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February 25, 2010

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance
Department of Finance Canada
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By Fax: (613) 995-5176

Dear Honourable Minister Flaherty:

In the upcoming federal budget, you face the challenge of both maintaining sufficient economic stimulus to prevent a double-dip recession and create jobs over the short-term, and laying the foundation for stronger economic growth and better living standards for Canadians over the longer term. These two objectives are not at odds and, if properly done, can and should reinforce each other.

Many in the media are now painting stimulus spending and resulting deficits as danger to our future economic prospects. On the contrary, stimulus spending should provide an opportunity to not just boost our economy over the short-term, but also to invest in a stronger economic future for all Canadians. These challenges we increasingly face require longer term planning.

We certainly commended your government and other parliamentarians for taking significant action to stimulate the economy last year, in particular with ultra low interest rates, extended employment insurance benefits and infrastructure spending. There is no doubt that these actions, together with concerted measures by other countries around the world, helped to reduce the severity of the recession.

While GDP figures and stock markets may be in the midst of a recovery, this means little to individual Canadians unless it translates to decent jobs and better living standards. There are still more than 1.5 million Canadians officially considered unemployed, 380,000 more than at the start of this recession. If the growing number of discouraged, involuntary part-time and other unemployed workers is included, this increases the total number of unemployed to 12.3% or more than 2.2 million.

I am glad you recognize the importance of maintaining stimulus actions for at least another year, as virtually all economists have urged. With household debts at record levels, interest rates set to rise, and private investment still lagging, now is certainly not the time to cut back on fiscal stimulus measures.

While it is vitally important to maintain and expand stimulus measures that help vulnerable Canadians, you now have the opportunity to change elements of the stimulus program so they better support our longer term needs. In our view, too much of last year's stimulus program was focused on tax cuts and short-term support to maintain a booming housing sector with too little directed towards more productive investments. The support for the housing sector may have helped prevent a housing bust at a difficult time, but it also contributed to further inflation of housing prices, together with rising household debt levels.

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We strongly support the increased funding you provided for public infrastructure investment in last year's budget. This continues to not only provide a significant economic boost, but also results in valuable lasting improvements that benefit both individuals and businesses. As you know, Statistics Canada has confirmed that investments in public infrastructure yield cost savings of 17% per year to business alone, above and beyond their benefits to the broader community. Investments in other public services, including education and health care, also generate more jobs and provide stronger short-term and long-term economic benefits than tax cuts.

However, the need for increased investments in public infrastructure will not disappear with the end of this recession. Despite the additional stimulus funding, the municipal infrastructure deficit remains at over $100 billion and federal funding for infrastructure is set to decline in coming years. Through better planning we can make these investments even more effective. As both the United Nations and the HSBC have pointed out, the share of Canada's federal stimulus spending targeted towards green investments is considerably below that of most other major economies.

In this budget we urge you to:

- Work with provinces and municipalities to develop a lasting solution to eliminate our infrastructure deficit.
- Additional funding should be provided consistent with plans to make our cities and communities more environmentally sustainable. Because infrastructure investments last for decades, we are missing out on a once in a lifetime opportunity to assist in the transformations our communities need to make as part of a national green investment plan. Smarter investments today will result in greater efficiencies and cost savings for years to come.
- Federal funding for infrastructure should be limited to publicly financed and delivered infrastructure. Public-private partnerships merely increase costs and debts for future generations.
- Federal infrastructure stimulus funding should not be restricted from projects that employ public employees.

In addition to making our stimulus spending more effective, the federal government needs to do more to protect vulnerable people who are being hurt by this economic downturn. As we outlined in more detail in CUPE's pre-budget submission to the House of Commons Standing Committee on Finance, these immediate priority areas for action include:

- Creation of an Economic Recovery Fund to support public and non-profit social service agencies providing front-line services; funding for universities and colleges to improve education; and a green job creation program.
- Improve the employment insurance system by improving access and increasing and extending benefits, including a uniform 360 entrance requirement.

The economic and financial crisis further exposed the problems with increased reliance on private savings and RRSPs for retirement security. By far the best way to improve retirement security for all Canadians is to improve our public pension system. This is why we have called for you to increase GIS benefits by 15%, support a phased-in doubling of CPP benefits until it provides 50% of the average wage, and to establish a national system of pension insurance.

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The federal budget this year also needs to put in place a stronger foundation for economic growth and improved standards of living for Canadians into the future. The past few years in particular have demonstrated the failure of the trickle-down economic policies governments have put in place for the past two decades. Before this recession hit, we had growing inequality, but declining productivity and no increase in real wages.

Thanks in part to steep cuts in business taxes and these complementary policies, Canadian corporations have enjoyed record profits and surpluses in recent years, but put declining shares of their income into productive investments. Increased speculation may have provided short-term profits and economic growth, but it masked growing underlying economic weaknesses, which were exposed in the recent economic and financial crisis.

More of the same "trickle-down" economic policies—tax cuts for business, privatization and deregulation, cuts to public services and "investor-rights" free trade agreements—will at the most just lead to another boom and bust economic cycle and no real improvement in living standards for the majority of Canadians.

