Canadian Union of Public Employees

Submission to the
House of Commons Standing Committee on Finance

Pre-Budget Consultations 2009

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Executive Summary

The Canadian Union of Public Employees (CUPE) is Canada's largest and most diverse union. We represent over 600,000 members who work and live in communities—and in virtually every riding—all across this country.

We welcome this opportunity to present our recommendations for the next federal budget and our views on the two questions the Committee has posed:

1. What federal tax and program spending measures are needed to ensure prosperity and a sustainable future for Canadians from an economic, social and/or environmental perspective?

2. What federal stimulus measures have been effective and how might relatively ineffective measures be changed to ensure that they have the intended effects?

This submission first addresses the second question, commenting on which federal stimulus measures have been effective and providing suggestions on how they could be made more effective.

Very briefly, we make the point that while federal stimulus measures have been short-term in nature, the recovery is expected to be slow and lengthy. Furthermore, the underlying economic weaknesses that helped cause the financial economic crisis remain.

An economy based on high rates of private consumption, low wages, low rates of productive investment and increasing inequality is neither sustainable nor desirable from an economic, social or environmental perspective. We need to address these problems and rebalance our economy to achieve a prosperous and sustainable future for all Canadians. An essential part of this must be improved and increase public services.

The Committee has requested a maximum of three recommendations that reflect our most important federal tax and program spending priority. However, the long-term challenges for our economy are more complex and multi-faceted than can be reduced to just a few simple tax or program spending measures.

The three recommendations we have highlighted are straightforward changes to meet pressing needs in the short-term that can be implemented right away. They include:

- Create an Economic Recovery Fund.
- Establish a uniform entrance requirement of 360 hours for access to regular Employment Insurance benefits.
- Increase the Guaranteed Income Supplement benefits for seniors by at least 15%.

Effectiveness of Federal Stimulus Measures

Quick action by governments around the world to stimulate their economies has prevented what could have become a deep economic crisis.

We commend parliamentarians and government officials for recognizing the severity of our economic problems, and working together to put in place a relatively pragmatic set of budgetary measures.

While we believe that much more is needed, we are heartened that many progressed beyond long-held ideological and partisan positions to move forward with some positive economic policies.

In particular, the measures we believe have been most effective so far are:

- Very aggressive monetary stimulus, with record low interest rates and additional extraordinary measures to help support financial markets.
- Direct federal government support for credit markets and key industries.
- Significant public infrastructure stimulus spending.
- Increased support to the jobless with the extension of EI benefits, freezing of premiums, worksharing arrangements and limited job creation measures.
- Increased support for housing and construction.

General personal and business tax cuts and credits will be less effective. Personal income tax cuts generate lower economic multipliers ("bang for the buck") than infrastructure spending or other investments in public services.

The home renovation tax credit may accelerate spending in the short-term, but will come at the cost of future spending and is unlikely to provide lasting benefits.

Financial market measures

The monetary and credit market measures have certainly helped financial markets return to a greater degree of normalcy. These were necessary measures, but they are also short-term.

Interest rates will inevitably begin to rise, leading to an evaporation of this important monetary stimulus. As we move forward, it is crucial that we take steps to prevent the same type of financial market asset-based booms and busts from developing again in the future.

Canada was fortunate to have not proceeded with the same level of deregulation of financial markets that resulted in bank failures in other countries, but we still have many of our own problems in this area and shouldn't just pat ourselves on the back.

Weak securities and financial market regulation and supply-side economic policies have contributed to speculative booms and busts (including the Asset-Backed Commercial Paper fiasco), low levels of productive investment, de-industrialization of the Canadian economy, increasing inequality and poor rates of productivity growth.

It is essential to understand that many of the same factors that caused the financial crisis are also to blame for these underlying weaknesses of our economy.

We need to move forward with much stronger financial market regulation and take steps to reduce inappropriate compensation that encourage financial speculation and the exploitation of ordinary investors. These should include eliminating preferential tax rates on executive stock options and capital gains, limits on executive compensation, together with stronger laws, penalties and enforcement of financial market crime.

Fiscal stimulus

Fiscal stimulus directed towards public infrastructure, affordable housing and through the EI program to lower-income families and individuals has been positive. Not only do these areas have relatively high economic multipliers, but they also provide additional benefits.

Public infrastructure investments provide significant productivity gains and cost savings for business as well as direct and universal social benefits from the infrastructure improvements themselves.

Support to lower income families results in strong short-term economic multipliers, while also helping the most vulnerable, reducing inequality and enabling people to invest in themselves, encouraging long-term economic well-being and higher productivity.

At the same time, the benefits of these measures could be much improved in a number of ways.

