The Hidden Cost of Balanced Budgets: Rising Household Debt

Since the mid-1990s, policy at all levels of government across Canada has been shaped by the guiding principle of reducing government debt. This is why, especially around election time, you'll often hear politicians talk about "balancing the budget" or "fiscal responsibility." The 2025 federal election was no exception. The opposition Conservative party accused the governing Liberals of spending too much and increasing the federal deficit to an irresponsible degree. Even some Liberals, including then-Deputy Prime Minister Chrystia Freeland, accused then-Prime Minister Justin Trudeau of overspending. After Trudeau resigned, Mark Carney campaigned on the promise of reducing or "capping" government spending in an attempt to distinguish himself from his predecessor.

When politicians and the media stoke fear around government debt, it hits home because most of us have our own firsthand experience with debt. Common sense tells us that going into large amounts of debt, with no clear plan to pay it off, is a bad idea. Still, the total amount of debt held by Canadians has been on the rise over the past few decades. Debt is a major source of stress in many people's lives, but unfortunately, a growing number of people rely on debt to make ends meet. While Canada's highest earners have increased their household savings significantly over the past few years, the lowest earners have gone deeper and deeper in debt and are unable to save for their futures. However, this is not the kind of debt that governments and politicians are worried about.

The Fall 2024 edition of Economy at Work debunked some common misconceptions about government debt and its relationship to economic and societal well-being. Here are two key points we want to highlight:

1. Government borrowing often supports economic growth.
2. Canada has one of the lowest debt-to-GDP ratios in the G7, a sign that economic growth is being supported by government spending.

One of the ways that economists measure the impact of government spending on the economy is to compare the gross domestic product (the GDP, or the total value of all goods and services produced by a country), with the country's net debt, which is the government's total debt, minus the value of all government assets, like land, buildings and money. This is called the net debt-to-GDP ratio.

There is no consensus on what the ideal debt-to-GDP ratio is, no 'magic number' to strive for. However, generally speaking, if the economy grows faster than the government's debt, then borrowing (debt) is likely supporting economic growth.

Another important debt measurement is the household debt-to-GDP ratio. This measures how much personal debt Canadian households have relative to the size of our economy. Out of the ten largest economies in the world, Canada has the highest household debt-to-GDP ratio – over 100%. The ratio has remained at or above 100% for over a decade. Around three-quarters of this debt comes from mortgages, but the rest includes things like credit card debt, car loans and other forms of personal or small business debt. In Canada, our personal monthly debt is growing faster than our take-home pay. No wonder we are seeing

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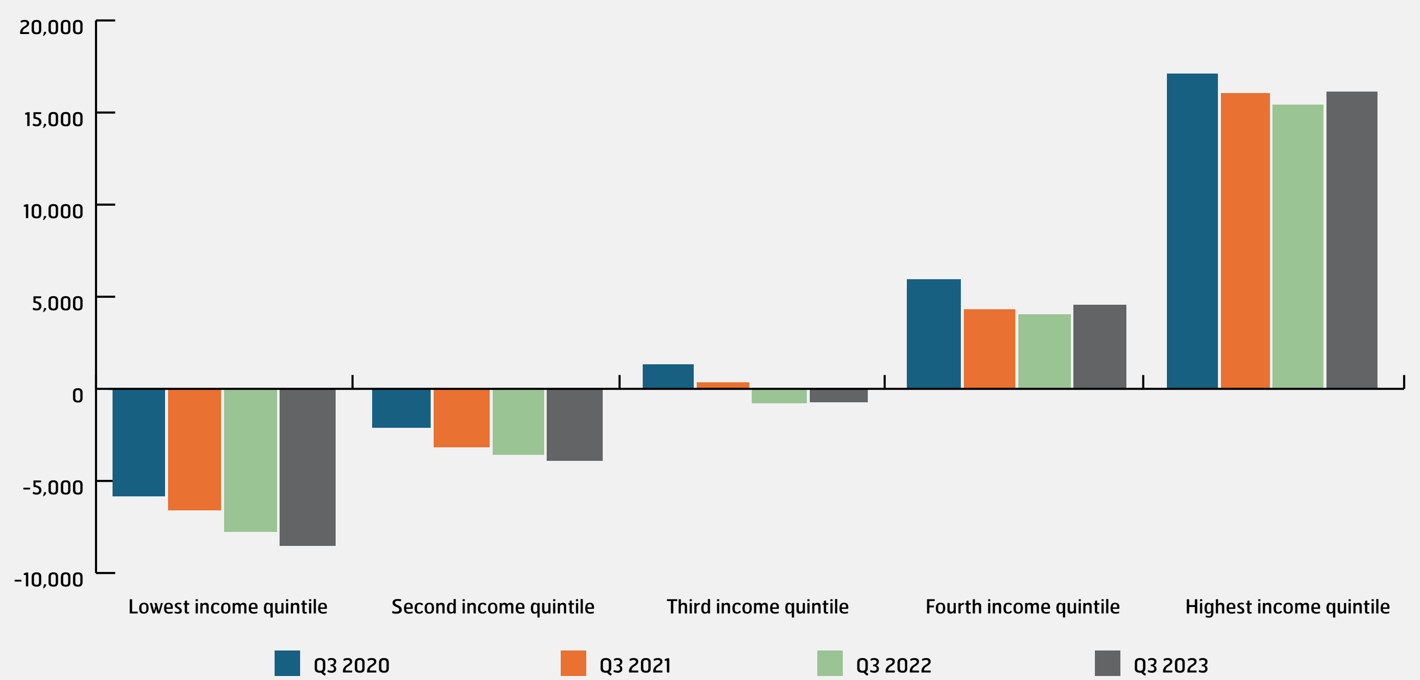
a growing gap in wealth and household savings between lower and higher earners.

