Statement by the Canadian Labour Congress

to the

House of Commons Standing Committee on Finance Regarding the 2012 Federal Budget

August 2011

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Congrès du travail du Canada

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Executive Summary

On behalf of the 3.2 million members of the Canadian Labour Congress (CLC), we want to thank you for affording us the opportunity to present our views. The CLC brings together Canada's national and international unions along with the provincial and territorial Federations of Labour and 130 district Labour Councils whose members work in virtually all sectors of the Canadian economy, in all occupations, in all parts of Canada.

The Canadian Labour Congress recommends:

1. That federal government program spending be maintained at the current (2011–12) level as a share of the economy, and that the Strategic and Operating Review be cancelled. We support continuing review of the efficiency of government programs, but any savings should be directed to financing new priorities, such as an improvement in the Guaranteed Income Supplement and Employment Insurance benefits, as well as job creation programs, and a national child care and early learning program.
2. That the federal and provincial governments pursue as an urgent priority an expansion of the Canadian Pension Plan by doubling benefits, phased-in on a fully pre-funded basis, and that the federal government increase the Guaranteed Income Supplement to eliminate poverty among the elderly.
3. That the federal government introduce a major, multi-year public investment program to create jobs now, and to promote our environmental and social goals while also boosting private sector investment and productivity. Up-front costs should be funded through an increase in the federal corporate income tax rate to 19.5%.

A. The Economic and Fiscal Context

The major economic problem faced by Canadians is a very slow recovery and weak job market, not government deficits. Indeed, planned federal spending cuts will make the real problem even worse.

As of July 2011, the job market remained much weaker than before the crisis in October 2008. The unemployment rate was significantly higher (up from 6.1% to 7.2%), the proportion of the workforce with any kind of job was lower (down from 63.5% to 61.9%), and the proportion of both part-time workers and involuntary part-time workers has risen sharply. Full-time, permanent jobs remain very hard to find in many parts of the country. The "real" unemployment rate — which counts labour force dropouts and involuntary part-timers — was 11.1% in July, up from 9.4% in July 2008, and the "real" unemployment rate for young workers was a very high 21.6%.

The prospect in 2012 is for continued, very sluggish growth, with unemployment stuck significantly above 7%. The U.S. economy remains extremely weak due to high household debt, a very weak housing market, and the turn from a weak stimulus program to spending cuts. Austerity is also the order of the day in most of Europe. Fear of a "double-dip" recession precipitated the sharp decline in the stock market in August.

The OECD and the IMF were, as of August 2011, forecasting a very weak recovery in the advanced economies, which will weigh heavily on Canadian exports of manufactured goods given the very high exchange rate of the Canadian dollar. Outside of the energy and mining sectors which provide relatively few direct jobs, the Canadian recovery is weak and fragile.

The Conservative government focus is very much on large spending cuts to quickly reduce the deficit, even though the recovery is weak and total Canadian government debt is very low. Total Canadian net government debt is just 33.7% of GDP compared to an OECD average of 62.6%. Further, interest rates are at historically low levels. The Government of Canada can borrow through 10-year bonds at well under a 3% rate of interest. Despite our relatively strong fiscal situation, Canada is cutting spending more deeply than most other advanced industrial countries.

The federal government fiscal deficit is already very small, standing at just 1.9% of GDP this fiscal year. The June 2011 federal budget forecasts that the federal deficit will fall from 1.9% of GDP in 2011–12 to just 1.1% next year, to zero in 2014–15. This fall in the deficit is mainly due to already-announced

cuts to federal government program spending which will fall from 14.5% of GDP this year to 13.1% of GDP in 2014–15.

On top of frozen operating budgets and the results of earlier strategic reviews now being implemented, the government plans to achieve another $4 billion in annual savings by 2014–15 through the Strategic and Operating Review. The main aim of the Review is not to cut the deficit, but rather to free resources to fund the new round of income tax cuts announced by the Conservatives in the 2011 election. The proposed expansion of Tax Free Savings Accounts and the introduction of income-splitting for families with children will largely benefit affluent Canadians.

Spending cuts at both the federal and provincial levels will shrink the combined Canadian government deficit from 4.9% of GDP in 2011 to 3.5% in 2012, according to the OECD. This will have a negative effect on the economic recovery and job creation. According to IMF staff economists, a one per cent of GDP fiscal consolidation reduces real private consumption over the next two years by 0.75%, while real GDP declines by 0.62%.[1]

The priority in the 2012 budget should be maintaining the momentum of the recovery and creating jobs, not artificially speeding the pace of deficit reduction through counter-productive spending cuts. It is already clear that these cuts are not only eliminating jobs, but are also reducing important programs and services.

The Canadian Labour Congress recommends that federal government program spending be maintained at the current (2011–12) level as a share of GDP, and that the Strategic and Operating Review be cancelled. We support continuing review of the efficiency of government programs, but any savings should be directed to financing new priorities, such as an improvement in the Guaranteed Income Supplement and Employment Insurance benefits, as well as job creation programs, and a national child care and early learning program.