Public infrastructure investments last for decades. We are missing a tremendous once-in-a-lifetime opportunity by not ensuring that these infrastructure investments be part of a national "green" investment plan. This would help communities and industries put in place a low-carbon infrastructure to help mitigate and adapt to climate change, as well as encouraging the growth of green industries.

These types of green investments pay off in many ways. They don't just provide short-term economic stimulus, but also deliver long-term environmental gains as well as ongoing energy efficiency and cost savings.

The effectiveness of federal infrastructure stimulus spending is also constrained by not allowing funds to go to projects employing public employees where these can be shown to be incremental.

Support provided through the Employment Insurance system should also be improved upon by increasing access, improving adequacy and further extending duration of benefits (as outlined below). These improvements to the program should not be seen as a cost, but rather as appropriate repayments for surpluses generated in the past by the EI system.

Further measures needed to address economic challenges

The federal government's economic stimulus measures introduced during the past year have undoubtedly had some positive effects. However, they need to be built upon: combined with further actions to stimulate the economy, to support the vulnerable, and to rebuild our economy for a long-term sustainable future.

While economists may differ on how quickly and strongly our economy will rebound from this recession, virtually all agree that we are destined for a period of slower economic growth after the initial rebound—and that jobs and incomes will take longer to recover than the stock market or GDP.

To ensure long-term sustainable economic prosperity—as well as social and environmental well-being—we need to develop a more balanced economy.

An economy based on high rates of private consumption, low wages and low rates of productive investment is not sustainable from an economic or environmental perspective, nor does it yield positive social outcomes. In addition to moving forward with changes that would lead to a more stable and productive economy, as mentioned above, we need to develop a more equitable and environmentally sustainable economy.

Increased investments in public goods and services are the best way of enhancing these different economic, social and environmental goals.

Not only do investments in public services yield much greater economic multipliers than tax cuts, for instance, but they also improve social wellbeing and equality.

A recent study by the Canadian Centre for Policy Alternatives has shown that, on average, each Canadian receives a benefit from public services worth $17,000 per year or more: from services such as health care, education, child care, social services, pensions, EI, social assistance, transit, policing, community services, etc. All Canadians, no matter what income or demographic group, receive very substantial benefits from public services, but they are especially important for lower income families.

Improved public services are also essential to achieving greater well-being in an environmentally sustainable way with less waste. For instance, public libraries, parks, community facilities and other services enable more people to benefit from common assets by sharing these resources (even though our measures of economic output do not reflect these additional benefits).

Federal stimulus measures have largely focused on investments in physical infrastructure. This is important, but we also need to rebuild our *social infrastructure*. This is a long-term challenge, but in the short-term, social service agencies, universities and community and other non-profit organizations are suffering from large losses of revenue just when the need for their services is escalating.

We now have growing social infrastructure deficits with rising needs, but very little increase in federal support.

In past years, we have proposed a number of specific programs that would strengthen our social infrastructure and ensure a more sustainable future for all Canadians, including a national early learning and child care program, national pharmacare and long-term care programs, anti-poverty measures and increased funding for First Nations.

These remain important priorities, but while Canadian families and communities suffer directly from the impacts of the economic crisis and recession, we urge the committee to give priority to three measures that meet urgent and pressing needs:

- Creation of an Economic Recovery Fund to support public and private non-profit agencies providing front-line services, improve education and create green jobs.
- A uniform entrance requirement of 360 hours for access to EI benefits for the unemployed.
- Increase the Guaranteed Income Supplement Benefits for low-income seniors by 15%.

Economic Recovery Fund

Federal stimulus spending has focused on support for infrastructure and housing construction, actions to stimulate spending, support to business and access to credit and financing.

Little support has been provided to other sectors or to help the vulnerable. Social service, community, and other non-profit organizations such as universities are facing a big increase in the need for their services as a result of the recession while their revenues have fallen. These organizations have become increasingly dependent on private sources of revenue such as charitable contributions from foundations, businesses, individuals and investment income, which have declined.

Many of these organizations are already laying off staff, cutting programs, and some may be forced to close their doors—just when more and more people need their help and services. If increased support is not provided, we are likely to see a rise in homelessness, overcrowding of shelters and social services, deteriorating health conditions—and ultimately increasing long-term costs for our society.

This is the first recession Canada has faced since shared federal funding for social programs was eliminated along with the Canada Assistance Plan. The Canada Social Transfer is slated to increase by only 3% this year, far below rising needs.

We call on the federal government to **create a new Economic Recovery Fund** to provide short-term support for public and private non-profit agencies and organizations, to be cost-shared with provinces, municipalities and other levels of government.