Here is an important point: government and household debt are not the same thing. For ordinary people, debt is a stressful burden. But for governments, deficits are simply a normal part of operations, despite politicians' claims to the contrary.

But these two kinds of debt are linked because efforts to reduce public debt can lead to increased household debt. For over 30 years, rather than simply reducing public debt, governments have offloaded more and more expenses onto individuals. This is because the federal and provincial governments in Canada have tried to reduce public debt primarily by cutting services, while lowering corporate taxes and eliminating other government revenue streams that make corporations and the wealthy pay their fair share.

When governments make cuts to services, the need for those services does not just disappear. Instead the cost of the programs are passed down, often to those who are in the lowest income brackets and need social programs the most. It is not a coincidence that income inequality is reaching record highs, and that low-income households are increasingly in debt. This is what happens when governments pursue debt-reduction by any means necessary. It is clearer every day that this strategy must change. Instead, government should invest public dollars to create a more equal society where people can live in dignity and comfort.

Household net saving, by income quintile



Source: Statistics Canada, table 36-10-0662-01

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All content written by Zoë Abernethy unless otherwise indicated. Edited by Marnie Thorp.

Proofing by Sami Slaouti. Layout by Méliza Fournier.

Please email **zabernethy@cupe.ca** with corrections, questions, suggestions or contributions.

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Where does Canada stand now in Trump's trade war?

It has been over six months since Donald Trump imposed 25% tariffs on Canadian goods exported to the United States, except those covered by the Canada-US-Mexico Agreement on trade. The tariff war seems to be at the centre of attention for politicians and the media. Everyone is trying to figure out what this major story means for them, for the economy, and the future of Canada's relationship with the United States.

As time goes on, things are becoming increasingly tense and difficult to make sense of. Data is slowly being released on the economic impacts of both the tariffs themselves and the broader uncertainty they have caused for businesses. But there is a lot of guesswork in these emerging analyses. We do not yet have a full picture of how Canada's economy has changed since the August 1st deadline Trump imposed.

That said, there has been a continuous and steep decline in all steel and aluminum exports since January 1st, which makes sense as the US is Canada's biggest export market. Overall exports to the US in June 2025 were 12.5% lower than they were in 2024.

It is not yet clear how the tariffs are affecting Canada's overall economy. Statistics Canada says the economy shrank a little between April and May, but grew slightly in June, with GDP fluctuating up and down by around 0.1% month-to-month. The Bank of Canada and others think the economy might shrink more in the second quarter, but we won't know for sure until later this year.

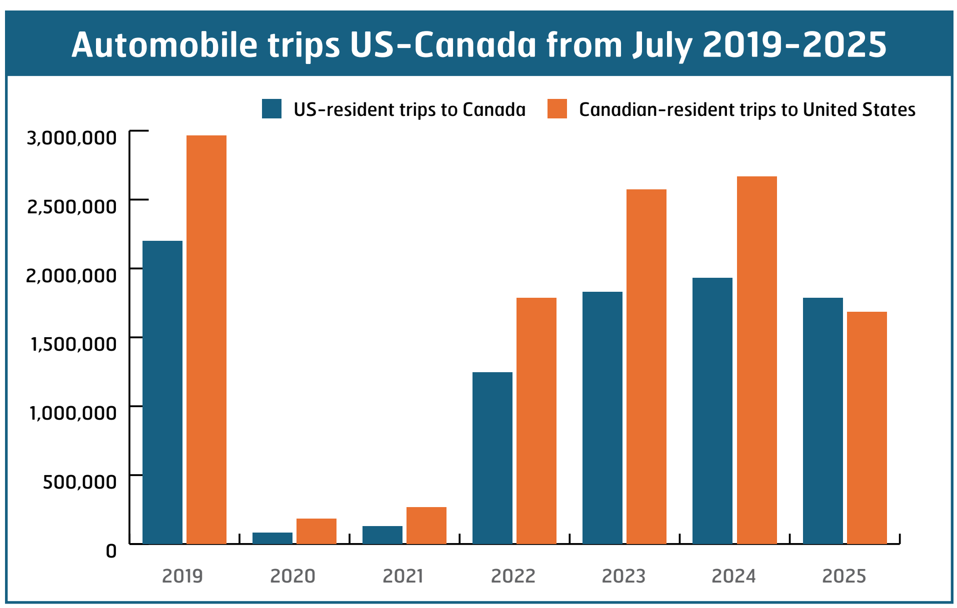
Here is what we do know right now. The tariff war has caused a lot of uncertainty for both businesses and consumers, and this is bad for investment, employment and economic growth. Considering that around 70% of Canadian exports go to the United States, there is no question that more and higher tariffs will have an even bigger impact on Canada's economy.