B. Public Pensions

The crisis exposed major faults at the heart of our pension system. Our public pensions — Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), plus the Canada Pension Plan (CPP) — provide a secure income in retirement, but the maximum value of public pensions falls well short of replacing the 50 to 70% of pre-retirement income needed to maintain living standards. Meanwhile, the private part of our pension system is in deep trouble.

1 http://www.imf.org/external/pubs/ft/wp/2011/wp11158.pdf

Only about one in four workers in the private sector now belongs to an employer pension plan, and others are forced to rely on high cost RRSPs which generate very low and uncertain returns.

Former Assistant Chief Statistician Michael Wolfson calculates that, under current public and private pension arrangements, fully one half of baby boomer middle income earners born between 1945 and 1970 will face an income shortfall of at least 25% after retirement.

One in three seniors already qualifies for the Guaranteed Income Supplement to Old Age Security. Those collecting benefits have incomes below or just above the poverty line. GIS costs are projected to rise from $9.2 billion this year to $24 billion in 2030 due to population ageing and inadequate pensions. Effectively, taxpayers are picking up the cost of inadequate employer pensions.

We continue to call for a doubling of CPP benefits, phased-in on a fully pre-funded basis, and welcome the support given to CPP expansion by seven provinces. We call on the federal and provincial governments to pursue this option as an urgent priority. The CPP delivers a defined benefit, fully indexed to inflation, and operates at much lower cost than the proposed "pooled registered pension plans" which will generate large fees for the financial sector, and produce a variable and uncertain return.

We also call for an increase in the Guaranteed Income Supplement to eliminate poverty among the elderly.

In the June 2011 budget, the federal government announced a new top-up benefit to the GIS, but this will produce a very modest benefit for even very low income seniors. The maximum extra benefit is $600 annually for single seniors and $840 for couples, and that is for single seniors with an annual income of $2,000 or less (excluding Old Age Security and the Guaranteed Income Supplement), and couples with a combined annual income of $4,000 or less. The full amount of the top-up benefit is reduced to zero at an income level of just $4,400 for singles and $7,360 for couples. Only about four in ten GIS recipients will qualify for the top-up.

The CLC has called for a GIS increase of 15%, at an additional cost of about $1 billion per year. This would be enough to lift all seniors out of low income.

The Canadian Labour Congress recommends that the federal and provincial governments pursue as an urgent priority an expansion of the Canadian Pension Plan by doubling benefits, phased-in on a fully pre-funded

basis, and that the federal government increase in the Guaranteed Income Supplement to eliminate poverty among the elderly.

C. Jobs

The two-year infrastructure investment program made a significant contribution to economic recovery, but has now fully expired.

The CLC calls for the federal government to launch, in partnership with the provinces and cities, a major, multi-year public investment program which would create jobs now, promote our environmental goals, stimulate new private sector investment, and boost productivity.

Such a program should include increased support for basic municipal infrastructure; mass transit and passenger rail; affordable housing; energy conservation through building retrofits; and renewable energy projects.

Federal government support for all infrastructure and environmental investments should be linked to "Made in Canada" procurement policies so goods and services inputs are purchased in Canada. And infrastructure should have a mandated training component to help deal with looming skills shortages.

The federal government should also make investments in a national, not-for-profit child care and early learning program; home care as part of the public health care system; and long-term care for the elderly. These programs would create new jobs while promoting our social goals.

Economic research shows that many major public investments are largely self-financing since the positive impacts on economic growth and on private sector productivity boost future government revenues. For example, the Toronto Board of Trade argues that major investment in mass transit would substantially reduce business costs due to traffic congestion, boosting productivity, and leading Québec economist Pierre Fortin calculates that the annual cost of the Québec child care subsidy is covered by the benefit of the increased labour force participation rate of parents of young children, and by better outcomes for children.

The initial costs of a major public investment program should be covered by raising the federal corporate tax rate from 15% in 2012 to 19.5%, which would raise $9 billion per year in additional annual revenues. No-strings-attached cuts to the corporate tax rate have very limited impacts on new private investment, but boost the after-tax profits of sectors like finance, and oil and gas which are already highly profitable. The CLC continues to support targeted

support for new private sector investments through investment tax credits or fast write-offs for new machinery and equipment investment.

The CLC recommends that the federal government introduce a major, multi-year public investment program to create jobs now, and to promote our environmental and social goals while also boosting private sector investment and productivity. Up-front costs should be funded through an increase in the federal corporate income tax rate to 19.5%.

Conclusion

Canada has a very low level of public debt, borrowing costs for the federal government are and will remain very low, and many public investments yield a high rate of return in terms of immediate job creation, public benefits, and growth of private sector productivity. Private sector investment is still very depressed, and we continue to await a strong and sustained U.S. and global recovery. There is a real danger of a "double-dip" recession if the focus of the federal budget is rapid deficit and debt reduction through damaging spending cuts.

This document is respectfully submitted on behalf of the Canadian Labour Congress:

Kenneth V. Georgetti
President

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