Affordability and Government Spending

TAX FAIRNESS CAN FUND BETTER PUBLIC SERVICES.

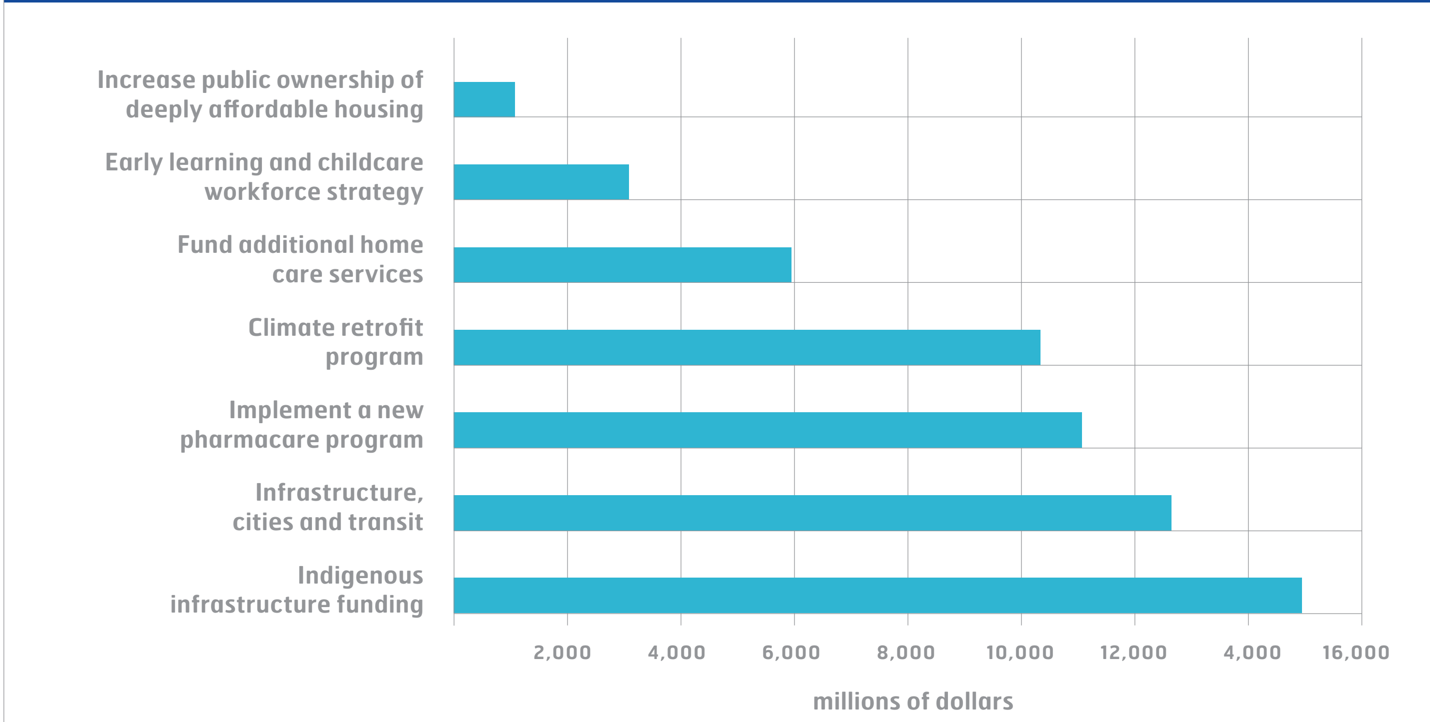
In the current macro-economic environment, the Bank of Canada and others are encouraging the federal government to limit spending increases, suggesting that any increase in spending would be inflationary. But some types of spending help lower prices and ease overall inflation. A great example of this is $10/day childcare, especially if it's delivered by the public or not-for-profit sector. It not only makes life much more affordable for families that need child care, but it also helps to lower the consumer price index (CPI). Other examples include increasing the supply of deeply affordable social housing, reducing the cost of public transportation, and any investments that help to mitigate the impacts of extreme weather.

Every year the Canadian Centre for Policy Alternatives publishes an Alternative Federal Budget (AFB) that imagines different choices that we could make to build a better economy and take better care of each other. There are several investment choices in the AFB that could make life more affordable without increasing inflation.

