

Pre-Budget Consultations on the 2007/8 Federal Budget

**Submission to the
Standing Committee on Finance**

**from the
Canadian Union of Public Employees**

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Executive Summary

For Canada to prosper and maintain a high quality of life in a rapidly changing world, the federal government must increase its investments in public services and strengthen our social and environmental standards.

High quality public services and enhanced standards both directly improve our quality of life while also supporting our citizens and businesses to become more productive and competitive.

Our prosperity must also be shared more equitably so that all Canadians have a stake and share in our increased prosperity – and so that all can reach their potential and contribute fully to society.

The most productive and competitive countries in the world recognize the importance of maintaining high levels of public investment in health, education, training, social supports, infrastructure, and post-secondary education. Tax rates, and business and regulatory costs are a very minor part of the international competitiveness equation.

The priorities of the Canadian Union of Public Employees for the 2007/8 Federal Budget include:

- Making federal budget, spending and tax measures more transparent, accountable and democratic.
- Reducing inequality by reforming the EI system, increasing social transfers, reforming Equalization and making work pay.
- Increase federal transfers for post-secondary education.
- Investment in quality and affordable child care.
- Maintain an active federal role in training and supporting workplace-based skills, including through Labour Market Partnership Agreements.
- Strengthen Canada's public advantage in health care.
- Meet commitments to First Nations and Aboriginal Canadians.
- Proactive environmental measures.
- Increased public investments in infrastructure

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 are primarily in the health, municipal, education, social service, utilities, and transportation sectors, but we also represent workers in a wide variety of other workplaces. 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 competitiveness, productivity and living standards in Canada can be improved.

What drives national competitiveness?

The theme of this year's pre-budget consultations is "Canada's place in a competitive world". To address this issue, it is crucial to understand what competitiveness really means and what the drivers of international competitiveness are. Competitiveness and productivity need to be understood not as ends in themselves, but only as ways to improve our standard of living and overall well-being.

The focus of the federal government appears to be mostly on cutting taxes, cutting public spending, reducing regulation, reducing barriers to trade and increasing "labour mobility" and supply¹. This is a very narrow view of international competitiveness that is neither shared by international experts nor by the most competitive countries in the world.

According to the World Economic Forum and Harvard competitiveness expert Michael Porter, "the most intuitive view of competitiveness is deeply flawed." True competitiveness is measured by productivity². The drivers of international competitiveness are varied and sophisticated, but include in particular the quality of the education, health, infrastructure, institutions, market efficiency, technological readiness, business sophistication and innovation. Tax rates, business costs and regulations are a very minor part of the international competitiveness equation. In fact, progressive environmental and social regulations help to support the labour force and push the private sector to innovate more³.

Top tier innovator countries include the Denmark, Finland, Germany, Sweden, Switzerland and the United States. As the Global Competitiveness Report states, in these highly competitive Nordic countries "high levels of government revenue have delivered world-class educational establishments, an extensive safety net and a highly motivated and skilled labour force".

The U.S. Council on Competitiveness also focuses on the need to invest in basic skills, K-12 education and higher education; public investment in basic research; *reducing income inequalities*, and strengthening regional clusters of innovation. The only mention of taxes in its latest report is to state "Competition is based on building clusters of regional assets, and not on attracting investment through large tax incentives"⁴

Despite our wealth and great natural advantages Canada is considered to be only a middle tier innovator and competitor. We will continue to remain a mid-tier country if governments and business lobby groups maintain a narrow view of the issue.

According to KPMG's comprehensive *Competitive Alternatives* 2006 study, even with the stronger dollar, Canada has the lowest business costs among all G7 countries, with a 5.5% cost advantage over the United States. The World Bank ranks Canada as the fourth easiest place in the world to do business⁵. Our corporations have benefited from generous tax cuts, loopholes and the most generous R&D tax incentives in the world. At the same time, our productivity growth limps along, investment is low and our rate of R&D investment is low and declining⁶. Corporate tax cuts, cuts to government spending, and deregulation are simply a crutch to business for a short-term, backwards-looking and feeble view of competitiveness and prosperity.

We need to learn to prosper by improving our public services, strengthening our society and demonstrating leadership by competing against a higher denominator.

Canadian Union of Public Employees Priorities for Budget 2006-07

Federal budget, spending and tax measures must become more transparent, accountable and democratic.

A well functioning and democratic society, with high levels of transparency, accountability, equality and democratic participation is not only a fundamental goal in itself, but is also a pillar for economic progress.

