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Standing Committee on Finance

PRE-BUDGET CONSULTATION

For

2006-2007 FEDERAL BUDGET

Executive Summary

The goal of increasing the quality of life and standard of living of Canadians should never be reduced to simply increasing income levels or productivity levels. High quality public services play an essential and direct role in increasing our quality of life in ways that are not reflected in productivity measures.

Many European countries such as France and Norway have much higher levels of productivity than the United States. Their workers are more productive because they have high levels of social investment, their time at work is more productive and their quality of life is higher.

While the basic concept of productivity is simple, the factors affecting productivity are complex. Increasing productivity is not just a simple matter of increasing investments in human, physical and "entrepreneurial" capital. The quality and appropriateness of the capital and the effectiveness with which it is used are more important than the amount.

Quality public services increase productivity both directly and indirectly in a number of different ways. Investments in child care, education, health care and infrastructure all demonstrate very high direct rates of return on investment. Public delivery of public services is highly efficient in an economic and social sense. Public services also play an invaluable role in increasing our social cohesion and social capital, which in turn increase both our productivity and quality of life.

Macroeconomic policies – both monetary and fiscal – should focus on generating full employment. Tax cuts and tax incentives have not been effective at increasing investment or productivity. Public investment in key areas, such as child care, education, health and infrastructure, is more effective than tax cuts in increasing productivity, economic output and our quality of life.

Public-private partnerships should have no role in providing public infrastructure. They have delivered poorer quality services for higher costs and higher risks without the accountability that should be demanded for public funds. The federal government can play a variety of innovative roles in financing infrastructure projects that are more cost effective.

The priority of the federal government in the upcoming budget should be on providing increased long-term stable funding and commitments in the following areas:

- A cross-Canada child care system respecting the QUAD principles, with supporting legislation and funding tied to non-profit and public delivery.
- Increased funding through a Post Secondary Education Transfer.
- Stronger support for training through legislation and through the EI system.
- Protect medicare by enforcing the Canada Health Act, ensuring that public funds for health are tied to public delivery, improving the system and establishing a national pharmacare program.
- Commit to developing and funding a long-term plan to rebuild our municipal infrastructure with public investment.

Introduction

The Canadian Union of Public Employees is Canada's largest and most diverse union. We represent over 550,000 workers who deliver public services on the front lines in communities all across Canada. Our members include paramedics, emergency medical workers, library workers, child care workers, school board workers, water and wastewater workers, electrical utility workers, municipal workers, social service workers, post-secondary education workers and health care workers. We are Canada's biggest union but we are also Canada's *community* union.

We thank the Committee for providing us with the opportunity to present our priorities for the next budget and our views on how productivity and living standards in Canada can be improved.

Quality of Life, Living Standards and Productivity

Our standard of living includes much more than just our income or GDP. Health, social and environmental aspects of wellbeing, the amount of non-work time we have and the strength of our communities are increasingly important to Canadians and are not well-reflected in GDP and income measures.[1] Crime, pollution and natural disasters tend to directly increase GDP while their net impact on wellbeing is negative.

This government made a commitment to use indicators of environment and sustainable development in decision-making in the last Speech from the Throne.[2] But much more needs to be done. A group of experts across Canada, including representatives from Statistics Canada and Environment Canada, are developing a broad-based Canadian Index of Wellbeing. The federal government should further lead the way in this area by explicitly adopting broader and more appropriate measures of our wellbeing.

Higher income levels are usually correlated with a higher quality of life in other areas, but the relationship is not simple or one-way. Canada and Scandinavian countries have been more successful at translating income into a better quality of life than have other higher income countries such as the United States.[3]

The countries with the highest quality of life and standard of living in the world are broadly acknowledged to be countries that provide a broad array of quality public services to their citizens.

The goal of increasing the quality of life and standard of living of Canadians should never be reduced to simply increasing income levels or productivity levels. High quality public services play an essential and direct role in increasing our quality of life in ways that are not reflected in productivity measures.

The Role of Productivity

Productivity differences explain only part of the difference in income levels between countries. A significant amount of the difference in income levels between Canada and the United States has resulted from differences in employment rates and hours worked per person.[4] France, Norway, Belgium and other European countries all have considerably higher levels of worker productivity per hour than the United States (and Canada) but lower levels of GDP per person because they work fewer hours per year. Their time at work is more productive and their labour policies encourage high productivity activities – and they have a higher quality of life because they have more non-work time available.[5]

While the basic concept of productivity is simple, the phenomenon and factors affecting productivity levels can be very complex. Increasing productivity is not just a simple matter of increasing investments in human, physical and "entrepreneurial" capital. The quality and appropriateness of the capital and the effectiveness with which it is used are more important than the amount.

Just as organizational factors are critical to how well businesses innovate and increase their productivity at the firm level, social and economic conditions play an absolutely crucial factor affecting the productivity of our society.

