Federal tax cut hurts services, helps wealthy

One of the first priorities of the newly re-elected federal Liberal government is a $6 billion personal income tax cut. The Liberals and Conservatives campaigned on similar promises, but the Liberals claimed their cut was more progressive. No matter how you slice it, cutting taxes reduces the amount of money available to provide services, and this specific tax cut goes mostly to higher income earners. There's nothing progressive about that.

It's especially worrying that the new government's first priority is a tax cut, given how deeply federal governments have cut taxes over the past 20 years. Jean Chrétien and Paul Martin cut corporate tax rates from 27 per cent to 21 per cent between 2000 and 2004, and cut the capital gains inclusion rate from 75 per cent to 50 per cent. Capital gains is income from selling an investment asset like real estate (other than a primary residence) or stocks, and it is treated differently than employment income. The inclusion rate is used to calculate what portion of the profit is considered income for tax purposes.

Stephen Harper also made steep cuts to the federal government's fiscal capacity, cutting the GST by two percentage points before the 2008 recession, and further reducing corporate tax rates from 21 per cent to 15 per cent.

These cuts have left a huge hole in the federal budget. Restoring federal revenues to 2000 levels would mean an extra $75 billion per year – more than enough to fund universal Pharmacare, dental care, home care and long term care. Imagine how much better off we'd all be if that money had enhanced our public services rather than padding wealthy pockets.

Federal tax cuts have had a ripple effect across provincial budgets. When Stephen Harper cut the GST, he suggested provinces could easily recover the lost revenue by raising provincial sales taxes. But provincial governments have faced backlash at the ballot box when attempting to raise revenue, and have only managed to maintain the status quo on revenue as a share of GDP.

The result: provincial governments have picked up a larger and larger share of total government spending in Canada, with no additional revenue sources to fund the critical services they provide. It's no wonder nearly all provincial governments are flirting with austerity, to varying degrees.

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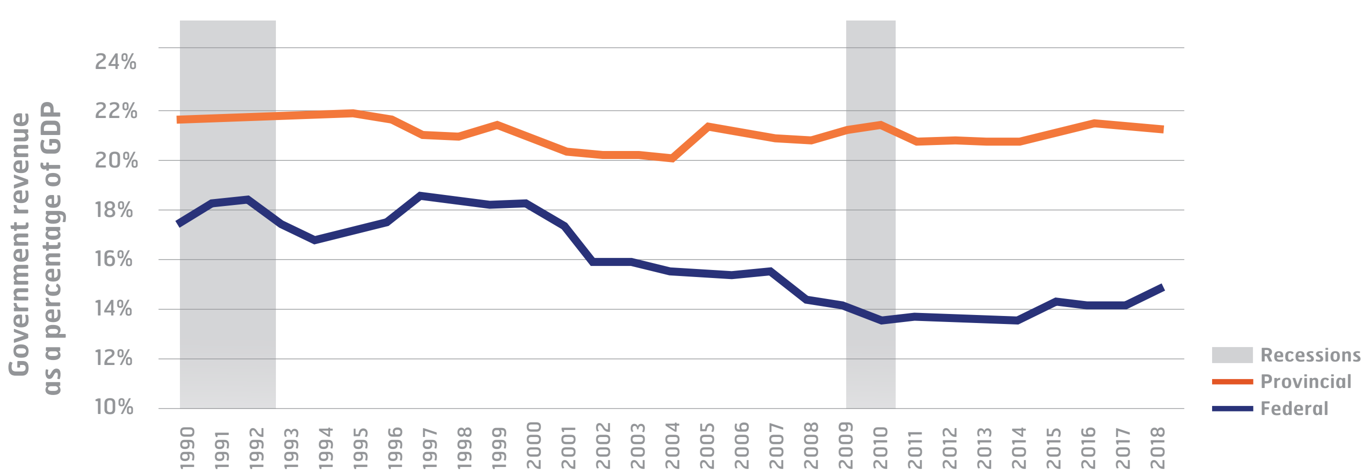
THE GROWING FEDERAL-PROVINCIAL FISCAL GAP



Source: Statistics Canada tables 10-10-0015-01 and 36-10-0104-01

ECONOMIC BRIEFS

Public banking on the rise

In October, the governor of California signed the *Public Banking Act* into law. This legislation allows local governments to create public banks that could help finance their infrastructure at much lower costs than private banks. There are only two public banks in North America, the Bank of North Dakota and Alberta's ATB Financial. The public banking model is gaining attention as an alternative to failed public-private partnership (P3) initiatives that finance infrastructure at a premium compared to public options. With the climate crisis stressing already aging infrastructure, public banks may be exactly what we need to finance a green municipal transition.

P3 reversal in Nova Scotia

The Nova Scotia government recently reversed its plan to build two new health centres in Cape Breton through P3s, instead opting for public funding, maintenance, and operations. One of the key advantages of this model is the lower cost of public sector borrowing. Advocates point out that project quality tends to be higher as well, since the private corporations involved aren't held responsible for long term costs that arise from low quality, and instead have incentives to maximize profits by cutting corners. CUPE Nova Scotia has called on the provincial government to show leadership by cancelling P3 plans for the QEII hospital project in Halifax.

Beyond NAFTA 2.0

The Canadian Centre for Policy Alternatives teamed up with the Institute for Policy Studies and the Rosa Luxemburg Stiftung—NYC to write about what workers, farmers, environmentalists, and other community advocates would like to see changed in trade and investment treaties. The document, Beyond NAFTA 2.0, is meant to spur discussion about how trade deals have evolved far beyond issues affecting trade and impact domestic policy-making in broad and unexpected ways. The current web of international treaties acts as an obstacle to workers' rights and global action on climate change. These treaties often allow investors to sue nations for potential violations. It's time for a different model of trade agreements that puts people and the planet first.