Canada has one of the most secretive budget processes in the western world. Most other democracies, including many in Western Europe, have a much more transparent and participatory budget process, allowing for open discussion, real debate and substantive amendments in their democratic chambers. The public and parliamentarians should have greater involvement in the determination of federal budgets and spending and tax measures.

In particular:

- There should be full disclosure and public consultation of the cuts to program spending that are currently being planned by departments.
- Existing tax incentives and proposed tax cuts should be subject to a comprehensive, objective and independent analysis of their effectiveness.
- Real accountability legislation requires that government contracts need to be subject to disclosure, coverage under the Access to Information Act, and investigation by the Auditor General, all areas that have been excluded in the Federal Accountability Act⁷.
- Federal funding should be preserved for community organizations, stakeholders and civil society groups – and not eliminated, which will further stifle democratic debate.

The federal government also needs to play a leadership role to strengthen our social programs in collaboration with the provinces. Effective governance requires different level of accountability. Transfers to provinces should be backed up with a national vision, common standards, legislative conditions and enforceable accountability mechanisms. The federal government shouldn't use the fiscal balance issue as an excuse to slough off its leadership responsibilities in this area to the provinces.

Economic and democratic growth demands increasing levels of equality

Democracy (and, incidentally, productivity growth) also demands greater levels of equality. If people cannot afford higher education and training, don't have access to affordable child care or have inadequate health care and live in poor housing conditions, then they will not reach their full potential – and neither will our country.

Unfortunately, regressive tax cuts and cuts to public spending have led to increasing levels of inequality in Canada, despite a booming economy. In particular, the incomes of the "super-rich" have escalated, while real incomes of the ordinary working Canadians and the poor have stagnated or declined and haven't shared in productivity gains.

Over 3.5 million Canadians remain in poverty, including 1.2 million full-time workers. Employment insurance has provided the federal government with over \$46 billion in surpluses and yet provides coverage for less than half of the unemployed. In some provinces, the real value of some social assistance incomes has dropped by almost 50% in the last ten years.

To reverse this trend towards increasing inequality, we need:

- Reform of the Employment Insurance program to increase access with a reduction in qualifying hours to 360 with an increase and extension of benefit rates.
- The Canada Social Transfer should be increased to at least 1994-95 levels.
- Reform of the Equalization program to a ten province standard and inclusion of resource revenues in the formula will reduce regional and social inequalities.
- Reintroduction of the federal minimum wage at a rate rising to \$10/hour within three years. This is the minimum amount that would bring a single individual working full-year full-time up to the poverty line and is still below what it was in real terms thirty years ago.
- Renew the national homelessness initiative and the affordable housing initiative for at least five years

Over the longer-term, Canada's support system for adult benefits needs to be thoroughly revamped in collaboration with the provinces and in an open and consultative process with stakeholders and Canadians.

Increasing levels of equality and productivity can be achieved by increasing investments in a broad array of public services, and in particular in health care, education, skills development, child care and early learning, first nations communities and in public municipal infrastructure.

Affordable quality post secondary education needed for all

With increasing international competition, the importance of a high quality affordable publicly funded post-secondary education system is ever more crucial. Many of the most competitive countries in the world charge no or very low university tuition fees, including Finland, Denmark, Germany, France and Sweden and also rank highly in international tests scores

In contrast, chronic underfunding has forced universities to hike tuition fees in Canada. When adjusted for inflation and population growth, federal transfers for education are about half of what they were ten years ago. Average undergraduate tuition fees have almost tripled since 1990 and are now among the highest in the industrialized world. As a result children from lower income families are half as likely to go to university as children from higher income families. Bill C-48 helped to slow down the increase in tuition fees, but funds have already been siphoned away from this commitment.

The answer is not more individual tax incentives, income contingent loans, or a voucher system, which would further undermine universal access to quality public education. Instead, the federal government should:

- Establish a separate post-secondary education transfer with accountability for these funds guided and enforced by legislation, including a prohibition on funding to for-profit institutions, tied to a reduction in tuition fees.

The \$1 billion committed to a *Post-Secondary Education Infrastructure Trust* over two years in Budget 2006 was a positive step, but this will only meet a small amount of the shortfall in funding for deferred maintenance in universities and colleges. Much more needs to be provided in long-term sustainable funding to meet current and future needs.