Socially cohesive societies that are equitable and fair with responsive governance structures increase our overall social capital. Healthy, dynamic, creative and secure communities are much better at translating capital investments into productivity gains and into a higher quality of life. Reducing poverty and inequalities in Canada and around the world need to be the top priorities for our government in their own right, but they are also key to increasing social cohesion and productivity.

Public Services and Productivity

Quality public services increase productivity both directly and indirectly in a number of different ways:

- Investments in child care, health and education very directly increase the productivity of Canadians through increased human capital. The individual rate of return to education has been estimated at 10-15% alone,[6] while improvements in health are estimated to be responsible for about 25% of the increases in labour productivity in industrialized countries over the last 30 years.[7]
- Investments in public infrastructure provide immense benefits by increasing the productivity of businesses and of Canadian people. Each dollar increase in public infrastructure is estimated to provide an average return of 17 per cent in cost savings *per year* for Canadian businesses, with many industries much higher than this. These numbers do not even include the benefits for Canadians in terms of improved services, reduced time spent commuting, etc. which both directly increase our quality of life and indirectly increase our productivity.
- Public delivery of public services is highly efficient in an economic and social sense. Not only can public agencies deliver services at a lower cost than private companies, but shared public services, such as libraries, parks and public transit, reduce costs for users. This allows individuals and government to devote their resources to other priorities. These impacts generally do not show up in GDP or income figures, but they have an important impact on our quality of life.
- Perhaps most importantly, public services play an invaluable role in increasing our social cohesion and social capital, which in turn increase both our productivity and quality of life. The precise effect and the relationships at play have not been understood enough, but the impacts are expected to be very substantial. Universal publicly delivered services are integral for creating the sense of community, equity and inclusiveness that is necessary for our country to be productive.

Recent Productivity Developments

Canada's productivity growth has lagged behind the US by 10% over the last decade, mainly because we've had lower rates of productivity growth in parts of our manufacturing sector and because of the industrial composition of our economy. In comparison, productivity growth in our primary, construction and service industries has grown at a faster rate than in the US. Much of the recent slowdown in productivity was due to slow growth in business investment, but with the higher dollar, business investment is now recovering strongly, particularly in the oil and gas sector.[8]

Our lower dollar and economic policies made it profitable for many of Canada's manufacturers to compete on the basis of relatively low labour costs without having to invest in productivity-enhancing equipment and methods to the same degree as our competitors.[9] While some of our manufacturers are more competitive than US, manufacturers such as in wood products, paper, primary metals, motor vehicles and transport equipment and other manufacturers operate at half the US productivity level.

Policies to Increase Productivity

Macro economic policies

The easiest way to increase productivity is to increase employment and reduce unemployment: adopting policies that focus on generating full employment. The productivity of people who are unemployed is zero.

Over the past few years, the federal government has increasingly relied on monetary policy to steer the macro economy because of its fixation on deficit and debt reduction. It is important that the Bank of Canada follow a monetary policy aimed at keeping unemployment low and not just focus on inflation. Even though core inflation and inflation pressures in Canada are low, the Bank of Canada has still increased interest rates. This has helped cause our dollar to increase, which is making life more difficult for our manufacturing sector. We see no need for interest rates to be increased at this time.

The large swings that we have experienced in our exchange rates over the past decade have resulted in large changes in the cost of imported capital and in our competitiveness in export markets. A more stable exchange rate would provide a better environment for our businesses to make productivity-improving investments.

But monetary policy can not and should not be relied upon to provide stimulus on its own. It is clear that the federal government has the capacity to provide greater fiscal stimulus to the economy while achieving its debt/GDP targets. Productivity plays an extremely important role in reducing inflation, but this relationship is often forgotten.

Tax Policies

Tax cuts and tax incentives are not particularly effective at accomplishing specific policy goals beyond that of redistributing income.

The federal corporate income tax rate in Canada was recently cut from 28% to 21%, together with tax cuts for high-income earners and capital gains, all ostensibly to encourage innovation and investment. Since then corporate profits and high incomes have soared but business investment in machinery and equipment and buildings as a share of GDP has consistently dropped.[10]

Canada has the most attractive R&D tax incentives in the G7, but our rate of business expenditures on R&D (BERD) is among the lowest in the OECD.[11] Personal tax incentives, such as the RRSP and RESP-related provisions, have been very expensive, but only a minority of largely high-income earners have been able to afford them.

There appears to be little overall shortage of funds available for Canadian businesses: profits are at record levels, corporate debt-to equity ratios are low, and the federal corporate tax rate has declined considerably as a share of corporate profits. The problem is not a lack of funds: the problem is that many Canadian businesses have not invested adequately in productivity-improving measures because many of them have been able to make adequate profits without doing so.

Unfortunately, many Canadian businesses are stampeding to convert to income trusts as an easy way to avoid taxes and increase their profits. The effects of this cannot be good for investment or productivity in Canada: we strongly urge the federal government to permanently close this loophole.

