Canadian Union of Public Employees

Submission to the

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Consultations for the 2011 Federal Budget

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Introduction

Thanks to concerted action by governments, Canada's economy has started to recover from the recession, but still has some way to go:

- Job levels have almost reached the level they were going into the recession. However, the number of unemployed at 1.5 million and the unemployment rate 30% higher than two years ago.

- Canada's GDP has just recovered the ground it lost during the recession, but a significant output gap remains.

There's no question: if governments in Canada and around the world hadn't worked together to stimulate the economy after the financial crisis, our economic situation would have become and remained much worse.

The hope among many is that federal and provincial governments will be able to phase out stimulus measures and rely on private investment to provide momentum for future economic growth.

However, this remains little more than hope.

Despite fast growing profits and the promise of yet more corporate tax cuts, business investment remains stagnant—and is still 25% below what it was on the eve of the recession. And with household debt at record levels, a softening housing sector and interest rates set to rise, there's little foundation for self-sustaining private sector growth at this time.

This is why so many economists have warned about the danger of removing stimulus measures so soon and imposing austerity measures on the public sector. If cuts don't actually lead to a stalled recovery and a double dip, they will undoubtedly result in slower growth and higher unemployment—in addition to the human and social costs caused by reductions to public services and support.

It's not just short-term economic challenges that we face. Even before the financial crisis and ensuing recession, decades of strong economic growth failed to deliver substantial improvements to the living standards for a large majority of Canadian families. Median family income and workers wages have remained stagnant in real terms for the past quarter century.

Canada's productivity growth became flat as our economy has reverted to dependence on resource extraction, finance and consumer services. Corporate and government debts were much reduced, but largely because costs were offloaded onto escalating infrastructure and environmental deficits.

A return to these business-as-usual policies isn't going to help Canadian families get further ahead. They will just lead to more boom-bust cycles through which a few get wealthy, but most are left behind.

Infrastructure stimulus spending is crucial over the short-term, but government should now make the transition to longer-term support in a number of strategic areas to lay the foundation for a more stable, balanced and productive economy.

This needs to be combined with rebalanced and realigned fiscal priorities—both at the federal level and with provincial governments.

In previous years we've proposed specific programs such as a national early learning and child care, long-term care for seniors and increased support for First Nations. These remain important, but we recognize that there won't be much political appetite for these more ambitious measures until the economy strengthens and deficits decline.

This doesn't mean the coming federal budget should do nothing—or implement more cuts. On the contrary, that would cause far more damage. Instead, there are a number of more modest and affordable measures that would go a long way to strengthening the economy, protecting the vulnerable, investing in the future and rebalancing our fiscal priorities.

These include:

- Extending support for employment insurance;
- Increasing GIS benefits by 15%;
- Extending infrastructure stimulus deadlines and funding;
- Creating a National Clean Water Fund;
- Supporting Green Job Creation;
- Protecting the value of provincial transfers;
- Improving the effectiveness and fairness of tax system;
- Cancelling the $16 billion sole source jet contract and restoring funding for poverty and environment.

Extend support for Employment Insurance

Close to 1.5 million Canadians remain unemployed, 350,000 more jobless than at the start of the recession. Also troubling is the fact that the number of long-term unemployed has almost doubled.

With the extensions to EI benefits set to expire on September 11th and growth in the job market stalling, thousands will be forced into poverty unless the federal government extends the duration of these benefits into next year. This will also lead to increased costs for provincial and municipal governments who have to shoulder the burden when the federal government cuts its support for social programs. The federal government should also extend EI training benefits and eligibility for the work-sharing program.

Another year's extension of these measures would cost less than $1 billion—far less than the over $50 billion that was appropriated from the EI fund during previous years.

Increase Guaranteed Income Supplement benefits for seniors by 15%

CUPE strongly supports efforts to increase coverage of Canada Pension Plan so it provides seniors with retirement benefits of up to 50% of the average wage. However, many seniors with low incomes, particularly women, could still live in poverty unless the federal government increases benefits provided through the federally-funded Guaranteed Income Supplement for low-income seniors.

Increasing the maximum GIS benefit by 15% would increase the annual individual payments under this program to just over $9,000 a year—and help lift the remaining 200,000 seniors out of poverty—at a cost of less than $1 billion a year.

Extend Infrastructure Stimulus Deadlines and Funding

The $4 billion Infrastructure Stimulus Fund has been central to the federal government's stimulus measures. It has not only created well over 80,000 jobs, and generated many billions in spin-off benefits, but it has also funded many important public infrastructure improvements in communities all across Canada.