Invest in skills training and life-long learning

Canadian companies only invest a small share of their payroll on training and much of this is concentrated on higher-skilled and higher income workforce. However, evidence shows that investment in literacy, training and skills development for the least educated provides much higher returns. The federal government should:

- Continue to play an active role in providing support for workplace-based skills, including through Labour Market Partnership Agreements with the provinces.
- Initiate a pilot project for paid training leaves for employed workers funded through the EI system.
- Increased funding for immigrant settlement programs and consultation with municipal governments about the development of funding programs in this area

Child care and early learning

High productivity and high competitive countries invest significantly in early childhood education and care, with public spending equivalent to between 1% and 2% of GDP. Canada is at the bottom of the list, only investing about 0.25%⁸.

Canadians need the federal government to invest in a real national child care program, respecting the principles of quality, universality, affordability, and developmental with delivery by not-for-profit providers. Investment in quality and affordable childcare is critical for promoting equal opportunity for all children, women and their families. It also enables parents to study, work and contribute to society at a time when Canada is facing a labour shortage in some areas.

Strengthen Canada's public advantage in health care

Canada's public health care system not only provides Canadians with much better health care and greater levels of social equality than the U.S., but it also provides Canadian employers with well-documented competitive advantages, particularly in the auto and other exporting sector. The privatized US system costs three times as much on administration alone, with insurance overhead costing more than five times as much.

Canada's public health care system needs to be strengthened and improved with:

- Stronger monitoring, accountability and enforcement under the Canada Health Act to ensure that public funds and facilities do not subsidize private for profit health care.
- Take action with the provinces to reduce waiting lists by further increasing the efficiency of the public system, moving forward on measures to increase the skills, abilities and number of health care providers, and implementing the recommendations of the *Federal Advisor on Wait Times*.
- Commit federal funding to establish a national public pharmacare program with the provinces and territories. This would provide access to medically-necessary prescription drugs more equitably and efficiently with bulk purchasing and a national formulary to control escalating drug costs – and increase the competitiveness of Canadian employers.
- Establish a national home care program with funding tied to public delivery and the principles of the Canada Health Act.

Commitment to First Nations and Aboriginal Canadians

First and foremost, the federal government has an outstanding and unfulfilled moral obligation to improve conditions for First Nations and Aboriginal Canadians. But our overall quality of life – and our ability to develop, prosper and compete – is hampered when such a significant part of our nation is subject to poor health, education, housing, infrastructure and economic opportunities.

This is especially the case when our labour market is suffering from a perceived labour shortage in many areas and importing increasing numbers of guest workers. At the same time, opportunities are being denied to Aboriginal Canadians, communities left in disrepair and their great potential ignored.

It was profoundly disappointing that the new government did not honour the Kelowna agreement signed last year. The federal government now needs to move forward to ensure that First Nations and Aboriginal Canadians have adequate, predictable and sustainable funding, increased control over programs and services, and greater opportunities to develop economically. In particular,

- Additional funding needs to be provided for health, housing, education and economic opportunities programs on and off-reserve.
- The 2% cap on funding increases for core services is inappropriate for a population that has been growing at three times the rate of the overall population. The cap needs to be removed and replaced with funding escalators that reflect population and inflation growth.

Proactive environmental and social measures and regulations generate competitive advantages

Enlightened countries have long recognized that pushing forward on environmental, health and safety and social measures and regulations lead to a source of competitive advantage. Finland's pollution control laws together with R&D support forced its pulp and paper industry to become more efficient, which made its companies into exporters of machinery and its companies into world leaders. More progressive measures lead to less waste, greater efficiencies, lower social and health costs and force employers to become more innovative. Many of the most productive and competitive countries are highly environmentally and socially progressive and are not afraid of moving forward in these areas⁹.

Too often, Canadian government policy has involved extensive deregulation, far-reaching international and domestic trade agreements that severely restrict our sovereign democratic powers, and so-called "smart regulations". This may benefit corporations in the short term by reducing their costs, but our national interest – and the longer-term interests of our businesses – suffer because it destines us to be followers rather than leaders¹⁰. There is a strong and positive virtuous connection between protecting the environment, building sustainable cities, improving human health and fitness, and making our economy more productive and sustainable.

The federal government should:

- Implement a national strategy with concrete actions, including regulations and economic incentives, to meet our international responsibilities on climate change. We do not need further study and lengthy consultations that will stall action.
- Eliminate costly and damaging subsidies to the oil and gas industry and redirect the funds to creating green jobs through energy efficiency measures.
- Strengthen federal regulations to reduce and eliminate the use of toxic substances in our homes and workplaces.
- Invest more in directly improving public transit.
- Provide municipalities with increased funding targeted to protect our water, land and air, including: funding for water and sewer treatment upgrades, waste collection, treatment and recycling, and parks and recreation facilities.
- Continued and enhanced support for the FCM Green Municipal Fund.
- Use federal funding to support energy retrofits and measures to reduce urban sprawl.
- Take steps to maintain public ownership of buildings and infrastructure so governments can act as model citizens and take a leadership role in promoting energy efficiency and developing sustainable communities.

