of the most controversial initiatives, based on little evidence, will see the eligibility age to collect Old Age Security and the Guaranteed Income Supplement rise from 65 to 67 beginning in 2023.

With ongoing weakness in the Canadian and global economies, high unemployment, and growing inequality and unacceptably high rates of poverty, the federal government could have chosen a slower and more sustainable path to fiscal balance by focusing on investments to boost employment through programs like health, social services, education and research. The federal government has the fiscal room to do so and such action would have helped offset some of the austerity measures being imposed at the provincial level.

However, faced with the choice, the Conservative government opted to table a budget that eliminates rather than creates jobs, plunges more seniors into poverty, ignores the environmental crisis we face, and does virtually nothing to address scandalously high levels of youth unemployment and student debt. Billed as a plan for “jobs, growth and prosperity”, the Budget in fact threatens to kill jobs, put a brake on the recovery, and hinder long-term sustainable development.

For post-secondary education and research, Budget 2012 is a profound disappointment. While there were no cuts to cash transfers to the provinces in support of education, the planned 3 per cent increase is too little to offset inflation and enrolment increases. The federal government should have done more. Most of the provinces have far less fiscal room available to adequately fund health care, social services and post-secondary education.

The most disturbing aspect of the Budget for the sector, however, is in research. Here, the government has fully embraced targeting and commercialization, at the expense of investments in basic research. The National Research Council (NRC) is being transformed into a service centre for industry. The federal granting agencies receive no new money this year, and face a cut in the next two fiscal years.

Fiscal Outlook

The federal government’s fiscal situation has improved since the Fiscal Update was delivered in November, 2011. The deficit for 2011-12 has been revised from \$31 billion to

\$24.9 billion. The deficit for the next fiscal year is projected to be \$21.1 billion, with a balanced budget conveniently forecast just before the next federal election in 2015.

The reduction in the deficit after the current fiscal year comes largely as result of cuts in program spending from 14.7 per cent of GDP in the current fiscal year to just 12.9 per cent in 2015-16. By contrast, growth in revenues as a share of GDP is flat over the next three years, and rise only modestly after that.

The focus on deficit reduction through spending restraint and cuts in the Budget is hard to justify. There remain a number of serious global and domestic risks to the short-term economic outlook, and expenditure reductions could stall what is a fragile recovery. Unemployment, particularly amongst youth, remains high when compared to pre-recession levels.

Budgetary revenues and expenses as a share of GDP						
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Tax revenues	11.8	11.8	11.8	11.9	12.1	12.1
Other revenues*	2.8	2.6	2.5	2.7	2.6	2.7
Program spending	14.7	14.1	13.8	13.4	13.1	12.9
Public debt charges	1.9	1.8	1.8	1.7	1.8	1.8
Total expenses	16.6	15.9	15.6	15.1	14.9	14.7
Deficit	-2.1	-1.5	-1.2	-0.6	-0.1	0.2
Federal debt	33.9	33.9	34.4	33.2	31.6	30.1

* including Employment Insurance premiums

In fact, the federal deficit and debt are not major problems at this time. The federal debt as a share of GDP remains lower than that recorded in 2005-06 and is lower than other G-7 countries. In the absence of any spending cuts, the deficit would continue to fall if there was a sustainable recovery in jobs.

Post-Secondary Education and Training

Given that the federal government's fiscal situation is improving rapidly in the absence of program cuts, the Budget could have done more to assist the provinces in meeting rising demand for education and training. Budget 2012 offers no new money for post-secondary education through the Canada Social Transfer (CST) other than already built-in increases. The cash value of the CST will rise by 3 per cent next year, from \$11.5 billion in 2011-12 to roughly \$11.8 billion. Of the latter amount, roughly \$3.6 billion will be available for post-secondary education, an increase of just over \$100 million from the current fiscal year.

The federal government clearly has the fiscal room to make a more significant investment in post-secondary education. Such an investment is particularly urgent at a time when many provincial governments have already signaled they plan to slow or reduce their investments. Budget 2012 should have done more to assist the provinces in meeting rising enrolment demand, attracting and retaining academic staff, ensuring that university and college education is more affordable, and providing labs, libraries and other facilities with sufficient resources. Without a significant contribution from the

federal government, many provinces will be unable to provide sufficient operating grants to universities and colleges.

Strikingly, Budget 2012 provides no relief for students struggling with heavy debt loads and rising tuition fees and other costs.

Given the talk of skills shortages in some sectors, it is surprising that there are no significant investments in adult education and training in the Budget. Instead, the government is overhauling the immigration system and temporary foreign worker program to become more “flexible” and so that applicants meet immediate labour market needs. There is also a modest increase of \$50 million over two years in the Youth Employment Strategy and \$275 million over 3 years for Aboriginal education and training.

