



Standing Committee on Finance for its
2013/14 Pre Budget Consultation
July 2012

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1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Fiscal austerity measures are holding back economic growth and could propel our economy back into recession as they have in the UK and other European countries.

Canada is in an increasingly tenuous situation because we haven't yet had a housing price correction. Instead, debt has continued to climb to record rates of household income. A housing price correction and the painful deleveraging associated with it could easily drag our economy back into recession if there is no support from other sectors of the economy. Relying almost entirely on monetary stimulus through low interest rates for economic stimulus will only further delay and magnify this inevitable reckoning.

While the corporate sector is flush with cash, it won't invest without demand. Supply-side trickle-down economic policies such as tax cuts for business, capital and top incomes fail to stimulate investment and economic growth. As even the International Monetary Fund, the Organization for Economic Cooperation and Development and the Conference Board have now acknowledged, rising inequality is bad for economic growth. Not only were high rates of inequality a major cause of the financial and economic crisis, but they are also preventing sustained economic recovery.

An overdependence on exports of raw resources and the finance sector for economic growth is also putting our economy into a precarious situation for the future. While commodity and asset prices may generate economic booms, they are inevitably followed by busts. We need much more balanced economic policies to achieve sustained economic growth.

Canada is a country of enormous potential and wealth in our land, communities and people. There's no reason why we can't all share in growing prosperity and wellbeing. The good news is a set of progressive economic measures will not only strengthen the recovery in the short term, but also create the basis for enhanced economic growth and productivity over the longer term that everyone can share in.

Despite tax cuts and high profits, private business isn't investing sufficiently in the Canadian economy. The federal government needs to increase direct public investment and implement measures to increase business investment. Our primary recommendation here is that the federal government should maintain and expand public services and launch a major public investment program that would create jobs immediately, address social and environmental goals, increase long-term productivity and economic growth while also increasing and diversifying private sector investment.

This should include:

- A multi-billion dollar program of long-term funding for public infrastructure in collaboration with provinces and municipalities. Together with increased investments for municipal services, this should include commitments for increased federal investments in affordable housing, public transit, renewable energy, and a national energy retrofit program for public buildings. Public infrastructure should remain public—and not privatized through more expensive P3s. The \$1 billion P3 Canada fund and the requirement for a P3 screen should

be eliminated. Federal funding should be tied to domestic procurement policies that allow communities to prioritize local economic development.

- Increased federal funding to provinces for health, education and social services. With federal support for provincial health services down to a 20% share, Canada Health Transfers should continue to increase at 6% per year well beyond 2017. The GDP cap on Equalization payments should be removed and funding increased at a faster pace for social services and post-secondary education.
- Reversing the damaging cuts to public services through the recent federal budgets that are unnecessarily making tens of thousands jobless while eliminating many important public programs.

The funding required for these and other programs can ultimately be generated by restoring corporate and high income tax rates, eliminating inefficient and regressive tax loopholes and expenditures (including for stock options and capital gains), reducing fossil fuel subsidies, and introducing green taxes and fairer taxes on finance.

Our economic recovery is being undermined by recent federal government actions that erode workers wages, including: exploitation and fast-tracking approval for business to employ temporary foreign workers at wages below market rates; cuts to Employment Insurance and forcing workers to work at increasing lower wages, continuous interference in the collective bargaining process on the side of employers, as well as attacks on unions and labour rights. These measures all need to be reversed and replaced by policies that support—and don't undercut—real wage increases for workers.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Employment growth coming out of this recession has been far slower than following previous recessions and is expected to slow further, with little improvement in unemployment rates. The jobs situation is particularly bad for youth: their unemployment rate remains almost as high as during the midst of the recession.

The next federal budget needs to focus on jobs, including for youth, and developing good quality sustainable jobs for the future with decent wages and benefits. Cancellation of the Katimavik and ecoEnergy Retrofit programs was exactly the wrong things to do. Dependence on resource exports and the relentless pursuit of free trade deals for economic growth is leading not only to a decline in our economic sovereignty, but also to a loss of jobs and erosion of wages. We need a more strategic approach to trade, putting an end to trade deals that endanger our public services and give up democratic rights and sovereignty to corporations.