Last year's report of the Committee on pre-budget consultations cited a study by the Department of Finance that estimated the economic well-being gain per dollar of tax reduction for different taxes. It is unfortunate that such credence was given to this study, which was based on a very abstract economic model that employs very questionable assumptions, including that there is no unemployment and there are no unused resources in the economy.[12] Computable General Equilibrium models always tend to give these results. As one of the authors of this particular study has stated, results from CGE models "are no substitute for empirical work".[13] Macroeconomic models of the economy – which are based on actual time-series economic data – usually show that corporate tax cuts have a much weaker impact on the economy. The attached charts generated by an empirically-based macroeconomic model of the Canadian economy show the GDP and employment impacts from spending on daycare, health, schools, and infrastructure have a much superior impact on GDP and on employment than do cuts in corporate or personal income taxes.

The Committee asked what actions could be undertaken to encourage citizens to engage in work rather than in leisure. This is one area where tax policy might have an impact.

Just as income inequalities have increased in recent years, so have inequalities in non-working and leisure time. Low wage growth and increasing costs have forced most Canadians to work longer hours, with many working multiple jobs, just to survive. At the same time, tax cuts and booming stock markets have meant that an increasing number of people with high family incomes or capital wealth don't need to work. The federal government could encourage these people to engage in productive activities by increasing the tax rate on high-income earners and on capital gains. At the same time, introducing a shorter work week, with no loss of wages, would help to increase our productivity – and provide a big boost to the quality of life for hard working Canadian families.

The tax system is best used for its fundamental purposes: to raise funds for needed public services and to redistribute income to promote social equality. In doing this, it should reflect economic conditions, including reflecting the economic life of assets, adjusting for "market failures" and provide incentives that reflect broad economic, environmental and social priorities.

Despite the clear evidence that the enormous tax cuts and record corporate profits of the past five years have not increased our investment rate or our productivity, it is really remarkable that anybody takes seriously the argument that further broad-based cuts to corporate tax rates will spur investment.

Program Spending

Direct spending – both to support universal programs and targeted spending programs – is generally much more effective than tax incentives for attaining policy goals, including the goal of increasing productivity and living standards.

As an example, Canada's most successful and innovative R&D companies have grown out of publicly-funded universities and the National Research Council. Technology professionals and the companies that employ them are highly attracted to communities that have a high quality of life, with excellent amenities such as quality public services.

The following sections outline where we think the federal government should focus its priorities in the coming budget, with an explanation of why each area will increase the productivity, living standards and most importantly, the quality of life of Canadians.

Federal program spending is expected to amount to less than 12% of GDP for the next five years, far less than Canada's rate of program spending for virtually the entire post-war period.

Child Care and Early Learning

Establishing a high quality, universal and affordable, not-for-profit cross-Canada child care and early learning program is critical for improving our productivity and quality of life for a number of reasons:

- Quality child care provides the important first stage of learning, education and the socialization of children. This investment in the development of our very young "human capital" is the most important and crucial of all, paying off over many years to come.
- A quality child care system enables parents to work, study, care for other family members and participate in their community. This is crucial at a time that Canada is perceived to be facing a future labour shortage.
- Quality child care promotes women's equality.
- A cross-Canada child care system properly developed can be a good source of employment and jobs in its own right.

Studies have shown that the benefits of spending on good quality child care can outweigh the costs by a factor of two to one: that is, $5 billion in spending on child care would provide $10 billion of benefits in terms of better outcomes for children and more workforce activity by parents.[14]

Studies have also demonstrated that non-profit child care centers provide, on average, considerably higher quality care in all areas.[15] A national child care program is also strongly supported by the public.

The 2005 Budget provided initial funding of $5 billion over five years for the establishment of a national child care program, but much more needs to be done. CUPE calls for:

- Accelerated federal spending to reach $5 billion *per year* in five years and reaching $10 billion by year 15.

- Federal legislation with standards that guarantee quality universal accessible, developmental, and inclusive programs and direct funding to services.
- Provinces and territories to develop five-year plans with goals, timelines, targets, and the requirement for the governments to report to the public.
- Federal funding needs to be conditional upon expansion in the public and non-profit delivery of services. This will help ensure high quality, accountability and the establishment of a comprehensive and seamless system with decent wages for staff and ensure that public funds go to improving the quality of care, rather than into increasing private profits.
- The national system needs to be inclusive of children with special needs, include particular resources for Aboriginal child care programs, and account for the special situation of Quebec with its already-established system.
- Support for a human resource strategy for child care workers with continuing training and professional development opportunities, and improved wages and working conditions.
- Public investment in human capital and resources for communities to develop non-profit community-based services in order to respond to local needs and priorities.

Post-Secondary Education

Increased public investments in post-secondary education are also critical to increasing productivity, higher living standards and an improved quality of life. In particular, the content and quality of education provided has a significant impact on overall productivity and economic growth. Higher education levels are very strongly correlated with higher incomes and higher productivity levels. With increasing international competition, the importance of a high quality affordable publicly funded post-secondary education system is ever more crucial.