For the 40 per cent of Canada’s unemployed workers who are ineligible for EI benefits, the Budget offers a mixed bag. On the one hand, the government says it will “strengthen and clarify what is required of claimants” in order to maintain their eligibility. Additional resources are being allocated to enforce these measures. On the other hand, there is a proposed change to allow unemployed workers to keep more earnings if they take on temporary work.

Post-Secondary Research

The research funding initiatives in the Budget are particularly worrisome. The government has clearly embraced a narrow commercialization agenda for research, ignoring the long-term value of basic research.

There are no increases in the budgets of the three federal granting councils. In a crude sleight of hand, the government says that “savings” of \$37 million from “low priority” areas this year will be “reinvested” in programs designed to support academic-industry partnerships. What programs will be eliminated are not mentioned, nor is there any indication of whether the so-called savings will be “reinvested” in the next fiscal year. Overall, it means at best a freeze in funding for basic research this year.

In addition, the granting agencies are facing budget cuts that the government says will not affect “support of basic research, student scholarships, and industry-related research initiatives and collaborations.” Ongoing funding for NSERC and CIHR will be \$30 million lower each by next year while SSHRC’s budget will be reduced by \$14 million.

The cuts come on top of a real inflation-adjusted decline in base funding NSERC, SSHRC and CIHR. In the 2009 Budget, funding for the three granting councils was reduced by \$147.9 million over 3 years, leading to the elimination of a number of programs in support of basic research. Budget 2010 increased funding by just \$32 million per year. Budget 2011 allocated an equally modest boost of \$37 million, with an additional \$10 million allocated to the Indirect Costs Program administered by SSHRC.

Adjusted for inflation, the granting councils have seen steady erosion in their base budgets even with the recent increases. Between 2007-08 and 2011-12, funding for SSHRC will have declined by over 10 per cent in real terms.

NSERC's funding is down a more modest 1.2 per cent, while core support for CIHR will have declined by 4.1 per cent.

	2007-08	2008-09	2009-10	2010-11	2011-12	% change (2007-12)
SSHRC	383.7	358.1	350.4	342.5	342.6	-10.7%
NSERC	1057.9	1051.8	1070.6	1050.7	1044.8	-1.2%
CIHR	1017.8	989.8	1001.8	980.8	976.3	-4.1%
Indirect Costs	327.8	335.7	330.9	322.4	325.9	-0.6%
Total	2787.2	2735.4	2753.6	2696.4	2698.6	-3.2%

Other research initiatives in the Budget states that Genome Canada will receive an additional \$60 million on top of \$65 million provided in last year's Budget to sustain its operations until 2014-15.

In what has become an entrenched and disturbing practice, the Budget provides some additional funding targeted to specific institutes and projects. A new Canadian Depression Network and Intervention Network will be established with initial funding of \$5.2 and lead in conjunction with the Mood Disorders Society of Canada and the Canadian Mental Health Commission. A research project at McMaster University investigating ways of making health care more cost-effective will receive \$6.5 million over three years. The Canadian Institute for Advanced Research is allocated \$10 million over two years, while the Canadian Foundation for Innovation is awarded \$500 million over 5 years beginning in 2014. There are a range of other modest investments in government science, including support for upgrading the satellite stations of Natural Resources Canada, and \$107 million over two

years to support Atomic Energy Canada's laboratory operations.

As announced earlier in March, Budget 2012 unveils a dramatic restructuring of the National Research Council. The NRC's basic research program will be effectively eliminated, and the council will be "realigned" to meet business needs. As part of this process, the NRC will receive \$67 million in 2012-13 to support the "refocusing on business-led, industry-relevant research." In addition, the NRC's Industrial Research Assistance Program will see its budget double with an additional \$110 million per year. The Industrial Research and Development Program which places graduate students in the private sector will also have its budget doubled with an increase of \$14 million per year. The Business-led Centres of Networks of Excellence Program will be made permanent with a \$12 million per year funding commitment. The Forest Innovation Program and the Innovation Commercialization Program also receive funding increases.

Much of the money to fund these increases will come from an overhaul in the Scientific Research and Development tax credits. These credits, long recognized as ineffective given the poor track record of private research in Canada, will see the range of eligible expenses narrowed. As well, the government is proposing some technical changes used to calculate research and development overhead expenses and the value of arm's-length contracts.

Budget 2012 marks a disturbing development for research and science policy in Canada. The de facto freeze in the base budgets of the

granting councils and a redirection in funding to applied research means less money for basic research. Real cuts for the following two years will only make the problem worse. The lack of support for the granting councils stands in stark contrast to the new funding to support the transformation of the NRC into a business-focused research institute and the host of other commercialization initiatives in the Budget.