Increasing public ownership of deeply affordable housing is the lowest cost item on the list shown in the chart but is one of the most impactful. The cost is low because only the interest costs count as spending, but this investment would

continued on page 2

Alternative Federal Budget Investments that address affordability and/or inflation



Each of the items in this chart represents a proposal or group of proposals from the 2024 Alternative Federal Budget published by the Canadian Centre for Policy Alternatives.
More details about what we could get for this level of spending in each area can be found online, here: https://policyalternatives.ca/projects/alternative-federal-budget

continued from page 1

finance more than 160,000 new deeply affordable non-market units per year. Funding public services like child care and home care creates good jobs and provides more affordable services for families. Implementing a climate retrofit program would reduce energy costs for low-income households while helping us meet our climate targets. A national universal pharmacare program saves money for households and governments. Finally, infrastructure funding for cities and Indigenous communities helps address a wide variety of needs for communities, including water and transportation. Together, these items are estimated to cost $57 billion per year.

The federal government could finance this spending through borrowing, but the current federal government has signaled that they are unwilling to increase the federal deficit. The solution is to increase government revenue by improving tax fairness. Three of the tax measures proposed in this year's AFB would raise just over $57 billion each year. The first is a wealth tax of one per cent on net worth above $10 million, two per cent above $50 million, and three per cent above $100 million. This tax would raise $28.8 billion annually on its own. Then, including 75% of capital gains as taxable income would increase revenue by a further $9.5 billion each year. Finally, implementing a 25% tax on foreign profits to address profit shifting to tax heavens would raise a further $19.3 billion each year, totaling $57.6 billion.

These revenue measures make our tax system fairer and raise substantial revenues that can be used to make life better for everyone. The AFB proposals shown in the chart would make our economy stronger and life more affordable while also combating inflation and making progress on climate action. We can have a federal budget that makes different decisions that work better for workers and our communities.

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.

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CUPE Canadian Union of Public Employees

Wages and Inflation

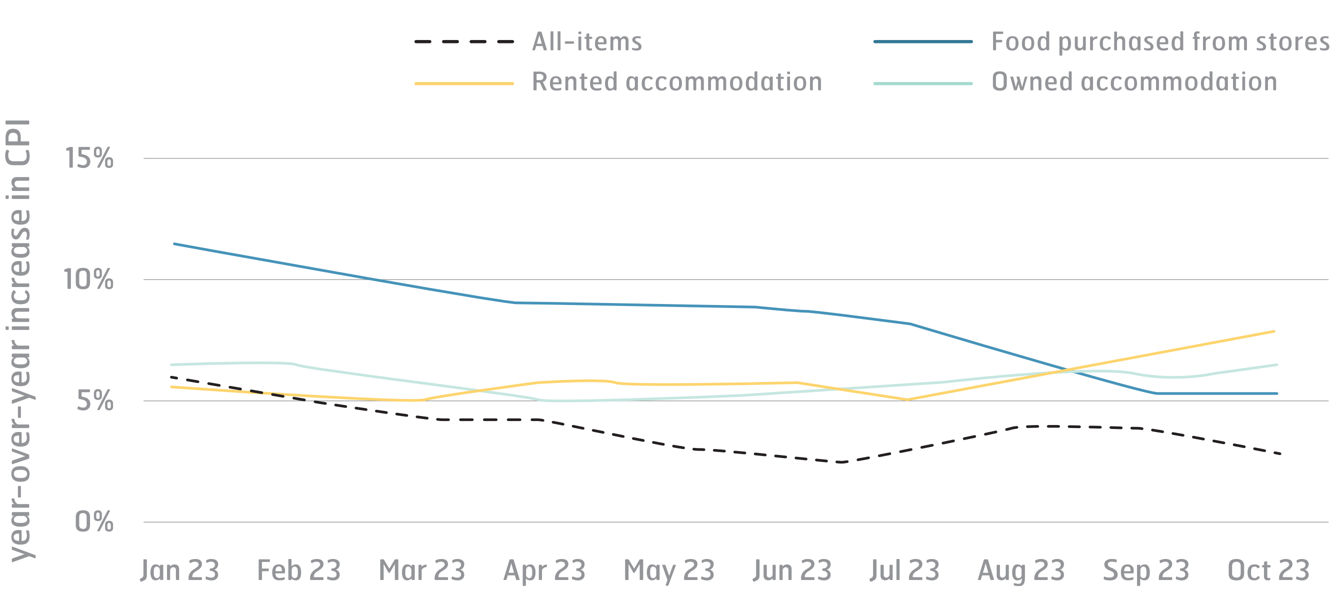
The average first year wage settlement increased for both public and private sector unions in the third quarter of 2023. Unions have been able to bargain an average 6.3% wage increase in the public sector, and a 7.2% wage increase in the private sector. The average for the year so far is 5.3% for the private sector and 4.4% for the public sector. While these increases are improving, they still fall short of the 6.8% inflation we experienced in 2022.