What is tragic is that post-secondary education is becoming increasingly unaffordable. Average fees for undergraduate study at university have almost tripled since 1990: much higher than the cumulative 37% increase in the overall cost of living since then. University and college students are being burdened with impossible debt loads. The cause for this increase in tuition fees and debt loads is clear: reduced public support. When adjusted for inflation and population growth, federal transfers for post-secondary education are 50 per cent lower than they were ten years ago.

Bill C-48 has helped to keep this year's increase in tuition fees as the lowest in more than a decade and close to the rate of inflation. But more is needed to increase access and to restore and improve the quality of our universities and colleges after years of cuts. Canada's colleges, technical institutes and universities have allowed buildings to fall into disrepair resulting in billions in deferred maintenance costs. It has also led to increased corporate presence, distorting educational and research priorities. Facilities need to be improved, class sizes reduced and conditions improved for support staff.

The federal government has increasingly used tax expenditures to encourage Canadians to save for their children's education. This is not only profoundly unfair – enshrining inequalities for future generations – it has also been expensive and ineffective. Lower and middle income Canadians simply do not have the estimated $130,000 that a four year degree is expected to cost in 2021, no matter how high the matching grant and learning bonds are. CUPE calls on the government to:

- Increase federal transfers for post-secondary education so they reach 0.33% of GDP with funding tied to reductions in tuition fees.
- Improve the transparency and accountability of federal funds by establishing a separate Post Secondary Education Transfer guided by principles laid out in a *Federal Post-Secondary Education Act*, including a prohibition of funding to private for-profit institutions and restrictions on public-private partnerships.
- Replace the RESP program, CESGs, Learning Bonds and the Millennium Scholarship Foundation with a national system of needs-based grants.

Training and Employment Insurance

Canadian companies only invest a very small share of their payroll on training – at less than half the OECD average. Increased training for all workers and not just managers, is essential for increasing productivity. This can be best achieved by:

- Enshrining worker's rights to training under federal and provincial labour law.
- Reform the EI system to provide training benefits for both employed and unemployed workers, lower the number of qualifying hours to 360 hours for all benefits, and increase benefit levels.
- Revitalize the apprenticeship program working with labour organizations so that emerging skills shortages can be met.
- Adequately fund HRSDC funding programs, particularly those aimed at increasing literacy and the skills, productivity and standard of living for youth, women, disabled peoples and Aboriginal Canadians.

Health Care

Health is central to achieving a high quality of life as well as increasing productive capacities. In economic terms, health is a public good with enormous positive externalities. The private market does a poor job of providing this service at anywhere near an optimal level. In social terms, a good public health system is absolutely fundamental for promoting equality of opportunity and social and civic inclusion: the basis of healthy communities. As Martin Luther King Jr. said, *"Of all the forms of inequality, injustice in health care is the most shocking and inhumane."*

Canada's public health care system operates much more efficiently than the largely private health care system in the United States. Health care spending in the United States is well over $5,000 per person – almost two and a half times Canada's per capita spending. Despite their lack of a universal health care system, United States governments spend 50% more on health care per capita than Canadian governments and yet their population is less healthy according to most health outcome indicators.[16]

Canada's publicly funded universal health care system provides our businesses with an enormous competitive advantage over businesses in the United States. The cost of health care and benefits for General Motors in the United States amounts to over $1,500 per vehicle – more than $1,000 higher than GM's similar costs per vehicle in Canada.

The commitment in the Health Accord signed last year to provide an additional $41 billion in health care transfer payments over 10 years is an important step. But increased spending on health care alone does not guarantee a healthier population. Shoring up medicare requires that federal funding be tied to public provision, waitlist solutions, and increased accountability.

The Chaoulli decision on private insurance and subsequent policies and signals from provincial governments make these steps all the more urgent. The federal government has taken only superficial action to enforce the *Canada Health Act*, and it has not intervened to stop provincial governments from expanding private insurance and delivery.

We call on the Canadian government to:

- Uphold and enforce the *Canada Health Act,* with better reporting, monitoring and enforcement provisions. The federal government must withhold funding from provinces that are violating CHA principles.
- Place conditions on the spending of health care funds. Federal funds transferred to the provinces must be earmarked exclusively for public delivery of health care services and be tied to policy goals such as primary and continuing care reform, pharmacare, and waitlist management.
- Improve our health care system by working with the provinces to shorten waiting lists by centralizing information and management, investing in equipment, facilities and staffing; allowing advanced practice by nurses and allied health professionals; developing specialty public clinics, and using operating rooms to full capacity.
- Establish a national pharmacare program with bulk purchasing, an evidence-based formulary, reference-based pricing, and accelerated access to non-patented drugs.
- Strengthen the regulatory measures that protect public health care, including prohibiting providers from working simultaneously in the public and private systems and prohibiting opted-out physicians from charging higher rates for private services.
- Establish a national home care program with funding tied to public delivery and the principles of the *Canada Health Act*.
- Implement health human resource strategies, including the recommendations of the nursing sector study. Urge provinces to remove barriers to health care providers using their full range of knowledge and skills and working collaboratively.