This would include:

- $1 billion in federal funding for a *Recession Relief Fund*. This would prevent spending cuts to agencies serving vulnerable people and increase funding to HRSDC and settlement programs, including doubling the funding through the *Homeless Partnerships Initiative*. This funding would supplement funding that is projected to be lost from private sources by these agencies and to increase funding levels as required.

- An increase in federal transfers for post-secondary education of $1 billion for this coming year. Many post-secondary institutions are cutting programs and positions just as enrolment is expected to increase, partly as a result of fewer job opportunities for youth. Some universities have lost hundreds of millions from their endowment funds and are facing a loss in revenue from private donations. Canada needs to develop a more educated and higher-skilled workforce to develop a stronger and more productive economy. An increase in funding of $1 billion would restore the amounts cut from transfers for PSE in the early 1990s in real dollar terms. This funding would need to be provided together with accountability guarantees that public funds will only go to public non-profit institutions to reduce tuition costs, increase access and programs, and improve working and studying conditions on campus.

- *Green Job Creation.* $500 million to generate at least 50,000 new green collar jobs. Federal funding would be matched with funding from other levels of government, non-profit organizations or other eligible partners as employers. Funding would go to wages, labour and training costs for new jobs associated with energy efficiency, building retrofits, auditing, education, renewable energy and environmental remediation. Funding would be conditional on jobs providing decent pay and working conditions. Employers would work with labour organizations and educational institutions to develop appropriate training programs. New job opportunities could be particularly targeted at for youth and combined with retraining of adults who have become recently or are longer-term unemployed.

Positive Reform to Employment Insurance

The Employment Insurance system, as originally developed, was designed to work as an ideal counter-recessionary program.

In relatively good economic times, the EI program would help to provide temporary protection for individual workers who had lost their jobs, while also building up a surplus and moderating the economic cycle.

In recessionary times, the EI system was designed to not only protect unemployed workers from poverty, but to function as a very effective counter-cyclical stimulus program.

However, far-reaching changes made to the EI program over the past two decades substantially compromised its ability both to support unemployed workers and to function as an automatic stabilizer for the economy.

The EI system needs to be substantially reformed to increase *access*, improve *adequacy* and enhance the *duration* of benefits.

Access: Less than half of the 1.6 million Canadians who are now unemployed receive regular EI benefits. In Ontario and Alberta, the proportion of unemployed who receive benefits is below 40%. Access to EI is particularly a problem for part-time workers, who represent a growing share of the workforce including many CUPE members. Those who are not eligible are forced to rely on private savings or welfare.

Adequacy: The maximum benefit is now $447 a week. This works out to barely above the poverty line for a single individual. For those whose job paid less than $42,300 or who worked part-time, the weekly benefit can be much less than this—and far below the poverty line. In comparison, the maximum benefit provided in 1996 works out to $600 in today's dollars.

Canada now has one of the lowest average wage "replacement rates" for unemployment benefits in the G7 according to the Organization for Economic Development and Cooperation, with a rate that is half the average of OECD countries[i]. We also have one of the longest waiting periods for benefits among OECD countries.

Duration: Unemployed workers who do qualify for EI were eligible for benefits that lasted between 14 and 50 weeks, with an average of 32 weeks last year.

The measure in the last federal budget to extend the duration of benefits by five weeks (but maintaining the same maximum 50 weeks) was a positive move, but not enough. In comparison, the United States government recently provided an emergency extension of UI benefits by up to 33 weeks beyond what individual states provide, while also raising benefit levels.

The federal government's successive cuts to access and benefits contributed to the accumulation of a $54 billion surplus under the EI program in previous years. Instead of going into general revenues, these funds should have been kept in the program to increase access and benefits and to provide a stimulus boost in subsequent economic downturns. The federal government has done the right thing by not increasing premiums to fund current EI deficits, but much more money from past surpluses is owed to workers through the program.

We have called for a number of different reforms to improve the EI program, but our primary recommendation is to increase access for those who lack sufficient hours to qualify.

Establish a uniform entrance requirement of 360 hours for access to regular EI benefits, wherever people live or work in Canada.

The cost of this measure is estimated at between $500 million and $1 billion, depending on the unemployment rate[ii].

This measure would not only help tens of thousands of unemployed workers and their families from falling into poverty, but it would also provide a strong and immediate stimulus boost to the economy.

We also urge the federal government to make other improvements to the EI system:

- Raising benefit levels from a maximum of 55% of annual earnings to 60% of earnings calculated on the 12 best weeks of earnings, and eliminating variable benefit rates for part-time workers.
- Extending benefit coverage to 50 weeks for all workers.
- Elimination of the two week waiting period for benefits.

Strengthen Public Pensions and Retirement Security

The financial crisis exposed the fundamental inadequacies of Canada's retirement income system, with its increased reliance on private savings.