The government clearly undervalues basic research in favour of a narrow focus on commercialization that, ironically, in the long-term will actually hinder innovation. The most fundamental advances in knowledge that lead to innovative applications have their origins in basic scientific research with no predicted commercial outcomes.

Pension Reform

As widely expected, the Budget announces controversial changes to the Old Age Security and Guaranteed Income Supplement programs. Beginning in 2023, the eligibility age for these benefits will begin to rise from 65 to 67, with a six year phase-in period. It means that anyone currently over the age of 53 will not be fully affected, but those born after January 1, 1962 will have to wait a full 2 years to collect OAS and GIS. The government is also providing an incentive for those currently approaching retirement by enriching benefits if they defer collecting OAS.

In the Budget, the government argues unconvincingly that an ageing population means these programs are unsustainable. Most experts, including the OECD and the

Parliamentary Budget Officer, have shown that the program is perfectly sustainable and affordable.

Canada does have a retirement security crisis, but raising the retirement age is the wrong way to deal with the real problems. The public pension system is one of the least generous in the OECD, most people are not covered by private pension plans, and given record high levels of household debt most Canadians cannot afford to make significant contributions to registered retirement plans.

Both OAS and GIS have been instrumental in helping to reduce poverty amongst older Canadians and raising the retirement age will adversely affect the most vulnerable. Those who are ill, disabled or otherwise unable to work will have to remain on provincial social assistance or disability allowance an extra two years. In the future, poverty rates for those between 65 and 67 will likely be twice as high as today.

There is also a fundamental question of inter-generational fairness in this change. Younger people, already struggling with high student debt, poor employment prospects, and a decline in wages are now facing the prospect of working longer and receiving less than previous generations. There are many serious challenges facing youth in Canada, but this Budget does nothing to address them.

Spending Cuts

Budget 2012 reduces federal spending by \$5.2 billion. This comes on top of previous “strategic reviews” that cut spending by \$2.8 billion between 2007 and 2011.

The spending cuts are not spread evenly. Departments and agencies that will have their budgets reduced by 10 per cent or more include Transport, Treasury Board, Public Service Commission, Natural Resources Canada, Finance, Shared Services Canada, and Agriculture and Agri-Food Canada. More than 19,000 public sector jobs will be eliminated.

The Budget provides few details on what specific programs will be affected, instead claiming that savings will be made through “efficiencies”. However, programs will not be spared and some have already been cut or eliminated. The Katamivak program for youth is being eliminated. Library and Archives Canada will see a reduction of \$9.6 million over three years and the National Arts Centre is losing \$1.9 million over the same time period. The CBC’s budget is being cut by \$115 million or roughly 10 per cent over 3 years while the National Film Board faces a reduction of \$6.7 million.

Government science will also be reduced. Statistics Canada’s budget will be reduced by nearly \$34 million on an ongoing basis by 2014. The Canadian Space Agency faces a reduction of nearly \$30 million, while Fisheries and Oceans Canada will have a \$79 million shortfall.

Overseas development assistance destined for some of the world’s poorest will be reduced sharply, falling \$319 million over three years. Despite the climate change crisis we face, the National Roundtable on the Environment and the Economy will be disbanded.

Meanwhile, the government is promising to cut “red-tape” for businesses by speeding up

the environmental review process, and promoting “responsible resource development”.

In what may be a hidden ironic twist, the Budget will leave Canadians not only figuratively but literally penniless. The one-cent coin will be phased out beginning this year for a saving of \$11 million.

Conclusion

Budget 2012 is an unneeded and unjustified exercise in austerity. It dramatically downsizes government at a time of rising inequality, a soft labour market, record high household debt and diminishing opportunities for young people and the unemployed. There is nothing in the budget to provide real help to the unemployed, to address pressures in the health care system, to combat poverty and homelessness, or to invest in education and training.

The government’s deliberate inaction on a range of pressing social issues needs to be questioned. Given that the fiscal situation has improved, more could have been done to sustain the recovery and help confront some of the major social and environmental challenges we face. Even a reversal of last year’s corporate tax cut would have freed up nearly \$6 billion for health care, seniors, the environment, and education. In fiscal 2011-12 alone, it is estimated that tax cuts introduced by the Conservative government will cost more than \$50 billion in foregone revenue. Budget 2012 missed the opportunity to revisit these poor decisions made in recent years.

In the meantime, Budget 2012 should have done more to address the emerging needs in post-secondary education and research. With many provinces now struggling with comparatively higher deficits and debts, the federal government could have helped make the needed investments in the core operations of universities and colleges. The continuing underfunding of the granting councils and the shifting of resources away from basic

scientific research remains a serious concern and a weakness. Failing to invest in independent peer-review research will continue to make it more difficult for the research community to serve the public interest by advancing knowledge and promoting the economic, social and cultural development of Canada. The government has failed to learn a basic lesson: you cannot cut your way to prosperity.