Municipal Infrastructure

Investments in physical infrastructure – particularly in public infrastructure, such as roads, bridges, mass transit, power plants, ports, sewers, water and wastewater treatment – are absolutely essential for improving our quality of life. Investments in public infrastructure also build stronger and healthier communities, reduce waste, make our economy more environmentally sustainable and enhance business productivity.

Statistics Canada recently estimated that each dollar invested in public infrastructure provides an average of 17 cents in cost savings for private businesses in Canada.[17] This figure does not even account for the broader social returns or the environmental benefits. The report showed that federal capital for infrastructure investment has not kept pace with the growing economy. A massive re-investment is needed from all levels of government to rebuild our municipal infrastructure, estimated at about $60 billion.[18]

In 2002 local governments accounted for 50% and provincial governments over 40% of total infrastructure spending, leaving the federal government with only 7% of the cost. Meanwhile, municipal governments only receive about 8 cents of every tax dollar. New taxation arrangements are needed that will give municipalities the spending power they need to pay for the services they are accountable to provide.

New Deal for Cities and Communities

We commend the federal government for providing a GST rebate for municipalities in the 2004 Budget, and for the fuel tax support provided through the New Deal for Cities and Communities. But the amounts provided over the next two years are not sufficient: an additional one-cent per litre should be provided over the next two fiscal years.

A greater portion of fuel tax (including a portion of diesel taxes) should go to fund sustainable municipal transportation projects and environmental restoration. Federal and provincial funding for public transit must be increased. At present, funding from both federal and provincial governments accounts for only 4 % of transit operating costs and 11 % of transit capital costs. Investing more in urban transit will be essential to meet our Kyoto commitments.

Infrastructure Canada's agreements, including the New Deal agreement, should not make work performed by existing employees ineligible for funding. This just encourages municipalities to contract out work, which is a form of privatization, compromising the quality of jobs and services.

We need the federal government to commit to developing and funding a long-term plan to rebuild our municipal infrastructure with the aim of eliminating the municipal infrastructure debt. Long-term commitments will allow municipalities to make more cost-efficient long-term investments without contracting out.

Good Neighbour Initiative

The Federal Government should undertake a "Good Neighbour Initiative" rather than selling off its buildings. Retrofitting federal buildings using green building technologies will help Canada improve its environmental performance and set an example of sustainable development for other levels of governments and the private sector.

Public investment in publicly controlled infrastructure is the only way to ensure environmental sustainability, fiscal prudence, accountability and long-lasting reliable public services.

Essential Water

Canada desperately needs a national strategy for source protection and water conservation, including pan-Canadian standards for drinking water and water operator education and training, controlling water "takings" by water bottling companies and other industries, banning outright large-scale water exports, reducing and eliminating industrial and landfill contamination of lakes, streams, rivers and water tables, and preserving wetlands.

This should be achieved by keeping water and wastewater treatment facilities in the public sector and providing incentives and financing for local governments to make public health and environmental protection key priorities. National standards, source protection and the removal of water and wastewater services entirely from trade agreements are required.

The Role of Public-Private Partnerships

Governments have traditionally financed building public infrastructure using tax revenues or through public borrowing, sometimes with private sector construction but with ownership remaining in public hands. This system has guaranteed the lowest cost of financing, a high level of democratic accountability and lasting public ownership and control of the asset and services.

Driven initially by concerns about increasing public debt, governments have increasingly pursued public-private partnerships (P3s). The federal government is now actively promoting privatization through a host of infrastructure programs.

These types of experiments have resulted in a litany of failures, flaws and cost overruns.[19]

- **Costs:** P3s sometimes hide but never reduce public debt and generally cost more in the long run. Governments have access to the lowest rates of interest, and higher private sector borrowing rates translate into higher costs to taxpayers. The costs of negotiating and managing complex deals and providing private sector profits add to overall costs to the public purse.
- **Risks:** P3 proponents often point to the transfer of "risk" to justify higher costs. In P3 project after project, private sector failures and flaws have led to increased costs for governments. Invariably, governments end up taking responsibility for additional costs when projects fail or result in environmental damages.
- **Accountability:** P3s undermine the accountability and transparency that are central to democratic government. Secrecy in the private sector contracts and operation flies in the face of public intentions to be transparent and accountable. Bidders are often a group of companies acting as an individual entity for the purpose of a given project without clearly defined roles and responsibilities. Should something go wrong or not turn enough profit, the lines of accountability are unclear on the private sector side.
- **Poorer Quality Services and Jobs for Local Communities:** Private companies are driven by the profit imperative, not by the desire to provide quality public services to support local communities, or to provide innovative solutions that meet other public objectives. P3s result in fewer jobs with lower pay, poorer pensions and benefits, less security and fewer training opportunities. P3s often result in foreign owned companies profiting directly from the public purse. Productivity in Canada would be better served by keeping quality jobs and public wealth in Canada. Governments eventually bear the increased costs of poorer quality jobs and of the impacts on local communities.