CUPE publishes *Economy at Work* four times a year to provide members and staff with news and analysis on economic issues, and to support our members at the bargaining table.

Find *Economy at Work* online at **cupe.ca/economyatwork** with links to relevant materials. Subscribe to the email edition at **cupe.ca/subscribe**.

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CUPE Canadian Union of Public Employees

ECONOMIC DIRECTIONS

Economic growth	The Bank of Canada projects that real Gross Domestic Product will only grow by 1.5 per cent for 2019, citing low commodity prices and global trade conflicts. The bank expects slightly higher growth of 1.7 per cent for 2020 and 1.8 per cent for 2021.
Jobs	The unemployment rate remains low at 5.5 per cent nationally. Even so, the proportion of workers holding more than one job is at its highest point ever, reaching 6.0 per cent in October 2019.
Wages	Average wage adjustments in collective agreements came in at 1.7 per cent for the first three quarters of 2019.
Inflation	Inflation is expected to remain close to 2.0 per cent through the rest of 2019 and 2020.
Interest rates	In October, the Bank of Canada held its key lending rate at 1.75 per cent for the eighth time. They signaled that the next move may be a cut, recognizing that the global economy has been affected by US-China trade disputes, but remain more concerned that lowering rates would increase consumer indebtedness.

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Liberal tax cut helps wealthy the most

During the election, the Conservatives promised a 'universal tax cut' that would have reduced the rate of the lowest income tax bracket. The Liberals countered by promising to increase the basic personal exemption for most people (it doesn't change for those with earnings above the highest tax bracket, which in 2019 is set at $210,371).

How are these different? Take the average full-time CUPE worker earning around $50,000 per year. The tax system breaks their income into chunks and establishes rates for different levels of income.

That member pays no taxes on the first part of their income, up to a basic personal amount of $12,069 in 2019. They will be taxed at 15 per cent on the next chunk of their income, up to $47,630. On the remainder they will pay 20.5 per cent. (This is simplified, there are other exemptions or tax credits that might apply).

The Liberal plan will increase the tax-free portion of income by almost $2,000 in 2023. The Conservative plan would have decreased the rate paid on the next chunk, from 15 per cent to 13.75 per cent.

Since the Liberal plan kicks in at lower income levels, it's clear why they claimed it was a better plan. But when the Canadian Centre for Policy Alternatives ran the numbers through Statistics Canada's tax data software, there wasn't a big difference between the plans. Higher income families benefit the most from both plans, with the Liberal plan phasing out for the top 1.5 per cent of income earners, making it slightly more progressive. For the average CUPE member, even if they get the full amount of the benefit from the increase in the basic personal amount, it works out to less than $25 a month.

The NDP election platform included a wealth tax and restored the capital gains inclusion rate to 75 per cent, and the corporate tax rate to 18 per cent. The NDP planned to invest this money in establishing a universal Pharmacare program and public dental insurance, and expanding public transit and affordable child care. Looking at the size of recent tax cuts, it's clear Canada can quite reasonably afford these investments by making moderate improvements to overall tax fairness.

Climate change is a health and safety issue

CREDIT: GREGORY BENNETT

People who normally work outside are affected by heatwaves, air pollution, and the increased risk of insect-borne diseases.

Environmentalists and labour activists highlight the need to invest in training and good jobs for workers who will be displaced as our economy transitions away from fossil fuels. But there's less focus on other ways the climate crisis is a workers' issue. Over the next few issues of *Economy at Work*, we'll look at how climate change affects workers from several perspectives. The first is health and safety.

Consequences of climate change include more intense storms and flooding, more frequent forest fires and heatwaves, and increased risk of illnesses carried by mosquitos or ticks. These are concerns for everyone – but for many workers these represent new or increased health and safety risks on the job.

Many CUPE members work in emergency and security services, health care, municipal services, communications and social services. Over the past 30 years these services have faced cutbacks, downsizing, mergers, amalgamations and privatization. On top of this ongoing austerity, the consequences of climate change have begun to change how we work in different ways, depending on where you live and what you do at work.

Workers restoring power or organizing evacuation and relief efforts after storms are an example of climate change making our jobs more demanding and dangerous. Health care workers are seeing increased workloads because of heatwaves and respiratory illnesses caused by air pollution from wildfires and longer pollen seasons. People who normally work outside are affected by heatwaves, air pollution, and the increased risk of insect-borne diseases.

There are several ways workers can address these new or increased risks. We can tackle them through our health and safety committees, identifying ways to adapt our workplaces. And we can form environmental committees to support that adaptation and help reduce our carbon footprints. These are important steps, but much more is needed.

There are simple, concrete actions governments can take to help fight climate change and support improved health and safety for workers. Retrofitting public buildings will create jobs, reduce energy use, and deliver healthier work environments. Municipalities will need to invest in infrastructure to address changing weather patterns, including restoring wetlands, building berms to protect against flooding, or upgrading water infrastructure. Commuting to work needs to be affordable, safe, and less stressful. In our cities, public transit should be regular, reliable, and cheap. In rural areas and in between cities, we need to expand public solutions like the Saskatchewan Transportation Company, rather than shutting them down as the current provincial government has done.

Workers are on the front lines of the climate crisis. We should be on the front lines building solutions too.