

# CUPE ECONOMIC

## BACKGROUND

### **Advantage Canada Conservative Economic Plan** *Summary on issues of relevance to CUPE Members*

This backgrounder provides a brief summary on key issues in the Conservative *Advantage Canada* economic plan of particular relevance to CUPE members. A more political and analytical overview is provided in the *CUPE Economic Brief: Conservative Economic Plan Wake-Up Call*.

**Surplus:** While the government expects \$50 billion in surpluses over the next six years, their proposed tax cuts and debt payments will leave less than \$3 billion a year to fund all new initiatives. The federal government could afford to fund many of CUPE's priorities – child care, health care, municipal infrastructure, post-secondary education – but not along with more tax cuts and further reductions of the debt.

**Program Spending and the Role of the Federal Government:** The Conservatives are intent on reducing the size and scope of the federal government. Program spending is targeted to increase by only 4% a year, below the rate of economic growth and below the 6% average increase of the past five years. Growth could be even less if they bring in even further tax cuts.

The Conservatives are bringing in a narrowly focused expenditure management system to review all program spending and ensure it meets their priorities and their view of the role of the federal government. This means no new spending on areas of provincial responsibility, and further cuts to or at the most, transfers of, federal programs in these areas to the provinces.

**Taxes:** The EFU included a lot of commitments about further tax cuts for corporations, but there is little new for ordinary Canadians, even though Canada already has among the lowest tax burdens and overall costs for business. The gimmicky "Tax back guarantee" won't amount to much, if anything: all the suggestions involved tax cuts for those making \$100,000 or more or with capital gains. The GST tax cut is planned for January 2011 and would cost \$6.4 billion a year, but consumers in Ontario, P.E.I. and the west could get dinged with higher provincial sales taxes if the Conservatives succeed at forcing provinces to harmonize with the GST.

**Transfers to provinces:** The Conservatives once again commit to "restoring the fiscal balance". Strong indications are that this will focus on the Equalization program and it will probably be in line with the proposals made by the federal Expert Panel on this issue. However, no additional funds are committed in this document and they also say that no equalization-receiving province ends up with a fiscal capacity higher than a non-equalization receiving province. This will mean that Newfoundland could receive lower transfers, depending on the formula chosen. There is also a commitment to introduce long-term predictable funding for infrastructure and post-secondary education and training, but this may not involve additional funds.

**Municipal Transfers:** The EFU shows that the Conservatives plan to extend by two years, but not increase, the \$2 billion in gas tax transfers to municipalities. Municipalities have a \$5 billion shortfall in federal and provincial transfers as a share of their revenues compared to ten years ago. They are facing increased downloading and cost pressures and have made a strong pitch for an increased and growing share of federal and provincial revenues, but have got no response on this.

**Infrastructure Funding and P3s:** The Conservatives are aggressively pushing public-private partnerships on provinces, municipalities and territories by attaching conditions to their infrastructure funding and setting up a federal office to promote P3s. They plan to package infrastructure funding (including for highways, public transit, wastewater and small scale projects) into a program envelope and require that P3 options be considered for all larger projects. The Federation of Canadian Municipalities has already expressed their concerns about this condition.

**Post-Secondary Education:** This area will probably figure prominently in the 2007 Budget. There is another commitment to provide stable and predictable funding for post-secondary education, but no indication is given whether there will be more or less funding. Another commitment is to “modernize Canada’s system of student financial assistance”, with integration and simplification of the administration and delivery of student aid with the provinces and to make supports more transparent and predictable. This likely means ending the Millennium Scholarship Program, more RESP-style savings incentives for education, and perhaps some sort of voucher system. Expect more funding for research equipment for universities, a redirection of scholarship and research funding support to engineering, sciences and business, and a push to commercialize more university research.

**Health:** Very little attention is paid to health care, except as a growing cost. Cuts – or increases – to major transfers are unlikely, although more cuts may be coming to the federal government’s health promotion programs.

**Telecommunication:** The Conservatives have indicated that they review competition policies and taking further steps to regulate in the telecommunication sector “that relies on market forces to the maximum extent feasible”.

**Environment and Energy:** This document re-iterates proposals under their Clean Air Act, which focused on air pollution and did little to address greenhouse gas emissions. It also signals their intention to bring in more stringent controls over municipal waste water effluents. The environmental assessment act will be streamlined. The federal government will work with industry, provinces and stakeholders to “establish a performance-based efficient environmental regulatory regime”, with “the pursuit of market-based approaches” and the “deployment of new environmental and energy technologies”. These grand sounding words probably just mean that the regulations will provide greater flexibility for industry.

**Child Care and Early Learning:** No mention of child care. The Conservatives’ promise to create child care spaces is on the road to failure, with most businesses unwilling to create spaces even with up front federal subsidies.

**Social Services:** There was no mention of social services except in relation to cost pressures and the fiscal balance. A Working Income Tax Benefit will be introduced in Budget 2007, which may involve cooperation with the provinces and may affect social assistance benefits.