Increase public investments in infrastructure

Canada's municipal infrastructure has suffered from well-documented and widely observed deterioration over the past decade, with the national infrastructure deficit estimated at over \$60 billion. Much of this is due to downloading and an erosion of federal and provincial transfers to municipalities, with a shortfall now amounting to

\$5 billion a year. This has meant increases in property taxes and user fees, which are the most regressive revenue sources of all.

The transfer of up to half the federal government's gas tax revenues to local governments is a positive step, but it will only provide \$2 billion a year when fully phased in. This is less than half of the shortfall in transfers and just enough to keep the infrastructure deficit from growing, but not enough to reduce it.

CUPE urges the federal government to:

- Commit to long-term funding to eliminate the municipal infrastructure deficit and reduce the growing reliance on property taxes.
- Provide municipalities with access to a permanent and growing source of revenue, but without rate setting powers which would lead to competitive tax cutting and a deterioration of services.
- Direct additional funding to priority areas, such as public transit, water, sewer and environmental infrastructure, affordable housing community and social services.
- Create a national public transit strategy and program in collaboration with provinces and municipalities

Privatization and P3s cost more and are less accountable

Public funding should only go to support publicly-owned and operated facilities and services. Even advocates have acknowledged that privatized public services and public-private partnerships (P3s) cost considerably more than direct public investments. With modernization of public accounting rules, the accounting justification for P3s has been mostly eliminated. They are also inherently less flexible in the services provided and vastly less accountable to the public than publicly owned and operated services.

Canadians deserve accountability for public funds. The prime beneficiaries of any P3s and the proposed sale of important federal assets would be investment dealers while the vast majority of Canadians will lose out.

The federal government should reject the use of public-private partnerships, keep the delivery and ownership of public assets and services under public control, and ensure that all government contracts are subject to full disclosure, coverage under the Access to Information Act and thorough investigation by the Auditor General.

Tax cuts can't buy competitiveness

The many and costly tax cuts promised in the last budget have almost eliminated the federal government's future fiscal room. Any significant additional tax cuts or increased public investments will require deep cuts to program spending in order to keep debt-reduction promises. Furthermore, tax cuts proposed by the new government provide much greater benefits to the affluent¹¹.

There is no evidence that the corporate and high income tax cuts have increased our competitiveness or helped stimulate investment. Corporate profits are at record levels, but little of the increased profits have been directed into productive investments. Even the International Monetary Fund remarked earlier this year about the high level of excess corporate savings¹². Over 80% of the increase in planned investments in Canada this year is in due to higher investments in just the oil and

gas sector, utilities, public transit and public administration. This is the result of higher oil prices and increased public investment – and not due to corporate tax cuts¹³.

Corporations always want lower tax rates because it makes their job easier and means that they can make higher short-term profits without increasing their productivity, efficiency or underlying competitiveness. However, measures of global competitiveness place very little emphasis on tax rates.

In fact, western countries with higher shares of revenues in their economy also tend to have higher rates of labour productivity and measures of international competitiveness. This is because these countries are able to use the revenue to invest in more productivity-enhancing social investments – and perhaps because higher tax rates force companies to become more productive. As noted by the World Economic Forum last year:

"There is no evidence that relatively high tax rates are preventing these countries from competing effectively in world markets, or from delivering to their respective populations some of the highest standards of living in the world."¹⁴

Now that Canada's corporate tax rates and effective corporate tax rates are considerably lower than the United States, it is disturbing to see organizations such as the C.D. Howe Institute argue strongly for the United States to reduce their corporate tax rates¹⁵. No matter how it is justified this clearly betrays a advocacy in favour of narrow corporate rather than Canada's broader national interests.

Federal program spending is far from out-of-control or unaffordable: federal program spending per person is still 25% lower as a share of our GDP than it was in 1984.

Existing tax incentives and proposed tax measures should be subject to a comprehensive, objective and independent review of their effectiveness in meeting their objectives and in relation to other ways of meeting the intended policy goals, such as through direct program spending.

Increased public investments in education, child care, health care, infrastructure, first nations and the environment can be achieved by redirecting savings from eliminating costly and ineffective tax loopholes and tax cuts.