Private companies are strong advocates of P3s because they provide guaranteed revenue and profits with little downside risk.

What is less clear is why governments have become such proponents. P3s lock future governments and citizens in and compromise quality jobs and services. Commercial confidentiality clauses interfere with government's ability to prioritize the public interest through transparent and democratic decision-making. P3s cost more and the public pays the price through costly lease back agreements, user fees and loss of quality control.

Government provides public services, such as health care, education, social services and municipal services, much more efficiently than the private sector for a number of reasons:

- The private market provides much fewer public goods and services than are socially optimal in economic terms.
- Public delivery focuses much more on the quality of services rather than on profits.
- A range of public objectives, particularly social and environmental, can be realized.

- Large economies of scale can be realized through public delivery with lower financing costs, lower administration costs and no wastage through profits.
- Direct public delivery and control ensures direct accountability and reduces monitoring, regulatory and enforcement costs.
- Provision of quality and dependable public services reduces the considerable costs for the public of searching and selection when there is a wide and confusing array of private market alternatives.

Public ownership and delivery of services also helps to keep jobs in Canada by ensuring that transnational corporations cannot make legal claims to investor "rights" under international trade agreements.

The only real benefit that P3s appear to provide is that they allow governments to shirk their responsibility and accountability for providing public services.

The public doesn't agree with this direction. An IPSOS Reid Poll conducted in April 2004 asked Canadians their opinion about P3s. It showed that a considerable majority of Canadians (84%) agree with the statement "Canada's public services should be delivered by public sector workers accountable to elected representatives and the public, not by corporations accountable to shareholders."[20]

The federal government can play an innovative role in financing infrastructure projects beyond direct financing out of general revenues. It can also support intergovernmental partnerships for infrastructure projects "public-public partnerships" – and encourage governments to take advantage of borrowing power and low interest rates. Some of these alternatives include:

- Crown corporations, such as CMHC could issue bonds for infrastructure projects.
- A Canadian Infrastructure Financing Authority could be established to issue bonds to finance cost-shared public-public partnership infrastructure projects.
- Municipalities could be allowed to issue tax-exempt bonds allowing them to borrow funds at lower rates of interest.
- The federal government could promote and help coordinate the pooling of municipal borrowing power.[21]

Pension funds should be used to finance publicly owned and controlled infrastructure by holding government-issued bonds.[22] We are very opposed to what both the Ontario Municipal Employees Retirement System (OMERS) and the Canada Pension Plan Investment Board are doing: using the pension funds of our members and other working people to support the privatization of public services by investing in P3s.

Beyond their traditional role in designing and building public infrastructure, we see no role for private for-profit players in public infrastructure.

CUPE calls on the federal government to:

- Reject the use of public-private partnerships and keep the delivery and ownership of public services under public democratic control.
- Assist municipalities and provinces in the financing of infrastructure projects through the use of alternative financing vehicles.

Regulatory Policies

Proactive and progressive regulatory policies can play an important role in promoting productivity gains.

- Proactive environmental and social regulations help push industry into adopting more efficient and productive technologies and methods – as do good labour laws that help to make production more efficient. For example, productivity in Canada's construction industry is 45% higher than in the US while our rates of unionization in this industry are 60% higher.
- Higher minimum wages would also steer Canadian businesses towards higher productivity activities, as well as reducing poverty and ensuring that Canadian workers earn a living wage. Adopting a federal minimum wage starting at $8/hr and phasing in to $10/hr would reduce government social spending, increase revenues and reduce the high effective marginal tax rate for low-income earners. Any businesses or organizations that receive funding or transfers from the federal government should also be required to pay this minimum wage.
- Retirement; proposals to scrap mandatory retirement provisions are absolutely the wrong way to deal with any real or imagined labour and skills shortage. We see attempts to do away with mandatory retirement as an attempt take away our pension benefits, ultimately force our members to work longer, and to allow higher income professionals to double-dip on their CPP, RRSPs and salaries. The CPP is in good shape and most of Canada's pension funds are in good shape. Our members work in hard, physically demanding and mentally stressful jobs in often unsafe and unhealthy workplaces. They want to retire earlier – not later.
- Competitive policies; while public services are best delivered through the public sector, the public is also best served if the private sector activities are well regulated. This means effective regulation of monopoly markets but also the prosecution of effective competitive and securities regulations. Canadian regulators do not do any favours to our business environment by being lax on white-collar business criminals. It should be profoundly embarrassing that we rely so much on US regulators and US courts to make these prosecutions.