The Consumer Price Index rose by 3.1% in a welcome slowdown compared to 3.8% in September. Even so, the cost of rent, home ownership, and food are still increasing faster than the overall average, and these three factors continue to be the largest contributors to year-over-year increases in CPI. These increases in the cost of basic necessities are squeezing workers across the income spectrum, but this is especially true for those workers who were already spending a disproportionate amount of their income on housing and food.

Average first year percentage adjustment, major collective agreements, Canada

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Public	2.4	0.6	1.3	3.8	2.3	2.7	6.3
Private	2.2	2.9	3.1	4.8	0.9	5.4	7.2

Shelter and food prices increasing faster than overall CPI



Source: Statistics Canada Table 18-10-0004-01

What is the new Canada Mortgage Charter and why did we need it

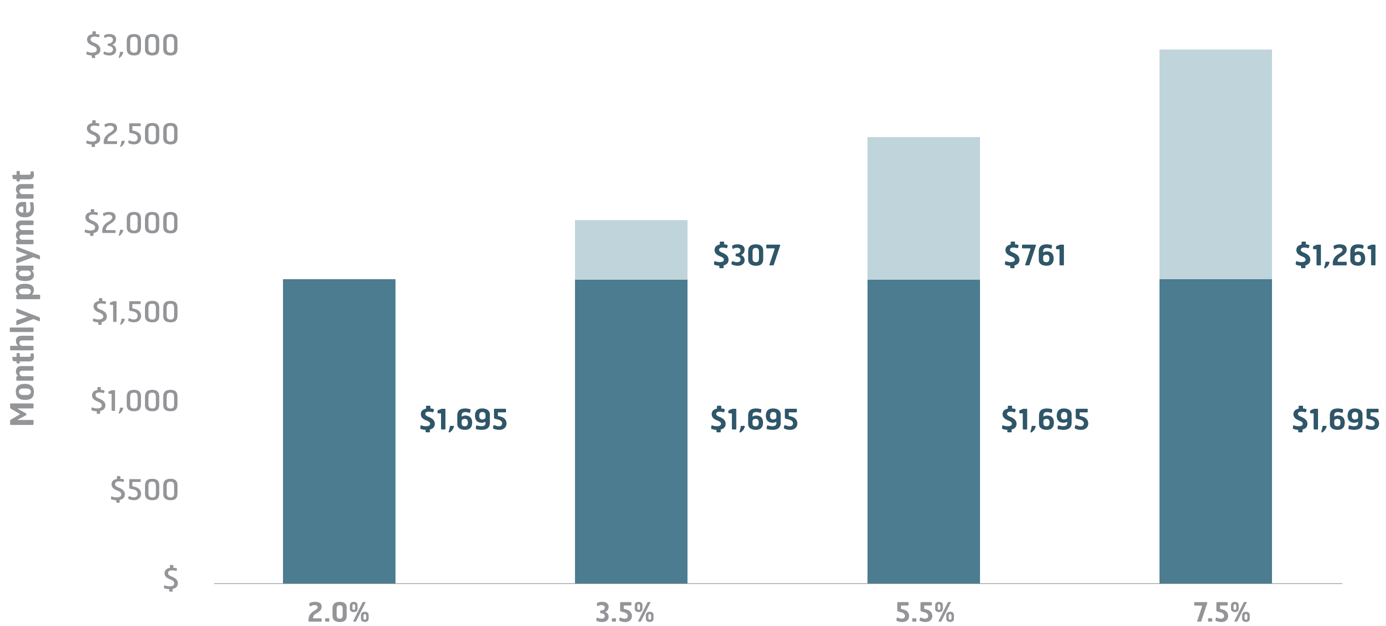
The federal government's Fall Economic Statement included a new Canadian Mortgage Charter. The Charter is meant to alleviate concerns from the estimated 2.2 million households who will be renewing their mortgages over the next two years. These mortgages were negotiated when mortgage rates were substantially lower, and so many borrowers will see rate increases between 2% to 3.5%. The mortgage stress test has been in place since January 2018, so all these loans were stress-tested to their current rate plus 2%.