Takeovers of Canadian foreign companies such Caterpillar, U.S. Steel, Rio Tinto Alcan, Vale and others have recently led to thousands of jobs lost (in some cases because workers wouldn't

accept a 50% cut in wages) as well as pay and benefit cuts, with nothing done to penalize companies that break their investment agreements. The federal government's promise to have Parliament review and bring clarity to the Investment Canada Act in the wake of the Potash decision has never been fulfilled. Instead, this act has been weakened.

To preserve and promote jobs, the federal government should:

- Strengthen the Investment Canada Act with clear and explicit criteria for the “net benefit” test, reduce the threshold for review to \$100 million, hold public community hearings on major takeovers, and require public disclosure and enforcement of commitments made by companies in takeovers.
- Launch a major job generation program with a focus on jobs for youth, restoring public and community services, and opportunities in environmental, green jobs and energy efficiency.
- Canada’s exploitative temporary foreign worker program needs to be fundamentally reformed. This must include eliminating wage undercutting, support to ensure workers are provided full labour rights and awareness of their rights, much stronger regulation and enforcement of brokers, recruiters and employers; expedition of residency status for existing migrant workers, and establishment of a [Migrant Worker’s Commission](#), as proposed by the CLC.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Demographic and economic changes are affecting different parts of the population in different ways. It makes no sense to reduce public pensions, delay retirement and force seniors to work longer when hundreds of thousands of youth and working-age Canadians remain unemployed. It makes no sense to cut funding to immigrant settlement services when these services provide new Canadians with the help they need to integrate into the Canadian economy. The only thing cuts like these do is increase the supply of labour and reduce wages, thereby making households even more financially precarious.

Federal elderly benefits such as OAS and GIS are affordable and fiscally sustainable, as Canada’s Parliamentary Budget officer has recently demonstrated. As increasing numbers of seniors work past 65, youth unemployment remains close to 15% with very little improvement since the depths of the recession. Few job prospects, higher costs for education, and little hope for the future with eroding wages and social services is demoralizing and scarring a new generation. Aboriginal and racialized youth are seeing particularly high unemployment levels. In this context, cutting funding to Aboriginal youth skills development programs, for instance, is exactly the wrong thing to do.

Much has been made about shortages of skilled labour, with this used to justify fast-tracking approvals of temporary foreign workers at wages less than 15% of going rates in Canada. The reality is there are six unemployed Canadians for every job vacancy. While businesses

complain about shortages of skilled workers, they've also [cut the already low amounts they spend on training](#) and aren't willing to increase wages enough to attract skilled workers.

Inadequate training by employers is now compounded by steep cuts to federal training programs, defunding of federal sectoral councils and the elimination of collaborative business-labour boards. The devolution of federal training programs to provinces was a mistake: we have a national labour market that is now becoming more international. But we need government and business to adequately train and employ Canadian workers.

We also need to do much more to help parents rejoin the workforce; eliminate barriers to employment for women, Aboriginal and racialized Canadians and those with disabilities; and ensure our children benefit from the best possible start in life.

Far from being just an additional expense, these programs generally provide far more in benefits than they cost. For instance, recent analysis has shown that Quebec's universal \$7/day public childcare program generates \$1.49 in fiscal benefits for federal and provincial revenues for every dollar it costs. Much of the benefit comes from increased employment of younger mothers, higher tax revenues and lower social spending. Quality public childcare programs more than pay for themselves even before considering the many positive benefits for the children.

- For older generations, we need strengthened public pensions so all Canadians can retire in dignity with adequate pension income. The federal government should join with the majority of provinces who have called for benefits through the Canada Pension Plan to be doubled, which can be self-financed through affordable premium increases. This will also relieve pressure on workplace pension plans. As part of this the federal government should convene a national summit on pensions and retirement security with representation from all sectors of society.
- For parents and young children, we need federal support for a pan-Canadian quality, public and affordable early learning and childcare program. As Quebec's highly successful program has demonstrated, this will more than pay for itself.
- For working age Canadians, the federal government needs to restore and increase investments in national workplace training initiatives, including support for collaborative employer/labour boards and agencies. The federal government should also explore mechanisms to increase employer provision of workplace training, including through improved apprenticeship programs, incentives or levies.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Canada's productivity has been stagnant for years and has even declined over the past decade despite the implementation of virtually all the economic policies—tax cuts for high incomes and business, privatization, deregulation, free trade, cuts to EI etc—advocates said we needed to increase our growth.