While we have not seen a big rise in the unemployment rate, Statistics Canada says that people are having a harder time finding work and are staying unemployed longer. There was also a big rise in youth unemployment over the summer. These trends cannot solely be explained by the tariff war, but they are likely a reflection of how the current economic uncertainty is negatively impacting employment.

There is one area where there have been significant changes. Canada-US travel has dropped in both directions this year, but especially travel from Canada to the US. Statistics Canada says 7.5% fewer US residents came on car trips to Canada between July 2024 and 2025, while 36.9% fewer Canadian residents visited the United States by car in the same period. These numbers offer a snapshot of the changing relationship between Canada and the US. It is reshaping how people in Canada use our free time, where we spend our money, and our general attitude toward the US. It remains to be seen whether this is a permanent change or just a temporary one.

All in all, the situation remains generally uncertain. People and businesses in Canada are understandably concerned about what the outcome of this ongoing dispute will be. Based on the policy responses we've seen so far, business concerns seem to be the much higher priority for the Carney government. For example, the push to eliminate interprovincial trade barriers, or the catastrophic budget cuts being imposed to meet new, higher-than-ever military spending commitments are reshaping government policies.

Amid this uncertainty, we have to be on the lookout for corporations and pro-business politicians who will use this chaos to push their agenda. Together we have to stand up to protect workers' rights, public services, the environment and indigenous sovereignty.



Source: Table 24-10-0057-01

Section 107 is an unconstitutional attack on bargaining rights

Ever since workers and their unions won legal recognition in Canada, governments have looked for ways to limit our right to strike. For decades, federal and provincial governments relied on back-to-work legislation to break strikes, but in recent months the federal government has embraced an even less democratic approach: Section 107 of the Canada Labour Code.

Section 107 was in the news during the recent Air Canada strike, as the Federal Government directed the Canada Industrial Relations Board (CIRB) to order CUPE to end the flight attendants' strike barely 8 hours after it had started. What really made headlines was CUPE's decision to stay on strike, forcing Air Canada to return to the table and meaningfully negotiate with the union.

You may be wondering, what exactly is Section 107? The Canada Labour Code applies to workers in federally-regulated industries like ports, air transportation, railways, telecommunications, shipping, and most federal Crown corporations, like Canada Post.

Section 107 of the Code states:

> The Minister, where the Minister deems it expedient, may do such things as to the Minister seem likely to maintain or secure industrial peace and to promote conditions favourable to the settlement of industrial disputes or differences and to those ends the Minister may refer any question to the Board or direct the Board to do such things as the Minister deems necessary.

This language is very vague and pretty confusing. So if you read it and wonder, "Where does it say that the labour minister can email the CIRB and order them to end a strike?" you aren't the only one!

Section 107 has been in the Code since 1984, but the first attempt to use it to quash the right to strike was in June 2024, when Westjet mechanics voted to strike. Then-Labour Minister Seamus O'Regan directed the CIRB to impose final binding arbitration before the strike had even started. The CIRB did refer the dispute to arbitration, but allowed the strike to continue until the arbitration process started. Of course, as soon as Westjet realized the government wasn't going to immediately prevent the strike from happening, the company returned to the bargaining table and an agreement was reached quickly.

The Liberals were allegedly furious that the CIRB had allowed the strike to proceed. But rather than accepting that the law doesn't permit the labour minister to order an end to a strike, they decided to keep trying to use Section 107 to immediately end work stoppages going forward.

Since summer 2024, the Liberals have used section 107 to intervene in at least seven other strikes, near-strikes and lockouts, including against port workers represented by CUPE 2614 and CUPE 375. Unfortunately, they had greater success than with Westjet the first time. This has encouraged large employers in federally regulated sectors to not meaningfully engage in the bargaining process. This was highlighted when CUPE flight attendants stayed on strike despite the Government's intervention. When Air Canada CEO Michael Rousseau was asked in an interview why the airline had no plan to make sure customers wouldn't be stranded in the case of a work stoppage, he openly admitted that the company assumed the government would step in and stop a strike.

Section 107 is just one extreme example of the many ways governments undermine the collective bargaining process and tip the scales in employers' favour. CUPE and other unions have started the lengthy process of challenging the legislation in Court. CUPE has also called on the federal government to repeal Section 107 entirely, or to consult with Canadian unions on how to amend it to limit its power.