However, since wages have not kept pace with the higher cost of living, increased monthly payments will strain many people's budgets. The chart shows the impact of an interest rate increase on a mortgage of $400,000 – a loan that was originally negotiated with a rate of 2% would cost 45% more if the interest rate increased to 5.5%.

The Canadian Mortgage Charter doesn't introduce anything new to address this issue. Instead, it brings together existing advice and recommendations from financial regulators. For example, the first point is that Canadians can expect financial institutions to allow temporary extensions of their amortization periods, a practice that is already widespread. Three points address waiving fees or additional costs in certain situations. Another point suggests that homeowners should expect to be contacted four to six months in advance of their mortgage renewal. This is a standard practice for Canada's larger banks, but not a mandatory requirement for all financial institutions. It's unclear how these points in the charter will be enforced since the federal government said they do not intend to introduce any new legislation.

The most controversial point in the charter deals with when those renewing mortgages need to meet the stress test. The stress test means that borrowers must be able to qualify for a mortgage with an interest rate 2 percentage points higher than the one that they are being offered. Originally, lenders believed that everyone who switched lenders when their mortgage was up for renewal would need to pass the stress test. But on October 16th, the Office of the Superintendent of Financial Institutions (OSFI), issued a statement saying that insured borrowers were exempt from being stress-tested when switching lenders, provided that the loan amount and amortization period