To their credit—two of Canada’s [top experts](#) on productivity who had advocated these policies now admit the [failure of these market-based policies](#) in boosting productivity. They’ve concluded that further market-based reforms aren’t going to achieve much, business needs to invest more in training and technology and we also need a more equitable sharing of productivity gains.

One example is the failure of Canada’s R&D tax incentives. We’ve had among the most generous business R&D tax credits in the world for years, but investment in R&D by Canadian business remains among the poorest in the world. One of the recommendations of the recent business-led [expert panel on R&D](#) was that the R&D tax credit program needs to be scaled back and simplified, with more going to direct grants instead. It also called for much greater use of procurement by Canadian governments at all levels to foster innovation and a stronger public role in fostering innovation, including provision of risk capital. These are in direct contrast to the market-based policies federal and provincial governments have applied for years.

Unbalanced and short-sighted economic policies focused on exports of raw resources and the finance sector for economic growth is also creating a growing economic problem. More productive sectors of the economy, such as [manufacturing](#), have been almost completely ignored. Weakening of environmental and labour regulations and suppression of wages also undermines productivity growth because they reduce the incentive for businesses to invest in less wasteful and more productive technologies.

Also frequently ignored is the critical role of investments in public services—including in health, education, and infrastructure—have in stimulating investment and productivity. It’s no coincidence that Nordic countries, with their strong system of social supports, have traditionally ranked high in global productivity and competitiveness measures, while Canada’s productivity and competitiveness ranking has declined. Many of these countries also have free or very low tuition fees for post-secondary education. It is [estimated](#) that 80% of new jobs generated by 2030 will be skilled, requiring post-secondary education or training. University and college education needs to be made more affordable and not more expensive.

Also frequently ignored is the importance of good governance and public institutions that provide opportunities for different sectors of society to collaborate and work together to achieve productive improvements for sustainable economic growth and shared prosperity for all.

To stimulate greater productivity:

- The federal government should reduce the R&D tax credit, limit it to spending on labour, put more funding into direct grants and use federal procurement as a tool to stimulate Canadian-based innovation in association with other supportive policies.
- Launch ambitious sectoral development programs for key industry sectors bringing together business, labour, educational and research institutions and other levels of government. This will require funding for collaborative research and development, skills development and investment projects. Major areas of focus should include manufacturing, energy efficiency and forestry.
- Increase funding for Post-Secondary Education by \$1.7 billion with a new dedicated PSE cash transfer guided by federal legislation based on principles of accessibility, governance and academic freedom. This would bring federal funding back to pre-1992 per student levels, allowing for a reduction in tuition fees.

To achieve productivity gains, it is also crucial that workers are able to share in the gains achieved: something that hasn't happened for a number of decades. Federal government actions aimed at undermining wages in recent budgets need to be reversed.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Millions of Canadians have been left behind by our economic growth of the past decade and continue to live in poverty. There's no simple cure-all, poverty is a multi-faceted problem but reductions in it can yield large dividends: major improvements in health, reductions in social spending and higher revenues and of course priceless benefits in human dignity.

- Canada's growing Aboriginal peoples are not only an inherent part of our national identity, but also our most undervalued resource. They deserve far better than the abysmal conditions many are forced to live in and should never come last. [Priorities](#) include: establishing a new stable, long-term funding relationship for First Nations without the 2% annual cap on spending increases for core services; investing in housing water and transportation infrastructure for First Nations; and increasing investment in First Nations education to close the \$2 billion gap in funding that has developed over the past 15 years.
- The federal government should, following the lead of a number of provinces, put in place a [strategy to eliminate poverty](#) in Canada, including targets and timelines for poverty reduction and elimination, studying all fiscal mechanisms available to reach these targets.
- Far too many Canadians find it difficult to afford medically-necessary drugs, which are also one of the fastest rising costs of our public health care system. We need to both better control drug prices and expand our public medicare system so medically-necessary drugs are available for free to all Canadians. This must include resisting pressure to increase patent protection as part of a free trade deal with Europe, which would increase annual costs for prescription drugs by almost \$3 billion. [Studies](#) have shown that a national pharmacare program could reduce Canadians' costs for prescription medicines by up to \$10 billion a year.