Millions of Canadians saw their retirement dreams dashed with the stock market meltdown. Despite the rebound in financial markets, it will still take years to recover their lost savings. Many in or close to retirement will never get their money back; others are delaying their retirement and working more years to rebuild their pensions and RRSPs. With rising unemployment and inadequate EI coverage, many are also raiding their RRSP savings just to survive.

Even Don Drummond, the Chief Economist of TD Bank, which makes a lot of money from selling RRSPs, has admitted that they aren't working:

"After 50 years of promoting RRSPs, we have to conclude they haven't turned out as envisaged. I don't know why we don't just recognize this and make the needed adjustments to the retirement income system."

The only areas of our retirement income system that all Canadians can continue to depend on are our public pensions: the CPP/QPP, GIS, and Old Age Security. But these public pensions remain inadequate, still leave too many seniors in poverty, and need to be strengthened.

Fixing our pension system will require many different reforms. In our view these should include:

- A phased-in doubling of the benefits provided by the CPP so that it provides up to 50% of the average wage.
- Expansion of the CPP to other workers.
- Establishing a national system of pension insurance.
- Increasing thresholds for surpluses, tighter restrictions on contribution holidays, and stronger solvency funding rules.

Most of these involve regulatory changes or are self-funding measures that do not primarily affect program spending.

A number of provincial and federal committees, reviews, taskforces, and study groups continue to consider these, other issues and proposals in detail and in different directions. We are concerned that these different exercises may lead to an array of piece-meal measures without substantial improvement to retirement security across Canada.

That is why we strongly urged First Ministers to hold a Pan-Canadian Summit on pensions and retirement security to bring together government, business, labour and other stakeholders to seek consensus on these cross-jurisdictional issues. It now appears this will move forward, together with momentum to establish a supplementary, but voluntary, national retirement savings plan. This alternative may be an improvement over the current situation, but it won't do anything for seniors in the short-term, nor is it likely to help those with low incomes and little money to save in any case.

While these discussions are proceeding, the federal government can and should move forward with a straightforward measure that would provide immediate benefits to the most vulnerable seniors. This is CUPE's priority recommendation for this year's federal budget to improve retirement security.

Increase Guaranteed Income Supplement benefits by at least 15%.

The Guaranteed Income Supplement (GIS) currently provides a maximum of $652.51 per month or $7,830 a year with an average monthly benefit of $400. A 15% increase in GIS benefits would increase the maximum benefit by $1,174 to $9,004 a year[iii].

At the latest count, there were over 200,000 seniors living below the low-income cut-off "poverty line".[iv] In recent years, as many as one in five elderly women living alone were in poverty. Combined with Old Age Security benefits, this increase to the GIS would help to lift almost all seniors out of poverty. At the same time, the federal government needs to improve access and the payment process for GIS so more of eligible seniors actually receive this benefit.

The annual cost of this measure would amount to approximately $1.2 billion a year. Because these funds would go to the lowest income seniors, a high proportion would immediately be spent, further stimulating the economy.

These increases to public pensions and strengthened protection for workplace pensions need to be combined with other key measures that will help seniors and their families in future years. These include the creation of a national pharmacare program, cost-shared with the provinces, so all Canadians have access to the medicines they need at a reasonable cost; and a national long-term care program to ensure affordable and safe care for the elderly, supported by national standards.

[i] Lars Osberg, 2009. *Canada's Declining Social Safety Net: The case for EI Reform*. Canadian Centre for Policy Alternatives, June 2009. p. 21.
http://www.policyalternatives.ca/~ASSETS/DOCUMENT/National_Office_Pubs/2009/Canadas_Declining_Safety_Net.pdf
Also see the Gross Replacement Rates table at:
http://www.oecd.org/document/29/0,3343,en_2649_34637_39618653_1_1_1_1,00.html#statistics for more recent data.

[ii] The CCPA, based on calculations from HRSDC, estimated that a uniform entrance rate of 360 hours would increase total benefits by about $500 million a year, while the TD Bank has estimated the additional cost at $1 billion, based on the unemployment rate rising above 10%. CCPA 2009. Alternative Federal Budget 2009: *Beyond the Crisis* http://www.policyalternatives.ca/reports/2009/01/reportsstudies2079/ TD Bank, 2009. *Is Canada's Employment Insurance Program Adequate?* http://www.td.com/economics/special/gb0409_EI.pdf

[iii] See Service Canada Income Security Program Information Card http://www.servicecanada.gc.ca/eng/isp/statistics/rates/infocard.shtml

[iv] Statistics Canada, *Income in Canada 2007*, Table 13.2 http://www.statcan.gc.ca/pub/75-202-x/75-202-x2007000-eng.htm

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