Just as the last year demonstrated the crucial role governments need to take to stabilize the economy in the short-term, our recent economic history and current prospects demonstrate how the federal government needs to take a stronger leadership role to improve our longer term economic future.

Priority areas for investment include:

- A plan to repair and improve Canada's public infrastructure, including increased and sustainable federal transfers to municipalities. A recent poll commissioned by the FCM showed that a majority of Canadians even support an increase in the GST to provide this. Federal, provincial and local governments should be demonstrating leadership, including in areas of environmental responsibility and climate change. This will require increased investments in the short-term, but will result in cost savings in future years and, if they are combined with domestic procurement policies, can provide a strong boost to Canadian industry.
- Proactive industrial strategies and sectoral development programs with a major focus and increased funding for sustainable production, green manufacturing and energy efficiency. These are not just key growing markets, but they can also provide ongoing cost savings for industry, together with a better environment for all of us. We need national public leadership in this area together with investments that work in cooperation with improved environmental regulations.
- Improved federal support for education and training, including national labour force development and skills development programs, and a dedicated post-secondary education transfer to the provinces with a funding increase of at least $1 billion to bring core federal funding back to 1992/93 levels. We have a national labour force market and need national labour force development and training programs consistent with our industrial policies. Without increased funding and better planning, we will have growing skilled labour shortages together with high levels of unemployment. A key element of these should be "just transition" programs to help workers and communities make the transition to a greener economy.
- Greater actual federal support for affordable housing. Rising house prices are putting home ownership increasingly out of reach for many Canadians and resulting in a growing shortfall of decent rental housing. Last year's budget promised increased funding for social and affordable housing, but little of that has been delivered so far. Restoring the low income energy retrofit could also go far to help many low income Canadians with their high energy bills.

- Restoring and increasing national funding for public early learning and child care programs. Investments in early learning and child care provides the strongest levels of economic stimulus and the greatest number of jobs of any sector of the economy—and more than pays for itself over the long-term in terms of public revenues and benefits to society. However, federal funding dedicated to early learning and child care is below what it was in 2006/7—and far below the OECD average. The cut in federal funding is leading directly to the loss of thousands of child care spaces. Affordable quality child care is becoming even more necessary to enable parents of young children to participate in the labour force.
- With an aging society, we also need programs to strengthen our health care system. Priorities here include a national public essential drug program cost-shared with provinces and employers, combined with stronger controls over drug prices, and restoring federal funding for publicly-delivered extended care and long-term care.

Federal transfers for health, education and social services should not only be maintained, but expanded. That is how we build a better society for all Canadians.

Increased public investments will of course require increased federal funding. As you know, these investments will pay back in terms of stronger economic growth, increased employment and growing public revenues in coming years.

This is no time to succumb to hysteria about deficits and debts. As you well know, Canada is in the best fiscal situation of all major industrialized countries. And with continued low interest rates, public debt charges as a share of our GDP are forecasted to be less than a third of what they were twenty years ago. It doesn't make sense *not* to make these important and badly-needed public investments now.

At the same time, federal revenues recently declined to more than a 50 year low of 14.6% of GDP in 2008/9 as Finance Canada's fiscal reference tables show. There are many areas where the federal government should close tax loopholes and increase revenues to create a fairer and more productive tax system.

To begin with, the deduction for stock options has not only cost the federal government an average of almost $1 billion a year in the past five years, but the benefits have overwhelming gone to the highest paid, and it has encouraged the type of risky behavior that led to our recent financial crisis. There is absolutely no justification for maintaining this loophole.

Other capital gains (with a few exceptions, such as for primary residences) should also be taxed at the same rate as regular employment income after adjusting for inflation. There is no reason why those who work hard for a living should pay a higher rate of tax than corporate CEOs, investors and speculators. Equal taxation of capital gains with adjustments for inflation would increase federal revenues by approximately $8 billion a year while providing better incentives for long-term investments.

Deeper and deeper corporate tax cuts have failed to result in growing investment rates and much of the revenues lost are simply going to other governments. Planned cuts should be reversed and corporate income tax rates increased so they are more in line with tax rates on other forms of income.

As other prominent Canadians have argued, tax rates for those with high incomes, for instance over $250,000, should be increased. And, instead of standing in the way of a global tax on financial institutions, Canada should take a first step towards promoting responsible financial reform by putting in place a modest financial transactions tax. This type of tax would have negligible negative impact on the financing of real economic activity and, by discouraging speculative transactions, would lead to more financing available for productive activities and greater economic stability.

These measures alone could increase federal revenues by $20 billion or more a year, sufficient enough to fund the additional measures we have recommended.

We are at a crossroads in our economic history. Canada and the rest of the world are successfully emerging from a wrenching economic downturn thanks to economic leadership by governments around the world. The challenges we face in the future may be longer term, but they are no smaller—and are equally demanding of public leadership.

Yours truly,

Paul Moist.

PAUL MOIST
National President
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