Additional cost of higher mortgage rates

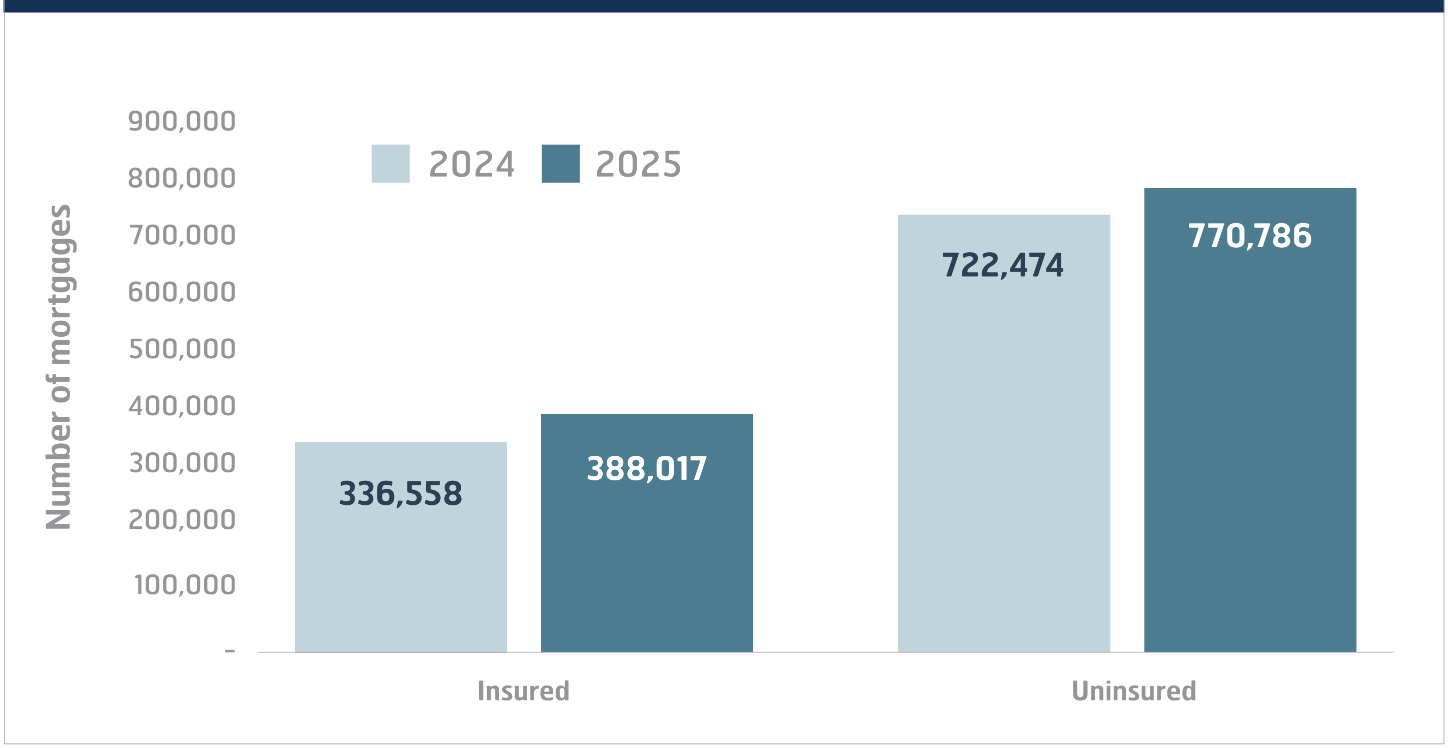


Calculated based on a $400,000 mortgage with a 25 year amortization period.

didn't change. This statement has been repeated as one of the points in the Canadian Mortgage Charter.

Mortgages must be insured by the Canadian Mortgage and Housing Corporation (CMHC) when the homeowner has less than 20% equity in the property. This insurance makes the mortgage lower risk for banks and other financial institutions, so insured mortgages often have lower interest rates than uninsured mortgages. Over one million mortgages are coming up for renewal in 2024, and most of these mortgages are uninsured. This ruling by OSFI will lock many homeowners into renewing their mortgages with their existing financial institutions, who will be able to charge higher rates because of the lack of competition.

Number of mortgages facing renewal at higher rates



Source: Canadian Mortgage and Housing Corporation, The Housing Observer, "The surge in mortgage rates", November 9, 2023

ECONOMIC BRIEFS

Privatizing surgeries likely to increase wait times and cost

A new CCPA report, "At What Cost? Ontario hospital privatization and the threat to public health care", has found that increasing privatization in Ontario's health care system will likely increase surgery wait times and the cost to the public. The report used Freedom of Information requests, financial and statistical analysis, and international research to evaluate the costs and benefits of the Ontario provincial government's plan to increase the use of private, for-profit surgical facilities.

The report found that the Ontario government is significantly underreporting payments to existing private facilities because they do not specifically identify fee-for-service payments as an expenditure category in the Public Accounts. They also found that as for-profit delivery has increased in Ontario, the use of existing public hospital operating room capacity decreased. This growing underutilization of existing public capacity is consistent with findings from Alberta's privatization of surgeries. This dynamic results in higher costs without any reductions in overall wait times. The report recommends prioritizing the use of single-entry and team-based referral models, as well as maximizing and extending public operating room capacity to address surgical backlogs.

Facts about food insecurity

With the rising cost of staples affecting many families, Statistics Canada studied the dynamics of income and food insecurity. Food insecurity is "the inability to acquire or consume an adequate diet quality or sufficient quantity of food in socially acceptable ways, or the uncertainty that one will be able to do so". The study found that that the number of families who were food insecure increased from 16% in 2021 to 18% in 2022, and that 8 in 10 of food insecure families had incomes above the poverty line. The report did not analyze how food insecurity varied across the income spectrum beyond the poverty line, but these findings do indicate that access to enough healthy food doesn't rely on income alone.

Single mothers are most at risk of food insecurity regardless of income, and the highest rates are among Indigenous and Black single mothers. Overall, Indigenous, Black, and racialized families are more likely to experience food insecurity than their non-Indigenous and non-racialized counterparts. Close to 30% of Indigenous and Black families with incomes above the poverty line experienced food insecurity in 2022. Among the ten provinces, food insecurity in 2022 was lowest in Quebec at 14%, and highest in Newfoundland and Labrador at 23%.

Taxes and climate change

A new report from Canadians for Tax Fairness, "Taxes and the path to a green economy", reviews the extent to which Canadian tax subsidies continue to flow to the fossil fuel industry. They recommend that the federal government go further than their promise to eliminate "inefficient" fossil fuel subsidies and eliminate all tax advantages received by fossil fuel corporations. The report also uncovers the fact that wealthy corporations and individuals have benefited tremendously from these subsidies during the same period that they were responsible for the overwhelming majority of fossil fuel emissions. While we all bear a responsibility to pay for climate adaptation and mitigation, we cannot allow those who benefited from the system to shirk their responsibility. The report makes recommendations that will help address both climate action and economic inequality.