April 18, 2006 <u>By Fax</u>

The Honourable James M. Flaherty
Minister of Finance
Department of Finance Canada
140 O'Connor Street
OTTAWA ON K1A 0G5

Dear Minister Flaherty:

Thank you very much for meeting with us as part of your pre-budget consultations. When I wrote to you last month, I said that we would like to see a much greater level of openness and accountability in the federal budget process, with a stronger role for Parliament, and pre-budget consultations with the public and key stakeholders.

We are glad that you are proceeding with these pre-budget consultations and started on-line budget consultations with the public. We are further pleased that your government is proposing to establish a Parliamentary Budget Authority with a greater level of fiscal and economic reporting through Parliament.

There is much more that can and should be done to reform the budget process so that federal budgets really do reflect the priorities of Canadians, but these are important first steps and we commend you for them.

In this and future budgets, we hope that your government will demonstrate strong recognition and support for the critical role that public services play in improving the standard of living and quality of life of all Canadians. Strong public services benefit our country by delivering a high quality of life, a good environment and safe and healthy communities with greater levels of inclusion and equality than our neighbour to the south. Canadians embrace these qualities and want them strengthened, not weakened.

Quality public services not only directly improve our quality of life but also play an extremely important role in stimulating the economy and increasing the productivity of individual Canadians and businesses. Numerous studies have shown that public investments in infrastructure, education, child care and health services generate double-digit rates of return for the economy. Investments in public services simply make sense for both social *and* economic reasons.

…/2

You have raised concerns about the recent growth in program spending, but it is important to recognize that real federal program spending per person in Canada is still considerably lower than what it was during the entire period of the last federal Conservative government, and much lower as a ratio of our GDP. And, thanks to solid economic growth, the finances of the federal government and most provincial governments are in very good shape and are expected to remain in surplus for the foreseeable future.

We are glad that your government has made a commitment to at least maintain currently projected growth rates for transfers for persons and for transfers to other levels of government for health, social programs, equalization and municipal infrastructure. At the same time, we have very significant concerns about some of the policy directions that your government has signalled, particularly if they involve cuts to existing and planned programs.

We do appreciate the political importance that your government places on addressing its stated five core priorities. However, we believe that, by working constructively with other parties in this minority parliament, it will be possible for your government to both address its five priorities *while also* maintaining and building the social programs and priorities supported by a majority of Canadians. There should be funds available to support these different objectives, as long as the future revenues are not imperilled by excessive tax cuts.

Canadian businesses and affluent individuals have benefited from high rates of income growth and many tax breaks in recent years. Corporate profits are at record levels, yet little of these additional profits are being productively re-invested in Canada. As profits have escalated, the share of wages and salaries has continued to drop – and has become increasingly unequal. The income trust and dividend tax credit cuts do little to help the economy yet will cost about $1 billion per year in lower revenues. We certainly don't need further cuts to capital gains taxes, which would create a massive tax loophole for the wealthiest. Hardworking Canadian families need a boost in their incomes through real wage increases, not through tax cuts that will not only provide them with very little additional income but also force cuts to public services.

The top priority of our union is for the federal government to provide funding to build a national child care and early learning program and meet the commitments that were made to the provinces and Canadian families. This investment will pay off many times over through early learning opportunities for children, better opportunities for parents to work and study, and improved quality of life for families and communities.

There is no doubt that families of young children will welcome additional financial support through the proposed child care allowance (even though this allowance will be worth far less than $100 per month for middle-income working families after taxes and transfers are considered). But there is also little doubt that a majority of Canadians, even in Alberta, would rather have the federal government continue to provide funding to support an expansion of child care centres than provide a child allowance.

The cost of quality private sector child care is simply too high for most middle and lower income families to afford. Cancelling the child care agreements and replacing them with a child allowance will not provide parents with more choices. Instead, it would reduce the opportunities and limit the choices that hard-working families have to improve their quality of life. It makes no economic sense to cancel these programs and effectively force parents to stay home, particularly when our country is facing existing and prospective labour shortages in many areas.

Aboriginal Canadians embody a great wealth – of heritage, knowledge, opportunity and optimism. But this opportunity is being lost as many face almost insurmountable odds in overcoming the poor conditions in their communities. After many years of talk, some real progress was finally made with the commitments made as part of the Kelowna accord. Substantial investments – not more talk – are urgently needed to improve the housing, water, education, health and economic development conditions in Aboriginal communities.

Increases in the cost of tuition are putting post-secondary education out of the reach of more and more young people and their families. The cost of a university education is now far less affordable in Canada than it is in the United States. At the same time, Canadian employers are investing much less in training than the OECD average. Greater public investments in education and skills training are necessary to increase the opportunities and productivity of all workers. Progress had been made in the last Parliament on increasing investments on post-secondary education and skills training. It is important that we build on that progress for our economy to continue to grow and thrive.

These pressing needs have developed because of the severe cuts that were made to social and health transfers in the mid-1990s. While federal transfers for health have been restored, funding under the Canada Social Transfer (for post-secondary education, social assistance and social services, child care and early learning) is still far below what it was in 1994/95. Restoring funding to 1994/95 levels could meet these priority needs.

Progress made on health care funding could be lost if the federal government does not enforce the *Canada Health Act* and take a strong stand against the growth of for-profit health care. Evidence has shown that for-profit health care leads to higher costs, unequal access and longer public wait times. Additional funding aimed at reducing wait times should be tied to public solutions. An effective national pharmacare plan could control escalating drug costs while ensuring equal access to necessary medicine. These costs are among the biggest threats to the sustainability of our Medicare system.

We were glad to see an election commitment to maintain the funding for the New Deal for Cities and Communities. But municipalities will face a cut in transfers next year unless additional funds for public transit under Bill C-48 (and subsequent measures) are extended. We would like to see the gas tax transfer increased to the full five cents per litre sooner – and made permanent – so municipalities are able to plan for the future.

On climate change, Canadians look forward to real progress on reducing greenhouse gas emissions and building more sustainable communities and economies. We are opposed to the diversion of funds from public transit towards roads and bridges under the new deal. The estimated $400 million annual cost of the proposed transit pass tax credit would be much more effective at increasing the use of public transit, reducing traffic congestion and reducing greenhouse gases if it were invested directly in public transit. The billions of dollars provided in federal tax breaks and other subsidies for the oil and gas industry are certainly not needed now with high oil and gas prices. These polluter subsidies for highly profitable businesses should be redirected to programs that promote energy efficiency and healthy living.

We support the election commitment to increase overseas development assistance above current projected levels to at least the OECD average. But Canada can afford to do more to help the poorest countries in the world by providing 0.7 per cent of gross national income in untied overseas development assistance.

This may seem an ambitious set of priorities. But Canada is a land of great resources in an enviable economic and fiscal situation. The challenge we face is to make progress by building on our strengths and bringing our diverse interests together, rather than apart.

Yours truly,

PAUL MOIST
National President

:nr/cope 491