Trade policies

The severe problems of the NAFTA are now becoming apparent to even its most ardent supporters. It should now be brutally clear to all that the United States is only interested in allowing free trade with Canada to the degree that it allows access to Canadian markets for US businesses and access to Canadian raw materials when desired. This arrangement does not help to encourage long-term productivity improvements in Canada because it has resulted in an economy increasingly based on resources. Increasing resource-dependence has also increased instability in our exchange rate, which has negatively affected productivity improvements in the rest of our economy.

We call for an immediate renegotiation of NAFTA with the elimination of the highly objectionable chapter 11 that allows foreign firms to directly sue governments, changes to the dispute-resolution mechanism and changes to the clauses in chapter 6 that guarantee the US proportional access to Canada's energy supplies.

Canada's international trade agreements should not constrain the powers of national governments to provide public services and should be based on policies that promote sustainable development and improved conditions for workers, reduce poverty and inequalities worldwide and guarantee social and labour rights. Canadian trade policy should also have more of a global focus, particularly towards Europe, instead of increasing our dependence on and vulnerability to the US economy.

Conclusions

The government's focus in this budget should be on increasing broad-based quality of life and not just income or productivity.

Public services and public non-profit ownership provide immense direct and indirect benefits in increasing our quality of life, social equity and productivity. Social investments in public services generate very high returns in terms of productivity gains. These services also make Canada an attractive place to live and to do business.

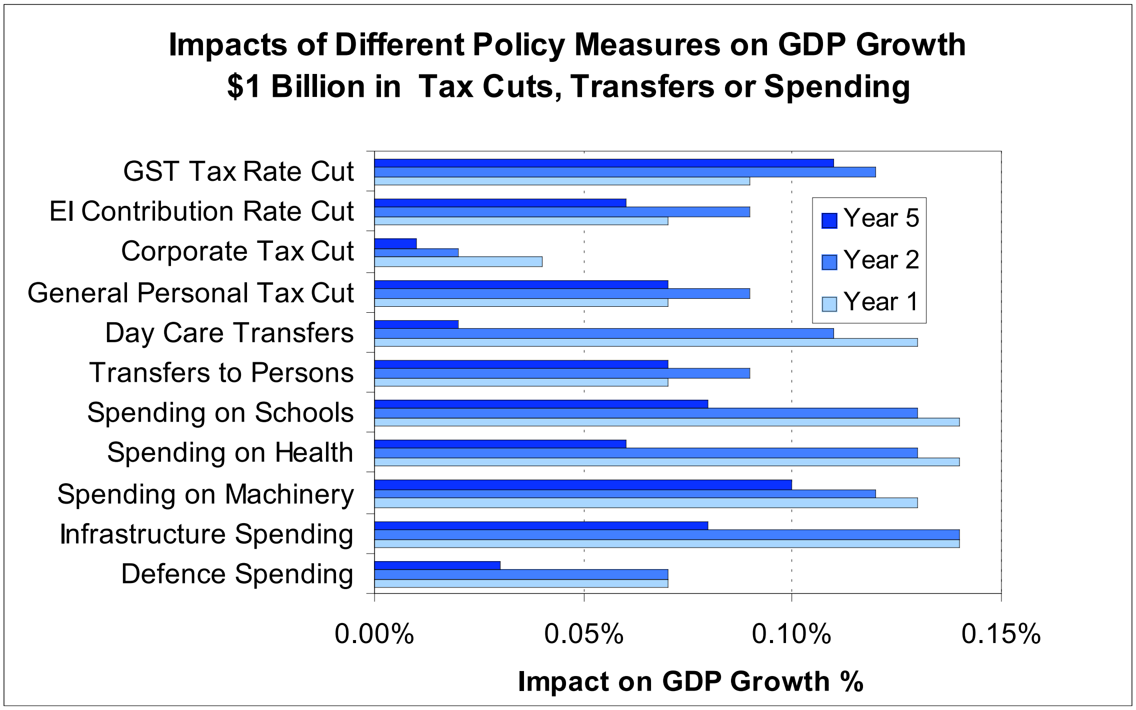
The agenda of tax cuts, public service cutbacks, deregulation and free trade have not been effective in increasing productivity – quite the opposite. The federal government needs to increase public investments in child care, education, health care and municipal infrastructure to enhance Canada's productivity, quality of life and social inclusion.