Some of the existing tax loopholes that could be eliminated include the income trust tax loophole, stock option deduction, tax arrangement for foreign affiliates, and tax subsidies to the oil and gas industry. Other measures (such as increasing the tax rate on high income earners and increasing the inclusion rate for capital gains but adjusting gains for inflation) would increase income equity, boost revenues and promote more productive investments.

Increase global security through poverty reduction

CUPE urges the federal government to fulfill Canada's commitment to increase our funding for Overseas Development Assistance to 0.7% of our national income by 2015.

Unfortunately, the last budget included no new commitments for aid, while it included more than \$1 billion extra a year in military spending. Military priorities are

also claiming increasing shares of our development assistance budget. Aid funding should be directed to poverty reduction and on reaching the United Nation's Millennium Development Goals and not diverted to other policy areas. Our quest for global security must put a greater emphasis on alleviating poverty and increasing overall human security.

We also need fair trade agreements that bring real benefits to workers around the world by: increasing wages, reducing poverty, guaranteeing social and labour rights, promoting sustainable development and preserving the power of national governments to provide public services.

Endnotes

- ¹ Drummond, Don. 2006. *The Economists' Manifesto for Curing Ailing Canadian Productivity*. TD Economics Special Report, September 18, 2006 <http://www.td.com/economics/>; Institute for Competitiveness and Prosperity. 2006. *Time on the job: Intensity and Ontario's prosperity gap*. Working paper 9, September 2006. <http://www.competeprosper.ca/public/release010906.html>
- ² *Global Competitiveness Report 2005-2006*, World Economic Forum Geneva. pp. 3, 44.
- ³ Hammond, Allen L. 2005 "The Environment as a Source of Competitive Advantage" in *Global Competitiveness Report 2005-6*, pp 119-126. This is a theme that Michael Porter has often stressed and stringency of environmental regulations is considered a plus in competitiveness ranking.
- ⁴ This is from the latest report by the U.S. Council on Competitiveness on U.S. Competitiveness, which was published in 2001. The next report is due out in November 2006. Further, "Building clusters requires a focus on local strengths: research capabilities, the talent pool of skilled workers in specialized areas and the regional networks that connect businesses with local innovation assets." *U.S. Competitiveness 2001*: p 62. ⁴ⁿ www.isc.hbs.edu/Competitiveness2001.pdf
- ⁵ World Bank 2006. *Doing Business 2007*. p. 6. <http://www.doingbusiness.org/>
- ⁶ Statistics Canada Science Statistics. 2006. *Total spending on research and development in Canada, 1990 to 2006, and provinces 1990 to 2004*. Canada's gross domestic expenditures on R&D (GERD) as a percentage of GDP is among the lowest in the G7 and has declined since 2001, almost entirely because of slower growth in business investment in R&D.
- ⁷ See CUPE presentation to the Legislative Committee on Bill C-2. http://www.cupe.ca/government/Acting_accountably_o
- ⁸ OECD 2006. *Starting Strong II: Early Childhood Education and Care*, Figure 5.3 http://www.oecd.org/document/63/0,2340,en_2649_34511_37416703_1_1_1_1,00.html Accessed 19 September 2006.
- ⁹ See for example, the *Environmental Performance Index* where Finland and Sweden rank in the top spots. <http://sedac.ciesin.columbia.edu/es/esi/>
- ¹⁰ Lee, Marc and Campbell, Bruce. 2006. *Putting Canadians At Risk*. Canadian Centre for Policy Alternatives. September 2006. <http://www.policyalternatives.ca/Reports/2006/09/ReportsStudies1433/index.cfm?pa=BB736455>
- ¹¹ Block, Sheila, and Russell, Ellen. 2006. *Standing up for Which Families? Who benefits from the Conservative Tax Cut Promises*. Canadian Centre for Policy Alternatives, March 2006. <http://www.policyalternatives.ca/Reports/2006/03/WhoBenefits/index.cfm?pa=B0E2A12E>
- ¹² International Monetary Fund. 2006. "Awash with Cash: Why are Corporate Savings so High?" Chapter IV in *World Economic Outlook*, April 2006. <http://www.imf.org/external/pubs/ft/weo/2006/01/index.htm>
- ¹³ Statistics Canada 2006. *Private and public investment in Canada – Intentions 2006*. <http://www.statcan.ca/english/freepub/61-205-XIE/0000661-205-XIE.htm>
- ¹⁴ World Economic Forum (2005). *Global Competitiveness Report 2005-6*, Geneva, Switzerland. p. xv.
- ¹⁵ Chen, Duanjie and Mintz, Jack M. 2006. *US Business Tax Reform Would Be Healthy for the World Economy*. C. D. Howe Institute September 2006.

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