**Labour Market Programs and Skills Training:** Much federal labour market programming is likely to be “modernized and rationalized”: either cut or transferred to the provinces. The exceptions may be a few programs for Aboriginal Canadians, older workers, persons with disabilities, and immigrant settlement. Cuts to literacy and labour market programming have already been announced. They may also substitute support to community programs with direct vouchers.

**Labour Issues:** There is a heavy emphasis on increasing labour mobility, making labour markets more flexible and making it easier for business to hire foreign workers. They are now promising funding to provinces to accelerate their efforts to reduce “barriers to labour mobility”, including extra-provincial recognition of credentials.

The Conservatives recently opened the “Temporary Foreign Worker Program” up wide for B.C. and Alberta, so that businesses can bring in low-paid temporary foreign workers without having to demonstrate that there is a labour shortage for a wide range of occupations. These workers have limited rights and are easily exploited. This could be expanded to other provinces. There is a nod to exploring options to make it easier for temporary foreign workers to stay in Canada.

There is little sense of strong support for the recent report on the review of Federal Labour Standards, but there is a commitment that the government will seek the views of business and labour before deciding on a course of action.

The only mention of actually using market incentives – such as higher wages or after-tax wages – to address labour shortages is in relation to what is termed “highly skilled workers”, defined as those making \$120,000 or more.

**Economic Union and Internal Trade:** The Conservatives also place a heavy emphasis on “strengthening the economic union” by making it more competitive and efficient. There are a lot of facets of this, including reducing the scope of the federal government, rationalizing and streamlining programs and regulations with provinces, harmonizing taxes, and reducing “barriers to trade and mobility. The document includes strong praise for the Alberta-B.C. *Trade, Investment and Labour Market Agreement (TILMA)*, which imposes NAFTA-style restrictions on the development of new regulations.

**International Trade:** International, regional and bilateral trade, investment and science and technology agreements and treaties will also be aggressively pursued. This will extend to regulatory convergence and harmonization and a new Global Commerce Strategy. Foreign investment controls under the Investment Canada will be generally loosened, except to protect takeovers “to protect the national interest” – e.g., takeovers of resource and energy companies by Chinese state-owned companies.

**Economic Support for Sectors and Communities:** There is no federal support announced for businesses or communities affected by the downturn in manufacturing or the forest industry. Further corporate tax cuts may be introduced, but these are unlikely to be geared to these sectors.

The only sectors that receive special mention are financial, telecommunication and energy sectors, which already benefits from high federal subsidies. More federal support will go to the energy sector in the form of R&D support and the government has also hinted that it may use investment controls to block foreign takeovers to protect national interests (e.g. energy). The financial sector is likely to benefit from looser and common regulations.

**Women and other Equity Groups:** Women don't appear once in the document. Harper has already cut funding to women's programs and attached a gag order to funds: restricted funding recipients from engaging in advocacy. They may build on workforce programming for Aboriginal Canadians, older workers and persons with disabilities, as well as foreign credential recognition and immigrant settlement. Other than this, no attention is paid to the needs of equity groups. Other existing programs are likely to be cut or transferred to the provinces.

**Low-wage workers:** A definite commitment is made to implement a *Working Income Tax Benefit* in Budget 2007 to reduce the high marginal taxes paid by very low income workers moving from welfare to paid work. This benefit was first promised a year ago and then again in the 2006 Budget. There's no mention of increasing the federal minimum wage, which is now worth 30% less than it was 30 years ago.

**Pensions:** Pensions are mentioned in a number of different contexts in this document. There is a worrisome linking of CPP/QPP surpluses to the promise to eliminate Canada's net debt by 2021. While this may be more a change in definition to try and mislead the media and public, they have offered no details on this promise. Canadian workers will want a commitment from the Finance Minister that they will no dip into their pensions to fund further Conservative tax cuts or other promises, just as the Liberals did with the EI Fund.

In addition to the pension income splitting promise, there are also hints that RPP limits may be further raised (which will primarily benefit those making over \$100,000). The section on P3s shows that they will be soliciting pension fund involvement in P3s.

**Health & Safety:** The Conservatives are going to engage in a concerted attempt to reduce and streamline regulations in a wide range of areas through:

- a new legislative framework to guide and direct departments and agencies to measure the compliance burden of regulations and reduce or eliminating regulations
- regulatory coordination and elimination of "redundant testing" with the U.S. and Mexico through the Security and Prosperity Initiative
- delegation of federal enforcement to provinces or federal enforcement of provincial regulations
- adoption of standards from other countries or international standards
- "a more streamlined environmental assessment process"

At the same time, there will be stronger controls over both municipal wastewater effluents and regulations under the Clean Air Act over smog air emissions by industry.

The document includes strong praise for the TILMA Agreement, which imposes NAFTA-style restrictions on the development of new regulations and suggests that large benefits could come from eliminating regulatory differences between provinces. Much of this will be packaged as increasing "regulatory efficiency", reducing the paperwork burden on small business, and modernizing and promoting "smart regulation" instead of deregulation.