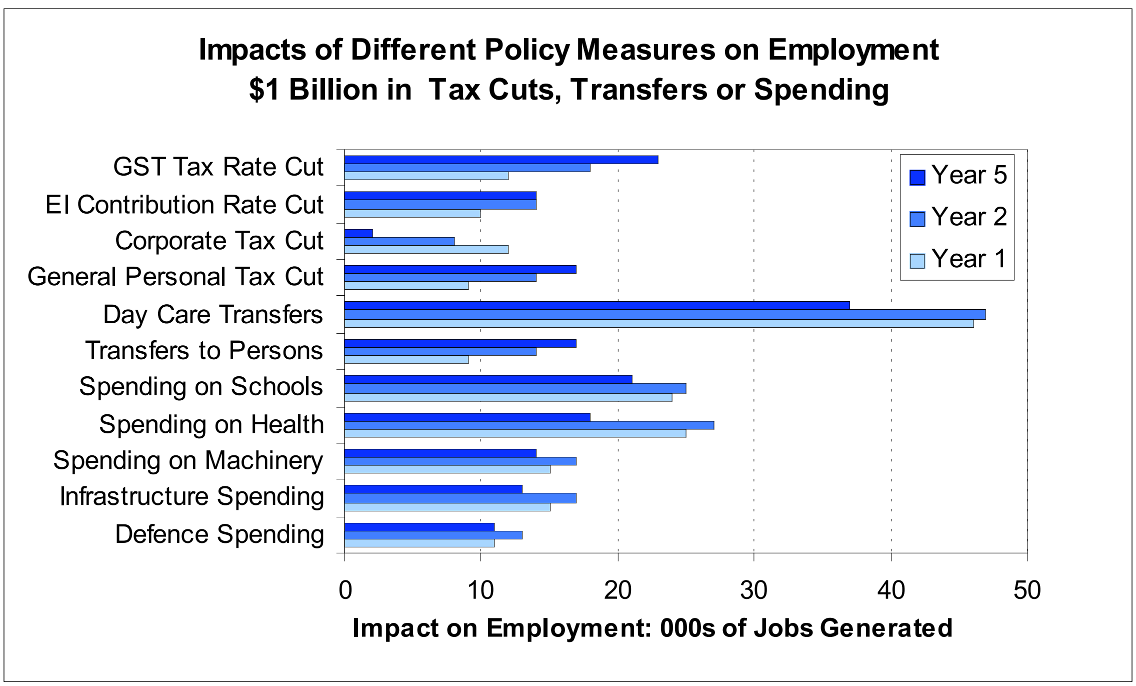
Public sector and non-profit organizations do a very efficient job of delivering public services – public-private partnerships have no role in this area.

Recommendations

1. Adopt broad-based quality of life measures as a gauge of standard of living and not on simple income measures.
2. Implement macroeconomic monetary and fiscal policies focused on generating full employment.
3. Reject the argument that further corporate tax cuts will boost productivity.
4. Increase federal support for child care to $1.8 billion in 2006/7 and to $5 billion by 2010/11, introduce a federal *Child Care Act* based on the QUAD principles and make funds conditional on public/non-profit delivery.
5. Establish a separate *Post Secondary Education Transfer* with funding to reach 0.33% of GDP and with a prohibition on funding for private for-profit institutions
6. Replace Millennium Scholarship Foundation and the RESP, CESG and Learning Bonds program with a national system of needs-based grants.
7. Reform the EI system to provide training benefits for both unemployed and employed workers, lower the qualifying hours to 360 and increase benefits levels.
8. Adequately fund HRSDC programs, particularly those aimed at literacy and skills programs for youth, women, disabled peoples and aboriginal Canadians.
9. Enforce the *Canada Health Act,* withhold funding from those provinces that violate CHA principles and ensure that federal funds be earmarked exclusively for public delivery of health care services.
10. Establish a national pharmacare program with bulk purchasing, an evidence-based formulary, reference-based pricing and accelerated access to non-patented drugs.
11. Commit to developing a long-term plan with long-term funding to eliminate the municipal infrastructure deficit.
12. Introduce a *"Good Neighbour Initiative"* to retrofit federally- owned buildings.
13. Develop a national strategy for water conservation and source protection, keeping water and wastewater treatment facilities in the public sector.
14. Reject the use of public-private partnerships and assist municipalities and provinces by developing alternative vehicles to finance infrastructure projects.
15. Adopt a federal minimum wage of $8/hr increasing to $10/hr in three years.
16. Renegotiate NAFTA with removal of chapter 11 and changes to the dispute resolution mechanism and to the proportional access to energy clauses.

Macroeconomic Impact of Different Policy Measures on GDP and Employment





Impacts generated from Informetrica Ltd. *Economic Effects of Fiscal Initiatives and Other Impacts on the Canadian Economy*, April 27, 1997.

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[8] Phillip Cross (2005). "Long-run Cycles in Business Investment" *Canadian Economic Observer* September 2005, p. 3.10.

[9] The Widening Canada-US Manufacturing Productivity Gap, Jeffrey Bernstein, Richard Harris and Andrew Sharpe. International Productivity Monitor No. 5, Fall 2002.

[10] Business GFCF in machinery and equipment and non-residential structures dropped from 12.4% of GDP in 2000 to 11% of GDP in 2004 – a loss of $17 billion in investment levels. Corporate profits were *$40 billion higher* in 2004 than in 2000. See Statistics Canada National Income and Expenditure Accounts at: http://www40.statcan.ca/l01/cst01/econ04.htm

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