However, having an artificial fiscal year deadline of 31 March 2011 for final completion of all projects is detrimental. As the Parliamentary Budget Officer has reported, this deadline could lead to inappropriate haste and/or up to $500 million of funding for over 1,800 projects lapsing. The deadline for this fund should be extended until at least 1 July 2011 (no additional cost).

Even without including the stimulus funding, federal support for infrastructure was set to drop off significantly after 2010/11—whether measured in terms of real dollars, as a share of federal spending, as a share of the GDP and even in nominal dollars by 2013/14.

Reducing federal support for public infrastructure simply doesn't make economic sense, particularly when so many remain unemployed and the municipal infrastructure deficit still exceeds $120 billion.

Statistics Canada has confirmed that every dollar in public infrastructure investment provides an annual average cost savings of 17% for business alone—not even including the potential social, environmental and community benefits, the benefits to individuals or other cost savings. This represents an excellent rate of return and far exceeds the cost of public borrowing.

A recent report by *RiskAnalytica* for the Residential and Civil Construction Alliance of Ontario demonstrated that continuing with the same level of underfunding of our infrastructure could reduce our GDP growth by 1.1% a year over the next 50 years and translate to an average after-tax income loss of $18,000 for each Canadian worker.

Federal base funding support for public infrastructure should at least be maintained proportional to the size of the economy. This is also consistent with underlying growth in the federal government's revenue capacity. With Canada's economy expected to grow in nominal terms by 4% to 5% a year, this implies an increase in federal support for public infrastructure of about $200 to $250 million per year.

An ideal source for this funding would be to cancel the $1.25 billion P3 Canada Fund, dissolve PPP Canada Inc. and eliminate the requirement for a P3 screen for Building Canada funding. The P3 Canada Fund perversely subsidizes the expensive privatization of public assets while local governments become starved for funds. These lucrative deals for private developers and financiers result in higher costs for the public, less democratic control and accountability, higher risks and diminished services.

National Clean Water Fund

Municipalities across Canada will soon be required to upgrade their wastewater facilities to recently established national standards. Environment Canada has recently acknowledged that the capital cost of meeting these standards is expected to exceed $22 billion at current prices. This doesn't include training, certification, testing and additional expenses. These costs are on top of the $31 billion infrastructure deficit required to bring municipal water and wastewater facilities up to current standards.

If federal and provincial governments do not provide their share of funding for these costs, they will result in exceptionally high costs for a number of municipalities, and could lead to the largest property tax increases in Canadian history for some communities.

CUPE—together with environmental organizations, industry associations and the Federation of Canadian Municipalities—supports the objective of these regulations, but we also strongly believe that federal and provincial governments should provide their fair share of the funding.

The federal government should take the lead by establishing a *National Clean Water Fund* to fund water and wastewater upgrades to be cost-shared with provincial and municipal governments. Funding of $1 billion a year committed over 20 years would enable communities to complete these projects in time for the deadlines under the new regulations.

The funding should also cover associated upfront costs, including training, certification and testing with funding restricted to publicly-operated facilities. Allowing municipalities to access lower cost financing at federal government borrowing rates to fund these upgrades would help enable municipalities to complete these upgrades faster, at a lower cost and with greater immediate economic stimulus at no extra cost to the federal government.

Additional direct support will also be required to improve water and wastewater facilities on First Nations reserves and communities beyond 2012 when funding for the First Nations Water and Wastewater Action Plan (FNWWAP) expires.

Green Job Creation

Canada ranks far below other countries in terms of the share of stimulus funding going to environmental and "green" investments. We now have an opportunity to better direct federal support to areas that can improve our economic and environmental efficiency, enhance environmental wellbeing and help develop skills for the industries of the future.

Together with the clean water initiative, another positive initiative in this area would be a $500 million Green Job Creation fund to in generate up to 50,000 new green collar job opportunities. The federal government would find strong partners in the provinces for this initiative who recently decided to collaborate on evaluating capacity, gaps and opportunities for the training and creation of green jobs.

Federal funding would be matched with funding from other levels of government, non-profit organizations, non-profit organizations and other eligible partners as employers. Funding would go to wages, labour and training costs for new jobs associated with energy efficiency, building retrofits, auditing, education, renewable energy and environmental remediation. Support would be conditional
on jobs providing decent pay and working conditions.

Employers would work with educational institutions and labour organizations to develop appropriate training programs. New job and training opportunities could be targeted for youth and unemployed adults.

Funding for the federal government's home energy retrofit programs are sunsetting this year. These programs should be renewed and expanded, together with the restoration of home energy audit program and the low income retrofit program, both of which were recently eliminated.

The International Monetary Fund—as well as a senior Finance Canada official—recently urged the federal government to eliminate the tax subsidies it provides to the fossil fuel industry. These are now estimated to cost approximately $2 billion a year alone—not including additional environmental costs and damages. It makes absolute sense to eliminate these subsidies and redirect the funds into energy efficiency measures.

Protect Value of Provincial Transfers

Over the next two years, federal and provincial governments will engage in negotiations about the renewal of major transfer agreements set to expire in 2013/14. Much will be made about the annual growth in these transfers. However, over the next few years some provinces will face *absolute declines* in the total transfers they receive because of the cap the federal government imposed on overall Equalization payments in November 2008. This hard cap tied overall growth in Equalization payments to a three-year average of GDP growth just as Canada was going into recession.

With the exception of Ontario, all receiving provinces are expected to face reductions in equalization payments in 2011/12, with most also likely to suffer an overall decline in combined major federal transfers. This means that the Equalization program, instead of helping provinces to deliver public services at a time of greatest need, is functioning in a pro-cyclical manner and contributing to *destabilizing* the economy.

The federal government could reduce the harm by extending major transfer protection to provinces until new transfer agreements are negotiated. Major transfer protection would ensure that no province suffered a decline in the combined nominal value of their overall transfers from one year to the next.

Improve Fairness and Effectiveness of the Tax System

The United States, European countries and other jurisdictions are introducing fairer and more effective taxes to deal with some of the fallout of the financial crisis and recession.

These include:

- introducing higher tax rates for top incomes;
- cancelling further corporate tax cuts;
- more effective taxation of banks and the financial sector;
- eliminating tax preferences for executive bonuses, stock options capital gains and other forms of compensation that fuelled the financial crisis.

These measures are designed not only to raise revenue to substantially reduce deficits, but also to make the tax system more equitable and effective by reducing the incentives for the type of speculative activities that led to the financial crisis and recession.

Unfortunately, Canada's federal government is going in the opposite direction. It sabotaged efforts to achieve an international agreement on more effective taxation of the financial sector and is now leading the global race to the bottom on corporate tax cuts—just as Ireland and Iceland did in the last decade before they became economic basket cases.

Canada's tax system urgently needs to be reformed so the most affluent are no longer able to pay a lower rate of tax than ordinary working Canadians pay on their employment income. The following measures would not only substantially increase revenues, but also create a more productive and stable economy without increasing taxes on ordinary Canadians:

- Elimination of the indefensible and economically damaging executive stock option tax deduction would gain the federal government $1 billion a year.
- Equitable taxation of other capital gains would gain the federal government over $7 billion a year. If the base were adjusted for inflation, this measure would reduce incentives for speculation and promote longer term investments—and could actually result in lower rates of taxation for long-held family cottages and second homes.
- Introducing a new tax bracket at 35% for incomes over $250,000 would raise an additional $3.8 billion a year.
- Cancelling planned federal corporate tax cuts would save over $5.8 billion a year; returning federal corporate tax rates to 2007 levels—still below US rates—would save $16 billion a year by 2014.
- Introducing a special *Financial Activities Tax* (or a transactions tax) on banks and financial institutions to compensate for lower rates of tax on this sector, as recommended by the IMF would raise approximately $3-$5 billion a year.

It should be abundantly clear the government could quite easily eliminate the federal deficit within a year or two by introducing a number of fair tax measures such as these. All cuts to federal programs ostensibly made to reduce the deficit are being implemented because the federal government refuses to eliminate these inequitable and unjustified tax preferences that overwhelmingly benefit only a few.

Cancel sole-source fighter jet contract; restore funding for poverty and environment

We believe it is unconscionable for the federal government to commit $16 billion of the Canadian public's money—or $1,000 per taxpayer—on a sole-source contract to buy 65 F-35 fighter jets, particularly when it is cutting billions from development assistance for the world's poorest and slashing funding for environmental programs. Furthermore, these technologically extravagant fighter jets are a relic of Cold War military strategies and irrelevant for our current and future defense needs, which could be met in a much more appropriate and less expensive manner.

This deal should be cancelled and funding restored for international development and environmental programs.

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